

# Large Filing Separator Sheet

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The Public Utilities Commission of Ohio

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Date Received	Case Number	Certification Number
	02-1648-GA-CRS	

## CERTIFICATION APPLICATION FOR RETAIL NATURAL GAS SUPPLIERS

This PDF form is designed with interactive fields. You may input information directly onto the form, or download the form, by saving it to your local disk, for later use.

Please print or type all required information. Identify all attachments with an exhibit label and title (Example: Exhibit A-16 Company History). All attachments should bear the legal name of the Applicant. Applicants should file completed applications and all related correspondence with the Public Utilities Commission of Ohio, Docketing Division, 10<sup>th</sup> Floor, 180 East Broad Street, Columbus, Ohio 43215-3793.

### A. APPLICANT INFORMATION

#### A-1 Applicant intends to be certified as: (check all that apply)

☐ Retail Natural Gas Supplier  
☒ Retail Natural Gas Marketer

☐ Retail Natural Gas Broker  
☐ Retail Natural Gas Aggregator

#### A-2 Applicant's legal name, address, telephone number and web site address:

Legal Name Vectren Retail, LLC

Address 20 N.W. 4th Street, Evansville, IN 47708

Telephone # (812) 491-4286

Web site address (if any) www.vectrensource.com

#### A-3 List name, address, telephone number, and web site address under which applicant will do business in Ohio

Name Vectren Source

Address 20. N.W. 4th Street, Evansville, IN 47708

Telephone # (812) 491 4286

Web site address (if any) www.vectrensource.com

#### A-4 List all names under which the applicant does business in North America

Vectren Source

#### A-5 Contact person for regulatory or emergency matters

Name Lawrence K. Friedeman

Title VP, Energy Products and Regulatory Affairs

Business address 20 N.W. 4th Street, Evansville, IN 47708

Telephone # (812) 491-4282

Fax # (812) 491-4287

E-mail address (if any) lfriedeman@vectren.com

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Technician J- Date Processed 7-5-02

(Natural Gas Suppliers) Page 1 of 6

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**A-6 Provide "Proof of an Ohio Office and Employee," in accordance with Section 4922.22 of the Ohio Revised Code, by listing name, Ohio office address, telephone number, and web site address of the designated Ohio Employee**

Name Lawrence K. Friedeman Title VP, Energy Products and Regulatory Affairs  
Business address 8225 Farnsworth Rd., Waterville, OH 43566  
Telephone # (419) 878-3988 Fax # \_\_\_\_\_ E-mail address (if any) lfriedeman@vectren.com

**A-7 Contact person for Commission Staff use in investigating customer complaints**

Name Sean Smith Title VP, Customer Operations  
Business address 20 N.W. 4th Street, Evansville, IN 47708  
Telephone # (812) 491-4390 Fax # (812) 491-4290 E-mail address (if any) ssmith@vectren.com

**A-8 Applicant's address and toll-free number for customer service and complaints**

Customer Service address P.O. Box 3037, Evansville, IN 47730-3037  
Toll-free Telephone # (866) 306-8136 Fax # (812) 491-4290 E-mail address (if any) customercare@vectransource.com

**A-9 Applicant's federal employer identification number # 35-2146566**

**A-10 Applicant's form of ownership (check one)**

Sole Proprietorship \_\_\_\_\_ Partnership \_\_\_\_\_  
Limited Liability Partnership (LLP) ☒ Limited Liability Company (LLC)  
Corporation \_\_\_\_\_ Other \_\_\_\_\_

**A-11 (Check all that apply) Identify each natural gas company service area in which the applicant is currently providing service or intends to provide service, including identification of each customer class that the applicant is currently serving or intends to serve, for example, residential, small commercial, mercantile commercial, and industrial. (A mercantile customer, as defined in (L)(1) of Section 4929.01 of the Revised Code, means a customer that consumes, other than for residential use, more than 500,000 cubic feet of natural gas per year at a single location within the state or consumes natural gas, other than for residential use, as part of an undertaking having more than three locations within or outside of this state. In accordance with (L)(2) of Section 4929.01 of the Revised Code, "Mercantile customer" excludes a not-for-profit customer that consumes, other than for residential use, more than 500,000 cubic feet of natural gas per year at a single location within this state or consumes natural gas, other than for residential use, as part of an undertaking having more than three locations within or outside this state that has filed the necessary declaration with the Public Utilities Commission.)**

<input checked="" type="checkbox"/> Cincinnati Gas & Electric	<input checked="" type="checkbox"/> Residential	<input checked="" type="checkbox"/> Commercial	<input checked="" type="checkbox"/> Mercantile	Industrial
<input checked="" type="checkbox"/> Columbia Gas of Ohio	<input checked="" type="checkbox"/> Residential	<input checked="" type="checkbox"/> Commercial	<input checked="" type="checkbox"/> Mercantile	Industrial
<input checked="" type="checkbox"/> Dominion East Ohio	<input checked="" type="checkbox"/> Residential	<input checked="" type="checkbox"/> Commercial	<input checked="" type="checkbox"/> Mercantile	Industrial



**A-12** If applicant or an affiliated interest participated in any of Ohio's Natural Gas Choice Programs, for each service area and customer class, provide approximate start date(s) and/or end date(s) that the applicant began delivering and/or ended services.

**Cincinnati Gas & Electric**

Residential	Beginning Date of Service:	<input type="text"/>	End Date:	<input type="text"/>
Commercial	Beginning Date of Service:	<input type="text"/>	End Date:	<input type="text"/>
Mercantile	Beginning Date of Service:	<input type="text"/>	End Date:	<input type="text"/>
Industrial	Beginning Date of Service:	<input type="text"/>	End Date:	<input type="text"/>

✓ **Columbia Gas of Ohio**

✓ Residential	Beginning Date of Service:	<input type="text" value="11/01"/>	End Date:	<input type="text" value="N/A"/>
✓ Commercial	Beginning Date of Service:	<input type="text" value="11/01"/>	End Date:	<input type="text" value="N/A"/>
Mercantile	Beginning Date of Service:	<input type="text"/>	End Date:	<input type="text"/>
Industrial	Beginning Date of Service:	<input type="text"/>	End Date:	<input type="text"/>

✓ **Dominion East Ohio**

✓ Residential	Beginning Date of Service:	<input type="text" value="5/02"/>	End Date:	<input type="text" value="N/A"/>
Commercial	Beginning Date of Service:	<input type="text"/>	End Date:	<input type="text"/>
Mercantile	Beginning Date of Service:	<input type="text"/>	End Date:	<input type="text"/>
Industrial	Beginning Date of Service:	<input type="text"/>	End Date:	<input type="text"/>

**A-13** If not currently participating in any of Ohio's three Natural Gas Choice Programs, provide the approximate start date that the applicant proposes to begin delivering services:

✓ Cincinnati Gas & Electric	Intended Start Date:	<input type="text" value="To be determined"/>
Columbia Gas of Ohio	Intended Start Date:	<input type="text"/>
Dominion East Ohio	Intended Start Date:	<input type="text"/>

**PROVIDE THE FOLLOWING AS SEPARATE ATTACHMENTS AND LABEL AS INDICATED:**

**A-14** Exhibit A-14 "Principal Officers, Directors & Partners" provide the names, titles, addresses and telephone numbers of the applicant's principal officers, directors, partners, or other similar officials.

**A-15** Exhibit A-15 "Corporate Structure," provide a description of the applicant's corporate structure, including a graphical depiction of such structure, and a list of all affiliate and subsidiary companies that supply retail or wholesale natural gas or electricity to customers in North America.

**A-16** Exhibit A-16 "Company History," provide a concise description of the applicant's company history and principal business interests.

**A-17** Exhibit A-17 "Articles of Incorporation and Bylaws," if applicable provide the articles of incorporation filed with the state or jurisdiction in which the applicant is incorporated and any amendments thereto.

**A-18** Exhibit A-18 "Secretary of State," provide evidence that the applicant has registered with the Ohio Secretary of the State.

**B. APPLICANT MANAGERIAL CAPABILITY AND EXPERIENCE**

PROVIDE THE FOLLOWING AS SEPARATE ATTACHMENTS AND LABEL AS INDICATED:

- B-1 Exhibit B-1 "Jurisdictions of Operation,"** provide a list of all jurisdictions in which the applicant or any affiliated interest of the applicant is, at the date of filing the application, certified, licensed, registered, or otherwise authorized to provide retail natural gas service, or retail or wholesale electric services.
- B-2 Exhibit B-2 "Experience & Plans,"** provide a description of the applicant's experience and plan for contracting with customers, providing contracted services, providing billing statements, and responding to customer inquiries and complaints in accordance with Commission rules adopted pursuant to Section 4929.22 of the Revised Code and contained in Chapter 4901:1-29 of the Ohio Administrative Code.
- B-3 Exhibit B-3 "Summary of Experience,"** provide a concise summary of the applicant's experience in providing the service(s) it is seeking to be certified to provide (e.g. number and types of customers served, utility service areas, volume of gas supplied, etc.).
- B-4 Exhibit B-4 "Disclosure of Liabilities and Investigations,"** provide a description of all existing, pending or past rulings, judgments, contingent liabilities, revocation of authority, regulatory investigations, or any other matter that could adversely impact the applicant's financial or operational status or ability to provide the services it is seeking to be certified to provide.
- B-5** Disclose whether the applicant, a predecessor of the applicant, or any principal officer of the applicant have ever been convicted or held liable for fraud or for violation of any consumer protection or antitrust laws within the past five years.
- ☒ No                      ☐ Yes
- If yes, provide a separate attachment labeled as **Exhibit B-5 "Disclosure of Consumer Protection Violations"** detailing such violation(s) and providing all relevant documents.
- B-6** Disclose whether the applicant or a predecessor of the applicant has had any certification, license, or application to provide retail natural gas, or retail or wholesale electric service denied, curtailed, suspended, or revoked, or whether the applicant had ever been terminated from any of Ohio's Natural Gas Choice programs, or whether applicant has been in default for failure to deliver natural gas.
- ☒ No                      ☐ Yes
- If yes, provide a separate attachment labeled as **Exhibit B-6 "Disclosure of Certification Denial, Curtailment, Suspension, or Revocation"** detailing such action(s) and providing all relevant documents.

## C. APPLICANT FINANCIAL CAPABILITY AND EXPERIENCE

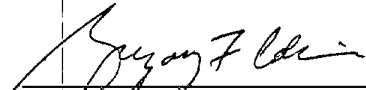
PROVIDE THE FOLLOWING AS SEPARATE ATTACHMENTS AND LABEL AS INDICATED:

- C-1 **Exhibit C-1 "Annual Reports,"** provide the two most recent Annual Reports to Shareholders. If applicant does not have annual reports, the applicant should provide similar information, labeled as Exhibit C-1, or indicate that Exhibit C-1 is not applicable and why.
- C-2 **Exhibit C-2 "SEC Filings,"** provide the most recent 10-K/8-K Filings with the SEC. If applicant does not have such filings, it may submit those of its parent company. If the applicant does not have such filings, then the applicant may indicate in Exhibit C-2 that the applicant is not required to file with the SEC and why.
- C-3 **Exhibit C-3 "Financial Statements,"** provide copies of the applicant's two most recent years of audited financial statements (balance sheet, income statement, and cash flow statement). If audited financial statements are not available, provide officer certified financial statements. If the applicant has not been in business long enough to satisfy this requirement, it shall file audited or officer certified financial statements covering the life of the business.
- C-4 **Exhibit C-4 "Financial Arrangements,"** provide copies of the applicant's financial arrangements to conduct competitive retail natural gas service (CRNGS) as a business activity (e.g., guarantees, bank commitments, contractual arrangements, credit agreements, etc.).
- C-5 **Exhibit C-5 "Forecasted Financial Statements,"** provide two years of forecasted financial statements (balance sheet, income statement, and cash flow statement) for the applicant's CRNGS operation, along with a list of assumptions, and the name, address, email address, and telephone number of the preparer.
- C-6 **Exhibit C-6 "Credit Rating,"** provide a statement disclosing the applicant's credit rating as reported by two of the following organizations: Duff & Phelps, Dun and Bradstreet Information Services, Fitch IBCA, Moody's Investors Service, Standard & Poors, or a similar organization. In instances where an applicant does not have its own credit ratings, it may substitute the credit ratings of a parent or affiliate organization, provided the applicant submits a statement signed by a principal officer of the applicant's parent or affiliate organization that guarantees the obligations of the applicant.
- C-7 **Exhibit C-7 "Credit Report,"** provide a copy of the applicant's credit report from Experian, Dun and Bradstreet, or a similar organization.
- C-8 **Exhibit C-8 "Bankruptcy Information,"** provide a list and description of any reorganizations, protection from creditors, or any other form of bankruptcy filings made by the applicant, a parent or affiliate organization that guarantees the obligations of the applicant or any officer of the applicant in the current year or within the two most recent years preceding the application.
- C-9 **Exhibit C-9 "Merger Information,"** provide a statement describing any dissolution or merger or acquisition of the applicant within the five most recent years preceding the application, or at any time as a participant in the Ohio Natural Gas Choice programs.

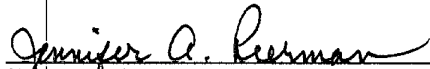
**D. APPLICANT TECHNICAL CAPABILITY**

PROVIDE THE FOLLOWING AS SEPARATE ATTACHMENTS AND LABEL AS INDICATED:

- D-1 Exhibit D-1 "Operations"** provide a written description of the operational nature of the applicant's business. Please include whether the applicant's operations will include the contracting of natural gas purchases for retail sales, the nomination and scheduling of retail natural gas for delivery, and the provision of retail ancillary services, as well as other services used to supply natural gas to the natural gas company city gate for retail customers.
- D-2 Exhibit D-2 "Operations Expertise,"** given the operational nature of the applicant's business, provide evidence of the applicant's experience and technical expertise in performing such operations.
- D-3 Exhibit D-3 "Key Technical Personnel."** provide the names, titles, email addresses, telephone numbers, and background of key personnel involved in the operational aspects of the applicant's business.

 Bryan F. Lee President, Vectren Retail, LLC  
Signature of Applicant and Title

Sworn and subscribed before me this 2<sup>nd</sup> day of July, 2002  
Month Year

 Jennifer A. Peerman  
Signature of official administering oath

Jennifer A. Peerman  
Print Name and Title

My commission expires on \_\_\_\_\_

Notary



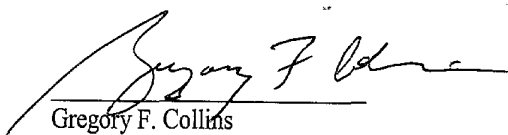
STATE OF INDIANA )

COUNTY OF VANDERBURGH )

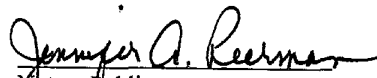
**AFFIDAVIT**

Gregory F. Collins, being first duly sworn, hereby states that the representations below are true based upon information available to Vectren Retail, LLC d/b/a Vectren Source ("Vectren Source").

1. The information provided by Vectren Source in its application and supporting attachments is complete, true, and accurate to the best knowledge of Vectren Source.
2. Where information in the application is not available at the time of filing, Vectren Source will file such information with the Commission upon its availability.
3. Vectren Source will amend its application while the application is pending if any substantial changes occur regarding the information provided in the application.

  
Gregory F. Collins  
President  
Vectren Retail, LLC

Sworn to before me and subscribed in my presence this 2nd day of July 2002.

  
Jennifer A. Reel  
Notary Public

**EXHIBIT A-14**

**PRINCIPAL OFFICERS, DIRECTORS & PARTNERS**

**Board of Representatives:**

**Vectren Energy Retail, Inc**

Carl L. Chapman	20 N.W. 4th Street Evansville, IN 47708	812-491-4000
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**Vectren Ventures, Inc**

Gregory F. Collins	20 N.W. 4th Street Evansville, IN 47708	812-491-4281
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**President:**

Gregory F. Collins	20 N.W. 4th Street Evansville, IN 47708	812-491-4281
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**Vice President, Commodity Operations & Regulatory Affairs:**

Lawrence K. Friedeman	20 N.W. 4th Street Evansville, IN 47708	812-491-4282
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**Vice President, Customer Operations:**

Sean Smith	20 N.W. 4th Street Evansville, IN 47708	812-491-4290
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**Director, Finance and Accounting:**

Tamara R. Wilson	20 N.W. 4th Street Evansville, IN 47708	812-491-4284
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**Director, Commodity Operations:**

Paul E. Stringer	20 N.W. 4th Street Evansville, IN 47708	812-491-4076
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{C10544:}

**VECTREN RETAIL, LLC**

**EXHIBIT A-15**

**CORPORATE STRUCTURE**

Vectren Retail, LLC d/b/a Vectren Source ("Vectren Source") is an indirect, wholly-owned subsidiary of Vectren Corporation ("Vectren Corp."), charged with selling deregulated energy (natural gas & electricity) and other products and services in Indiana, Ohio, Illinois, Kentucky, Michigan and Pennsylvania.

Vectren Corp. is an energy and applied technology holding company headquartered in Evansville, Indiana. Vectren Corp.'s operations began on March 31, 2000 through the combination of two Indiana-based companies, Indiana Energy, Inc. and Sigcorp, Inc. On October 31, 2000, Vectren Corp. acquired the natural gas distribution assets of The Dayton Power and Light Company located in western Ohio.

Vectren Corp.'s non-regulated businesses provide products and services built on the company's core strengths and customer relationships. The four primary business groups are Energy Marketing and Services, Coal Mining, Utility Infrastructure Services, and Broadband. In addition, the non-regulated group has investments in other businesses, including investments in energy-related opportunities.

Vectren Corp.'s regulated subsidiaries deliver gas and/or electricity to approximately one million customers in adjoining service territories that cover two-thirds of Indiana and west central Ohio. Vectren Corp. is also a low cost provider of wholesale electricity to other utilities and power marketers in the Midwest. A graphical depiction of Vectren Corp.'s corporate structure is attached hereto.

Affiliate and subsidiary companies of Vectren Source that supply retail or wholesale natural gas or electricity to customers in North America include:

ProLiance Energy, LLC\*

Sigcorp Energy Services, LLC\*

Vectren Energy Delivery

Indiana Gas Company d/b/a Vectren Energy Delivery of Indiana, Inc.

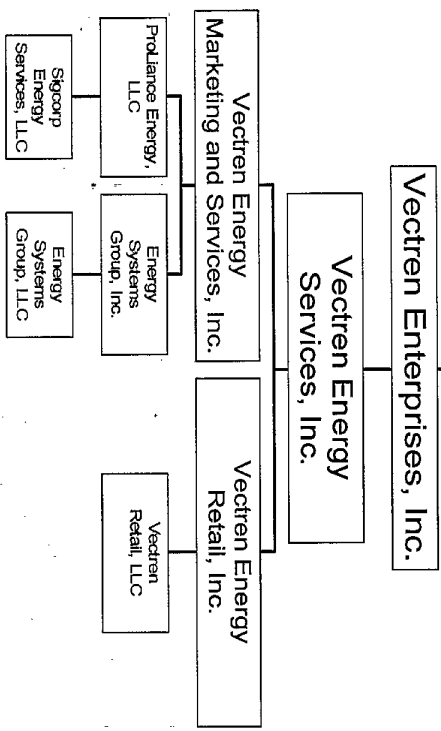
Southern Indiana Gas and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc.

Vectren Energy Delivery of Ohio, Inc.

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\* Effective June 1, 2002, these two organizations have merged.

# VECTREN CORPORATION





## EXHIBIT A-16

### COMPANY HISTORY

#### BACKGROUND

Vectren Source was formed in 2001 for the express purpose of selling retail energy commodity and other value added products and services to residential and small commercial customers. Vectren Source is an indirect, wholly-owned subsidiary of Vectren Corp. charged with selling deregulated energy (natural gas & electricity) and other products and services within a Midwest footprint across 6 states, including Indiana, Ohio, Illinois, Kentucky, Michigan and Pennsylvania.

#### MISSION

To create, or search out, and flawlessly deliver innovative products and services to save our customers money and make them more comfortable and secure.

#### UPDATE

Business Plan approved June, 2001

Key management in place August, 2001

First campaign/COH CHOICE in 3Q/2001

1Q/2002 entry into Dominion East Ohio CHOICE

#### PRODUCT LINES

Natural Gas

Safe-N-Secure Services:

- Bill Payment Insurance
- ApplianceGard repair warranty

Energy Services:

- Hot Water Program

Telecommunications:

- Satellite TV Services

**EXHIBIT A-17**

**ARTICLES OF INCORPORATION AND BYLAWS**

{C10544:}

**VECTREN RETAIL, LLC**

**ARTICLES OF ORGANIZATION**  
**OF**  
**VECTREN RETAIL, LLC**

The undersigned, acting as the organizer of a limited liability company under the Indiana Business Flexibility Act, as amended (the "Act"), hereby adopts these Articles of Organization for Vectren Retail, LLC (the "Company"):

I. Name

The name of the Company is Vectren Retail, LLC.

II. Registered Office and Registered Agent

The street address of the registered office of the Company in the state of Indiana is 20 N.W. Fourth Street, Evansville, Indiana 47708. The name of the initial registered agent of the Company at the registered office is Ronald E. Christian.

III. Duration

The duration of the Company is perpetual until the dissolution of the Company in accordance with the Company's Fundamental Operating Agreement (the "Operating Agreement") and the Act.

IV. Member Management

The Company is to be managed by its members.

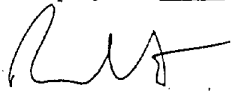
V. Restriction on Transfer

No member of the Company may transfer its interest in the Company except in accordance with the Operating Agreement and the Act.

VI. Initial Members

The initial members of the Company are Vectren Energy Retail, Inc. and Vectren Ventures, Inc.

IN WITNESS WHEREOF, these Articles of Organization have been executed by the undersigned, as Organizer of the Company, this 25<sup>th</sup> day of July, 2001.

  
\_\_\_\_\_  
Ronald E. Christian  
Organizer

**FUNDAMENTAL OPERATING AGREEMENT**

of

**VECTREN RETAIL, LLC**

by and among

**VECTREN ENERGY RETAIL, INC.**

and

**VECTREN VENTURES, INC.**

Dated as of  
July 13, 2001

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**FUNDAMENTAL OPERATING AGREEMENT**  
**of**  
**VECTREN RETAIL, LLC**

This FUNDAMENTAL OPERATING AGREEMENT is made and entered into as of \_\_\_\_\_, 2001 (the "Agreement"), by and between Vectren Energy Retail, Inc., an Indiana corporation ("RETAIL"), and Vectren Ventures, Inc., an Indiana corporation ("Ventures") (Retail and Ventures collectively referred to as the "Members" and individually as a "Member"), relating to Vectren Retail, LLC (the "Company").

The Company was organized as a limited liability company under the Indiana Business Flexibility Act, as amended, Ind. Code § 23-18-1-1 et seq. (the "Act"). This Agreement, together with the Company's Articles of Organization, set forth those terms and conditions considered by the parties to be basic and fundamental to its organization and operation. The Members may from time to time enter into written agreements supplemental or amendatory to this Agreement to the extent the parties determine more detailed or comprehensive provisions are required. Such agreements, together with this Agreement, as the same may be amended from time to time, shall constitute the Company's "operating agreement" within the meaning of the Act.

Retail and Ventures have caused the formation of the Company for the purposes described in ARTICLE I for the benefit of Retail and Ventures and their respective Affiliates (defined in Article I), as well as current and prospective customers of the Company.

NOW, THEREFORE, the Members state, confirm and agree as follows:

**ARTICLE I.**

**Purposes of the Company; Equitable Treatment**

The Company was formed for the principal purposes of providing retail energy services, applied technology solutions and other products and services to its customers. In addition, the

Company may undertake any other lawful act or engage in any other business permitted under the Act as may from time to time be mutually agreed by the Members. (For purposes of this Agreement, the term "Affiliate" of a specified Member shall mean any entity directly or indirectly controlling, controlled by or under common control with such specified Member, and for this purpose "control" shall mean direct or indirect ownership of not less than 50% of total combined voting power or value.)

In conducting its business, the Company shall treat each Member equitably.

## ARTICLE II.

### Action by the Company; Board of Representatives

Section 2.01. Action by the Company. The Company shall act only by or under the authority of the unanimous approval of all its Members. Despite having statutory authority to act on behalf of the Company, no Member shall undertake to bind the Company absent unanimous approval of all the Members. Action by the Members may be taken at a meeting of designated representatives of the Members (referred to as the "Board of Representatives" or the "Board") or by unanimous consent or agreement by all the Members (such unanimous consent or agreement by all the Members shall be deemed action by the Board of Representatives).

Section 2.02. Board of Representatives. Each Member shall designate a representative ("Representatives") to serve on the Board of Representatives, which shall consist of two individuals, one of whom shall be designated by and serve at the pleasure of Retail, and one of whom shall be designated by and serve at the pleasure of Ventures. The initial Board shall consist of:

Name

Representing

Carl L. Chapman

Vectren Energy Retail, Inc.



Gregory F. Collins

Vectren Ventures, Inc.

A Member may remove or redesignate its Representative on the Board at any time by giving written notice to each other Member.

The Board shall be responsible for determining the ends which the Company will pursue. Further, the Board shall articulate the values, perspectives and rules by which the Company will guide its actions. The Board shall assure that the Company performs in an ethical and prudent manner.

Section 2.03. Chair of the Board. The Board shall have a Chair who shall preside at all meetings of the Board, and have such other powers and duties as the Board may prescribe. The Chair shall be a Representative on the Board and shall serve as Chair at the pleasure of Retail. The initial Chair shall be Carl L. Chapman, as the appointee of Retail.

Section 2.04. Meetings: Action. The Board shall hold regular meetings at the specific times and places mutually agreeable to the Members. Meetings of the Board are and shall be deemed meetings of the Members. Special meetings of the Board may be called by any Member at any time upon three (3) business days prior written notice of the date, time and purpose of the meeting. Notice to a Representative may be waived before or after the meeting by the Representative and attendance at a meeting by the Representative shall constitute waiver of such notice. A quorum for any meeting of the Board shall exist if there is one or more Representatives of *each* Member present. No meetings of the Board may be held unless all the Members are present as provided in this Section 2.04. Despite consisting of two representatives, action by the Board shall be approved only upon the unanimous vote of the Members (each Member having one vote, despite any then-existing disparity in the respective capital accounts of the Members). Each Member shall announce its vote on any matter submitted at a meeting through its Voting Representative, who shall be one of such Member's Representatives on the Board. The initial

Voting Representative of Retail shall be Carl L. Chapman. The initial Voting Representative of Ventures shall be Gregory F. Collins. A Member may change its designated Voting Representative by written notice to each other Member. If a Voting Representative is not in attendance at a meeting, another Representative representing that Member may be designated by the Voting Representative as such Member's Voting Representative for that particular meeting. Any or all Representatives may participate in a meeting by conference telephone or similar communication equipment, and all Representatives so participating in the meeting shall be deemed present in person.

### ARTICLE III.

#### Day-to-Day Management of the Company

Section 3.01. Management. Subject always to the supervision and control of the Board, the management of the Company ("Management") shall be responsible for day-to-day operations of the business of the Company, implementing the policies and decisions of the Board and making recommendations to the Board. The Management of the Company may consist of the following: a President, a Secretary and any other Management positions chosen by the Board at the times, in the manner and for the terms (if any) as the Board may prescribe. Each member of Management shall serve at the pleasure of the Board, holding office until such person's death, disability, resignation or removal (with or without cause) or until the person's successor is selected and qualified. Each member of management shall be permitted to sign checks and execute contracts on behalf of the company, all subject to the provisions of the Act and this Agreement. Except as the Board may determine from time to time, the actions described in Schedule A (Reserved Authority) may not be taken by the Management on behalf of the Company unless authorized or ratified by the Board.

#### Section 3.02. Duties of Management.

(a) President. Subject to the general control of the Board and Section 3.01, the President shall manage and supervise all the affairs and personnel of the Company and shall discharge all the usual functions of the president of a corporation, as if the Company were a corporation. The President shall exercise and perform such other powers and duties as the Board may prescribe. The President shall report directly to the Chair. The President shall have full authority to execute proxies, deeds, checks, contracts and other instruments on behalf of the Company, and to execute powers of attorney appointing other entities or individuals the agent of the Company, all subject to the provisions of the Act and this Agreement. The President shall have the power to authorize two members of management to sign checks on behalf of the Company. The President shall keep or cause to be kept correct and complete records of account, showing accurately at all times the financial condition of the Company. The President shall be the legal custodian of all moneys, notes, securities, and other valuables which may from time to time come into the possession of the Company. The President shall open and maintain bank accounts in the name of the Company, and shall immediately deposit all funds of the Company coming into his or her hands in such bank accounts. The President shall furnish or cause to be furnished at meetings of the Board, or whenever requested by the Board or any Member, a statement of the financial condition of the Company. The President shall authenticate the records of the Company when necessary.

(b) Secretary. The Secretary shall discharge all the usual functions of the secretary of a corporation, as if the Company were a corporation.

(c) Delegation of Authority. In case of the absence of any member of Management of the Company, or for any other reason that the Board may deem sufficient, the Board may delegate the powers or duties of such person to any other member of Management or to

any Representative, for the time being.

Section 3.03. Indemnification of Representatives and Management. The Company shall indemnify every person who is or was a Representative or member of Management of the Company (each of whom, together with such person's heirs, estate, executors, administrators and personal representatives, is hereinafter referred to as an "Indemnatee") against liability to the fullest extent which would be permitted by Ind. Code § 23-1-37 if the Company were a corporation organized under the Indiana Business Corporation Law and the Indemnatee were a director or officer of such corporation. Such indemnification shall be provided, however, only if such person is determined in the manner specified by Ind. Code § 23-1-37 to have met the standard of conduct specified in Ind. Code § 23-1-37. The Company shall, to the fullest extent which would be permitted by Ind. Code § 23-1-37, pay for or reimburse the reasonable expenses incurred by every Indemnatee who is a party to a proceeding in advance of final disposition of the proceeding, in the manner specified by Ind. Code § 23-1-37. The foregoing indemnification and advance of expenses for each Indemnatee shall apply to service in the Indemnatee's official capacity with the Company, and to service at the Company's request, while also acting in an official capacity with the Company, as a director, officer, partner, Member, manager, trustee, employee, or agent of another foreign or domestic corporation, partnership, limited liability company, joint venture, trust, employee benefit plan, or other enterprise, whether for profit or not. This Section 3.03 shall be binding upon any successor to the Company so that each Indemnatee shall be in the same position with respect to any resulting, surviving, or succeeding entity as the Indemnatee would have been had the separate legal existence of the Company continued; provided, that unless expressly provided or agreed otherwise, this sentence shall be applicable only to an Indemnatee acting in an official capacity or in another capacity heretofore described prior to termination of the separate legal existence of the Company. The foregoing

provisions shall be deemed to create a contract right for the benefit of every Indemnatee if (a) any act or omission complained of in a proceeding against the Indemnatee, (b) any portion of a proceeding or (c) any determination or assessment of liability occurs while this Section 3.03 is in effect. All references in this Section 3.03 to Ind. Code § 23-1-37 shall be deemed to include any amendment or successor thereto. When a word or phrase used in this paragraph is defined in Ind. Code § 23-1-37, such word or phrase shall have the same meaning in this Section 3.03 that it has in Ind. Code § 23-1-37. Nothing contained in this Section 3.03 shall limit or preclude the exercise of any right relating to indemnification or advance of expenses to any Indemnatee or the ability of the Company to otherwise indemnify or advance expenses to any Indemnatee. If any word, clause or sentence of the foregoing provisions regarding indemnification or advancement of expenses shall be held invalid as contrary to law or public policy, it shall be severable and the provisions remaining shall not be otherwise affected. If any court holds any word, clause or sentence of this paragraph invalid, the court is authorized and empowered to rewrite these provisions to achieve their purpose to the extent possible.

Section 3.04. Initial Management. The initial members of Management of the Company shall be as follows:

President	Gregory F. Collins
Vice President, General Counsel, Secretary and Assistant Treasurer	Ronald E. Christian
Vice President	Lawrence K. Friedeman
Treasurer and Assistant Secretary	Timothy L. Burke

#### **ARTICLE IV.**

##### **Capital Contributions and Valuation**

Section 4.01. Capital Account. An individual capital account shall be established and maintained by the Company for each Member, as provided in Treasury Regulations Section 1.704-1(b).

Section 4.02. Contributions to Capital. Ventures and Retail shall make initial capital contributions to the Company consistent with Schedule C. In the event that any Member contributes what all the Members agree is significant additional value to the Company, or the value initially contributed is of significantly less value than anticipated, which causes the present allocation to be inequitable or inappropriate to a material extent, all the Members agree that the Board shall meet to negotiate in good faith a compensating capital contribution by the appropriate Members so as to cause such ownership percentages to remain as close as reasonably possible to being equal.

Section 4.03. Return of Contributions. No Member shall have any right to the return or withdrawal of such Member's capital contribution until dissolution of the Company, unless the withdrawal is consented to by all the Members or is otherwise provided for in this Agreement.

#### **ARTICLE V.**

##### **Allocation of Profits, Losses and Distributions**

Section 5.01. Allocation of Profits and Losses. The Net Profit or Net Loss of the Company, including each item of income, gain, loss, deduction, and credit shall be allocated each Fiscal Year (or portion thereof) among the Members in accordance with their respective ownership percentages.

Section 5.02. Distributions of Cash or Other Assets. Distributions of cash or other assets shall be made to all the Members in accordance with their respective ownership percentages, only as authorized by the Board, and subject to this Agreement.

Section 5.03. Special Allocation Provisions. If and at such time as there is a Special Allocation Event (defined in the following sentence), the provisions of Schedule B (Schedule of Special Allocations) shall become effective as of the first day of the Company's taxable year in which such Special Allocation Event occurred. For purposes of this Agreement, a Special Allocation Event means, and shall be the first to occur of:

- (a) the making of a capital contribution of cash or tangible property by, or a distribution of cash or tangible property to, any Member, except equally among all the Members;
- (b) the making of a capital contribution of tangible property by, or a distribution of tangible property to, any Member where there is a variation between the basis of the tangible property and its fair market value at the time thereof, other than in accordance with the Members' ownership percentages;
- (c) the incurrence of any indebtedness of the Company from, or guaranteed by, any Member or an Affiliate thereof, except equally among all the Members or their respective Affiliates (taking into account reasonable economic equivalents); or
- (d) the occurrence of any other event which, in the opinion of counsel for the Company or any Member, could reasonably be expected to jeopardize the equal allocation (before taxes) of the Company's income, gains, losses, deductions or credits among the Members under Section 704(b) of the Internal Revenue Code of 1986, as amended (the "Code") (or any successor provision), but for the effectiveness and application of the provisions of Schedule B (Schedule of Special Allocations).

Section 5.04. Negative Capital Accounts. No Member shall ever be required to make up a negative balance in its Capital Account.

## ARTICLE VI.

### Dissolution (Not Withdrawal or Departure of a Member)

Section 6.01. Dissolution. All matters governing dissolution shall be governed by the Act, unless otherwise agreed to by the Members.

## ARTICLE VII

### Default and Remedies

Section 7.01. Events of Default. A Member shall be in default upon the occurrence with respect to such Member of any of the following events (each a "Default"):

(i) A Member shall fail to make any Capital Contribution when due or to timely perform any material obligation to be performed by it under the provisions of this Agreement, and such failure shall not be cured within thirty (30) days after notice of such Default issued by the Company or any Member.

(ii) Any representation or warranty made by a Member shall prove to be false or misleading in any material respect when made, or with respect to any representation, warranty or covenant of a continuing nature to have become false or misleading, and such Member shall not have cured such matter within thirty (30) days after written notice to do so issued by the Company or any Member.

(iii) Any Member shall (a) be dissolved (other than pursuant to a consolidation or merger), (b) become insolvent or unable to pay its debts as they become due or admits in writing its inability generally to pay its debts as they become due, (c) make a general assignment,



arrangement or composition with or for the benefit of its creditors, (d) institute or have instituted against it a proceeding seeking judgment of insolvency, bankruptcy or any other relief under bankruptcy or insolvency laws or similar laws affecting creditors' rights, provided that in the event of a petition instituted or presented against it, such proceeding or petition (1) shall result in a judgment of insolvency or bankruptcy or the entry of an order for its winding up or liquidation or (2) shall not be dismissed, discharged, stayed or restrained, in each case within ninety (90) days of the institution or presentation thereof, (e) have a resolution passed for its winding up, official management or liquidation (other than pursuant to a merger or consolidation), (f) seek to become subject to the appointment of a receiver, trustee, custodian or other similar official for it or for all of its assets or have a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all of its assets and such secured party maintains possession, or such process is not dismissed, discharged, stayed or restrained, in each case within thirty (30) days thereafter, (g) cause or be subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified above or (h) take any action in furtherance or indicating its consent to, approval of or acquiescence in, any of the foregoing acts.

Section 7.02. Remedies for Default. The Members acknowledge and agree that a Default by any Member will cause irreparable injury to the Company and that money damages will not provide an entirely adequate remedy to the Company. Therefore, upon a Default, the defaulting Member automatically shall be deemed to have resigned from membership in the Company and to have surrendered its entire Capital Account (which shall be distributed pro rata among the remaining Members), shall have no further rights as a Member, shall have no further representation on the Board of Representatives, and shall be entitled to no further allocations of profits, losses or distribution from the Company.

## ARTICLE VIII.

### Assignment of Interests; New Members

Section 8.01. Restriction on Transfer. Except as provided in Section 8.02, no interest in the Company may be assigned, transferred, encumbered, hypothecated or otherwise disposed of without the prior written consent of all the Members (which consent may be given or withheld, conditioned or delayed as the remaining Members may determine in their sole and absolute discretion), and any attempted transfer, assignment, encumbrance, hypothecation or other disposition without such written consent shall be null and void and have no force or effect whatsoever.

Section 8.02. Transfer to Wholly-Owned Affiliate. Notwithstanding anything in this Agreement to the contrary, all (but not less than all) of the interest of any Member may be transferred to an Affiliate wholly-owned by Vectren Retail, Inc. or Vectren Ventures, Inc., whether by sale, dividend, capital contribution, merger, operation of law or otherwise, provided the transferee agrees in writing to be bound by this Agreement. Any such transferee shall, without the consent of the Members, be substituted or added as a Member and shall be treated as though such transferee were an initial party to this Agreement in the place and stead of the transferor.

Section 8.03. Continuing Responsibility. Notwithstanding any assignment or transfer of its interest in the Company or the substitution of the assignee or transferee as a Member, a Member shall not be relieved of any of such Member's responsibilities under this Agreement without the prior written consent of all the Members.

Section 8.04. New Members. With the consent of all the Members, new Members may be admitted to the Company upon such terms and conditions, in exchange for ownership

percentages, and with such representation on the Board as all the existing Members and each such new Member find mutually acceptable.

## ARTICLE IX.

### Miscellaneous

Section 9.01. Fiscal Year. The fiscal year of the Company shall end December 31, unless a different fiscal year is determined by the Board.

Section 9.02. Company Accounting; Financial Statements. An accounting shall be made of all Company transactions (for each fiscal year and quarter or lesser period of time) and the President shall cause to be prepared for the Company a balance sheet, a statement of cash receipts and disbursements, a statement of net profits and losses, and a statement of each Member's share of Company net profits and losses (collectively, "Financial Statements").

Section 9.03. Other Tax Matters. The Chairman will make such elections and shall take such other action as the Chairman believes necessary (a) to extend the statute of limitations for assessment of tax deficiencies against the Members with respect to any adjustment to the Company's federal and state income tax returns, (b) to cause the Company to be represented before the Internal Revenue Service, any other taxing authorities or any courts in matters affecting the Company, and (c) to cause to be executed any agreements or other documents that bind the Company with respect to such tax matters or otherwise affect the rights of the Company; provided, however, that no elections, submissions or positions will be made without reasonable prior notice to and the opportunity for input from each Member. Any reasonable changes proposed by a Member shall be made. Retail is specifically authorized to act as the "Tax Matters Partner" under the Code and in any similar matter under Indiana law. The Tax Matters Partner shall be reimbursed by the Company for its reasonable costs and expenses incurred in its capacity

as Tax Matters Partner.

Section 9.04. Waiver of Partition. By this Section 9.04, each Member on behalf of such Member, and its successors and permitted assigns, waives any rights to have Company property partitioned.

Section 9.05. Dealings Outside the Company. Each Member, Representative and member of Management shall, at any time and from time to time, devote such time and effort to the business of the Company as may be necessary to promote adequately the interests of the Company and the mutual interests of the Members. The Members and their Affiliates individually or collectively may, at any time and from time to time, engage in and possess an interest in other business ventures of any and every type and description, independently or with others, and neither the Company nor any Member shall by virtue of this Agreement have any right, title or interest in or to such independent ventures of the Members or their Affiliates.

Section 9.06. Expenses. Unless mutually agreed in advance, each Member shall pay or cause to be paid its own fees and expenses, including, without limitation, attorneys' fees, incurred in connection with the organization of the Company.

Section 9.07. Complete Agreement. This Agreement and the Articles of Organization constitute the complete and exclusive statement of agreement among the Members with respect to the subject matter of this Agreement. This Agreement and the Articles of Organization supersede all prior written and oral statements, and no representation, statement or condition or warranty not contained in this Agreement and the Articles of Organization will be binding on the Members or have any force or effect whatsoever.

Section 9.08. Terms. Any reference to the Act, the Code or other statutes or laws will include all amendments, modifications, or replacements of the specific sections and provisions concerned. Terms used in this Agreement, unless defined herein or unless the context dictates,

shall have the meanings set forth in the Act.

Section 9.09. Multiple Counterparts. This Agreement may be executed in several counterparts, each of which will be deemed an original but all of which will constitute one and the same instrument. However, in making proof of this Agreement, it will be necessary to produce only one copy of this Agreement signed by the party to be charged.

Section 9.10. Applicable Law. This Agreement shall be construed in accordance with the laws of the State of Indiana.

Section 9.11. Partial Invalidity. If any term or provision of this Agreement is determined to be invalid, such invalid term or provision shall not affect or impair the remainder of this Agreement, but such remainder shall continue in full force and effect to the same extent as though such invalid term or provision were not contained therein.

Section 9.12. Company Obligations Binding. Each Member agrees that the promises, covenants and conditions contained herein are given separately and as a Member inure to and are binding upon its successors and assigns. The Company shall be bound by this Agreement.

Section 9.13. Signatory Requirements. Each Member, or each additional or substitute Member permitted under this Agreement, may become a signatory hereof by signing a company signature page to this Agreement and such other instruments as the Board shall determine. By so signing, each Member, or each such additional or substitute Member, shall be deemed to have adopted and agreed to be bound by this Agreement, as amended from time to time in accordance with this Agreement.

Section 9.14. Additional Documents and Acts. Each Member agrees to execute and deliver such additional documents and instruments and to perform such additional acts as may be necessary or appropriate to effectuate, carry out, and perform all the terms, provisions and conditions of this Agreement and the transactions contemplated by this Agreement.

Section 9.15. Notices. Any notice to be given or to be served upon the Company or any party to this Agreement in connection with this Agreement must be in writing and will be deemed to have been given and received when delivered to the respective address specified on the signature page(s) to this Agreement, or with respect to the Company, at the address of its principal office, as specified to the parties to this Agreement. Any party to this Agreement or the Company may, at any time by giving five days' prior written notice to the others, designate any other address in substitution of the then current address to which such notice will be given. Notice mailed by United States mail shall be deemed given three days after proper deposit in the United States mail. Notice by courier or expedited delivery service shall be deemed given when actually received.

Section 9.16. Disputes to Be Resolved by Arbitration. Except as provided by Section 6.05, the Members agree that in the event of a dispute relating to the governance of the Company, the resolution of that dispute will be subject to arbitration.

Section 9.17. Amendments and Supplements. All amendments and supplements to this Agreement shall be in writing and executed by each Member. Amendments and supplements executed by each Member shall be binding on the Company, whether or not executed by an Officer.

IN WITNESS WHEREOF, all the Members have caused this Agreement to be executed by their duly authorized representatives.

VECTREN ENERGY RETAIL, INC

By: Carl L. Chapman  
Carl L. Chapman

VECTREN VENTURES, INC.

By: Gregory F. Collins  
Gregory F. Collins

## SCHEDULE A

### (RESERVED AUTHORITY)

Management of the Company shall not have the authority to undertake any of the following actions on behalf of the Company unless authorized or ratified by the Board:

1. Engaging in any act in contravention or violation of this Agreement or outside the principal purposes of the Company as set forth in Article I of this Agreement;
2. Engaging in any act which would make it impossible to carry on the ordinary business of the Company;
3. Selling all or substantially all of the assets of the Company, or causing the Company to merge with or into any other limited liability company, corporation, partnership or other entity;
4. Admitting any substitute or additional Member to the Company;
5. Commencement, termination or settlement of any claim, or engaging legal counsel with respect thereto, other than a claim arising in the ordinary course of the Company's business, or lawsuit or other legal action, arbitration or administrative proceeding brought by or against the Company involving an amount in controversy in excess of \$25,000;
6. Voluntary dissolution of the Company;
7. A. The incurrence of indebtedness with a nominal maturity of one year or less in excess of a maximum amount approved by the Board;  
B. The incurrence of indebtedness with a nominal maturity in excess of one year;
8. Calling for additional capital contributions or loans from Members;

9. Approval of all employment contracts (other than at-will employments), employee benefit plans, parameters for collective bargaining and other material labor agreements, fundamental personnel policies and all material amendments thereto;
10. Approval of the annual capital and operating budgets, cash flow plans and related schedules of the Company and all material amendments thereto;
11. Any distribution, whether in cash or in kind, to the Members;
12. Appointment of the independent public accountants of the Company;
13. Entering into any contract for Retail Services that will result in annual revenue in excess of \$500,000, or materially amending any such contracts;
14. Appointment, removal and replacement of Management of the Company;
15. Confessing a judgment against the Company;
16. Possessing any Company property, or assigning the rights of the Members in specific Company property, for other than a Company purpose;
17. Assigning any Company property or assets in trust for creditors or on the basis of an assignee's promise or undertaking to pay the debts or obligations of the Company;
18. Causing the Company to make loans to or borrow money from the Members or their respective Affiliates (other than indebtedness for property sold in the ordinary course of business pursuant to contracts duly approved by the Board or for which Board approval is not required by this Agreement) or to commingle Company funds with the funds of Members or their respective Affiliates;
19. Any matter for which Board action is expressly provided for under this Agreement; and
20. Such other policy decisions as the Board may determine on a case by case basis.



## SCHEDULE B

### (SCHEDULE OF SPECIAL ALLOCATIONS)

Section 1. Net Income and Net Loss. The terms "Net Income" or "Net Loss," as the case may be, of the Company shall mean the Company's taxable income or taxable loss for Federal income taxation purposes as determined by the accountants then employed by the Company in accordance with Section 703(a) of the Internal Revenue Code of 1986, as amended (the "Code"), with the items required to be separately stated by Section 703(a)(1) of the Code combined into a single net amount; provided, however, that in the event the taxable income or taxable loss of the Company for such fiscal year is later adjusted in any manner, as a result of an audit by the Internal Revenue Service (the "Service") or otherwise, then the taxable income or taxable loss of the Company shall be adjusted to the same extent. "Net Income" and "Net Loss" shall be further adjusted as follows:

(a) "Net Income" and "Net Loss," as the case may be, shall be adjusted to treat items of tax-exempt income described in Section 705(a)(1)(B) of the Code as items of gross income, and to treat as deductible items all non-deductible, non-capital expenditures described in Section 705(a)(2)(B) of the Code, including any items treated under Treas. Reg. § 1.704-1(b)(2)(iv) as items described in Section 705(a)(2)(B) of the Code.

(b) In lieu of depreciation, depletion, cost recovery and amortization deductions allowable for Federal income taxation purposes to the Company with respect to property contributed to the Company by a Member, there shall be taken into account an amount equal to the product derived by multiplying the Book Value of such property

at the beginning of such fiscal year by a fraction, the numerator of which is the amount of depreciation, depletion, cost recovery or amortization deductions allowable with respect to such property for Federal income taxation purposes and the denominator of which is the adjusted basis for Federal income taxation purposes of such property at the beginning of such fiscal year.

(c) In lieu of actual gain or loss recognized by the Company for Federal income taxation purposes as a result of the sale or other disposition of property of the Company, there shall be taken into account the gain or loss that would have been recognized by the Company for Federal income taxation purposes if the Book Value of such property as of the date sold or otherwise disposed of by the Company were its adjusted basis for Federal income taxation purposes.

Section 2. Allocation of Net Income and Net Loss. After giving effect to the special allocations set forth in Sections 3, 4 and 6:

(a) Net Income. Net Income for the fiscal year shall be allocated among the Members in accordance with their respective ownership percentages.

(b) Net Loss. Net Loss for the fiscal year shall be allocated among the Members in accordance with their respective ownership percentages.

Section 3. Special Allocations. The following special allocations shall be made in the following order:

(a) Minimum Gain Chargeback. Except as otherwise provided in Treas. Reg. § 1.704-2(f), notwithstanding any other provision of this Schedule B, if there is a net decrease in Company Minimum Gain during any Company fiscal year, each Member and assignee or transferee of an interest of a Member ("Interest") shall be

pecially allocated items of Company income and gain for such fiscal year (and, if necessary, subsequent years) in an amount equal to the portion of such Member's or assignee's or transferee's share of the net decrease in Company Minimum Gain, determined in accordance with Treas. Reg. § 1.704-2(g)(1) that is allocable to the disposition of Company property subject to nonrecourse liabilities (as defined in Treas. Reg. § 1.704-2(b)(3)), determined in accordance with Treas. Reg. 1.704-2(d). The items to be so allocated shall be determined in accordance with Treas. Reg. § 1.704-2(f)(6) and 1.704-2(j)(2). This Section 3(a) is intended to comply with the minimum gain chargeback requirement in such section of the Regulations and shall be interpreted consistently therewith.

(b) Member Minimum Gain Chargeback. Except as otherwise provided in Treas. Reg. § 1.704-2(i)(4), notwithstanding any other provision of this Schedule B except Section 3(a), if there is a net decrease in Member Minimum Gain attributable to a Member Nonrecourse Debt during any Company fiscal year, each Member or assignee or transferee of an Interest who has a share of the Member Minimum Gain attributable to such Member Nonrecourse Debt, determined in accordance with Treas. Reg. § 1.704-2(i)(5), shall be specially allocated items of Company income and gain for such year (and, if necessary, subsequent years) in an amount equal to the portion of such Member's or assignee's or transferee's share of the net decrease in Member Minimum Gain attributable to such Member Nonrecourse Debt, determined in accordance with Treas. Reg. § 1.704-2(i)(5), that is allocable to the disposition of Company property subject to such Member Nonrecourse Debt, determined in accordance with Treas. Reg. § 1.704-2(i)(4). The items to be so allocated shall be

determined in accordance with Treas. Reg. §§ 1.704-2(i)(4) and 1.704-2(j)(2). This Section 3(b) is intended to comply with the minimum gain chargeback requirement in such section and shall be interpreted consistently therewith.

(c) Qualified Income Offset. In the event any Member or assignee or transferee of an Interest unexpectedly receives any adjustments, allocations, or distributions described in Treas. Reg. § 1.704-1(b)(2)(ii)(d)(4), 1.704-1(b)(2)(ii)(d)(5), or 1.704-1(b)(2)(ii)(d)(6), items of Company income and gain shall be specially allocated to each such Member or assignee or transferee of an Interest in an amount and manner sufficient to eliminate, to the extent required by Treas. Reg. § 1.704-1(b)(2)(ii)(d), the Adjusted Capital Account Deficit of such Member or assignee or transferee of an Interest as quickly as possible, provided that an allocation pursuant to this Section 3(c) shall be made only if and to the extent that such Member or assignee or transferee of an Interest would have an Adjusted Capital Account Deficit after all other allocations provided for in this Schedule B have been tentatively made as if this Section 3(c) were not in the Agreement.

(d) Gross Income Allocation. In the event any Member or assignee or transferee of an Interest has a deficit capital account at the end of any Company fiscal year which is in excess of the sum of the amount such Member or assignee or transferee of an Interest is obligated to restore or is deemed to be obligated to restore pursuant to the penultimate sentences of Treas. Regs. §§ 1.704-2(g)(1) and 1.704-2(i)(5), each such Member or assignee or transferee of an Interest shall be specially allocated items of Company income and gain in the amount of such excess as quickly as possible, provided that an allocation pursuant to this Section 3(d) shall be made only if and to the

extent that such Member or assignee or transferee of an Interest would have a deficit capital account in excess of such sum after all other allocations provided for in this Schedule B have been tentatively made as if Section 3(c) and this Section 3(d) were not in the Agreement.

(e) Nonrecourse Deductions. Nonrecourse Deductions for any fiscal year or other period shall be specially allocated as provided in Section 2(b).

(f) Member Loan Nonrecourse Deductions. Any Member Loan Nonrecourse Deductions for any fiscal year or other period shall be specially allocated to the Member or assignee or transferee of an Interest who bears the economic risk of loss with respect to the Member Nonrecourse Debt to which such Member Loan Nonrecourse Deductions are attributable in accordance with Treas. Reg. § 1.704-2(i).

(g) Section 754 Adjustments. To the extent Treas. Reg. § 1.704-1(b)(2)(iv)(m) requires an adjustment to the adjusted tax basis of any Company asset pursuant to Code Section 734(b) or Code Section 743(b) to be taken into account in determining capital accounts, the amount of such adjustment to the capital accounts shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis) and such gain or loss shall be specially allocated to the Members and assignees or transferees of an Interest in a manner consistent with the manner in which their capital accounts are required to be adjusted pursuant to such Section of the Regulations.

Section 4. Curative Allocations. The allocations set forth in Section 3 (the "Regulatory Allocations") are intended to comply with certain requirements of the Regulations. It is the intent of the Members that, to the extent possible, all Regulatory Allocations shall be

offset either with other Regulatory Allocations or with special allocations of other items of Company income, gain, loss or deduction pursuant to this Section 4. Therefore, notwithstanding any other provision of this Schedule B (other than the Regulatory Allocations), the Members shall make such offsetting special allocations of Company income, gain, loss, or deduction so that, after such offsetting allocations are made, each Member's capital account balance is, to the extent possible, equal to the capital account balance such Member would have had if the Regulatory Allocations were not part of the Agreement and all Company items were allocated pursuant to Section 2.

Section 5. Effects of Varying Company Interests During a Company Year. In the event a Member's interest as a Member varies during any fiscal year of the Company (whether by reason of withdrawal, additional capital contributions or otherwise), Net Income and Net Loss shall be computed and allocated in accordance with this Schedule B as if periods between such variations were each a separate fiscal year of the Company.

Section 6. Allocation of Income, Gain, Loss and Deduction; Section 704(c). Upon the sale of any property contributed by any Member, the gain or loss represented by the difference between the adjusted basis for Federal income taxation purposes and Book Value of the property to the Company shall be allocated to the Member who contributed such property, and the gain or loss in excess of that so allocated shall be allocated among the Members as provided in Sections 1, 2, 3 and 4 hereof. In addition, any other item of income, gain, loss or deduction with respect to such property shall be allocated in a manner consistent with the requirements of Section 704(c) of the Code and Treas. Reg. § 1.704-1(b)(2)(iv)(g), as amended from time to time.

Section 7. Allocation of Tax Items. All items of depreciation, gain, loss, deduction or

credit that are taken into account in determining Net Income or Net Loss, shall be allocated among the Members in the same proportion as is provided in this Schedule B.

Section 8. Definitions. Capitalized words and phrases used in this Schedule B have the following meanings:

(a) Adjusted Capital Account Deficit means, with respect to any Member, the deficit balance, if any, in such Member's capital account as of the end of the relevant fiscal year, after giving effect to the following adjustments:

(1) Credit to such capital account any amounts which such Member is obligated to restore or is deemed to be obligated to restore pursuant to the penultimate sentence of Treas. Reg. § 1.704-2(g)(1) or would be deemed obligated to restore if Member Loan Nonrecourse Deductions were treated as Nonrecourse Deductions; and

(2) Debit to such capital account the items described in Treas. Regs. §§ 1.704-1(b)(2)(ii)(d)(4), 1.704-1(b)(2)(ii)(d)(5), and 1.704-1(b)(2)(ii)(d)(6).

The foregoing definition of Adjusted Capital Account Deficit is intended to comply with the provisions of Treas. Reg. § 1.704-1(b)(2)(ii)(d) and shall be interpreted consistently therewith.

(b) Book Value of any item of Company property as of any particular date shall be determined as follows: (a) the Book Value of any item of property contributed by a Member to the capital of the Company shall be the agreed-upon gross fair market value of such item of property as of the date such property was contributed to the Company, as adjusted for depreciation, depletion, cost recovery and amortization deductions with respect to such property computed in the manner provided in Section

1(b); and (b) the Book Value of any other item of Company property shall be its adjusted basis for Federal income taxation purposes.

(c) Company Minimum Gain has the meaning set forth in Treas. Reg. §§ 1.704-2(b)(2) and 1.704-2(d).

(d) Member Loan Nonrecourse Deductions has the meaning set forth in Treas. Reg. § 1.704-2(i)(2). The amount of Member Loan Nonrecourse Deductions with respect to a Member Nonrecourse Debt for a Company fiscal year equals the excess, if any, of the net increase, if any, in the amount of Member Minimum Gain attributable to such Member Nonrecourse Debt during that fiscal year over the aggregate amount of any distributions during that fiscal year to the Members or assignees or transferees of an Interest that bear the economic risk of loss for such Member Nonrecourse Debt to the extent such distributions are from the proceeds of such Member Nonrecourse Debt and are allocable to an increase in Member Minimum Gain attributable to such Member Nonrecourse Debt, determined in accordance with Treas. Reg. § 1.704-2(i)(2).

(e) Member Minimum Gain means an amount, with respect to each Member Nonrecourse Debt, equal to the Company Minimum Gain that would result if such Company Nonrecourse Debt were treated as a nonrecourse liability (as defined in Treas. Reg. § 1.704-2(b)(3)), determined in accordance with Treas. Reg. § 1.704-2(i).

(f) Member Nonrecourse Debt has the meaning set forth in Treas. Reg. § 1.704-2(b)(4).

(g) Nonrecourse Deductions has the meaning set forth in Treas. Reg. § 1.704-2(b)(1). The amount of Nonrecourse Deductions for a Company fiscal year



equals the net increase, if any, in the amount of Company Minimum Gain during that fiscal year, determined according to Treas. Reg. §§ 1.704-2(c) and 1.704-2(d).

(h) Regulations means the regulations promulgated under the Code, as such regulations may be amended from time to time (including corresponding provisions of succeeding regulations).

**SCHEDULE C**

**(CAPITAL CONTRIBUTIONS)**

	<b><u>Contribution</u></b>	<b><u>Percentage</u></b>
Vectren Energy Retail, Inc.	\$1,000.00	99%
Vectren Ventures, Inc.	\$10.00	1%
Total	\$1,010.00	100%

**EXHIBIT A-18**

**SECRETARY OF STATE**  
**CERTIFICATES**

{C10544:}

**VECTREN RETAIL, LLC**



DATE: 09/27/2001	DOCUMENT ID 200127001616	DESCRIPTION REGISTRATION OF FOREIGN LIMITED LIABILITY CO (LFA)	FILING 125.00	EXPED 100.00	PENALTY .00	CERT .00	COPY .00
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**Receipt**

This is not a bill. Please do not remit payment.

MCNEES, WALLACE & NUSICK  
KIM BOJKO  
21 E. STATE ST., 17TH FL  
COLUMBUS, OH 43215

# STATE OF OHIO

Ohio Secretary of State, J. Kenneth Blackwell

1255668

It is hereby certified that the Secretary of State of Ohio has custody of the business records for

**VECTREN RETAIL, LLC**

and, that said business records show the filing and recording of:

Document(s)  
**REGISTRATION OF FOREIGN LIMITED LIABILITY CO**

Document No(s):  
**200127001616**



United States of America  
State of Ohio  
Office of the Secretary of State

Witness my hand and the seal of  
the Secretary of State at Columbus,  
Ohio this 27th day of September,  
A.D. 2001.

*J. Kenneth Blackwell*  
Ohio Secretary of State



	DOCUMENT ID	DESCRIPTION	FILING	EXPED	PENALTY	CERT	COPY
2001	200128201452	TRADE NAME/ORIGINAL FILING (RNO)	50.00	.00	.00	.00	.00

**Receipt**

This is not a bill. Please do not remit payment.

MCNEES WALLACE & NURICK LLC  
KIM BOJKO  
21 EAST STATE ST, 17TH FL  
COLUMBUS, OH 43119

# STATE OF OHIO CERTIFICATE

Ohio Secretary of State, J. Kenneth Blackwell

1258630

It is hereby certified that the Secretary of State of Ohio has custody of the business records for

**VECTREN SOURCE**

and, that said business records show the filing and recording of:

Document(s)

**TRADE NAME/ORIGINAL FILING**

Date of First Use: 10/04/2001  
Expiration Date: 10/04/2006

Document No(s):

**200128201452**

VECTREN RETAIL, LLC  
20 NW 4TH STREET  
EVANSVILLE, IN 47708



United States of America  
State of Ohio  
Office of the Secretary of State

Witness my hand and the seal of  
the Secretary of State at Columbus,  
Ohio this 4th day of October, A.D.  
2001.

*J. Kenneth Blackwell*  
Ohio Secretary of State

**EXHIBIT B-1**

**JURISDICTION OF OPERATION**

Vectren Source is currently authorized to provide retail natural gas service in the Columbia Gas of Ohio and Dominion East Ohio service territories. ProLiance Energy, LLC ("ProLiance"), an affiliate of Vectren Source, is currently authorized to provide retail natural gas service to commercial and industrial customers in the states of Indiana, Ohio, Michigan, Kentucky, Illinois, Tennessee, Alabama, Florida, Missouri, Georgia, Wisconsin, Texas, Minnesota, and Virginia. Particularly in the state of Ohio, ProLiance is authorized to provide retail natural gas service within the jurisdiction of the Columbia Gas of Ohio, Cincinnati Gas and Electric, Vectren Energy Delivery of Ohio, Dominion East Ohio, Dominion West Ohio, and Ohio Gas service territories.

{C10544:}

**VECTREN RETAIL, LLC**

**EXHIBIT B-2**

**EXPERIENCE AND PLANS**

Vectren Source first entered the Ohio CHOICE program as a marketer in Fall, 2001 and has executed a number of campaigns since in both the Columbia of Ohio and Dominion East Ohio service territories. Vectren Source plans to continue acquisition and retention efforts as part of its business model. Upon enrollment by the customer, Vectren Source mails a confirmation letter detailing the terms and conditions of the contract.

Responding to customer inquiries and complaints:

Normal customer service hours are Monday – Friday, 8 AM – 5PM, Central Standard Time. When customer concerns are received at Vectren Source's Customer Care center, the issue is researched to determine all factors influencing the concern. Once the factors involved in the issue are established, contact with the customer is made in an attempt to reach an amicable resolution. If a public agency is involved in the dispute resolution process, once an investigation is complete, the agency is notified of the results and, assuming concurrence, the matter is closed. If the customer disputes the investigation report, Vectren Source will inform the customer that the Commission Staff is available to mediate complaints.

**EXHIBIT B-3**

**SUMMARY OF EXPERIENCE**

Vectren Source has provided natural gas services to Ohio customers since December 2001. Vectren Source has marketed and acquired customers in both Dominion East Ohio's territory as well as Columbia Gas of Ohio's service territory. Vectren Source currently serves several thousand residential and small commercial customers in these territories. Since December 2001, the volume of gas supplied has been in excess of 400,000 mcf.

{C10544:}

**VECTREN RETAIL, LLC**



**EXHIBIT B-4**

**DISCLOSURE OF LIABILITIES AND INVESTIGATIONS**

Not Applicable.

{C10544:}

**VECTREN RETAIL, LLC**

**EXHIBIT C-1**

**ANNUAL REPORTS**

Vectren Source does not produce Annual Reports. Therefore, the two most recent Annual Reports for Vectren Corp. accompany this Application.

{C10544:}

**VECTREN RETAIL, LLC**

**EXHIBIT C-2**

**SEC FILINGS**

Vectren Source does not submit 10-K Filings. Therefore, the 10-K Filing for the period ending December 31, 2001, and the 10-Q Filing for the period ending March 31, 2002, for Vectren Corp. are attached hereto.

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

**Form 10-Q**

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

For quarterly period ended March 31, 2002

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-15467

VECTREN CORPORATION

(Exact name of registrant as specified in its charter)

INDIANA

(State or other jurisdiction of  
incorporation or organization)

35-2086905

(I.R.S. Employer  
Identification No.)

20 N.W. Fourth Street, Evansville, Indiana 47708

(Address of principal executive offices and Zip Code)

(812) 491-4000

(Registrant's telephone number, including area code)

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

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

Common Stock - Without par value

67,729,661

May 1, 2002

Class

Number of shares

Date

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## Definitions

As discussed in this Form 10-Q, the abbreviations MMDth means millions of dekatherms, MMBTU means millions of British thermal units, and throughput means combined gas sales and gas transportation volumes.

## PART I. FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

#### VECTREN CORPORATION AND SUBSIDIARY COMPANIES CONSOLIDATED CONDENSED BALANCE SHEETS (Unaudited - In millions)

	March 31, 2002	December 31, 2001
<b><u>ASSETS</u></b>		
Current Assets		
Cash & cash equivalents	\$ 20.4	\$ 27.2
Accounts receivable-less reserves of \$8.5 & \$5.9, respectively	222.0	213.8
Accrued unbilled revenues	72.8	78.4
Inventories	53.2	71.4
Recoverable fuel & natural gas costs	55.2	76.5
Prepayments & other current assets	45.3	103.4
<b>Total current assets</b>	<b>468.9</b>	<b>570.7</b>
Utility Plant		
Original cost	2,927.6	2,903.2
Less: accumulated depreciation & amortization	1,326.3	1,308.2
<b>Net utility plant</b>	<b>1,601.3</b>	<b>1,595.0</b>
Investments in unconsolidated affiliates	129.3	127.7
Other investments	100.8	100.3
Non-utility property-net	191.6	181.7
Goodwill-net	199.2	199.2
Regulatory assets	58.4	61.4
Other assets	27.3	20.8
<b>TOTAL ASSETS</b>	<b>\$ 2,776.8</b>	<b>\$ 2,856.8</b>

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

VECTREN CORPORATION AND SUBSIDIARY COMPANIES  
CONSOLIDATED CONDENSED BALANCE SHEETS  
(Unaudited - In millions)

	March 31, 2002	December 31, 2001
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>		
Current Liabilities		
Accounts payable	\$ 108.5	\$ 144.4
Accounts payable to affiliated companies	47.2	37.2
Accrued liabilities	144.9	101.4
Short-term borrowings	260.3	381.7
Long-term debt subject to tender	11.5	11.5
Current maturities of long-term debt	1.3	1.3
<b>Total current liabilities</b>	<b>573.7</b>	<b>677.5</b>
Deferred Income Taxes & Other Liabilities		
Deferred income taxes	202.9	206.7
Deferred credits & other liabilities	111.4	108.1
<b>Total deferred income taxes &amp; other liabilities</b>	<b>314.3</b>	<b>314.8</b>
Commitments & Contingencies (Notes 6-8)		
Minority Interest in Subsidiary	1.2	1.4
Capitalization		
Long-term debt-net of current maturities and debt subject to tender	1,012.8	1,014.0
Cumulative redeemable preferred stock of subsidiary	0.3	0.5
Common shareholders' equity		
Common stock (no par value) - issued & outstanding 67.7 and 67.7, respectively	346.6	346.1
Retained earnings	526.0	498.3
Accumulated other comprehensive income	1.9	4.2
<b>Total common shareholders' equity</b>	<b>874.5</b>	<b>848.6</b>
<b>Total capitalization</b>	<b>1,887.6</b>	<b>1,863.1</b>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>	<b>\$ 2,776.8</b>	<b>\$ 2,856.8</b>

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

**VECTREN CORPORATION AND SUBSIDIARY COMPANIES**  
**CONSOLIDATED CONDENSED STATEMENTS OF INCOME**  
(Unaudited - In millions, except per share data)

	Three Months Ended March 31,	
	2002	2001
<b>OPERATING REVENUES</b>		
Gas utility	\$ 357.1	\$ 523.7
Electric utility	126.8	88.2
Energy services & other	151.3	272.0
Total operating revenues	635.2	883.9
<b>OPERATING EXPENSES</b>		
Cost of gas sold	230.0	404.1
Fuel for electric generation	17.8	18.0
Purchased electric energy	59.8	13.2
Cost of energy services & other	139.4	261.8
Other operating	56.6	61.4
Merger & integration costs	-	1.0
Depreciation & amortization	29.1	31.4
Taxes other than income taxes	18.3	19.5
Total operating expenses	551.0	810.4
<b>OPERATING INCOME</b>	<b>84.2</b>	<b>73.5</b>
<b>OTHER INCOME</b>		
Equity in earnings of unconsolidated affiliates	2.3	5.9
Other - net	1.4	2.9
Total other income	3.7	8.8
Interest expense	19.8	22.8
<b>INCOME BEFORE INCOME TAXES</b>	<b>68.1</b>	<b>59.5</b>
Income taxes	22.7	18.8
Minority interest in subsidiary	(0.2)	-
Preferred dividend requirement of subsidiary	-	0.2
<b>INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE</b>	<b>45.6</b>	<b>40.5</b>
Cumulative effect of change in accounting principle - net of tax	-	3.9
<b>NET INCOME</b>	<b>\$ 45.6</b>	<b>\$ 44.4</b>
AVERAGE COMMON SHARES OUTSTANDING	67.5	65.6
DILUTED COMMON SHARES OUTSTANDING	67.8	65.8
<b>EARNINGS PER SHARE OF COMMON STOCK:</b>		
<b>BASIC</b>		
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	\$ 0.68	\$ 0.62
Cumulative effect of change in accounting principle - net of tax	-	0.06
<b>BASIC EARNINGS PER SHARE OF COMMON STOCK</b>	<b>\$ 0.68</b>	<b>\$ 0.68</b>
<b>DILUTED</b>		
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	\$ 0.67	\$ 0.61
Cumulative effect of change in accounting principle - net of tax	-	0.06
<b>DILUTED EARNINGS PER SHARE OF COMMON STOCK</b>	<b>\$ 0.67</b>	<b>\$ 0.67</b>

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



VECTREN CORPORATION AND SUBSIDIARY COMPANIES  
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS  
(Unaudited - In millions)

	Three Months Ended March 31,	
	2002	2001
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 45.6	\$ 44.4
Adjustments to reconcile net income to cash from operating activities:		
Depreciation & amortization	29.1	31.4
Deferred income taxes & investment tax credits	0.9	13.3
Equity in earnings of unconsolidated affiliates	(2.3)	(5.9)
Net unrealized loss (gain) on derivative instruments, including cumulative effect of change in accounting principle	3.0	(11.8)
Other non-cash charges- net	5.5	2.9
Changes in assets and liabilities:		
Accounts receivable & accrued unbilled revenues	(7.6)	10.2
Inventories	18.2	62.9
Recoverable fuel & natural gas costs	21.3	(15.1)
Prepayments & other current assets	64.8	37.9
Regulatory assets	2.6	8.6
Accounts payable, including to affiliated companies	(25.9)	(115.6)
Accrued liabilities	29.7	13.5
Other noncurrent assets & liabilities	(7.0)	(0.2)
Total adjustments	132.3	32.1
<b>Net cash flows from operating activities</b>	<b>177.9</b>	<b>76.5</b>
<b>CASH FLOWS (REQUIRED FOR) FINANCING ACTIVITIES</b>		
Proceeds from:		
Issuance of common stock - net of issuance costs	-	129.4
Requirements for:		
Dividends on common stock	(17.9)	(17.2)
Dividends on preferred stock of subsidiary	-	(0.2)
Retirement of long-term debt	(1.3)	(7.2)
Redemption of preferred stock of subsidiary	(0.2)	(0.2)
Net change in short-term borrowings	(121.4)	(120.4)
Proceeds from exercise of stock options & other	0.5	0.2
<b>Net cash flows (required for) financing activities</b>	<b>(140.3)</b>	<b>(15.6)</b>
<b>CASH FLOWS (REQUIRED FOR) INVESTING ACTIVITIES</b>		
Proceeds from:		
Unconsolidated affiliate distributions	0.3	-
Notes receivable & other collections	0.6	-
Requirements for:		
Capital expenditures	(42.2)	(46.2)
Unconsolidated affiliate investments	(3.0)	(4.4)
Notes receivable & other investments	(0.1)	(2.4)
<b>Net cash flows (required for) investing activities</b>	<b>(44.4)</b>	<b>(53.0)</b>
Net (decrease) increase in cash & cash equivalents	(6.8)	7.9
Cash & cash equivalents at beginning of period	27.2	15.2
Cash & cash equivalents at end of period	\$ 20.4	\$ 23.1

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

VECTREN CORPORATION AND SUBSIDIARY COMPANIES  
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS  
(UNAUDITED)

**1. Organization and Nature of Operations**

Vectren Corporation (the Company or Vectren), an Indiana corporation, is an energy and applied technology holding company headquartered in Evansville, Indiana. The Company was organized on June 10, 1999 solely for the purpose of effecting the merger of Indiana Energy, Inc. (Indiana Energy) and SIGCORP, Inc. (SIGCORP). On March 31, 2000, the merger of Indiana Energy with SIGCORP and into Vectren was consummated with a tax-free exchange of shares and has been accounted for as a pooling-of-interests in accordance with Accounting Principles Board (APB) Opinion No. 16 "Business Combinations."

Vectren is a public utility holding company, whose wholly owned subsidiary, Vectren Utility Holdings, Inc. (VUHI), is the intermediate holding company for the Company's three operating public utilities: Indiana Gas Company, Inc. (Indiana Gas), formerly a wholly owned subsidiary of Indiana Energy, Southern Indiana Gas and Electric Company (SIGECO), formerly a wholly owned subsidiary of SIGCORP, and the Ohio operations. Indiana Gas provides natural gas distribution and transportation services to a diversified customer base in 311 communities in 49 of Indiana's 92 counties. SIGECO provides electric generation, transmission, and distribution services to Evansville, Indiana, and 74 other communities in 8 counties in southwestern Indiana and participates in the wholesale power market. SIGECO also provides natural gas distribution and transportation services to Evansville, Indiana, and 64 communities in 10 counties in southwestern Indiana. The Ohio operations, owned as a tenancy in common by Vectren Energy Delivery of Ohio, Inc., a wholly owned subsidiary, (53 % ownership) and Indiana Gas (47 % ownership), provide natural gas distribution and transportation services to Dayton, Ohio, and 87 other communities in 17 counties in west central Ohio. The Ohio operations were acquired from the Dayton Power & Light Company on October 31, 2000. Both Vectren and VUHI are exempt from registration pursuant to Section 3(a)(1) and 3(c) of the Public Utility Holding Company Act of 1935.

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

**2. Basis of Presentation**

The interim consolidated condensed financial statements included in this report have been prepared by the Company, without audit, as provided in the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted as provided in such rules and regulations. The Company believes that the information in this report reflects all adjustments necessary to fairly state the results of the interim periods reported. These consolidated condensed financial statements and related notes should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2001, filed on Form 10-K. Because of the seasonal nature of the Company's utility operations, the results shown on a quarterly basis are not necessarily indicative of annual results.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Certain reclassifications have been made to prior period financial statements to conform with the current year classification. These reclassifications have no impact on previously reported net income.

### **3. Impact of Recently Issued Accounting Guidance**

#### **SFAS 142**

In July 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). The Company adopted the provisions of SFAS 142, as required on January 1, 2002. SFAS 142 changed the accounting for goodwill from an amortization approach to an impairment-only approach. Thus, amortization of goodwill that is not included as an allowable cost for rate-making purposes ceased upon adoption of the statement. This includes goodwill recorded in past business combinations, such as the Company's acquisition of the Ohio operations. Goodwill is to be tested for impairment at a reporting unit level at least annually.

SFAS 142 also requires the initial impairment review of all goodwill within six months of the adoption date. The impairment review consists of a comparison of the fair value of a reporting unit to its carrying amount. If the fair value of a reporting unit is less than its carrying amount, an impairment loss would be recognized. Results of the initial impairment review are to be treated as a change in accounting principle in accordance with APB Opinion No. 20 "Accounting Changes." An impairment loss recognized as a result of an impairment test occurring after the initial impairment review is to be reported as a part of operations. SFAS 142 also changed certain aspects of accounting for intangible assets; however, the Company does not have any significant intangible assets.

As required by SFAS 142, amortization of goodwill relating to the acquisition of the Ohio operations, which approximates \$5.0 million per year, ceased on January 1, 2002. Initial impairment reviews to be performed within six months of adoption of SFAS 142 have not been completed, but no impairment is expected.

#### **SFAS 144**

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144). SFAS 144 develops one accounting model for all impaired long-lived assets and long-lived assets to be disposed of. SFAS 144 replaces the existing authoritative guidance in FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and certain aspects of APB Opinion No. 30, "Reporting Results of Operations-Reporting the Effects of Disposal of a Segment of a Business."

This new accounting model retains the framework of SFAS 121 and requires that those impaired long-lived assets and long-lived assets to be disposed of be measured at the lower of carrying amount or fair value (less cost to sell for assets to be disposed of), whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations are no longer measured at net realizable value or include amounts for operating losses that have not yet occurred.

SFAS 144 also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction.

The adoption of SFAS 144 on January 1, 2002 did not materially impact operations.

#### SFAS 143

In July 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS 143). SFAS 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. SFAS 143 is effective for fiscal years beginning after June 15, 2002, with earlier application encouraged. The Company is currently evaluating the impact that SFAS 143 will have on its operations.

#### **4. Earnings Per Share**

Basic earnings per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share assumes the conversion of stock options into common shares and the lifting of restrictions on issued restricted shares using the treasury stock method to the extent the effect would be dilutive. The following table illustrates the basic and dilutive earnings per share calculations for the three months ended March 31, 2002 and 2001:

In millions, except per share amounts	2002			2001		
	Income	Shares	Per	Income	Shares	Per
			Share Amount			Share Amount
Basic EPS	\$ 45.6	67.5	\$ 0.68	\$ 44.4	65.6	\$ 0.68
Effect of dilutive stock equivalents		0.3			0.2	
Diluted EPS	\$ 45.6	67.8	\$ 0.67	\$ 44.4	65.8	\$ 0.67

For the three months ended March 31, 2001, options to purchase 95,400 shares of common stock at an exercise price of \$24.05 were not included in the computation of dilutive earnings per share because the options' exercise price was greater than the average market price of a share of common stock during the period. For the three months ended March 31, 2002, all options were dilutive.

#### **5. Comprehensive Income**

Comprehensive income consists of the following:

In millions	Three Months Ended March 31,	
	2002	2001
Net income	\$ 45.6	\$ 44.4
Comprehensive loss of unconsolidated affiliates- net of tax	(2.3)	(6.6)
Minimum pension liability adjustment and other- net of tax	-	(0.9)
Total comprehensive income	\$ 43.3	\$ 36.9

Comprehensive income arising from unconsolidated affiliates is the Company's portion of ProLiance Energy LLC's other comprehensive income related to its use of cash flow hedges and the Company's portion of Haddington Energy Partners, LP other comprehensive income related to unrealized gains and losses of available-for-sale securities.

## 6. Commitments & Contingencies

### Guarantees

The Company is party to financial guarantees with off-balance sheet risk. These guarantees include debt guarantees and performance guarantees, including the debt of and performance of energy efficiency products installed by affiliated companies. The Company's most significant guarantee totaling \$53.5 million relates to the Company's guarantee of Energy Systems Group, LLC's (ESG) surety bonds and performance guarantees. ESG is a two-thirds owned consolidated subsidiary. The Company is obligated for amounts due to various insurance companies for surety bonds should ESG default on obligations to complete construction, pay vendors or subcontractors, and achieve energy guarantees. Through March 31, 2002, the Company has not been called upon to satisfy any obligations pursuant to the guarantees.

### Legal Proceedings

The Company is party to various legal proceedings arising in the normal course of business. In the opinion of management, there are no legal proceedings pending against the Company that are likely to have a material adverse effect on its financial position or results of operations. See Note 8 regarding environmental matters and Note 7 regarding ProLiance Energy, LLC.

## 7. Unconsolidated Affiliates

### ProLiance Energy, LLC

ProLiance Energy, LLC (ProLiance), a nonregulated, energy marketing affiliate of Vectren and Citizens Gas and Coke Utility (Citizens Gas), began providing natural gas and related services to Indiana Gas, Citizens Gas, and others in April 1996. ProLiance also provides services to the Ohio operations.

### *Integration of SIGCORP Energy Services, LLC and ProLiance Energy, LLC*

In February 2002, Vectren announced its intention to integrate the operations of its wholly owned subsidiary SIGCORP Energy Services, LLC (SES) with ProLiance. SES provides natural gas and related services to SIGECO and others. In exchange for the contribution of SES' net assets and additional cash, Vectren's allocable share of ProLiance's prospective profits and losses is expected to increase from the Company's current 52.5% profit and loss share. However, governance, including voting rights, will remain at 50% for each member. As governance of ProLiance remains equal between the members, Vectren will continue to account for its investment in ProLiance using the equity method of accounting. The financial impact of the transaction, which is expected to be completed later in 2002, is not expected to be material.

### *Regulatory Matters*

The sale of gas and provision of other services to Indiana Gas by ProLiance is subject to regulatory review through the quarterly gas cost adjustment (GCA) process administered by the IURC. On September 12, 1997, the IURC issued a decision finding the gas supply and portfolio administration agreements between ProLiance and Indiana Gas and ProLiance and Citizens Gas to be consistent with the public interest and that ProLiance is not subject to regulation by the IURC as a public utility. The IURC's decision reflected the significant gas cost savings to customers obtained through ProLiance's services and suggested that all material provisions of the agreements between ProLiance and the utilities are reasonable. Nevertheless, with respect to the pricing of gas commodity purchased from ProLiance, the price paid by ProLiance to the utilities for the prospect of using pipeline entitlements if and when they are not required to serve the utilities' firm customers, and the pricing of fees paid by the utilities to ProLiance for portfolio administration services, the IURC concluded that additional review in the GCA process

would be appropriate and directed that these matters be considered further in the pending, consolidated GCA proceeding involving Indiana Gas and Citizens Gas.

In 2001, the IURC commenced processing the GCA proceeding regarding the three pricing issues. The IURC indicated that it would consider the prospective relationship of ProLiance with the utilities in this proceeding. On April 23, 2002, Indiana Gas and Citizens Gas, together with the Office of Utility Consumer Counselor and other consumer parties entered into and filed with the IURC an agreement in principle setting forth the terms for resolution of all pending regulatory issues related to ProLiance. The parties intend to submit for IURC approval a final settlement no later than June 3, 2002. If approved by the IURC, the pending GCA proceeding will be concluded.

Indiana Gas continues to record gas costs in accordance with the terms of the ProLiance contract, and Vectren continues to record its proportional share of ProLiance's earnings. Pre-tax income of \$5.4 million and \$5.0 million was recognized as ProLiance's contribution to earnings for the three months ended March 31, 2002 and 2001, respectively. Earnings recognized from ProLiance are included in equity in earnings of unconsolidated affiliates. At March 31, 2002 and December 31, 2001, the Company has reserved approximately \$3.7 million and \$3.2 million, respectively, of ProLiance's after tax earnings pending resolution of the remaining issues. The impact to earnings should the above referenced settlement agreement be approved by the IURC is not expected to be material.

#### *Transactions with ProLiance*

Purchases from ProLiance for resale and for injections into storage for the three months ended March 31, 2002 and 2001 totaled \$127.8 million and \$268.5 million, respectively. Amounts owed to ProLiance at March 31, 2002 and December 31, 2001 for those purchases were \$45.4 million and \$36.1 million, respectively, and are included in accounts payable to affiliated companies. Amounts charged by ProLiance for capacity and storage services are market based.

#### Utilicom Networks, LLC

Utilicom Networks, LLC (Utilicom) is a provider of bundled communication services through high capacity broadband networks, including cable television, high-speed Internet, and advanced local and long distance telephone services. The Company has a 14% interest in Class A units of Utilicom, which is accounted for using the equity method of accounting. The Company also has a minority interest in SIGECOM Holdings, Inc., which was formed by Utilicom to hold interests in SIGECOM, LLC (SIGECOM). The Company accounts for its investment in Holdings on the cost method. SIGECOM provides broadband services to the greater Evansville, Indiana, area. Utilicom also plans to provide broadband services to the greater Indianapolis, Indiana, and Dayton, Ohio, markets.

In July 2001, Utilicom announced a delay in funding of the Indianapolis and Dayton projects. This delay, with which Company management agrees, is due to the current environment within the telecommunication capital markets, which has prevented Utilicom from obtaining debt financing on terms it considers acceptable. While the existing investors are still committed to the Indianapolis and Dayton markets, the Company is not required to and does not intend to proceed unless the Indianapolis and Dayton projects are fully funded. This delay necessitated and resulted in the extension of the franchising agreements into the third quarter of 2002.

### **8. Environmental Matters**

#### Clean Air Act

##### NOx SIP Call Matter

The Clean Air Act (the Act) requires each state to adopt a State Implementation Plan (SIP) to attain and maintain National Ambient Air Quality Standards (NAAQS) for a number of pollutants, including ozone. If the United States Environmental Protection Agency (USEPA) finds a state's SIP inadequate to achieve the NAAQS, the USEPA can call upon the state to revise its SIP (a SIP Call).

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

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

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

The IURC issued an order that (1) approves the Company's proposed project to achieve environmental compliance by investing in clean coal technology, (2) approves the Company's cost estimate for the construction, subject to periodic review of the actual costs incurred, and (3) approves a mechanism whereby, prior to an electric base rate case, the Company may recover a return on its capital costs for the project, at its overall cost of capital, including a return on equity.

Based on the level of system-wide emissions reductions required and the control technology utilized to achieve the reductions, the current estimated construction cost ranges from \$175.0 million to \$195.0 million and is expected to be expended during the 2001-2004 period. Through March 31, 2002, \$30.1 million has been expended. After the equipment is installed and operational, related additional annual operation and maintenance expenses are estimated to be between \$8.0 million and \$10.0 million.

The Company expects the Culley, Warrick and A.B. Brown SCR systems to be operational by the compliance date. Installation of SCR technology at these stations is expected to reduce the Company's overall NOx emissions to levels compliant with Indiana's NOx emissions budget allotted by the USEPA; therefore, the Company has recorded no accrual for potential penalties that may result from noncompliance.

#### *Culley Generating Station Litigation*

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

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

SIGECO believes it performed only maintenance, repair and replacement activities at the Culley Generating Station, as allowed under the Act. Because proper maintenance does not require permits, application of the best available control technology, notice to the USEPA, or compliance with new source performance standards, SIGECO believes that the lawsuit is without merit, and intends to vigorously defend itself. Since the filing of this lawsuit, the USEPA has voluntarily dismissed nearly half of the claims brought in its original complaint.

The lawsuit seeks fines against SIGECO in the amount of \$27,500 per day per violation. The lawsuit does not specify the number of days or violations the USEPA believes occurred. The lawsuit also seeks a court order requiring SIGECO to install the best available emissions technology at the Culley Generating Station. If the USEPA were successful in obtaining an order, SIGECO estimates that it would incur capital costs of approximately \$40.0 million to \$50.0 million to comply with the order. As a result of the NOx SIP call issue, the majority of the \$40.0 million to \$50.0 million for best available emissions technology at Culley Generating Station is included in the \$175.0 million to \$195.0 million cost range previously discussed.

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

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

#### *Information Request*

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

#### *Manufactured Gas Plants*

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

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



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

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

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

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

#### **9. Energy Marketing Activities**

The Company enters into forward and option contracts in order to maximize short-term movement in electricity prices. These contracts are generally non-asset backed "buy-sell" transactions that are short-term in nature and expose the Company to limited market risk. The Company has designated these activities as "trading" activities. Commodity contracts designated as "trading" are generally settled net with the counter-party and are accounted for at market value. As of March 31, 2002, these "trading" contracts had a net liability value of \$1.9 million. The Company also enters into transactions "other-than-trading" that are primarily asset-backed transactions. The net asset value of these "other-than-trading" contracts was \$2.1 million at March 31, 2002.

Contracts recorded at market value are recorded as current or noncurrent assets or liabilities in the consolidated condensed balance sheets depending on their value and on when the contracts are expected to be settled. Changes in market value are recorded in purchased electric energy in the consolidated condensed statements of income. Market value is determined using quoted market prices from independent sources or other valuation techniques.

Forward sale contracts, premiums received for written options, and proceeds received from exercised options are recorded when settled as electric revenues in the consolidated condensed statements of income. Forward purchase contracts, premiums paid for purchased options, and proceeds paid for exercising options are recorded when settled in purchased electric energy in the consolidated condensed statements of income. Contracts with counter-parties subject to master netting arrangements are presented net in the consolidated condensed balance sheets.

All "trading" and "other-than-trading" contracts at March 31, 2002 totaled \$11.8 million of prepayments and other current assets and \$11.6 million of accrued liabilities, compared to \$5.1 million of prepayments and other current assets and \$1.9 million of accrued liabilities at December 31, 2001. The change in the net value of "trading" and "other-than-trading" contracts to \$0.2 million from \$3.2 million resulted in an unrealized loss of \$3.0 million for the three months ended March 31, 2002.

#### **10. Segment Reporting**

The Company had four operating segments during the three months ended March 31, 2002: (1) Gas Utility Services, (2) Electric Utility Services, (3) Nonregulated Operations, and (4) Corporate and Other. The Gas Utility Services segment provides natural gas distribution and transportation services in nearly

two-thirds of Indiana and west central Ohio. The Electric Utility Services segment provides electricity to primarily southwestern Indiana. The Nonregulated Operations segment is comprised of various subsidiaries and affiliates offering and investing in energy marketing and services, coal mining, utility infrastructure services, and broadband communications among other energy-related opportunities. The Corporate and Other segment provides general and administrative support and assets, including computer hardware and software, to the Company's other operating segments. Data for the three months ended March 31, 2001 has been restated to conform to the current year presentation. The following tables provide information about business segments.

In millions	Three Months Ended March 31,	
	2002	2001
<b>Operating Revenues</b>		
Gas Utility Services	\$ 357.1	\$ 523.7
Electric Utility Services	126.8	88.2
Nonregulated Operations	165.3	283.6
Corporate & Other	5.7	8.9
Intersegment Eliminations	(19.7)	(20.5)
<b>Total operating revenues</b>	<b>\$ 635.2</b>	<b>\$ 883.9</b>

<b>Net Income</b>		
Gas Utility Services	\$ 32.9	\$ 18.8
Electric Utility Services	7.7	16.9
Nonregulated Operations	5.0	7.5
Corporate & Other	-	1.2
<b>Net income</b>	<b>\$ 45.6</b>	<b>\$ 44.4</b>

	March 31, 2002	December 31, 2001
<b>Identifiable Assets</b>		
Gas Utility Services	\$ 1,485.2	\$ 1,580.2
Electric Utility Services	816.1	811.2
Nonregulated Operations	424.9	466.1
Corporate & Other	146.2	152.4
Intersegment Eliminations	(95.6)	(153.1)
<b>Total identifiable assets</b>	<b>\$ 2,776.8</b>	<b>\$ 2,856.8</b>

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

### Description of the Business

Vectren Corporation (the Company or Vectren), an Indiana corporation, is an energy and applied technology holding company headquartered in Evansville, Indiana. The Company was organized on June 10, 1999 solely for the purpose of effecting the merger of Indiana Energy, Inc. (Indiana Energy) and SIGCORP, Inc. (SIGCORP). On March 31, 2000, the merger of Indiana Energy with SIGCORP and into Vectren was consummated with a tax-free exchange of shares and has been accounted for as a pooling-of-interests in accordance with Accounting Principles Board (APB) Opinion No. 16 "Business Combinations."

Vectren is a public utility holding company, whose wholly owned subsidiary, Vectren Utility Holdings, Inc. (VUHI), is the intermediate holding company for the Company's three operating public utilities: Indiana Gas Company, Inc. (Indiana Gas), formerly a wholly owned subsidiary of Indiana Energy, Southern Indiana Gas and Electric Company (SIGECO), formerly a wholly owned subsidiary of SIGCORP, and the Ohio operations. Indiana Gas provides natural gas distribution and transportation services to a diversified customer base in 311 communities in 49 of Indiana's 92 counties. SIGECO provides electric generation, transmission, and distribution services to Evansville, Indiana, and 74 other communities in 8 counties in southwestern Indiana and participates in the wholesale power market. SIGECO also provides natural gas distribution and transportation services to Evansville, Indiana, and 64 communities in 10 counties in southwestern Indiana. The Ohio operations, owned as a tenancy in common by Vectren Energy Delivery of Ohio, Inc., a wholly owned subsidiary, (53 % ownership) and Indiana Gas (47 % ownership), provide natural gas distribution and transportation services to Dayton, Ohio, and 87 other communities in 17 counties in west central Ohio. The Ohio operations were acquired from the Dayton Power & Light Company on October 31, 2000. Both Vectren and VUHI are exempt from registration pursuant to Section 3(a)(1) and 3(c) of the Public Utility Holding Company Act of 1935.

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

## Consolidated Results of Operations

In millions, except per share amounts	Three Months Ended March 31,	
	2002	2001
Net income, as reported	\$ 45.6	\$ 44.4
Merger & integration costs - net of tax	-	2.3
Cumulative effect of change in accounting principle - net of tax	-	(3.9)
Net income before nonrecurring items	\$ 45.6	\$ 42.8
Attributed to:		
Regulated	\$ 40.6	\$ 34.1
Nonregulated	5.0	7.5
Corporate & other	-	1.2
Basic earnings per share, as reported	\$ 0.68	\$ 0.68
Merger & integration costs	-	0.04
Cumulative effect of change in accounting principle	-	(0.06)
Basic earnings per share before nonrecurring items	\$ 0.68	\$ 0.66
Attributed to:		
Regulated	\$ 0.60	\$ 0.52
Nonregulated	0.08	0.12
Corporate & other	-	0.02

### Net Income

For the three months ended March 31, 2002, net income was \$45.6 million, or \$0.68 per share, compared to \$44.4 million, or \$0.68 per share in 2001. The increase in net income of \$1.2 million reflects higher regulated earnings due to merger synergies, a return to lower gas prices and the related reduction in costs incurred in 2001, and the completion of merger activities and related costs. These increases were offset somewhat by fluctuations in fair value of certain power marketing contracts, the effects of weather, and decreased nonregulated earnings due to a 2001 gain from the sale of an investment in a gathering and processing company.

### Dividends

Dividends declared for the three months ended March 31, 2002 were \$0.265 per share, respectively, compared to \$0.255 per share for the same period in 2001.

### Significant Fluctuations in Consolidated Results

#### Weather

The effects of weather 10% warmer than the prior year and 12% warmer than normal resulted in an overall decrease to throughput (combined gas sold and transported) and a \$13.0 million reduction to gas margin and an \$8.1 million reduction to net income.

#### Other Margin Activity

Other margin activity increased margins \$7.5 million (\$4.7 million after tax) for the three months ended March 31, 2002 when compared to the same period in 2001. The activities increasing margin include rate recovery riders for NOx compliance, excise taxes and an increase in the Ohio Percentage of Income Payment Plan (PIPP) rider, the return of volumes lost in the prior year due to the effects of the higher gas

costs, and customer growth and other changes. These increases were offset by the recurring impact of SFAS 133. These activities, coupled with the cumulative effect of change in accounting principle recorded on adoption of SFAS 133, resulted in an increase to net income when compared to the prior year of \$0.8 million.

#### Impact of Return to Lower Gas Costs

The Company estimates net income increased by \$7.4 million resulting from the return to lower gas costs. Lower gas costs have resulted in decreased unaccounted for gas costs, excise taxes, uncollectible accounts expense, interest costs, and contributions to low income heating assistance programs.

#### Other Operating Activities

##### *Merger Synergies & Operating Efficiencies*

The Company estimates merger synergies have reduced operating expenses by \$4.0 million (\$2.5 million after tax) for the three months ended March 31, 2002 compared to 2001 primarily as a result of the elimination of duplicate corporate and administrative programs and greater efficiencies in operations.

##### *Merger & Integration Costs*

For the three months ended March 31, 2001, \$1.0 million was expensed related to the 2000 merger forming Vectren. These costs were primarily for employee relocation, travel, and consulting fees.

As a result of merger and integration activities, management retired certain information systems in 2001. Accordingly, the useful lives of these assets were shortened to reflect this decision, resulting in additional depreciation expense of approximately \$2.7 million for the three months ended March 31, 2001.

In total, for the three months ended March 31, 2001, merger and integration costs totaled \$3.7 million (\$2.3 million after tax), or \$0.04 on a basic earnings per share basis. Merger and integration activities resulting from the 2000 merger were completed in 2001.

#### Nonregulated

Nonregulated earnings declined \$2.5 million when compared to the prior year quarter. The primary reason for the decrease is due to a 2001 after tax gain of \$2.4 million from the sale of an investment in a gathering and processing company.

#### New Accounting Principles

##### SFAS 142

In July 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). The Company adopted the provisions of SFAS 142, as required on January 1, 2002. SFAS 142 changed the accounting for goodwill from an amortization approach to an impairment-only approach. Thus, amortization of goodwill that is not included as an allowable cost for rate-making purposes ceased upon adoption of the statement. This includes goodwill recorded in past business combinations, such as the Company's acquisition of the Ohio operations. Goodwill is to be tested for impairment at a reporting unit level at least annually.

SFAS 142 also requires the initial impairment review of all goodwill within six months of the adoption date. The impairment review consists of a comparison of the fair value of a reporting unit to its carrying amount. If the fair value of a reporting unit is less than its carrying amount, an impairment loss would be recognized. Results of the initial impairment review are to be treated as a change in accounting principle in accordance with APB Opinion No. 20 "Accounting Changes." An impairment loss recognized as a result of an impairment test occurring after the initial impairment review is to be reported as a part of

operations. SFAS 142 also changed certain aspects of accounting for intangible assets; however, the Company does not have any significant intangible assets.

As required by SFAS 142, amortization of goodwill relating to the acquisition of the Ohio operations, which approximates \$5.0 million per year (\$1.3 million per quarter), ceased on January 1, 2002. Initial impairment reviews to be performed within six months of adoption of SFAS 142 have not been completed, but no impairment is expected.

#### SFAS 144

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144). SFAS 144 develops one accounting model for all impaired long-lived assets and long-lived assets to be disposed of. SFAS 144 replaces the existing authoritative guidance in FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and certain aspects of APB Opinion No. 30, "Reporting Results of Operations-Reporting the Effects of Disposal of a Segment of a Business."

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SFAS 144 also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction.

The adoption of SFAS 144 on January 1, 2002 did not materially impact operations.

#### SFAS 143

In July 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS 143). SFAS 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes the cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. SFAS 143 is effective for fiscal years beginning after June 15, 2002, with earlier application encouraged. The Company is currently evaluating the impact that SFAS 143 will have on its operations.

#### Results of Operations by Business Segment

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

### Results of Operations of the Regulated Businesses

The Company's regulated operations are comprised of its Gas Utility Services and Electric Utility Services segments. The Gas Utility Services segment includes the operations of Indiana Gas, the Ohio operations, and SIGECO's natural gas distribution business and provides natural gas distribution and transportation services to nearly two-thirds of Indiana and west central Ohio. The Electric Utility Services segment includes SIGECO's power supply operations, power marketing operations, and electric transmission and distribution services, which operate and maintain six coal-fired electric power plants and five gas-fired peaking units with a total of 1,271 megawatts of generating capacity to provide electricity to primarily southwestern Indiana.

#### Operating Results

The results of regulated operations before certain intersegment eliminations and reclassifications for the three months ended March 31, 2002 and 2001 are as follows:

In millions, except per share amounts	2002	2001
<b>OPERATING REVENUES</b>		
Gas revenues	\$ 357.1	\$ 523.7
Electric revenues	126.8	88.2
Total operating revenues	483.9	611.9
<b>COST OF OPERATING REVENUES</b>		
Cost of gas	230.4	404.1
Fuel for electric generation	17.8	18.0
Purchased electric energy	59.8	13.2
Total cost of operating revenues	308.0	435.3
<b>TOTAL OPERATING MARGIN</b>	<b>175.9</b>	<b>176.6</b>
<b>OPERATING EXPENSES</b>		
Other operating	55.8	61.5
Merger & integration costs	-	1.0
Depreciation & amortization	23.6	24.8
Income tax	22.3	17.8
Taxes other than income taxes	17.9	19.1
Total operating expenses	119.6	124.2
<b>OPERATING INCOME</b>	<b>56.3</b>	<b>52.4</b>
<b>OTHER INCOME</b>		
Equity in earnings of unconsolidated affiliates	(0.6)	-
Other - net	1.8	(0.9)
Total other income	1.2	(0.9)
Interest expense	16.9	19.5
Preferred dividend requirement of subsidiary	-	0.2
<b>Income before cumulative effect of change in accounting principle</b>	<b>40.6</b>	<b>31.8</b>
Cumulative effect of change in accounting principle - net of tax	-	3.9
<b>NET INCOME, AS REPORTED</b>	<b>\$ 40.6</b>	<b>\$ 35.7</b>
Merger & integration costs - net of tax	-	2.3
Cumulative effect of change in accounting principle - net of tax	-	(3.9)
<b>NET INCOME BEFORE NONRECURRING ITEMS</b>	<b>\$ 40.6</b>	<b>\$ 34.1</b>
<b>EARNINGS PER SHARE, AS REPORTED</b>	<b>\$ 0.60</b>	<b>\$ 0.54</b>
Merger & integration costs	-	0.04
Cumulative effect of change in accounting principle	-	(0.06)
<b>EARNINGS PER SHARE BEFORE NONRECURRING ITEMS</b>	<b>\$ 0.60</b>	<b>\$ 0.52</b>

Regulated utility operations contributed net income of \$40.6 million, or \$0.60 per share, for the three months ended March 31, 2002 compared to \$35.7 million, or \$0.54 for the same period in 2001. The results for regulated operations were primarily driven by merger synergies, a return to lower gas prices and the related reduction in costs incurred in 2001, and the completion of merger activities and related costs. These increases were offset somewhat by fluctuations in fair value of certain power marketing contracts and the effects of weather.

Utility Margin (Operating Revenues Less Cost of Gas Sold, Fuel for Electric Generation, & Purchased Electric Energy)

*Gas Utility Margin*

Gas Utility margin for the three months ended March 31, 2002 of \$126.7 million increased \$7.1 million, or 6%, compared to 2001. The increase is primarily due to the return of volumes lost in the prior year due to the effects of the higher gas costs and the decreased cost of unaccounted for gas. Gas Utility margin was also favorably impacted by rate recovery of excise taxes in Ohio effective July 1, 2001 and an increase in the Ohio Percentage of Income Payment Plan (PIPP) rider, as well as customer growth. These favorable impacts were offset somewhat by weather 10% warmer than the prior year and 12% warmer than normal. The increased volumes attributed to lower gas costs and the effects of warmer weather resulted in an overall 6% decrease in total throughput from 82.7 MMDth to 77.9 MMDth.

Total cost of gas sold was \$230.4 million for the three months ended March 31, 2002 and \$404.1 million in 2001. Total cost of gas sold decreased \$173.7 million, or 43%, during 2002 compared to 2001, primarily due to a return to lower gas prices. The total average cost per dekatherm of gas purchased for the three months ended March 31, 2002 was \$4.47 compared to \$7.87 for the same period in 2001.

*Electric Utility Margin*

Electric Utility margin for the three months ended March 31, 2002 of \$49.2 million decreased \$7.8 million, or 14%, from 2001 primarily due to reductions in margin to reflect wholesale power marketing purchase and sale contracts at current market values. The decrease in margin from quarter to quarter was \$8.5 million. This decrease was offset by increased margins from retail sales. Margin from retail sales increased \$3.3 million, or 8%, over the previous year. The increase in retail margin is attributable to a 2% increase in megawatt hours sold, consistent costs for fuel and purchased power used for generation, and a cash return on NOx compliance expenditures.

The Company enters into forward and option contracts in order to maximize short-term movement in electricity prices. These contracts are generally non-asset backed "buy-sell" transactions that are short-term in nature and expose the Company to limited market risk. The Company has designated these activities as "trading" activities. The Company also enters into asset-backed transactions that are generally longer term in nature. As a result of increased "trading" and "other-than-trading" activity, purchased electric energy has increased \$46.6 million during the three months ended March 31, 2002 compared to 2001. These activities increased wholesale revenues from \$30.0 million to \$64.9 million and megawatt hours sold into the wholesale market from 0.9 million to 2.6 million.

Utility Operating Expenses (excluding Cost of Gas Sold, Fuel for Electric Generation, & Purchased Electric Energy)

*Utility Other Operating*

Utility other operating expenses decreased \$5.7 million for the three months ended March 31, 2002 compared to the prior year. The decrease results from lower charges for the use of corporate assets related to those assets which had useful lives shortened as a result of the merger and merger synergies.



#### *Utility Depreciation & Amortization*

Utility depreciation and amortization decreased \$1.2 million for the three months ended March 31, 2002 resulting from the discontinuance of goodwill amortization as required under SFAS 142, offset somewhat by depreciation of plant additions.

#### *Utility Income Tax Expense*

Federal and state income taxes related to utility operations increased \$4.5 million for the three months ended March 31, 2002 compared to the prior year due primarily to higher pre-tax earnings offset somewhat by a small decrease in the effective tax rate.

#### *Utility Taxes Other Than Income Taxes*

Utility taxes other than income taxes decreased \$1.2 million for the three months ended March 31, 2002 compared to the prior year due to a decrease in gross receipts and excises taxes as a result of lower sales volumes and gas prices.

#### Utility Other Income, Net

Utility other income, net increased \$2.7 million for the three months ended March 31, 2002 compared to the prior year. In 2001, contributions were made to low income heating assistance programs to assist customers with their increased utility bills reflecting higher gas costs.

#### Utility Interest Expense

Utility interest expense decreased \$2.6 million for the three months ended March 31, 2002, when compared to the prior year. The decrease results from lower interest rates on variable rate debt and lower outstanding balances. The reduced debt outstanding is due primarily to decreased working capital requirements resulting from a return to lower gas prices.

#### Environmental Matters

##### Clean Air Act

##### *NOx SIP Call Matter*

The Clean Air Act (the Act) requires each state to adopt a State Implementation Plan (SIP) to attain and maintain National Ambient Air Quality Standards (NAAQS) for a number of pollutants, including ozone. If the United States Environmental Protection Agency (USEPA) finds a state's SIP inadequate to achieve the NAAQS, the USEPA can call upon the state to revise its SIP (a SIP Call).

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

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

The Company has initiated steps toward compliance with the revised regulations. These steps include installing Selective Catalytic Reduction (SCR) systems at Culley Generating Station Unit 3 (Culley), Warrick Generating Station Unit 4 (Warrick), and A.B. Brown Generating Station Unit 2 (A.B. Brown). SCR systems reduce flue gas NOx emissions to atmospheric nitrogen and water using ammonia in a

chemical reaction. This technology is known to be the most effective method of reducing NOx emissions where high removal efficiencies are required.

The IURC issued an order that (1) approves the Company's proposed project to achieve environmental compliance by investing in clean coal technology, (2) approves the Company's cost estimate for the construction, subject to periodic review of the actual costs incurred, and (3) approves a mechanism whereby, prior to an electric base rate case, the Company may recover a return on its capital costs for the project, at its overall cost of capital, including a return on equity.

Based on the level of system-wide emissions reductions required and the control technology utilized to achieve the reductions, the current estimated construction cost ranges from \$175.0 million to \$195.0 million and is expected to be expended during the 2001-2004 period. Through March 31, 2002, \$30.1 million has been expended. After the equipment is installed and operational, related additional annual operation and maintenance expenses are estimated to be between \$8.0 million and \$10.0 million.

The Company expects the Culley, Warrick and A.B. Brown SCR systems to be operational by the compliance date. Installation of SCR technology at these stations is expected to reduce the Company's overall NOx emissions to levels compliant with Indiana's NOx emissions budget allotted by the USEPA; therefore, the Company has recorded no accrual for potential penalties that may result from noncompliance.

#### *Culley Generating Station Litigation*

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

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

SIGECO believes it performed only maintenance, repair and replacement activities at the Culley Generating Station, as allowed under the Act. Because proper maintenance does not require permits, application of the best available control technology, notice to the USEPA, or compliance with new source performance standards, SIGECO believes that the lawsuit is without merit, and intends to vigorously defend itself. Since the filing of this lawsuit, the USEPA has voluntarily dismissed nearly half of the claims brought in its original complaint.

The lawsuit seeks fines against SIGECO in the amount of \$27,500 per day per violation. The lawsuit does not specify the number of days or violations the USEPA believes occurred. The lawsuit also seeks a court order requiring SIGECO to install the best available emissions technology at the Culley Generating

Station. If the USEPA were successful in obtaining an order, SIGECO estimates that it would incur capital costs of approximately \$40.0 million to \$50.0 million to comply with the order. As a result of the NOx SIP call issue, the majority of the \$40.0 million to \$50.0 million for best available emissions technology at Culley Generating Station is included in the \$175.0 million to \$195.0 million cost range previously discussed.

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

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

#### *Information Request*

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

#### Manufactured Gas Plants

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

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

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

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

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

Environmental matters related to manufactured gas plants have had no material impact on earnings since costs recorded to date approximate PRP and insurance settlement recoveries. While Indiana Gas has recorded all costs which it presently expects to incur in connection with activities at these sites, it is

possible that future events may require some level of additional remedial activities which are not presently foreseen.

### Results of Nonregulated Operations

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

### Operating Results

The results of nonregulated operations before certain intersegment eliminations and reclassifications for the three months ended March 31, 2002 and 2001 are as follows:

In millions, except per share amounts	2002	2001
Energy services & other revenues	\$ 151.3	\$ 272.0
Cost of energy services & other revenues	139.4	261.8
<b>TOTAL OPERATING MARGIN</b>	<b>11.9</b>	<b>10.2</b>
Intersegment revenues, net of costs	0.9	0.5
Operating expenses	9.2	7.6
<b>OPERATING INCOME</b>	<b>3.6</b>	<b>3.1</b>
Other income:		
Equity in earnings of unconsolidated affiliates	2.9	5.9
Other - net	1.3	3.6
Total other income	4.2	9.5
Interest expense	2.9	3.2
<b>INCOME BEFORE TAXES</b>	<b>4.9</b>	<b>9.4</b>
Income tax	0.1	1.9
Minority interest	(0.2)	-
<b>NET INCOME</b>	<b>\$ 5.0</b>	<b>\$ 7.5</b>
<b>EARNINGS PER SHARE</b>	<b>\$ 0.08</b>	<b>\$ 0.12</b>

Nonregulated operations contributed net income of \$5.0 million, or \$0.08 per share, for the three months ended March 31, 2002 compared to \$7.5 million, or \$0.12 per share, for the same period in 2001. The decrease of \$0.04 per share results primarily from a 2001 after tax gain of \$2.4 million from the sale of an investment in a gathering and processing company.

### Energy Services & Other Revenues

Revenues from Vectren's non-utility operations (primarily the operating companies of its Energy Marketing and Services, excluding ProLiance which is reported as equity in earnings of unconsolidated affiliates, as described below, and Coal Mining groups) for the three months ended March 31, 2002 decreased \$120.7 million, or 44%, compared to the prior year. The significant decrease is attributable to

Energy Marketing and Services' natural gas marketing operations and reflects the lower prices for natural gas.

#### Costs of Energy Services & Other Revenues

Cost of energy services and other decreased \$122.4 million for the three months ended March 31, 2002 compared to the prior year. These costs are primarily the cost of natural gas purchased for resale by Energy Marketing and Services' wholly owned gas marketing operations. The decrease is primarily due to lower per unit purchased gas costs.

#### Nonregulated Margin

Margin from nonregulated operations for the three months ended March 31, 2002 was \$11.9 million compared to \$10.2 million for the same period in 2001. The \$1.7 million increase in 2002 was primarily driven by expanded coal mining operations adding margin of \$1.8 million. The Company's second mine began operations in the first quarter of 2001, but was not fully operational until the second quarter. Margin from other nonregulated operations, including the operations of its natural gas marketing operations, performance contracting business, and broadband construction and consulting business, all slightly decreased during the quarter.

#### Nonregulated Operating Expenses (excluding Costs of Energy Services & Other Revenues)

Nonregulated operating expenses consist of other operating expenses, depreciation and amortization, and taxes other than income taxes. For the three months ended March 31, 2002, nonregulated operating expenses increased \$1.6 million. The increase is primarily attributable to amortization of mine development costs.

#### Nonregulated Other Income

##### *Equity in Earnings of Unconsolidated Affiliates*

Earnings from unconsolidated affiliates decreased \$3.0 million for the three months ended March 31, 2002, compared to the prior year. The decrease is primarily the result of a \$3.9 million gain recognized in 2001 from the sale of Haddington Energy Partners' investment in a gathering and processing company, offset by increased earnings from ProLiance.

##### *Nonregulated Other Income, Net*

Nonregulated other income, net decreased \$2.3 million for the three months ended March 31, 2002 when compared to the prior year primarily due to lower interest and leveraged lease income as a result of a divestiture of notes receivable and leveraged lease investments in the second and fourth quarters of 2001.

#### Nonregulated Income Tax Expense

Federal and state income taxes related to nonregulated operations decreased \$1.8 million for the three months ended March 31, 2002 compared to the prior year. The decrease results from a lower effective tax rate and lower pre tax earnings.

#### Other Operating Matters

##### ProLiance Energy, LLC

ProLiance Energy, LLC (ProLiance), a nonregulated, energy marketing affiliate of Vectren and Citizens Gas and Coke Utility (Citizens Gas), began providing natural gas and related services to Indiana Gas, Citizens Gas, and others in April 1996. ProLiance also provides services to the Ohio operations.

#### *Integration of SIGCORP Energy Services, LLC and ProLiance Energy, LLC*

In February 2002, Vectren announced its intention to integrate the operations of its wholly owned subsidiary SIGCORP Energy Services, LLC (SES) with ProLiance. SES provides natural gas and related services to SIGECO and others. In exchange for the contribution of SES' net assets and additional cash, Vectren's allocable share of ProLiance's prospective profits and losses is expected to increase from the Company's current 52.5% profit and loss share. However, governance, including voting rights, will remain at 50% for each member. As governance of ProLiance remains equal between the members, Vectren will continue to account for its investment in ProLiance using the equity method of accounting. The financial impact of the transaction, which is expected to be completed later in 2002, is not expected to be material.

#### *Regulatory Matters*

The sale of gas and provision of other services to Indiana Gas by ProLiance is subject to regulatory review through the quarterly gas cost adjustment (GCA) process administered by the IURC. On September 12, 1997, the IURC issued a decision finding the gas supply and portfolio administration agreements between ProLiance and Indiana Gas and ProLiance and Citizens Gas to be consistent with the public interest and that ProLiance is not subject to regulation by the IURC as a public utility. The IURC's decision reflected the significant gas cost savings to customers obtained through ProLiance's services and suggested that all material provisions of the agreements between ProLiance and the utilities are reasonable. Nevertheless, with respect to the pricing of gas commodity purchased from ProLiance, the price paid by ProLiance to the utilities for the prospect of using pipeline entitlements if and when they are not required to serve the utilities' firm customers, and the pricing of fees paid by the utilities to ProLiance for portfolio administration services, the IURC concluded that additional review in the GCA process would be appropriate and directed that these matters be considered further in the pending, consolidated GCA proceeding involving Indiana Gas and Citizens Gas.

In 2001, the IURC commenced processing the GCA proceeding regarding the three pricing issues. The IURC indicated that it would consider the prospective relationship of ProLiance with the utilities in this proceeding. On April 23, 2002, Indiana Gas and Citizens Gas, together with the Office of Utility Consumer Counselor and other consumer parties entered into and filed with the IURC an agreement in principle setting forth the terms for resolution of all pending regulatory issues related to ProLiance. The parties intend to submit for IURC approval a final settlement no later than June 3, 2002. If approved by the IURC, the pending GCA proceeding will be concluded.

Indiana Gas continues to record gas costs in accordance with the terms of the ProLiance contract, and Vectren continues to record its proportional share of ProLiance's earnings. Pre-tax income of \$5.4 million and \$5.0 million was recognized as ProLiance's contribution to earnings for the three months ended March 31, 2002 and 2001, respectively. Earnings recognized from ProLiance are included in equity in earnings of unconsolidated affiliates. At March 31, 2002 and December 31, 2001, the Company has reserved approximately \$3.7 million and \$3.2 million, respectively, of ProLiance's after tax earnings pending resolution of the remaining issues. The impact to earnings should the above referenced settlement agreement be approved by the IURC is not expected to be material.

#### Utilicom Networks, LLC

Utilicom Networks, LLC (Utilicom) is a provider of bundled communication services through high capacity broadband networks, including cable television, high-speed Internet, and advanced local and long distance telephone services. The Company has a 14% interest in Class A units of Utilicom, which is accounted for using the equity method of accounting. The Company also has a minority interest in SIGECOM Holdings, Inc., which was formed by Utilicom to hold interests in SIGECOM, LLC (SIGECOM). The Company accounts for its investment in Holdings on the cost method. SIGECOM provides broadband services to the greater Evansville, Indiana, area. Utilicom also plans to provide broadband services to the greater Indianapolis, Indiana, and Dayton, Ohio, markets.

In July 2001, Utilicom announced a delay in funding of the Indianapolis and Dayton projects. This delay, with which Company management agrees, is due to the current environment within the telecommunication capital markets, which has prevented Utilicom from obtaining debt financing on terms it considers acceptable. While the existing investors are still committed to the Indianapolis and Dayton markets, the Company is not required to and does not intend to proceed unless the Indianapolis and Dayton projects are fully funded. This delay necessitated and resulted in the extension of the franchising agreements into the third quarter of 2002.

#### **Financial Condition**

The Company's equity capitalization objective is 40-50% of total capitalization. This objective may have varied, and will vary, depending on particular business opportunities and seasonal factors that affect the Company's operation. The Company's equity component was 46% and 45% of total capitalization, including current maturities of long-term debt and long-term debt subject to tender, at March 31, 2002 and December 31, 2001, respectively.

Short-term cash working capital is required primarily to finance customer accounts receivable, unbilled utility revenues resulting from cycle billing, gas in underground storage, prepaid gas delivery services, capital expenditures, and investments until permanently financed. Short-term borrowings tend to be greatest during the summer when accounts receivable and unbilled utility revenues related to electricity are highest and gas storage facilities are being refilled.

The Company expects the majority of its capital expenditures and debt security redemptions to be provided by internally generated funds; however, additional financing may be required due to the possible early redemption of debt at Indiana Gas and significant capital expenditures for NOx compliance equipment at SIGECO.

VUHI's and Indiana Gas' credit ratings on outstanding senior unsecured debt at March 31, 2002 are A-/A2 as rated by Standard and Poor's and Moody's, respectively. SIGECO's credit ratings on outstanding secured debt at March 31, 2002 are A-/A1. VUHI's commercial paper has a credit rating of A-2/P-1. Vectren Capital Corp. debt is rated BBB+/Baa2.

#### **Cash Flow From Operations**

The Company's primary source of liquidity to fund working capital requirements has been cash generated from operations, which totaled approximately \$177.9 million and \$76.5 million for the three months ended March 31, 2002 and 2001, respectively.

Cash flow from operations increased during the three months ended March 31, 2002 compared to 2001 by \$101.4 million due primarily to favorable changes in working capital accounts due to a return to lower gas prices and increased earnings before non-cash charges.

#### **Financing Activities**

##### **Sources & Uses of Liquidity**

At March 31, 2002, the Company has \$540.0 million of short-term borrowing capacity, including \$360.0 million for its regulated operations and \$180.0 million for its nonregulated operations, of which \$219.2 million is available for regulated operations and \$62.8 million is available for nonregulated operations.

During the three months ended March 31, 2002, \$1.3 million of long-term debt was paid as scheduled, and in June and July of 2002, put provisions on \$5.0 million and \$6.5 million, respectively, of long-term debt become exercisable.

At March 31, 2002, \$113.0 million of Vectren Capital senior unsecured notes and \$117.2 million of Vectren Capital bank loans were subject to certain terms including cross-defaults and ratings triggers that would provide that the full balance outstanding is subject to prepayment if the ratings of Indiana Gas and SIGECO declined to BBB/Baa2 or the ratings of Vectren Capital declined to BB+/Ba1. At March 31, 2002, \$140.0 million of commercial paper was supported by the VUHI facility whereby VUHI must maintain a rating of better than BB+/Ba1.

#### *Financing Cash Flow*

Cash flow required for financing activities of \$140.3 million for the three months ended March 31, 2002 includes \$122.7 million of reductions in net borrowings and \$17.9 million in common stock dividends. In the prior year, \$129.4 million of common stock was issued and used to repay short term borrowings.

#### *Other Financing Transactions*

In January 2002, the Company redeemed 1,160 shares of SIGECO's 8.5% preferred stock per its stated terms of \$100 per share, plus accrued and unpaid dividends. Prior to the redemption, there were 4,597 shares outstanding.

#### **Capital Expenditures, Other Investment Activities, & Guarantees**

Cash required for investing activities of \$44.4 million for the three months ended March 31, 2002 includes \$42.2 million of requirements for capital expenditures. Investing activities for the three months ended March 31, 2001 were \$53.0 million. The \$8.6 million decrease occurring in 2002 is principally the result of less capital expenditures for non-utility property and other nonregulated investments.

#### **Planned Capital Expenditures**

New construction, normal system maintenance and improvements, and information technology investments needed to provide service to a growing regulated and nonregulated customer base will continue to require substantial expenditures. Capital expenditures and investments in nonregulated unconsolidated affiliates for the remainder of 2002 are estimated at \$171.1 million.

#### **Guarantees**

The Company is party to financial guarantees with off-balance sheet risk. These guarantees include debt guarantees and performance guarantees, including the debt of and performance of energy efficiency products installed by affiliated companies. The Company's most significant guarantee totaling \$53.5 million relates to the Company's guarantee of Energy Systems Group, LLC's (ESG) surety bonds and performance guarantees. ESG is a two-thirds owned consolidated subsidiary. The Company is obligated for amounts due to various insurance companies for surety bonds should ESG default on obligations to complete construction, pay vendors or subcontractors, and achieve energy guarantees. Through March 31, 2002, the Company has not been called upon to satisfy any obligations pursuant to the guarantees.

#### **Forward-Looking Information**

A "safe harbor" for forward-looking statements is provided by the Private Securities Litigation Reform Act of 1995 (Reform Act of 1995). The Reform Act of 1995 was adopted to encourage such forward-looking statements without the threat of litigation, provided those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause the actual results to differ materially from those projected in the statement. Certain matters described in Management's Discussion and Analysis of Results of Operations and Financial Condition, including, but not limited to Vectren's realization of net merger savings and ProLiance, are forward-looking statements. Such statements are based on management's beliefs, as well as assumptions made by and information currently available to management. When used in this filing, the words "believe," "anticipate," "endeavor," "estimate," "expect," "objective," "projection," "forecast," "goal," and similar



expressions are intended to identify forward-looking statements. In addition to any assumptions and other factors referred to specifically in connection with such forward-looking statements, factors that could cause the Company's actual results to differ materially from those contemplated in any forward-looking statements included, among others, the following:

- Factors affecting utility operations such as unusual weather conditions; catastrophic weather-related damage; unusual maintenance or repairs; unanticipated changes to fossil fuel costs; unanticipated changes to gas supply costs, or availability due to higher demand, shortages, transportation problems or other developments; environmental or pipeline incidents; transmission or distribution incidents; unanticipated changes to electric energy supply costs, or availability due to demand, shortages, transmission problems or other developments; or electric transmission or gas pipeline system constraints.
- Increased competition in the energy environment including effects of industry restructuring and unbundling.
- Regulatory factors such as unanticipated changes in rate-setting policies or procedures, recovery of investments and costs made under traditional regulation, and the frequency and timing of rate increases.
- Financial or regulatory accounting principles or policies imposed by the Financial Accounting Standards Board, the Securities and Exchange Commission, the Federal Energy Regulatory Commission, state public utility commissions, state entities which regulate natural gas transmission, gathering and processing, and similar entities with regulatory oversight.
- Economic conditions including the effects of an economic downturn, inflation rates, and monetary fluctuations.
- Changing market conditions and a variety of other factors associated with physical energy and financial trading activities including, but not limited to, price, basis, credit, liquidity, volatility, capacity, interest rate, and warranty risks.
- Availability or cost of capital, resulting from changes in the Company, including its security ratings, changes in interest rates, and/or changes in market perceptions of the utility industry and other energy-related industries.
- Employee workforce factors including changes in key executives, collective bargaining agreements with union employees, or work stoppages.
- Legal and regulatory delays and other obstacles associated with mergers, acquisitions, and investments in joint ventures.
- Costs and other effects of legal and administrative proceedings, settlements, investigations, claims, and other matters, including, but not limited to, those described in Management's Discussion and Analysis of Results of Operations and Financial Condition.
- Changes in federal, state or local legislature requirements, such as changes in tax laws or rates, environmental laws and regulations.

The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of changes in actual results, changes in assumptions, or other factors affecting such statements.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risks associated with commodity prices, interest rates, and counterparty credit. These financial exposures are monitored and managed by the Company as an integral part of its overall risk management program.

#### Commodity Price Risk

The Company's regulated operations have limited exposure to commodity price risk for purchases and sales of natural gas and electric energy for its retail customers due to current Indiana and Ohio regulations, which subject to compliance with applicable state regulations, allow for recovery of such purchases through natural gas and fuel cost adjustment mechanisms.

The Company does engage in limited wholesale power marketing and other marketing activities that may expose it to commodity price risk associated with fluctuating electric power, natural gas, and coal commodity prices.

The Company's wholesale power marketing activities manage the utilization of its available electric generating capacity as well as other trading activities that maximize short-term movement in electricity prices. The Company's other commodity marketing activities purchase and sell natural gas and coal to meet customer demands. These operations enter into forward and option contracts that commit the Company to purchase and sell commodities in the future.

Commodity price risk results from forward sale and option contracts that commit the Company to deliver commodities on specified future dates. Power marketing uses planned unutilized generation capability and forward purchase contracts to protect certain sales transactions from unanticipated fluctuations in the price of electric power, and periodically, will use derivative financial instruments to protect its interests from unplanned outages and shifts in demand. Additionally, other commodity marketing activities use stored inventory and forward purchase contracts to protect certain sales transactions from unanticipated fluctuations in commodity prices.

Open positions in terms of price, volume and specified delivery points may occur to a limited extent and are managed using methods described above and frequent management reporting.

The Company enters into forward and option contracts in order to maximize short-term movement in electricity prices. These contracts are generally non-asset backed "buy-sell" transactions that are short-term in nature and expose the Company to limited market risk. The Company has designated these activities as "trading" activities.

All "trading" and "other-than-trading" contracts at March 31, 2002 totaled \$11.8 million of prepayments and other current assets and \$11.6 million of accrued liabilities, compared to \$5.1 million of prepayments and other current assets and \$1.9 million of accrued liabilities at December 31, 2001. The change in the net value of "trading" and "other-than-trading" contracts to \$0.2 million from \$3.2 million resulted in an unrealized loss of \$3.0 million for the three months ended March 31, 2002.

Market risk is measured by management as the potential impact on pre-tax earnings resulting from a 10% adverse change in the forward price of commodity prices on market sensitive financial instruments (all contracts not expected to be settled by physical receipt or delivery). For the three months ended March 31, 2002 and 2001, a 10% adverse change in the forward prices of electricity and natural gas on market sensitive financial instruments would have decreased pre-tax earnings by approximately \$1.6 million and \$0.1 million, respectively.

#### **Commodity Price Risk from Unconsolidated Affiliate**

Commodity price risk from an unconsolidated affiliate is not significantly different from the information as set forth in Item 7A. Quantitative and Qualitative Disclosures About Market Risk included in the Vectren 2001 Form 10-K and is therefore not presented herein.

#### **Interest Rate Risk**

Interest rate risk is not significantly different from the information as set forth in Item 7A. Quantitative and Qualitative Disclosures About Market Risk included in the Vectren 2001 Form 10-K and is therefore not presented herein.

#### **Other Risks**

Counter-party credit and market risks are not significantly different from the information as set forth in Item 7A. Quantitative and Qualitative Disclosures About Market Risk included in the Vectren 2001 Form 10-K and is therefore not presented herein.

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

The Company is party to various legal proceedings arising in the normal course of business. In the opinion of management, there are no legal proceedings pending against the Company that are likely to have a material adverse effect on its financial position or results of operations. See Note 8 regarding environmental matters and Note 7 regarding ProLiance Energy, LLC.

### **ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K**

#### **(a) Exhibits**

None.

#### **(b) Reports On Form 8-K During The Last Calendar Quarter**

On January 24, 2002, Vectren Corporation filed a Current Report on Form 8-K with respect to the release of financial information to the investment community regarding the Company's results of operations, financial position and cash flows for the three and twelve month periods ended December 31, 2001. The financial information was released to the public through this filing.

##### **Item 5. Other Events**

##### **Item 7. Exhibits**

99.1 - Press Release - Fourth Quarter 2001 Vectren Corporation Earnings

99.2 - Cautionary Statement for Purposes of the "Safe Harbor" Provisions of the Private Securities Litigation Reform Act of 1995

On March 26, 2002, Vectren Corporation filed a Current Report on Form 8-K with respect to its decision to replace Arthur Andersen LLP as the Company's independent auditors, effective upon completion of a transition period which is expected to extend through the conclusion of their review of the financial results of the Company and its subsidiaries for the first quarter of 2002.

##### **Item 4. Changes in Registrant's Certifying Accountant.**

##### **Item 7. Exhibits**

16 - Letter from Arthur Andersen LLP to the Securities and Exchange Commission, dated March 26, 2002.

99 - Letter to Vectren Corporation Shareholders dated March 22, 2002

## SIGNATURES

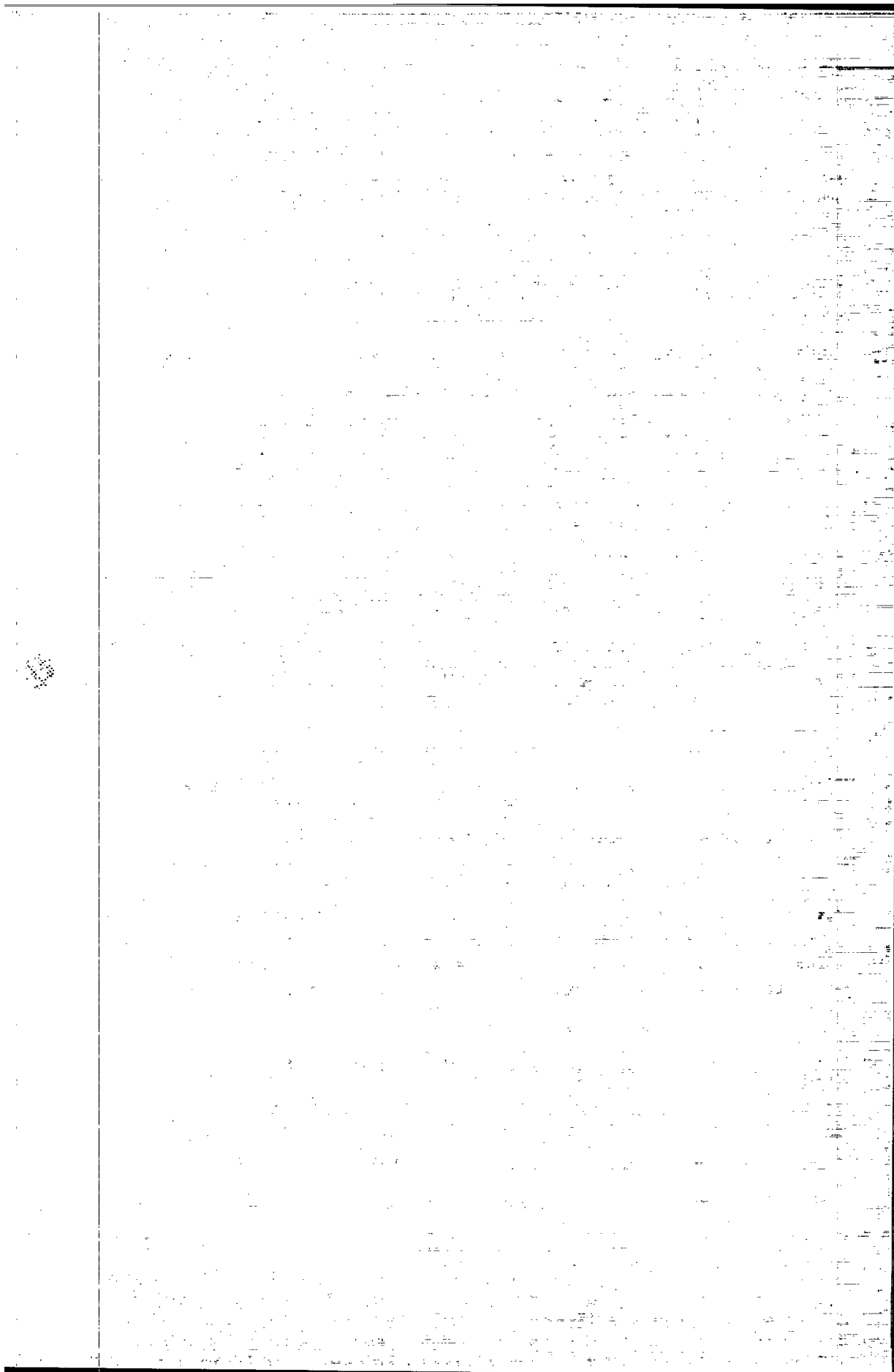
Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

VECTREN CORPORATION  
Registrant

May 14, 2002

/s/Jerome A. Benkert, Jr.  
Jerome A. Benkert, Jr.  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial Officer)

/s/M. Susan Hardwick  
M. Susan Hardwick  
Vice President and Controller  
(Principal Accounting Officer)



## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**Form 10-K**

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2001

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission  
File Number

1-15467

Registrant, State of Incorporation;  
Address and Telephone Number

Vectren Corporation  
(An Indiana Corporation)  
20 N. W. Fourth Street  
Evansville, Indiana 47708  
(812) 491-4000

IRS Employer  
Identification No.

35-2086905

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

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

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

None

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

As of March 22, 2002, the aggregate market value of the Common Stock held by nonaffiliates was \$1,642,637,062.

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

Common Stock- Without Par Value  
Class

67,726,439  
Number of Shares

March 22, 2002  
Date

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

### Documents Incorporated by Reference

Certain information in the Company's definitive Proxy Statement for the 2002 Annual Meeting of Stockholders, which was filed with the Securities and Exchange Commission on March 15, 2002, is incorporated by reference in Part III of this Form 10-K.

Information in the Company's Current Report on Form 8-K, which was filed with the Securities and Exchange Commission on March 26, 2002, regarding replacement of the Company's independent auditors, is incorporated by reference in Part I of this filing.

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### Definitions

As discussed in this Form 10-K, the abbreviations Dth means dekatherms, MDth means thousands of dekatherms, MMDth means millions of dekatherms, MW means megawatts, MMBTU means millions of British thermal units, kWh means kilowatt hours, throughput means combined gas sales and gas transportation volumes, and Mva means megavolt amperes.



## **PART I**

### **ITEM 1. BUSINESS**

#### **Description of the Business**

Vectren Corporation (the Company or Vectren), an Indiana corporation, is an energy and applied technology holding company headquartered in Evansville, Indiana. The Company was organized on June 10, 1999 solely for the purpose of effecting the merger of Indiana Energy, Inc. (Indiana Energy) and SIGCORP, Inc. (SIGCORP). On March 31, 2000, the merger of Indiana Energy with SIGCORP and into Vectren was consummated with a tax-free exchange of shares and has been accounted for as a pooling-of-interests in accordance with Accounting Principles Board (APB) Opinion No. 16 "Business Combinations" (APB 16).

The Company's wholly owned subsidiary, Vectren Utility Holdings, Inc. (VUHI), serves as the intermediate holding company for its three operating public utilities: Indiana Gas Company, Inc. (Indiana Gas), formerly a wholly owned subsidiary of Indiana Energy, Southern Indiana Gas and Electric Company (SIGECO), formerly a wholly owned subsidiary of SIGCORP, and the Ohio operations (defined hereafter). Both Vectren and VUHI are exempt from registration pursuant to Section 3(a)(1) and 3(c) of the Public Utility Holding Company Act of 1935.

Indiana Gas provides natural gas distribution and transportation services to a diversified customer base in 311 communities in 49 of Indiana's 92 counties. SIGECO provides electric generation, transmission, and distribution services to Evansville, Indiana, and 74 other communities in 8 counties in southwestern Indiana and participates in the wholesale power market. SIGECO also provides natural gas distribution and transportation services to Evansville, Indiana, and 64 communities in 10 counties in southwestern Indiana. The Ohio operations provide natural gas distribution and transportation services to Dayton, Ohio, and 87 other communities in 17 counties in west central Ohio.

The Company is also involved in nonregulated activities in four primary business areas: Energy Marketing and Services, Coal Mining, Utility Infrastructure Services, and Broadband. Energy Marketing and Services markets natural gas, provides fuel supply management, and provides energy performance contracting services. Coal Mining provides the mining and sale of coal to the Company's utility operations and to other third parties and generates income tax credits through an Internal Revenue Service (IRS) Code Section 29 investment tax credit relating to the production of coal-based synthetic fuels. Utility Infrastructure Services provides underground construction and repair, facilities locating, and meter reading. Broadband invests in broadband communication services such as cable television, high-speed Internet, and advanced local and long distance phone services. In addition, the nonregulated group has investments in other businesses that invest in energy-related opportunities and provide supply chain services, debt collection services, and environmental compliance testing services.

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

On October 31, 2000, the Company acquired the natural gas distribution assets of The Dayton Power and Light Company for approximately \$465.0 million. The acquisition has been accounted for as a purchase transaction in accordance with APB 16, and accordingly, the results of operations of the acquired businesses are included since the date of acquisition.

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

#### **Recent Development**

On March 26, 2002, the Company filed a Current Report on Form 8-K announcing its decision to replace Arthur Andersen LLP as its independent auditors effective upon the completion of a transition period which is expected to

extend through the conclusion of their review of the financial results of the Company for the first quarter of 2002. This Form 8-K is included in this filing as Exhibit 99.1.

### Narrative Description of the Business

The Company segregates its businesses into gas utility services, electric utility services, nonregulated, and corporate and other business segments. The Company collectively refers to its gas and electric utility services segments as its regulated operations. At December 31, 2001, the Company had \$2.9 billion in total assets, with \$2.4 billion (83%) attributed to regulated, \$0.4 billion (12%) attributed to nonregulated, and \$0.1 billion (5%) attributed to corporate and other. Net income for the year ended 2001 was \$63.6 million, or \$0.95 per share of common stock. Excluding nonrecurring charges with an after-tax impact of \$25.7 million, net income for the year ended 2001 was \$89.3 million, or \$1.34 per share of common stock, with \$65.8 million attributed to regulated, \$21.9 million attributed to nonregulated, and \$1.6 million attributed to corporate and other. Nonrecurring items net of tax in 2001 included \$8.1 million of merger and integration costs, \$11.8 million of restructuring costs, \$7.7 million of extraordinary loss, and \$1.9 million gain on the impact of SFAS 133, including cumulative effect of change in accounting principle. Excluding nonrecurring items, net of tax, the results reflect a decrease of \$14.6 million or \$0.36 per share, compared to 2000. Nonrecurring items, net of tax, in 2000 included \$36.8 million of merger and integration costs and a \$4.9 million gain on restructuring of a nonregulated investment. The operations of the corporate and other business segment, which include primarily information technology services, are not significant.

For further information refer to Note 18 regarding the segments' activities and assets, Note 3 regarding special charges, Note 16 regarding the adoption of and current year impact of SFAS 133, Note 5 regarding the extraordinary loss, and Note 4 regarding the gain recognized on restructuring of a nonregulated investment in the Company's consolidated financial statements included under Item 8 Financial Statements and Supplementary Data.

### Regulated Business Segments

The Company's regulated operations are comprised of its Gas Utility Services and Electric Utility Services segments. The Gas Utility Services segment includes the operations of Indiana Gas, the Ohio operations, and SIGECO's natural gas distribution business and provides natural gas distribution and transportation services to nearly two-thirds of Indiana and west central Ohio. The Electric Utility Services segment includes SIGECO's power supply operations, power marketing operations, and electric transmission and distribution services, which operate and maintain six coal-fired electric power plants and five gas-fired peaking units with a total of 1,271 megawatts of generating capacity to provide electricity to primarily southwestern Indiana.

#### **Gas Utility Services**

##### *Overview*

For the year ended December 31, 2001, the Company supplied natural gas service to 953,214 Indiana and Ohio customers, including 868,685 residential, 80,235 commercial, and 4,294 transportation customers. This represents customer base growth of nearly 1% compared to 2000.

The Company's service area contains diversified manufacturing and agriculture-related enterprises. The principal industries served include automotive assembly, parts and accessories, feed, flour and grain processing, metal castings, aluminum products, appliance manufacturing, polycarbonate resin (Lexan) and plastic products, gypsum products, electrical equipment, metal specialties, glass, steel finishing, pharmaceutical and nutritional products, gasoline and oil products, and coal mining.

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

### *Revenues*

For the year ended December 31, 2001, natural gas revenues were approximately \$1,031.5 million of which residential customers accounted for 66%, commercial 24%, and transportation 10%, respectively.

The Company receives gas revenues by selling gas directly to residential, commercial, and industrial customers at approved rates or by transporting gas through its pipelines at approved rates to commercial and industrial customers that have purchased gas directly from other producers, brokers, or marketers. Total volume of gas provided to both sales and transportation customers (throughput) was 199,761 MDth for the year ended December 31, 2001. Transported gas represented 45% of total throughput. Rates for transporting gas provide for the same margins generally earned by selling gas under applicable sales tariffs.

The sale of gas is seasonal and strongly affected by variations in weather conditions. To mitigate seasonal demand, the Company owns and operates eight underground gas storage fields, six liquefied petroleum air-gas manufacturing plants and maintains contract storage. Natural gas purchased from suppliers is injected into storage during periods of light demand which are typically periods of lower prices. The injected gas is then available to supplement contracted volumes during periods of peak requirements. Approximately 705,000 Dth of gas per day can be withdrawn during peak demand periods.

### *Gas Purchases*

In 2001, the Company purchased natural gas from multiple suppliers including ProLiance Energy, LLC (ProLiance). ProLiance is an unconsolidated, nonregulated, energy marketing affiliate of Vectren and Citizens Gas and Coke Utility. (See Note 4 in the Company's consolidated financial statements included in Item 8 Financial Statements and Supplementary Data regarding transactions with ProLiance). The Company purchased 114,503 MDth volumes of gas in 2001 at an average cost of \$5.63 per MDth, of which 87% was purchased from ProLiance. The cost of gas purchased for the last five years is as follows:

<u>Year</u>	<u>Average Cost of Gas Purchased</u>
1997	\$3.56
1998	\$3.53
1999	\$3.58
2000	\$5.60
2001	\$5.63

### *Regulatory Matters*

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

### *Environmental Matters*

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

### *Electric Utility Services*

#### *Overview*

The Company supplied electric service to 133,294 Indiana customers (115,770 residential, 17,327 commercial, and 197 industrial) during 2001. In addition, the Company is obligated to provide for firm power commitments to

several municipalities and to maintain spinning reserve margin requirements under an agreement with the East Central Area Reliability Group.

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

#### Revenues

For the year ended December 31, 2001, electricity sales totaled 9,138,770 megawatt hours, resulting in revenues of approximately \$378.9 million. Residential customers accounted for 25% of 2001 revenues; commercial 20%; industrial 22%; wholesale 32%; and other 1%.

#### Generating Capacity

Installed generating capacity as of December 31, 2001 was rated at 1,271 megawatts (MW). Coal-fired generating units provide 1,056 MW of capacity and gas or oil-fired turbines used for peaking or emergency conditions provide 215 MW.

In addition to its generating capacity, the Company has 82 MW available under firm contracts and 95 MW available under interruptible contracts. New peaking capacity of 80 MW is under development and is planned to be available for the summer peaking season in 2002. This new generating capacity will be fueled by natural gas.

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

Total load for each of the years 1997 through 2001 at the time of the system summer peak, and the related reserve margin, is presented below in MW.

Date of Summer Peak Load	7-14-97	7-21-98	7-6-99	8-17-00	7-31-01
Total Load at Peak	1,086	1,129	1,230	1,212	1,209
Generating Capability	1,236	1,256	1,256	1,256	1,271
Firm Purchase Supply	-	-	-	75	82
Interruptible Contracts	-	-	95	95	95
Total Power Supply Capacity	1,236	1,256	1,351	1,426	1,448
Reserve Margin at Peak	14%	11%	10%	18%	20%

The winter peak load of the 2000-2001 season of approximately 925 MW occurred on December 19, 2000 and was 6% higher than the previous winter peak load of approximately 873 MW which occurred on January 25, 2000.

The Company maintains a 1.5% interest in the Ohio Valley Electric Corporation (OVEC). The OVEC is comprised of several electric utility companies, including SIGECO that supplies power requirements to the United States Department of Energy's (DOE) uranium enrichment plant near Portsmouth, Ohio. The participating companies are entitled to receive from OVEC, and are obligated to pay for, any available power in excess of the DOE contract demand. At the present time, the DOE contract demand is essentially zero. Because of this decreased demand, the Company's 1.5% interest in the OVEC makes available approximately 32 MW of capacity, in addition to its generating capacity, for use in other operations.

### *Fuel Costs*

Electric generation for 2001 was fueled by coal (99.6%) and natural gas (0.4%). Oil was used only for testing of gas/oil-fired peaking units.

There are substantial coal reserves in the southern Indiana area, and coal for coal-fired generating stations has been supplied from operators of nearby Indiana strip mines including those owned by Vectren Fuels, Inc., a wholly owned subsidiary of the Company. Approximately 3.2 million tons of coal was purchased for generating electricity during 2001. Of this amount, Vectren Fuels, Inc. supplied 2.6 million tons, of which 1.9 million tons was produced in its coal mines. The average cost of all coal consumed in generating electrical energy for the years 1997 through 2001 was as follows:

Year	Average Cost Per Ton	Average Cost Per MMBTU	Average Cost Per Kwh (In Mills)
1997	20.75	0.91	9.80
1998	21.34	0.94	9.97
1999	21.88	0.96	10.13
2000	22.49	0.98	10.39
2001	22.48	1.00	10.53

### *Other Operating Matters*

The Company participates with 7 other utilities and 31 other affiliated groups located in 8 states comprising the east central area of the United States, in the East Central Area Reliability group, the purpose of which is to strengthen the area's electric power supply reliability. In addition, see Item 7 Management's Discussion and Analysis of Results of Operations and Financial Condition regarding the Company's participation in the Midwest Independent System Operator group and regarding the change in operations at the Warrick Generating Station.

### *Regulatory Matters*

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

### *Environmental Matters*

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

### *Competition*

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

## **Nonregulated Business Segment**

### **Overview**

The Company is involved in nonregulated activities in four primary business areas: Energy Marketing and Services, Coal Mining, Utility Infrastructure Services, and Broadband. Energy Marketing and Services markets natural gas, provides fuel supply management, and provides energy performance contracting services. Coal Mining provides the mining and sale of coal to the Company's utility operations and to other third parties and generates income tax

credits through an IRS Section 29 investment tax credit relating to the production of coal-based synthetic fuels. Utility Infrastructure Services provides underground construction and repair, facilities locating, and meter reading. Broadband invests in broadband communication services such as cable television, high-speed Internet, and advanced local and long distance phone services. In addition, the nonregulated group has investments in other businesses that invest in other energy-related opportunities and provide supply chain services, debt collection services, and environmental compliance testing services.

### **Energy Marketing and Services**

The Energy Marketing and Services group relies heavily upon a customer focused, value added strategy. The group provides natural gas, fuel supply management services, and market intelligence to a broad range of municipalities, utilities, industrial operations, schools, and healthcare institutions totaling almost 1,000 end-use customers. The group also focuses on performance-based energy contracting. This service helps schools, hospitals, and other governmental and private institutions reduce their energy and maintenance costs by upgrading their facilities with energy-efficient equipment. This group is also a significant gas supplier to the Company. At December 31, 2001, Energy Marketing and Services had 984 customers, up from 472 in 1999. Primarily through customer growth, volumes marketed increased to 393 MMDth in 2001, up from 287 MMDth in 1999.

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

### **Coal Mining**

The Coal Mining group provides the mining and sale of coal to the Company's utility operations and to other third parties and generates income tax credits through an IRS Code Section 29 investment tax credit relating to the production of coal-based synthetic fuels. The Company's two coal mines produced 3.3 million tons, up from 1.2 million in 2000. Production was boosted as the Company's new underground mine began operation in the first quarter and produced approximately 1.9 millions tons of high-quality, low sulfur coal.

This group includes wholly owned subsidiaries of the Company, Vectren Fuels, Inc. and Vectren Synfuels, Inc.

### **Utility Infrastructure Services**

Utility Infrastructure Services provides underground construction and repair of utility infrastructure to the Company and to other gas, water, electric, and telecommunications companies as well as facilities locating and meter reading.

This group includes Reliant Services, LLC (Reliant), a 50% owned strategic alliance with Cinergy Corp. Refer to Other Operating Matters in Item 7 Management's Discussion and Analysis of Results of Operations and Financial Condition regarding Reliant's acquisition of Miller Pipeline Corporation.

### **Broadband**

Broadband invests in broadband communication services such as cable television, high-speed Internet, and advanced local and long distance phone services. The Broadband group provides telecommunications services to approximately 28,000 residential and commercial customers (an increase of 28% from 2000) in the greater Evansville area in southern Indiana. The present customer base has yielded approximately 75,000 revenue generating units (up from approximately 58,000 at the end of 2000) indicating multiple lines and/or services being utilized by the same customer.

The Company has a 14% interest in Class A units of Utilicom Networks, LLC (Utilicom). Utilicom is a provider of bundled communication services focusing on last mile delivery to residential and commercial customers. The

Company also has a minority interest in SIGECOM Holdings, Inc. (Holdings), which was formed by Utilicom to hold interests in SIGECOM, LLC (SIGECOM). SIGECOM provides broadband services to the greater Evansville, Indiana, area. Utilicom also plans to provide services to Indianapolis, Indiana, and Dayton, Ohio.

In July 2001, Utilicom announced a delay in funding of the Indianapolis and Dayton projects. This delay, with which Company management agrees, is due to the current environment within the telecommunication capital markets, which has prevented Utilicom from obtaining debt financing on terms it considers acceptable. While the existing investors are still committed to the Indianapolis and Dayton markets, the Company is not required to and does not intend to proceed unless the Indianapolis and Dayton projects are fully funded. This delay necessitated and resulted in the extension of the franchising agreements into the third quarter of 2002.

Refer to Other Operating Matters in Item 7 Management's Discussion and Analysis of Results of Operations and Financial Condition for additional information on the Company's investment in Utilicom.

#### **Other Businesses**

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

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

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

#### **Personnel**

As of December 31, 2001, the Company and its consolidated subsidiaries had 1,986 employees.

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

Concurrent with the Company's purchase of the Ohio operations, VEDO and Local Union 175, Utility Workers Union of America approved a labor agreement effective November 2000, through October 2005. The agreement provides a 3.25% wage increase each year, and the other terms and conditions are substantially the same as the agreement reached between the Utility Workers Union and Dayton Power and Light Company in August of 2000.

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

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

## **ITEM 2. PROPERTIES**

### Gas Utility Services

Specific to its Indiana operations, Indiana Gas owns and operates five gas storage fields located in Indiana covering 71,484 acres of land with an estimated ready delivery from storage capability of 8.0 MMDth of gas with daily delivery capabilities of 134,160 Dth. For its Indiana operations, Indiana Gas also maintains 186,578 Dth of gas in contract storage with a daily deliverability of 3,563 Dth and three liquefied petroleum (propane) air-gas manufacturing plants in Indiana with a total daily capacity of 31,000 Dth of gas. Indiana Gas' gas delivery system includes 11,336 miles of distribution and transmission mains 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 underground gas storage fields with an estimated ready delivery from storage capability of 6.2 MMDth of gas with daily delivery capabilities of 129,000 Dth. SIGECO's gas delivery system includes 2,921 miles of distribution and transmission mains all of which are located in Indiana.

The Ohio operations operate three liquefied petroleum (propane) air-gas manufacturing plants located in Ohio with a total daily capacity of 52,187 Dth, and approximately 13.9 MMDth of firm storage service from various pipelines with daily deliverability of 354,788 Dth of gas. The Ohio operations' gas delivery system includes 5,132 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, 2001 was rated at 1,271 MW. SIGECO's coal-fired generating facilities are: the Brown Station with 500 MW of capacity, located in Posey County approximately eight miles east of Mt. Vernon, Indiana; the Culley Station with 406 MW of capacity, and Warrick Unit 4 with 150 MW of capacity. Both the Culley and Warrick Stations are located in Warrick County near Yankeeetown, Indiana. SIGECO's gas-fired turbine peaking units are: the 80 MW Brown Gas Turbine located at the Brown Station; two Broadway Gas Turbines located in Evansville, Indiana, with a combined capacity of 115 MW; and two Northeast Gas Turbines located northeast of Evansville in Vanderburgh County, Indiana with a combined capacity of 20 MW. The Brown and Broadway Unit 2 turbines are also equipped to burn oil. Total capacity of SIGECO's five gas turbines is 215 MW, and they are generally used only for reserve, peaking or emergency purposes due to the higher per unit cost of generation.

SIGECO's transmission system consists of 828 circuit miles of 138,000 and 69,000 volt lines. The transmission system also includes 27 substations with an installed capacity of 4,014.2 megavolt amperes (Mva). The electric distribution system includes 3,205 pole miles of lower voltage overhead lines and 255 trench miles of conduit containing 1,465 miles of underground distribution cable. The distribution system also includes 96 distribution substations with an installed capacity of 1,918.2 Mva and 50,133 distribution transformers with an installed capacity of 2,284.1 Mva.

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

### Nonregulated Services

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

### 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, as supplemented by various supplemental indentures.



### ITEM 3. LEGAL PROCEEDINGS

The Company and its subsidiaries are involved in various legal proceedings arising in the normal course of business. In the opinion of management, with the exception of the matters described in Notes 4 and 14 of its consolidated financial statements included in Item 8 Financial Statements and Supplementary Data regarding transactions with ProLiance and the Clean Air Act, there are no legal proceedings pending against the Company that could be material to its financial position or results of operations.

### ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

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

## PART II

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

The Company's common stock trades on the New York Stock Exchange under the symbol "VVC." The high and low sales prices for the Company's common stock as reported on the New York Stock Exchange composite transactions reporting system and dividends paid are shown in the following table for the periods indicated.

2001	Cash	Price Range	
	Dividend	High	Low
First Quarter	\$0.255	\$24.44	\$21.00
Second Quarter	0.255	23.90	20.38
Third Quarter	0.255	22.46	19.76
Fourth Quarter	0.265	24.07	21.05

On January 23, 2002, the board of directors declared a dividend of \$0.265 per share, payable on March 1, 2002, to common shareholders of record on February 15, 2002.

As of March 22, 2002, there were 14,151 shareholders of record of the Company's common stock.

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

## ITEM 6. SELECTED FINANCIAL DATA

The following table presents selected consolidated financial information. The information should be read in conjunction with the Company's consolidated financial statements and notes thereto presented under Part II, Item 8 Financial Statements and Supplementary Data of this Form 10-K. The financial information as of December 31, 1998-2001 and for each of the five years in the period ended December 31, 2001 are derived from the Company's audited consolidated financial statements. The financial information as of December 31, 1997 is derived from internal unaudited consolidated financial statements. This information has been restated to reflect the pooling of interest transaction pursuant to which each of Indiana Energy and SIGCORP merged into Vectren.

	Year Ended December 31				
(In millions, except per share data)	1997 (4)	1998	1999	2000(2,3)	2001 (1)
<b>Operating Data:</b>					
Operating revenues	\$ 972.1	\$ 997.7	\$ 1,068.4	\$ 1,648.7	\$ 2,170.0
Operating income	\$ 124.6	148.5	160.8	131.1	\$ 139.6
Income before extraordinary loss & cumulative effect of change in accounting principle	\$ 67.7	86.6	90.7	72.0	\$ 67.4
Net income	\$ 67.7	86.6	90.7	72.0	\$ 63.6
Average common shares outstanding	61.6	61.6	61.3	61.3	66.7
Fully diluted common shares outstanding	61.6	61.8	61.4	61.4	66.9
Basic earnings per share before extraordinary loss & cumulative effect of change in accounting principle	\$ 1.10	\$ 1.41	\$ 1.48	\$ 1.18	\$ 1.01
Basic earnings per share on common stock	\$ 1.10	\$ 1.41	\$ 1.48	\$ 1.18	\$ 0.95
Diluted earnings per share before extraordinary loss & cumulative effect of change in accounting principle	\$ 1.10	\$ 1.40	\$ 1.48	\$ 1.17	\$ 1.01
Diluted earnings per share on common stock	\$ 1.10	\$ 1.40	\$ 1.48	\$ 1.17	\$ 0.95
Dividends per share on common stock	\$ 0.88	\$ 0.90	\$ 0.94	\$ 0.98	\$ 1.03
<b>Balance Sheet Data:</b>					
Total assets	\$ 1,758.6	\$ 1,798.8	\$ 1,980.5	\$ 2,926.3	\$ 2,856.8
Long-term debt, net	\$ 475.5	\$ 388.9	\$ 486.7	\$ 632.0	\$ 1,014.0
Redeemable preferred stock	\$ 8.4	\$ 8.3	\$ 8.2	\$ 8.1	\$ 0.5
Common shareholders' equity	\$ 653.7	\$ 677.9	\$ 709.8	\$ 731.7	\$ 848.6

- (1) Merger and integration related costs incurred for the year ended December 31, 2001 totaled \$2.8 million. These costs relate primarily to transaction costs, severance and other merger and acquisition integration activities.

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

In total, merger and integration related costs incurred for the year ended December 31, 2001 were \$12.4 million (\$8.1 million after tax).

The Company incurred restructuring charges of \$19.0 million, (\$11.8 million after tax) relating to employee severance, related benefits and other employee related costs, lease termination fees related to duplicate facilities, and consulting and other fees.

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

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

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

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

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

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

### **Description of the Business**

Vectren Corporation (the Company or Vectren), an Indiana corporation, is an energy and applied technology holding company headquartered in Evansville, Indiana. The Company was organized on June 10, 1999 solely for the purpose of effecting the merger of Indiana Energy, Inc. (Indiana Energy) and SIGCORP, Inc. (SIGCORP). On March 31, 2000, the merger of Indiana Energy with SIGCORP and into Vectren was consummated with a tax-free exchange of shares and has been accounted for as a pooling-of-interests in accordance with Accounting Principles Board (APB) Opinion No. 16 "Business Combinations" (APB 16).

The Company's wholly owned subsidiary, Vectren Utility Holdings, Inc. (VUHI), serves as the intermediate holding company for its three operating public utilities: Indiana Gas Company, Inc. (Indiana Gas), formerly a wholly owned subsidiary of Indiana Energy, Southern Indiana Gas and Electric Company (SIGECO), formerly a wholly owned subsidiary of SIGCORP, and the Ohio operations (defined hereafter). Both Vectren and VUHI are exempt from registration pursuant to Section 3(a)(1) and 3(c) of the Public Utility Holding Company Act of 1935.

Indiana Gas provides natural gas distribution and transportation services to a diversified customer base in 311 communities in 49 of Indiana's 92 counties. SIGECO provides electric generation, transmission, and distribution services to Evansville, Indiana, and 74 other communities in 8 counties in southwestern Indiana and participates in the wholesale power market. SIGECO also provides natural gas distribution and transportation services to Evansville, Indiana, and 64 communities in 10 counties in southwestern Indiana. The Ohio operations provide natural gas distribution and transportation services to Dayton, Ohio, and 87 other communities in 17 counties in west central Ohio.

The Company is also involved in nonregulated activities in four primary business areas: Energy Marketing and Services, Coal Mining, Utility Infrastructure Services, and Broadband. Energy Marketing and Services markets natural gas, provides fuel supply management, and provides energy performance contracting services. Coal Mining provides the mining and sale of coal to the Company's utility operations and to other third parties and generates income tax credits through an Internal Revenue Service (IRS) Code Section 29 investment tax credit relating to the production of coal-based synthetic fuels. Utility Infrastructure Services provides underground construction and repair, facilities locating, and meter reading. Broadband invests in broadband communication services such as cable television, high-speed Internet, and advanced local and long distance phone services. In addition, the nonregulated group has investments in other businesses that invest in energy-related opportunities and provide supply chain services, debt collection services, and environmental compliance testing services.

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

On October 31, 2000, the Company acquired the natural gas distribution assets of The Dayton Power and Light Company for approximately \$465.0 million. The acquisition has been accounted for as a purchase transaction in accordance with APB 16, and accordingly, the results of operations of the acquired businesses are included in the accompanying financial statements since the date of acquisition.

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

### Consolidated Results of Operations

In millions, except per share amounts	Year Ended December 31,		
	2001	2000	1999
Net income, as reported	\$ 63.6	\$ 72.0	\$ 90.7
Merger & integration costs - net of tax	8.1	36.8	-
Restructuring costs - net of tax	11.8	-	-
Extraordinary loss - net of tax	7.7	-	-
Impact of SFAS 133, including cumulative effect of change in accounting principle - net of tax	(1.9)	-	-
Gain on restructuring of a nonregulated investment - net of tax	-	(4.9)	-
Net income before nonrecurring items	\$ 89.3	\$ 103.9	\$ 90.7
Attributed to:			
Regulated	\$ 65.8	\$ 84.0	\$ 75.4
Nonregulated	21.9	17.8	12.5
Corporate & other	1.6	2.1	2.8
Basic earnings per share, as reported	\$ 0.95	\$ 1.18	\$ 1.48
Merger & integration costs	0.12	0.60	-
Restructuring costs	0.18	-	-
Extraordinary loss	0.12	-	-
Impact of SFAS 133, including cumulative effect of change in accounting principle	(0.03)	-	-
Gain on restructuring of a nonregulated investment	-	(0.08)	-
Basic earnings per share before nonrecurring items	\$ 1.34	\$ 1.70	\$ 1.48
Attributed to:			
Regulated	\$ 0.99	\$ 1.37	\$ 1.23
Nonregulated	0.33	0.29	0.20
Corporate & other	0.02	0.04	0.05

In 2001, consolidated net income before the impact of nonrecurring items decreased \$14.6 million, or \$0.36 per share, compared to 2000. The decrease reflects lower regulated earnings resulting from extraordinarily high gas costs early in the year that unfavorably impacted margins and operating costs, warmer heating weather, especially during late 2001, and a weakened national economy. This reduction was primarily offset by increased earnings from nonregulated operations, primarily energy marketing and services and coal mining operations.

In 2000, consolidated net income before the impact of nonrecurring items increased \$13.2 million, or \$0.22 per share compared to 1999. The increase results from cooler weather, the inclusion of two months of the Ohio operations, and increased nonregulated earnings from energy marketing and services and coal mining operations and additional interest and leveraged lease income.

#### Dividends

In October 2001, the Company's board of directors increased its quarterly dividend to \$0.265 per share from \$0.255 per share. Dividends declared for the year ended December 31, 2001 were \$1.03 per share, compared to \$0.98 per share and \$0.94 per share for the same periods in 2000 and 1999, respectively.

## Nonrecurring Items

### *Merger & Integration Costs*

Merger and integration costs incurred for the years ended December 31, 2001 and 2000 were \$2.8 million and \$41.1 million, respectively. The Company expects to realize net merger savings of nearly \$200.0 million over ten years from the elimination of duplicate corporate and administrative programs and greater efficiencies in operations, business processes, and purchasing. Merger and integration activities resulting from the 2000 merger were completed in 2001.

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

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

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

In total, for the year ended December 31, 2001, merger and integration costs totaled \$12.4 million (\$8.1 million after tax), or \$0.12 on a basic earnings per share basis compared to \$52.5 million (\$36.8 million after tax), or \$0.60 on a basic earnings per share basis in 2000.

### *Restructuring Costs*

As part of continued cost saving efforts, in June 2001, the Company's management and board of directors approved a plan to restructure, primarily, its regulated operations. The restructuring plan included the elimination of certain administrative and supervisory positions in its utility operations and corporate office. Charges of \$11.8 million were expensed in June 2001 as a direct result of the restructuring plan. Additional charges of \$7.2 million were incurred during the remainder of 2001 primarily for consulting fees, employee relocation, and duplicate facilities costs. In total, the Company has incurred restructuring charges of \$19.0 million, (\$11.8 million after tax), or \$0.18 on a basic earnings per share basis. These charges were comprised of \$10.9 million for employee severance, related benefits and other employee related costs, \$4.0 million for lease termination fees related to duplicate facilities and other facility costs, and \$4.1 million for consulting and other fees incurred through December 31, 2001. The restructuring program was completed during 2001, except for the departure of certain employees impacted by the restructuring. (See Note 3 for further information on restructuring costs.)

### *Extraordinary Loss*

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

### *Impact of SFAS 133*

Effective January 1, 2001, the Company adopted SFAS 133, "Accounting for Derivative Instruments and Hedging Activities." The cumulative impact of adoption of SFAS 133 on January 1, 2001 was a gain of approximately \$6.3 million (\$3.9 million after tax.) Unrealized losses totaling \$3.2 million (\$2.0 million after tax) arising from the

change in market value since the date of adoption is reflected in purchased electric energy. The net impact of SFAS 133 for the year ended December 31, 2001 is a gain of \$3.1 million (\$1.9 million after tax), or \$0.03 on a basic earnings per share basis. (See below for a complete discussion of the new accounting principle.)

#### *Gain on Restructuring of a Nonregulated Investment*

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

#### New Accounting Principle

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS 133, which requires that every derivative instrument be recorded on the balance sheet as an asset or liability measured at its market value and that changes in the derivative's market value be recognized currently in earnings unless specific hedge accounting criteria are met.

SFAS 133, as amended, requires that as of the date of initial adoption, the difference between the market value of derivative instruments recorded on the balance sheet and the previous carrying amount of those derivatives be reported in net income or other comprehensive income, as appropriate, as the cumulative effect of change in accounting principle in accordance with APB Opinion No. 20, "Accounting Changes."

Resulting from the adoption of SFAS 133, certain contracts in the power marketing operations and gas marketing operations that are periodically settled net were required to be recorded at market value. Previously, the Company accounted for these contracts on settlement. The cumulative impact of the adoption of SFAS 133 resulting from marking these contracts to market on January 1, 2001 was an earnings gain of approximately \$6.3 million (\$3.9 million after tax) recorded as a cumulative effect of change in accounting principle in the Consolidated Statements of Income. The majority of this gain results from the Company's power marketing operations. SFAS 133 did not impact other commodity contracts because they were normal purchases and sales specifically excluded from the provisions of SFAS 133.

Unrealized losses totaling \$3.2 million (\$2.0 million after tax) arising from the difference between the current market value and the market value on the date of adoption is included in purchased electric energy in the Consolidated Statements of Income for the year ended December 31, 2001. Derivatives used in other commodity marketing operations are not significant.

In addition to Vectren's wholly owned subsidiaries, ProLiance Energy, LLC (ProLiance), an equity method investment, adopted SFAS 133 during 2000. The Company's share of the impact of adoption and continued use of derivatives by ProLiance is primarily reflected in accumulated other comprehensive income due to the nature of the derivatives used.

#### Results of Operations by Business Segment

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

### Results of Operations of the Regulated Businesses

The Company's regulated operations are comprised of its Gas Utility Services and Electric Utility Services segments. The Gas Utility Services segment includes the operations of Indiana Gas, the Ohio operations, and SIGECO's natural gas distribution business and provides natural gas distribution and transportation services to nearly two-thirds of Indiana and west central Ohio. The Electric Utility Services segment includes SIGECO's power supply operations, power marketing operations, and electric transmission and distribution services, which operate and maintain six coal-fired electric power plants and five gas-fired peaking units with a total of 1,271 megawatts of generating capacity to provide electricity to primarily southwestern Indiana. The results of regulated operations before certain intersegment eliminations and reclassifications for the years ended December 31, 2001, 2000, and 1999 are as follows:

In millions, except per share amounts	2001	2000	1999
Gas revenues	\$ 1,031.5	\$ 818.8	\$ 499.6
Cost of gas	708.2	552.5	266.4
<b>GAS OPERATING MARGIN</b>	<b>323.3</b>	<b>266.3</b>	<b>233.2</b>
Electric revenues	378.9	336.4	307.5
Cost of fuel & purchased power	166.1	112.1	93.0
<b>ELECTRIC OPERATING MARGIN</b>	<b>212.8</b>	<b>224.3</b>	<b>214.5</b>
<b>TOTAL OPERATING MARGIN</b>	<b>536.1</b>	<b>490.6</b>	<b>447.7</b>
<b>OPERATING EXPENSES</b>			
Other operating	234.7	209.9	187.5
Merger & integration costs	2.8	32.7	-
Restructuring costs	15.0	-	-
Depreciation & amortization	96.9	82.4	79.5
Income tax	22.7	34.9	43.2
Taxes other than income taxes	51.3	36.2	28.5
Total expenses	423.4	396.1	338.7
<b>OPERATING INCOME</b>	<b>112.7</b>	<b>94.5</b>	<b>109.0</b>
Other - net	5.0	5.0	4.3
Interest expense	70.1	46.1	36.8
Preferred dividend requirement of subsidiary	0.8	1.0	1.1
Income before cumulative effect of change in accounting principle	46.8	52.4	75.4
Cumulative effect of change in accounting principle - net of tax	3.9	-	-
<b>NET INCOME, AS REPORTED</b>	<b>\$ 50.7</b>	<b>\$ 52.4</b>	<b>\$ 75.4</b>
Merger & integration costs - net of tax	7.7	31.6	-
Restructuring costs - net of tax	9.3	-	-
Impact of SFAS 133, including cumulative effect of change in accounting principle - net of tax	(1.9)	-	-
<b>NET INCOME BEFORE NONRECURRING ITEMS</b>	<b>\$ 65.8</b>	<b>\$ 84.0</b>	<b>\$ 75.4</b>
<b>EARNINGS PER SHARE, AS REPORTED</b>	<b>\$ 0.76</b>	<b>\$ 0.86</b>	<b>\$ 1.23</b>
Merger & integration costs	0.12	0.51	-
Restructuring costs	0.14	-	-
Impact of SFAS 133, including cumulative effect of change in accounting principle	(0.03)	-	-
<b>EARNINGS PER SHARE BEFORE NONRECURRING ITEMS</b>	<b>\$ 0.99</b>	<b>\$ 1.37</b>	<b>\$ 1.23</b>



For 2001 compared to the prior year, earnings before the impact of nonrecurring items decreased \$18.2 million due to extraordinarily high gas costs early in the year that unfavorably impacted margins and operating costs, including uncollectible accounts expense, interest, and excise taxes; heating weather that was 9% warmer than the prior year; and lower margins on wholesale power marketing sales.

For 2000 compared to 1999, earnings before the impact of nonrecurring items increased \$8.6 million primarily due to cooler temperatures, and the inclusion of the Ohio operations for two months, offset by a disallowance of gas costs by the Indiana Utility Regulatory Commission (IURC).

Utility Margin (Utility Operating Revenues Less Utility Cost of Gas, Cost of Fuel for Electric Generation and Purchased Electric Energy)

*Gas Utility Margin*

Gas Utility margin for the year ended December 31, 2001 of \$323.3 million increased \$57.0 million, compared to 2000. For the incremental ten months from January through October from the Ohio operations, margin before the impact of higher gas costs and warmer weather was estimated at \$82.5 million. Net of this amount, gas utility margin decreased by \$25.5 million. The primary factors contributing to this decrease were weather that was 9% warmer than the prior year and the unfavorable impact on margin resulting from extraordinarily high gas costs early in 2001, coupled with the effects of a weakening economy. The weather impact reduced margin by approximately \$18.0 million compared to the prior year period. The negative impact of higher gas costs on margin, along with general economic conditions, approximated \$9.4 million. These decreases were offset somewhat by customer growth of nearly 1% compared to 2000. Including the Ohio operations, the Company's total throughput was 199.8 MMDth in 2001, 181.2 MMDth in 2000, and 150.7 MMDth in 1999.

Gas Utility margin for the year ended December 31, 2000, of \$266.3 million increased \$33.1 million compared to 1999. The Ohio operations represent \$28.2 million of the increase. The remaining \$4.9 million, or 2%, increase attributable to Indiana Gas and SIGECO's gas operations reflect 8% (11.9 MMDth) greater throughput due to much colder temperatures during the fourth quarter of 2000 than in the fourth quarter of 1999 and a 2% growth in customers. Residential and commercial sales rose 7% and 10%, respectively, during 2000. Temperatures were 11% colder in 2000 compared to 1999 and approached normal for the year. These favorable impacts were partially offset by a \$3.8 million disallowance of recoverable gas costs by the IURC, charged against gas revenues in December 2000.

Cost of gas sold was \$708.2 million in 2001, \$552.5 million in 2000, and \$266.4 million in 1999. Of the increases, the Ohio operations contributed \$178.6 million in 2001 and \$83.2 million in 2000. Excluding the Ohio operations, cost of gas sold decreased \$22.9 million, or 4% in 2001 and increased \$202.9 million, or 76%, in 2000. The changes are primarily due to fluctuations in average per unit purchased gas costs and the volume of dekatherms sold. The total average cost per dekatherm of gas purchased by Indiana Gas and SIGECO was \$5.73 in 2001, \$5.72 in 2000, and \$3.58 in 1999. The price changes are due primarily to changing commodity costs in the marketplace.

*Electric Utility Margin*

Electric Utility margin for the year ended December 31, 2001 of \$212.8 million decreased \$11.5 million, or 5%, compared to 2000 primarily from decreased margin on sales to wholesale energy markets and firm wholesale customers, reflecting the weakened national economy, and a \$3.2 million reduction in margin recorded to reflect certain wholesale power marketing purchase and sale contracts at current market values as required by SFAS 133. The decreases were partially offset by a 3% increase in residential and commercial sales due to cooling weather 7% warmer than the prior year and a 3% increase in residential and commercial customer bases.

Electric Utility margin for the year ended December 31, 2000 of \$224.3 million increased \$9.8 million, or 5%, compared to 1999 primarily due to a \$4.4 million increase in margins resulting from wholesale energy market activity. The remaining increase results from increased sales caused by the impact of much colder fourth quarter temperatures on electric heating sales and a 5% growth in commercial customers during the year. Retail and firm wholesale electric sales for 2000 increased 2% and total electric sales increased 8%.

The cost of fuel and purchased power increased \$54.0 million, or 48%, in 2001 compared to 2000 and increased \$19.1 million, or 20%, in 2000 compared to 1999. The increases result primarily from more wholesale energy sales. Megawatt hours sold to the wholesale market increased 106% in 2001 compared to 2000 and increased 39% in 2000 compared to 1999. The 2001 increase was also affected by the reductions in margin recorded as a result of SFAS 133.

#### Utility Operating Expenses (excluding Cost of Gas Sold, Fuel for Electric Generation & Purchased Electric Energy)

##### *Utility Other Operating*

Excluding \$31.4 million in additional expenses related to the Ohio operations, utility other operating expenses for the year ended December 31, 2001 decreased \$6.6 million or 3% compared to 2000. The 2001 decrease results, primarily, from reduced maintenance expenditures and merger synergies in the current year, offset by increased uncollectible accounts expense resulting from increased gas costs.

Excluding \$7.1 million in expenses related to the Ohio operations, utility other operating expenses for the year ended December 31, 2000 increased \$15.3 million or 8% compared to 1999. The increase is primarily due to increased charges for use of corporate assets, including those assets which had useful lives shortened as a result of the merger.

##### *Utility Depreciation & Amortization*

Utility depreciation and amortization increased \$14.5 million, or 18%, and \$2.9 million, or 4%, in 2001 and in 2000, respectively. The increases are due to the inclusion of the Ohio operations and depreciation of normal utility plant additions at Indiana Gas and SIGECO. For the years ended December 31, 2001 and 2000, the increase in utility depreciation and amortization related to the Ohio operations was \$12.9 million, including amortization of goodwill of \$4.9 million, and \$2.6 million, respectively.

##### *Utility Income Tax*

Federal and state income taxes related to utility operations decreased \$12.2 million and \$8.3 million in 2001 and in 2000, respectively. The 2001 decrease is due to lower pre-tax earnings. The effective tax rate decreased from 40% in 2000 to 33% in 2001. This decrease results primarily from a higher effective tax rate in 2000 due to the nondeductibility of certain merger and integration costs.

##### *Utility Taxes Other Than Income Taxes*

Utility taxes other than income taxes increased \$15.1 million and \$7.7 million in 2001 and in 2000, respectively. The years ended December 31, 2001 and 2000 include \$15.3 million and \$7.1 million, respectively, of additional expense related to the Ohio operations, primarily state excise tax.

#### Utility Interest Expense

Utility interest expense increased \$24.0 million and \$9.3 million, respectively, during the years ended December 31, 2001 and 2000. The increases are due primarily to interest related to the financing of the acquisition of the Ohio operations and increased working capital requirements resulting from higher natural gas prices.

#### Competition

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

## Other Operating Matters

### Midwest Independent System Operator

The Federal Energy Regulatory Commission (FERC) approved the Midwest Independent System Operator (MISO) as the nation's first regional transmission organization. The Carmel, Indiana-based MISO began some operations in December 2001 with control of 73,000 miles of transmission lines carrying up to 81,000 megawatts of power. More than 20 states are included in the MISO from the Midwest and Plains states, to Texas, Arkansas, and part of the Southeast. In December 2001, the IURC approved the Company's request for authority to transfer operational control over its electric transmission facilities to the MISO.

The FERC has made regional transmission organizations a top priority since the California power crisis last winter. Regional transmission organizations place public utility transmission facilities in a region under common control to boost competition and to provide more reliable power at lower rates. Issues pertaining to certain of MISO's tariff charges for its services remain to be determined by the FERC. Given the outstanding tariff issues, as well as the potential for additional growth in participation in MISO, the Company is unable to determine the impact MISO participation may have on its operations.

### Operation of Warrick Station

In March 2001, Alcoa Power Generating, Inc., a subsidiary of ALCOA, INC. (ALCOA) began operating the Warrick Generating Station. Prior to March 2001 and since 1956, the Company operated the Warrick Generating Station as an agent for ALCOA. Three generating units at the station are owned by ALCOA, and the Company owns a fourth unit equally with ALCOA. The operating change has no impact on the Company's entitlement to the generating capacity.

Under the new arrangement, the Company reimburses ALCOA for operating costs pertaining to the Company's share of the fourth unit and pays ALCOA a fee for agency services. The reimbursed operating costs and the related agency fee are expected to be comparable to the costs the Company would have incurred to operate and administer its generating facilities under the previous operating arrangement. Therefore, this change is not expected to negatively impact the Company's financial results. Additionally, SIGECO has retained ALCOA as a wholesale power and transmission services customer.

## Environmental Matters

The Company is subject to federal, state, and local regulations with respect to environmental matters, principally air, solid waste, and water quality. Pursuant to environmental regulations, the Company is required to obtain operating permits for the electric generating plants that it owns or operates and construction permits for any new plants it might propose to build. Regulations concerning air quality establish standards with respect to both ambient air quality and emissions from electric generating facilities, including particulate matter, sulfur dioxide (SO<sub>2</sub>), and nitrogen oxides (NO<sub>x</sub>). Regulations concerning water quality establish standards relating to intake and discharge of water from electric generating facilities, including water used for cooling purposes in electric generating facilities. Because of the scope and complexity of these regulations, the Company is unable to predict the ultimate effect of such regulations on its future operations, nor is it possible to predict what other regulations may be adopted in the future. The Company intends to comply with all applicable governmental regulations, but will contest any regulation it deems to be unreasonable or impossible.

### Clean Air Act

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

The Clean Air Act (the Act) requires each state to adopt a State Implementation Plan (SIP) to attain and maintain National Ambient Air Quality Standards (NAAQS) for a number of pollutants, including ozone. If the United States Environmental Protection Agency (USEPA) finds a state's SIP inadequate to achieve the NAAQS, the USEPA can call upon the state to revise its SIP (a SIP Call).

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

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

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

The IURC issued an order that (1) approves the Company's proposed project to achieve environmental compliance by investing in clean coal technology, (2) approves the Company's cost estimate for the construction, subject to periodic review of the actual costs incurred, and (3) approves a mechanism whereby, prior to an electric base rate case, the Company may recover a return on its capital costs for the project, at its overall cost of capital, including a return on equity.

Based on the level of system-wide emissions reductions required and the control technology utilized to achieve the reductions, the current estimated construction cost ranges from \$175.0 million to \$195.0 million and is expected to be expended during the 2001-2004 period. Through December 31, 2001, approximately \$22.5 million has been expended. After the equipment is installed and operational, related additional annual operation and maintenance expenses are estimated to be between \$8.0 million and \$10.0 million.

The Company expects the Culley, Warrick and A.B. Brown SCR systems to be operational by the compliance date. Installation of SCR technology at these stations is expected to reduce the Company's overall NOx emissions to levels compliant with Indiana's NOx emissions budget allotted by the USEPA; therefore, the Company has recorded no accrual for potential penalties that may result from noncompliance.

#### *Culley Generating Station Litigation*

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

On November 3, 1999, the USEPA filed a lawsuit against seven utilities, including SIGECO. The USEPA alleges that, beginning in 1992, SIGECO violated the Act by: (1) making modifications to its Culley Generating Station in Yanketown, Indiana, without obtaining required permits; (2) making major modifications to the Culley Generating

Station without installing the best available emission control technology; and (3) failing to notify the USEPA of the modifications. In addition, the lawsuit alleges that the modifications to the Culley Generating Station required SIGECO to begin complying with federal new source performance standards at its Culley Unit 3.

SIGECO believes it performed only maintenance, repair, and replacement activities at the Culley Generating Station, as allowed under the Act. Because proper maintenance does not require permits, application of the best available emission control technology, notice to the USEPA, or compliance with new source review standards, SIGECO believes that the lawsuit is without merit and intends to vigorously defend itself.

The lawsuit seeks fines against SIGECO in the amount of \$27,500 per day per violation. The lawsuit does not specify the number of days or violations the USEPA believes occurred. The lawsuit also seeks a court order requiring SIGECO to install the best available control technology at the Culley Generating Station. If the USEPA were successful in obtaining an order, SIGECO estimates that it would incur capital costs of approximately \$40.0 million to \$50.0 million to comply with the order. As a result of the NOx SIP call issue, the majority of the \$40.0 million to \$50.0 million for best available emissions technology at Culley Generating Station is included in the \$175.0 million to \$195.0 million cost range previously discussed.

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

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

#### *Information Request*

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

#### Manufactured Gas Plants

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

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

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

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

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

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

#### Rate and Regulatory Matters

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

#### Gas Costs Proceedings

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

The IURC has also applied the statute authorizing GCA procedures to reduce rates when necessary to limit net operating income to a level authorized in its last general rate order through the application of an earnings test. Recovery of gas costs is not allowed to the extent that net operating income for the longer of (1) a 60-month period, including the twelve-month period provided in the gas cost adjustment filing, or (2) the date of the last order establishing base rates and charges exceeds the total net operating income authorized by the IURC. For the recent past, the earnings test has not affected the Company's ability to recover gas costs, and the Company does not anticipate the earnings test will restrict the recovery of gas costs in the near future.

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

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

In March 2001, Indiana Gas and SIGECO reached agreement with the Indiana Office of Utility Consumer Counselor (OUCC) and the Citizens Action Coalition of Indiana, Inc. (CAC) regarding the matters raised by an

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

#### Fuel & Purchased Power Costs

Adjustments to rates and charges related to the cost of fuel and the net energy cost of purchased power charged to Indiana customers are made through fuel cost adjustment procedures established by Indiana law and administered by the IURC. Fuel cost adjustment procedures involve scheduled quarterly filings and IURC hearings to establish the amount of price adjustments for future quarters. The procedures also provide for inclusion in a later quarter of any variances between estimated and actual costs of fuel and purchased power in a given quarter. The order provides that any over-or-under-recovery caused by variances between estimated and actual cost in a given quarter will be included in the second succeeding quarter's adjustment factor. This continuous reconciliation of estimated incremental fuel costs billed with actual incremental fuel costs incurred closely matches revenues to expenses.

An earnings test similar to the test restricting gas cost recovery is the principal restriction to recovery of fuel cost increases. This earnings test has not affected the Company's ability to recover fuel costs, and the Company does not anticipate the earnings test will restrict the recovery of fuel costs in the near future.

As a result of an appeal of a generic order issued by the IURC in August 1999 regarding guidelines for the recovery of purchased power costs, SIGECO entered into a settlement agreement with the OUCC that provides certain terms with respect to the recoverability of such costs. The settlement, originally approved by the IURC in August 2000, has been extended by agreement through March 2002 and additional settlement discussions are expected in 2002. Under the settlement, SIGECO can recover the entire cost of purchased power up to an established benchmark, and during forced outages, SIGECO will bear a limited share of its purchased power costs regardless of the market costs at that time. Based on this agreement, SIGECO believes it has limited its exposure to unrecoverable purchased power costs.

### Results of Operations of the Nonregulated Businesses

The Company is also involved in nonregulated activities in four primary business areas: Energy Marketing and Services, Coal Mining, Utility Infrastructure Services, and Broadband. Energy Marketing and Services markets natural gas, provides fuel supply management, and provides energy performance contracting services. Coal Mining provides the mining and sale of coal to the Company's utility operations and to other third parties and generates income tax credits through an IRS Section 29 investment tax credit relating to the production of coal-based synthetic fuels. Utility Infrastructure Services provides underground construction and repair, facilities locating, and meter reading. Broadband invests in broadband communication services such as cable television, high-speed Internet, and local and long distance phone services. In addition, the nonregulated group has investments in other businesses that invest in other energy-related opportunities and provide supply chain services, debt collection services, and environmental compliance testing services. The results of nonregulated operations before certain intersegment eliminations and reclassifications for the years ended December 31, 2001, 2000, and 1999 are as follows:

In millions, except per share amounts	2001	2000	1999
Energy services & other revenues	\$ 759.6	\$ 493.5	\$ 261.3
Cost of energy services & other revenues	720.2	468.8	241.8
<b>TOTAL OPERATING MARGIN</b>	<b>39.4</b>	<b>24.7</b>	<b>19.5</b>
Intersegment Revenues, net of costs	1.9	1.8	-
Expenses:			
Operating expenses	36.6	20.4	16.6
Merger & integration costs	-	1.6	-
Restructuring costs	3.9	-	-
Total expenses	40.5	22.0	16.6
<b>OPERATING INCOME</b>	<b>0.8</b>	<b>4.5</b>	<b>2.9</b>
Other income:			
Equity in earnings of unconsolidated affiliates	14.1	9.8	6.4
Other - net	11.9	19.4	10.8
Total other income	26.0	29.2	17.2
Interest expense	12.2	10.2	6.1
<b>INCOME BEFORE TAXES</b>	<b>14.6</b>	<b>23.5</b>	<b>14.0</b>
Income tax	(5.0)	0.7	0.6
Minority interest	0.6	1.1	0.9
Income before extraordinary loss	19.0	21.7	12.5
Extraordinary loss - net of tax	(7.7)	-	-
<b>NET INCOME, AS REPORTED</b>	<b>\$ 11.3</b>	<b>\$ 21.7</b>	<b>\$ 12.5</b>
Merger & integration costs - net of tax	-	1.0	-
Restructuring costs - net of tax	2.9	-	-
Gain on restructuring of a nonregulated investment - net of tax	-	(4.9)	-
Extraordinary loss - net of tax	7.7	-	-
<b>NET INCOME BEFORE NONRECURRING ITEMS</b>	<b>\$ 21.9</b>	<b>\$ 17.8</b>	<b>\$ 12.5</b>
<b>EARNINGS PER SHARE, AS REPORTED</b>	<b>\$ 0.17</b>	<b>\$ 0.35</b>	<b>\$ 0.20</b>
Merger & integration costs	-	0.02	-
Restructuring costs	0.04	-	-
Gain on restructuring of a nonregulated investment	-	(0.08)	-
Extraordinary loss	0.12	-	-
<b>EARNINGS PER SHARE BEFORE NONRECURRING ITEMS</b>	<b>\$ 0.33</b>	<b>\$ 0.29</b>	<b>\$ 0.20</b>

For 2001 compared to 2000, net income before nonrecurring items increased \$4.1 million primarily due to increased earnings from Energy Marketing and Services' investment in ProLiance and expanded coal mining operations, partially offset by losses incurred by Vectren Communication Services, Inc., a broadband construction and consulting company.



For 2000 compared to 1999, net income before the impact of nonrecurring items increased \$5.3 million primarily due to increases in income from Energy Marketing and Services' consolidated operations, and Coal Mining operations, and income from leveraged lease and notes receivable investments, offset by lower earnings from unconsolidated affiliates.

#### Energy Services & Other Revenues

Revenues from Vectren's non-utility operations (primarily the operating companies of its Energy Marketing and Services, excluding ProLiance which is reported as equity in earnings of unconsolidated affiliates, as described below, and Coal Mining groups) for the year ended December 31, 2001 were \$759.6 million, compared to \$493.5 million in 2000 and \$261.3 million in 1999. The significant increases over prior year amounts are primarily from Energy Marketing and Services' natural gas marketing operations resulting from higher prices for natural gas reflected in sales to its customers and increased volume.

#### Costs of Energy Services & Other

Cost of energy services and other increased \$251.4 million and \$227.0 million, respectively, for the years ended December 31, 2001 and 2000. These costs are primarily the cost of natural gas purchased for resale by Energy Marketing and Services' wholly owned gas marketing operations. The increases are primarily due to higher per unit purchased gas costs and growth in natural gas marketing sales.

#### Nonregulated Margin

Margin from nonregulated operations for the year ended December 31, 2001 was \$39.4 million compared to \$24.7 million, and \$19.5 million for the same periods in 2000 and 1999, respectively. The \$14.7 million increase in 2001 was primarily driven by expanded coal mining operations adding margin of \$14.2 million in 2001 and \$1.8 million in 2000. The Company's second mine began operations in the first quarter of 2001. The \$5.2 million increase in 2000 was primarily driven by the wholly owned and majority owned operations of the Energy Marketing and Services group reflecting the continued growth of its natural gas marketing operations and its performance contracting operations, including several large contracts in progress. The 2001 increase, however, was offset by a decrease in margin of \$7.9 million incurred by the Company's broadband construction and consulting operations.

#### Nonregulated Operating Expenses (excluding Costs of Energy Services & Other Revenues)

Nonregulated operating expenses consist of other operating expenses, depreciation and amortization, and taxes other than income taxes. For the years ended December 31, 2001 and 2000, nonregulated operating expenses increased \$16.2 million and \$3.8 million, respectively. Growth in both years is primarily attributable to continued growth at Energy Marketing and Services and Coal Mining. In addition, the 2001 increase was affected by increased uncollectible accounts expense of \$2.2 million in the natural gas marketing operations.

#### Nonregulated Other Income

##### Equity in Earnings of Unconsolidated Affiliates

For the year ended December 31, 2001, earnings from unconsolidated affiliates increased \$4.3 million compared to 2000; however, excluding the gain recognized in 2000 related to restructuring Broadband's investment in SIGECOM, LLC of \$8.0 million, earnings from unconsolidated investments increased \$12.3 million. The increase is due to increased earnings from Energy Marketing and Services' investment in ProLiance, an energy marketing joint venture, and a gain on the sale of one of Haddington Energy Partners, LP's (Haddington) investments. (See below for more information on ProLiance's earnings contribution.)

In March 2001, Haddington, an investment accounted for on the equity method and included in the Other Business group, sold its investment in Bear Paw Investments, LLC (Bear Paw) in exchange for a combination of cash and securities. The cost of Haddington's Bear Paw investment approximated \$5.1 million, and the net proceeds received totaled \$18.1 million, resulting in a gain of \$13.0 million. The Company recognized its portion of the pre-

tax gain, allocated per the terms of the partnership agreement, through equity in earnings of unconsolidated affiliates. The amount of the pre-tax gain recognized by the Company approximates \$3.9 million.

Equity in earnings of unconsolidated affiliates increased \$3.4 million for the year ended December 31, 2000, compared to the prior year. The increase in 2000 is due primarily to the \$8.0 million net gain related to the restructuring of Broadband's investment in SIGECOM. The increase was partially offset by lower pre-tax earnings recognized from ProLiance and lower other investment earnings.

#### *Other - Net*

Nonregulated other-net decreased \$7.5 million for the year ended December 31, 2001. The decreases are due to a \$2.3 million gain on the sale of a partial interest in an Energy Marketing and Services' investment and a \$1.1 million premium earned by the Other Business group for a loan guarantee, both occurring in the second quarter of 2000. The remaining decreases are due to fluctuations in interest income and less leveraged lease income as a result of the current year divestiture of those investments.

Nonregulated other-net increased \$8.6 million for the year ended December 31, 2000, compared to the prior year primarily due to increased interest income mainly from the Company's investments in structured finance and investment transactions, including leveraged leases.

#### Nonregulated Interest Expense

Nonregulated interest expense increased by \$2.0 million and \$4.1 million, respectively, for the years ended December 31, 2001 and 2000 when compared to the prior year. The increases were due primarily to increased debt to fund additional investments in nonregulated businesses.

#### Nonregulated Income Tax

Federal and state income taxes related to nonregulated operations decreased \$5.7 million for the year ended December 31, 2001 compared to the prior year. The decrease results from a lower effective tax rate offset by higher pre-tax earnings. The nonregulated group's effective tax rate was lowered due to the utilization of tax credits. For the year ended December 31, 2000 compared to 1999, income taxes were comparable.

#### Other Operating Matters

##### Acquisition of Miller Pipeline Corporation by Reliant Services, LLC

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

##### ProLiance Energy, LLC

ProLiance Energy, LLC (ProLiance), a nonregulated, energy marketing affiliate of Vectren, began providing natural gas and related services to Indiana Gas, Citizens Gas and Coke Utility (Citizens Gas), and others in April 1996. ProLiance also provides services to the Ohio operations. Effective in March 2001, the operating agreement between Vectren and Citizens Gas was modified to increase on a prospective basis Vectren's allocable share of profits and losses from 50% to 52.5%. The provisions of the operating agreement call for governance, including voting rights, to remain at 50% for each member. As governance of ProLiance remains equal between the

members, Vectren continues to account for its investment in ProLiance using the equity method of accounting. For the years ended December 31, 2001, 2000, and 1999, ProLiance's contribution to Vectren's pre-tax earnings was \$12.8 million, \$5.4 million, and \$6.1 million, respectively.

The sale of gas and provision of other services to Indiana Gas by ProLiance is subject to regulatory review through the quarterly GCA process administered by the IURC. On September 12, 1997, the IURC issued a decision finding the gas supply and portfolio administration agreements between ProLiance and Indiana Gas and ProLiance and Citizens Gas to be consistent with the public interest and that ProLiance is not subject to regulation by the IURC as a public utility. The IURC's decision reflected the significant gas cost savings to customers obtained through ProLiance's services and suggested that all material provisions of the agreements between ProLiance and the utilities are reasonable. Nevertheless, with respect to the pricing of gas commodity purchased from ProLiance, the price paid by ProLiance to the utilities for the prospect of using pipeline entitlements if and when they are not required to serve the utilities' firm customers, and the pricing of fees paid by the utilities to ProLiance for portfolio administration services, the IURC concluded that additional review in the GCA process would be appropriate and directed that these matters be considered further in the pending, consolidated GCA proceeding involving Indiana Gas and Citizens Gas.

The IURC has recently commenced the processing of the further GCA proceeding regarding the three pricing issues. The IURC has indicated that it will also consider the prospective relationship of ProLiance with the utilities in this proceeding. Discovery is ongoing in this proceeding, and an evidentiary hearing is scheduled for May 2002. Until the issues reserved by the IURC are resolved, Vectren will continue to reserve a portion of its share of ProLiance earnings.

In August 1998, Indiana Gas, Citizens Gas and ProLiance each received a Civil Investigative Demand (CID) from the United States Department of Justice requesting information relating to Indiana Gas' and Citizens Gas' relationships with and the activities of ProLiance. The Department of Justice issued the CID to gather information regarding ProLiance's formation and operations, and to determine if trade or commerce has been restrained. In October 2001, the Antitrust Division of the Department of Justice informed the Company that it closed the investigation without further action.

#### Utilicom Networks, LLC & Related Entities

Utilicom Networks, LLC (Utilicom) is a provider of bundled communication services through high capacity broadband networks, including cable television, high-speed Internet, and local and long distance telephone services. The Company has a 14% interest in Class A units of Utilicom, which is accounted for using the equity method of accounting. The company also has a minority interest in SIGECOM Holdings, Inc. (Holdings), which was formed by Utilicom to hold the interests in SIGECOM, LLC (SIGECOM). The Company accounts for its investment in Holdings on the cost method. SIGECOM provides broadband services to the greater Evansville, Indiana, area. Utilicom plans to provide broadband services to the greater Indianapolis, Indiana, and Dayton, Ohio, markets.

The Company's investment in Utilicom and related entities are subject to risks common in companies in developing industries, including, but not limited to, and evolving and unpredictable business model, development of new technological innovations, customer acceptance of new solutions and services, dependence on key personnel, and a limited operating history.

In December 2000, Utilicom announced plans to raise \$600.0 million in capital to establish separate operating ventures in Indianapolis and Dayton and to recapitalize SIGECOM. The Company has committed to invest up to a total of \$100.0 million in Utilicom and the Indianapolis and Dayton ventures subject to Utilicom obtaining commitments for the entire \$600.0 million of anticipated funding. The Company's investments may take the form of convertible subordinated debt or common equity. At December 31, 2001, the remaining commitment is \$86.5 million.

At December 31, 2001, the Company has \$24.8 million of notes receivable from Utilicom-related entities which are convertible into equity interests. Notes receivable totaling \$22.9 million are convertible into Class A units of

Utilicom at the Company's option or upon the event of a public offering of stock by Utilicom and \$1.9 million are convertible into common equity interests in the Indianapolis and Dayton ventures at the Company's option. Upon conversion, the Company would have up to a 12% interest in Utilicom, assuming completion of all required funding and up to a 31% interest in the Indianapolis and Dayton ventures. Investments in convertible notes receivable are included in other investments.

In July 2001, Utilicom announced a delay in funding of the Indianapolis and Dayton projects. This delay, with which Company management agrees, is due to the current environment within the telecommunication capital markets, which has prevented Utilicom from obtaining debt financing on terms it considers acceptable. While the existing investors are still committed to the Indianapolis and Dayton markets, the Company is not required to and does not intend to proceed unless the Indianapolis and Dayton projects are fully funded. This delay necessitated and resulted in the extension of the franchising agreements into the third quarter of 2002.

At December 31, 2001 and 2000, the Company's combined investment in equity and debt securities of Utilicom-related entities totaled \$39.3 million and \$32.5 million, respectively.

### **Significant Accounting Policies**

As described in Note 2 to the consolidated financial statements, significant accounting policies include the following:

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

#### **Utility Plant & Depreciation**

Utility plant is stated at historical cost, including an allowance for the cost of funds used during construction (AFUDC). Depreciation of utility property is provided using the straight-line method over the estimated service lives of the depreciable assets. AFUDC represents the cost of borrowed and equity funds used for construction purposes and is charged to construction work in progress during the construction period and is included in other – net in the Consolidated Statements of Income. Maintenance and repairs, including the cost of removal of minor items of property and planned major maintenance projects, are charged to expense as incurred. When property that represents a retirement unit is replaced or removed, the cost of such property is credited to utility plant, and such cost, together with the cost of removal less salvage, is charged to accumulated depreciation.

#### **Impairment Review of Long-Lived Assets**

Long-lived assets are reviewed for impairment in accordance with SFAS No. 121, "Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" as facts and circumstances indicate that the carrying amount may be impaired. Specifically, the evaluation for impairment involves the comparison of an asset's carrying value to the estimated future cash flows the asset is expected to generate over its remaining life. If this evaluation were to conclude that the carrying value of the asset is impaired, an impairment charge would be recorded as a charge to operations based on the difference between the asset's carrying amount and its fair value. The same policy is currently utilized for goodwill.

#### **Investments in Unconsolidated Affiliates**

Investments in unconsolidated affiliates where the Company has significant influence are accounted for using the equity method of accounting. The Company's share of net income or loss from these investments is recorded in equity in earnings of unconsolidated affiliates. Dividends are recorded as a reduction of the carrying value of the investment when received. Investments in unconsolidated affiliates where the Company does not have significant

influence are accounted for at cost less write-downs for declines in value judged to be other than temporary. Dividends are recorded as other-net when received.

#### Regulation

Retail public utility operations affecting Indiana customers are subject to regulation by the Indiana Utility Regulatory Commission (IURC), and retail public utility operations affecting Ohio customers are subject to regulation by the Public Utilities Commission of Ohio (PUCO). The Company's wholesale energy transactions are subject to regulation by the Federal Energy Regulatory Commission (FERC).

#### SFAS 71

The Company's accounting policies give recognition to the rate-making and accounting practices of these agencies and to accounting principles generally accepted in the United States, including the provisions of SFAS No. 71 "Accounting for the Effects of Certain Types of Regulation" (SFAS 71). Regulatory assets represent probable future revenues associated with certain incurred costs, which will be recovered from customers through the rate-making process. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are to be credited to customers through the rate-making process.

The Company continually assesses the recoverability of costs recognized as regulatory assets and the ability to continue to account for its activities in accordance with SFAS 71, based on the criteria set forth in SFAS 71. Based on current regulation, the Company believes such accounting is appropriate. If all or part of the Company's operations cease to meet the criteria of SFAS 71, a write-off of related regulatory assets and liabilities could be required. In addition, the Company would be required to determine any impairment to the carrying costs of deregulated plant and inventory assets.

#### Refundable or Recoverable Gas Costs, Fuel for Electric Production & Purchased Power

All metered gas rates contain a gas cost adjustment clause that allows the Company to charge for changes in the cost of purchased gas. Metered electric rates typically contain a fuel adjustment clause that allows for adjustment in charges for electric energy to reflect changes in the cost of fuel and the net energy cost of purchased power. Metered electric rates also allow recovery, through a quarterly rate adjustment mechanism, for the margin on electric sales lost due to the implementation of demand side management programs.

The Company records any under-or-over-recovery resulting from gas and fuel adjustment clauses each month in revenues. A corresponding asset or liability is recorded until the under-or-over-recovery is billed or refunded to utility customers. The cost of gas sold is charged to operating expense as delivered to customers, and the cost of fuel for electric generation is charged to operating expense when consumed.

#### Revenues

Revenues are recorded as products and services are delivered to customers. To more closely match revenues and expenses, the Company records revenues for all gas and electricity delivered to customers but not billed at the end of the accounting period.

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

#### SFAS 141 & 142

The FASB issued two new statements of financial accounting standards in July 2001: SFAS No. 141, "Business Combinations" (SFAS 141), and SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). These interrelated standards change the accounting for business combinations and goodwill in two significant ways:

SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Use of the pooling-of-interests method is prohibited. This change does not affect the pooling-of-interest transaction forming Vectren.

SFAS 142 changes the accounting for goodwill from an amortization approach to an impairment-only approach. Thus, amortization of goodwill that is not included as an allowable cost for rate-making purposes will cease upon adoption of the statement. This includes goodwill recorded in past business combinations, such as the Company's acquisition of the Ohio operations. Goodwill is to be tested for impairment at a reporting unit level at least annually.

SFAS 142 also requires the initial impairment review of all goodwill and other intangible assets within six months of the adoption date, which is January 1, 2002 for the Company. The impairment review consists of a comparison of the fair value of a reporting unit to its carrying amount. If the fair value of a reporting unit is less than its carrying amount, an impairment loss would be recognized. Results of the initial impairment review are to be treated as a change in accounting principle in accordance with APB Opinion No. 20 "Accounting Changes." An impairment loss recognized as a result of an impairment test occurring after the initial impairment review is to be reported as a part of operations.

SFAS 142 also changes certain aspects of accounting for intangible assets; however, the Company does not have any significant intangible assets.

The adoption of SFAS 141 will not materially impact operations. As required by SFAS 142, amortization of goodwill relating to the acquisition of the Ohio operations, which approximates \$5.0 million per year, will cease on January 1, 2002. Initial impairment reviews to be performed within six months of adoption of SFAS 142 are not expected to have a significant impact to operations.

#### SFAS 143

In July 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS 143). SFAS 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes the cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. SFAS 143 is effective for fiscal years beginning after June 15, 2002, with earlier application encouraged. The Company is currently evaluating the impact that SFAS 143 will have on its operations.

#### SFAS 144

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144). SFAS 144 develops one accounting model for all impaired long-lived assets and long-lived assets to be disposed of. SFAS 144 replaces the existing authoritative guidance in FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and certain aspects of APB Opinion No. 30, "Reporting Results of Operations-Reporting the Effects of Disposal of a Segment of a Business."

This new accounting model retains the framework of SFAS 121 and requires that those impaired long-lived assets and long-lived assets to be disposed of be measured at the lower of carrying amount or fair value (less cost to sell for assets to be disposed of), whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred.

SFAS 144 also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction.

SFAS 144 is effective for fiscal years beginning after December 15, 2001, with earlier application encouraged. The Company is evaluating the impact SFAS 144 will have on its operations.

### **Financial Condition**

The Company's equity capitalization objective is 40-50% of total capitalization. This objective may have varied, and will vary, depending on particular business opportunities and seasonal factors that affect the Company's operation. The Company's equity component was 45% and 51% of total capitalization, including current maturities of long-term debt and long-term debt subject to tender, at December 31, 2001 and 2000, respectively.

Short-term cash working capital is required primarily to finance customer accounts receivable, unbilled utility revenues resulting from cycle billing, gas in underground storage, prepaid gas delivery services, capital expenditures, and investments until permanently financed. Short-term borrowings tend to be greatest during the summer when accounts receivable and unbilled utility revenues related to electricity are highest and gas storage facilities are being refilled. However, working capital requirements have been significantly higher throughout 2001 due to the extraordinarily high natural gas costs early in 2001 and the acquisition of the Ohio operations, initially funded with short-term borrowings.

The Company expects the majority of its capital expenditures and debt security redemptions to be provided by internally generated funds; however, additional financing may be required due to the possible early redemption of debt at Indiana Gas and significant capital expenditures for NOx compliance equipment at SIGECO.

VUHI's and Indiana Gas' credit ratings on outstanding senior unsecured debt at December 31, 2001 are A-/A2. SIGECO's credit ratings on outstanding secured debt at December 31, 2001 are A-/A1. VUHI's commercial paper has a credit rating of A-2/P-1. Vectren Capital Corp. debt is rated BBB+ by Standard & Poor's.

### **Cash Flow From Operations**

The Company's primary source of liquidity to fund working capital requirements has been cash generated from operations, which totaled approximately \$183.5 million, \$40.7 million, and \$149.2 million, for the years ended December 31, 2001, 2000, and 1999, respectively.

Cash flow from operations increased during the year ended December 31, 2001 compared to 2000 by \$142.8 million due primarily to favorable changes in working capital accounts due to the normalization of gas prices.

Cash from operations decreased during 2000 as compared to 1999 by approximately \$108.5 million. The decrease is primarily attributable to merger and integration costs causing lower net income, increased recoverable fuel and natural gas costs, and increased working capital requirements resulting from higher natural gas costs.

### **Financing Activities**

#### **Sources & Uses of Liquidity**

At December 31, 2001, the Company has \$540.0 million of short-term borrowing capacity, including \$360.0 million for its regulated operations and \$180.0 million for its nonregulated operations, of which \$85.8 million is available for regulated operations and \$62.5 million is available for nonregulated operations. Included in regulated capacity is VUHI's credit facility, which was renewed in June 2001 and extended through June 2002. As part of the renewal, the facility's capacity was decreased from \$435.0 million to \$350.0 million. Indiana Gas' \$155.0 million commercial paper program expired in 2001 and was not required and, therefore, not renewed.

During the five-year period 2002-2006, maturities and sinking fund requirements on long-term debt subject to mandatory redemption (in millions) are \$1.3 in 2002, \$17.3 in 2003, \$16.3 in 2004, \$39.3 in 2005, and \$1.3 in 2006. Also during the five-year period 2002-2006, exercisable put provisions on long-term debt (in millions) are \$11.5 in 2002, \$3.5 in 2004, \$10.0 in 2005 and \$53.7 in 2006.

At December 31, 2001, \$113.0 million of Vectren Capital senior unsecured notes and \$98.3 million of Vectren Capital bank loans, which as a result of certain terms including cross-defaults and ratings triggers, would provide that the full balance outstanding is subject to prepayment if the ratings of Indiana Gas and SIGECO declined to BBB/Baa2 or the ratings of Vectren Capital declined to BB+/Ba1. At December 31, 2001, \$273.3 million of commercial paper was supported by the VUHI facility whereby VUHI must maintain a rating of better than BB+/Ba1.

#### Financing Cash Flow

Cash flow required for financing activities of \$2.6 million for the year ended December 31, 2001 includes \$41.8 million of reductions in net borrowings and \$69.5 million in common stock dividends, offset by the issuance of \$129.4 million of common stock. During 2001, \$344.0 million of net proceeds from long-term debt issuances was utilized to pay down short-term borrowings.

Cash flow provided by financing activities of \$638.7 million for the year ended December 31, 2000 includes \$694.3 million of additional net borrowings offset by \$60.0 million of dividends on shares of common stock. This is an increase of \$576.6 million over the prior year due primarily to funding the acquisition of the Ohio operations and increased working capital requirements.

#### *Financing the Ohio Operations Purchase*

On October 31, 2000, the acquisition of the Ohio operations was completed for a purchase price of approximately \$465.0 million. Commercial paper and \$150.0 million in floating rate notes were issued to fund the purchase. The floating rate notes' interest rate was equal to the three-month US dollar LIBOR rate plus 0.75%. Concurrent with the completion of this financing, an interest rate swap was executed which in effect resulted in a fixed rate of 6.64%. During 2001, the Company has refinanced these interim borrowing arrangements with permanent financing in the form of new equity and long-term debt.

In January 2001, the Company filed a registration statement with the Securities and Exchange Commission with respect to a public offering of 5.5 million shares of new common stock. In February 2001, the registration became effective, and an agreement was reached to sell approximately 6.3 million shares (the original 5.5 million shares, plus an over-allotment option of 0.8 million shares) to a group of underwriters. The net proceeds from the sale of common stock totaled \$129.4 million.

In September 2001, VUHI filed a shelf registration statement with the Securities and Exchange Commission with respect to a public offering of \$350.0 million aggregate principal amount of unsecured senior notes, guaranteed jointly and severally by SIGECO, Indiana Gas, and VEDO. In October 2001, VUHI issued senior unsecured notes with an aggregate principal amount of \$100.0 million and an interest rate of 7.25%, and in December 2001, issued the remaining aggregate principal amount of \$250.0 million at an interest rate of 6.625% (the December Notes). The December Notes were priced at 99.302% to yield 6.69% to maturity. The net proceeds from the sale of the senior notes and settlement of hedging arrangements totaled \$344.0 million.

#### *Other Financing Transactions*

In September 2001, the Company notified holders of SIGECO's 4.80%, 4.75%, and 6.50% preferred stock of its intention to redeem the shares. The 4.80% preferred stock was redeemed at \$110.00 per share, plus \$1.35 per share in accrued and unpaid dividends. Prior to the redemption, there were 85,519 shares outstanding. The 4.75% preferred stock was redeemed at \$101.00 per share, plus \$0.97 per share in accrued and unpaid dividends. Prior to the redemption, there were 3,000 shares outstanding. The 6.50% preferred stock was redeemed at \$104.23 per share, plus \$0.73 per share in accrued and unpaid dividends. Prior to the redemption, there were 75,000 shares outstanding. The total redemption price was \$17.7 million.

The Company has \$31.5 million of adjustable rate pollution control series first mortgage bonds and \$22.2 million of adjustable rate pollution control series unsecured senior notes which could, at the election of the bondholder, be tendered to the Company when interest rates are reset. Prior to the latest reset on March 1, 2001, the interest rates were reset annually, and the bonds were presented as current liabilities. Effective March 1, 2001, the bonds were



reset for a five-year period and have been classified as long-term debt.

In December 2000, Vectren Capital Corp., a wholly owned consolidated subsidiary that provides financing for the Company's nonregulated operations and investments, issued \$78.0 million of private placement unsecured senior notes to three institutional investors. The issues and terms are \$38.0 million at 7.67%, due December 2005; \$17.5 million at 7.83%, due December 2007; and \$22.5 million at 7.98%, due December 2010. The issues have no sinking fund requirements. The net proceeds totaling \$77.4 million were used to repay outstanding short-term borrowings.

In December 2000, \$20.0 million of 15-Year Insured Quarterly (IQ) Notes at an interest rate of 7.15% and \$50.0 million of 30-Year IQ Notes at an interest rate of 7.45% were issued. Indiana Gas has the option to redeem the 15-Year IQ Notes, in whole or in part, from time to time on or after December 15, 2004 and the option to redeem the 30-Year IQ Notes in whole or in part, from time to time on or after December 15, 2005. The IQ notes have no sinking fund requirements. The net proceeds totaling \$67.9 million were used to repay outstanding commercial paper utilized for general corporate purposes.

#### **Capital Expenditures, Other Investment Activities, Guarantees, & Other Commitments**

Cash required for investing activities of \$168.9 million for the year ended December 31, 2001 includes \$235.3 million of requirements for capital expenditures and proceeds from the sale of leveraged leases of \$53.8 million. Investing activities for the years ended December 31, 2000 and 1999 were \$681.6 million and \$201.3 million, respectively. The \$480.3 million increase occurring in 2000 is principally the result of the \$463.3 million acquisition of the Ohio operations and additional capital expenditures for coal mining development costs.

#### **Planned Capital Expenditures & Investments**

New construction, normal system maintenance and improvements, and information technology investments needed to provide service to a growing customer base will continue to require substantial expenditures. Additionally, during the three-year period 2002-2004, construction costs for NOx emissions control equipment are estimated to total between \$150.0 million and \$170.0 million and additional generation is planned. The Company's anticipated investments in unconsolidated affiliates during the next five years will also require funding. Capital expenditures and investments in unconsolidated affiliates for the five year period 2002 - 2006 are estimated as follows:

In millions	2002	2003	2004	2005	2006
<b>Capital expenditures</b>					
Regulated (1)	\$ 165.7	\$ 234.3	\$ 134.4	\$ 119.4	\$ 150.8
Nonregulated	20.6	8.9	13.5	7.4	13.9
Corporate & other	25.4	32.2	13.5	8.7	5.3
<b>Total capital expenditures</b>	<b>\$ 211.7</b>	<b>\$ 275.4</b>	<b>\$ 161.4</b>	<b>\$ 135.5</b>	<b>\$ 170.0</b>
<b>Investments in unconsolidated affiliates</b>	<b>\$ 13.8</b>	<b>\$ 55.5</b>	<b>\$ 33.8</b>	<b>\$ 31.3</b>	<b>\$ 11.5</b>

(1) Includes expenditures for NOx compliance of approximately \$35.9 million in 2002, \$101.3 million in 2003 and \$15.1 million in 2004.

#### **Guarantees & Other Commitments**

##### **Guarantees**

The Company is party to financial guarantees with off-balance sheet risk. These guarantees include debt guarantees and performance guarantees, including the debt of and performance of energy efficiency products installed by affiliated companies. The Company estimates these guarantees totaled \$114.6 million at December 31, 2001. Of

that amount, \$82.9 million relates to the Company's guarantee of Energy Systems Group, LLC's (ESG) surety bonds and performance guarantees. ESG is a two-thirds owned consolidated subsidiary.

Specific to the ESG guarantees, the Company is obligated for amounts due to various insurance companies for surety bonds should ESG default on obligations to complete construction, pay vendors or subcontractors, and achieve energy guarantees. Through December 31, 2001, the Company has not been called upon to satisfy any obligations pursuant to the guarantees.

#### Rental Commitments

Future minimum lease payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year during the five years following 2001 and thereafter (in millions) are \$4.4 in 2002, \$4.5 in 2003, \$3.9 in 2004, \$3.0 in 2005, \$3.0 in 2006 and \$5.6 thereafter. Total lease expense (in millions) was \$6.2 in 2001, \$3.4 in 2000 and \$2.7 in 1999.

#### Forward-Looking Information

A "safe harbor" for forward-looking statements is provided by the Private Securities Litigation Reform Act of 1995 (Reform Act of 1995). The Reform Act of 1995 was adopted to encourage such forward-looking statements without the threat of litigation, provided those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause the actual results to differ materially from those projected in the statement. Certain matters described in Management's Discussion and Analysis of Results of Operations and Financial Condition, including, but not limited to Vectren's realization of net merger savings and ProLiance, are forward-looking statements. Such statements are based on management's beliefs, as well as assumptions made by and information currently available to management. When used in this filing, the words "believe," "anticipate," "endeavor," "estimate," "expect," "objective," "projection," "forecast," "goal," and similar expressions are intended to identify forward-looking statements. In addition to any assumptions and other factors referred to specifically in connection with such forward-looking statements, factors that could cause the Company's actual results to differ materially from those contemplated in any forward-looking statements included, among others, the following:

- Factors affecting utility operations such as unusual weather conditions; catastrophic weather-related damage; unusual maintenance or repairs; unanticipated changes to fossil fuel costs; unanticipated changes to gas supply costs, or availability due to higher demand, shortages, transportation problems or other developments; environmental or pipeline incidents; transmission or distribution incidents; unanticipated changes to electric energy supply costs, or availability due to demand, shortages, transmission problems or other developments; or electric transmission or gas pipeline system constraints.
- Increased competition in the energy environment including effects of industry restructuring and unbundling.
- Regulatory factors such as unanticipated changes in rate-setting policies or procedures, recovery of investments and costs made under traditional regulation, and the frequency and timing of rate increases.
- Financial or regulatory accounting principles or policies imposed by the Financial Accounting Standards Board, the Securities and Exchange Commission, the Federal Energy Regulatory Commission, state public utility commissions, state entities which regulate natural gas transmission, gathering and processing, and similar entities with regulatory oversight.
- Economic conditions including the effects of an economic downturn, inflation rates, and monetary fluctuations.

- Changing market conditions and a variety of other factors associated with physical energy and financial trading activities including, but not limited to, price, basis, credit, liquidity, volatility, capacity, interest rate, and warranty risks.
- Availability or cost of capital, resulting from changes in the Company, including its security ratings, changes in interest rates, and/or changes in market perceptions of the utility industry and other energy-related industries.
- Employee workforce factors including changes in key executives, collective bargaining agreements with union employees, or work stoppages.
- Legal and regulatory delays and other obstacles associated with mergers, acquisitions, and investments in joint ventures.
- Costs and other effects of legal and administrative proceedings, settlements, investigations, claims, and other matters, including, but not limited to, those described in Management's Discussion and Analysis of Results of Operations and Financial Condition.
- Changes in federal, state or local legislature requirements, such as changes in tax laws or rates, environmental laws and regulations.

The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of changes in actual results, changes in assumptions, or other factors affecting such statements.

#### **ITEM 7A. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company is exposed to market risks associated with commodity prices, interest rates, and counter-party credit. These financial exposures are monitored and managed by the Company as an integral part of its overall risk management program.

*Commodity Price Risk* The Company's regulated operations have limited exposure to commodity price risk for purchases and sales of natural gas and electric energy for its retail customers due to current Indiana and Ohio regulations, which subject to compliance with applicable state regulations, allow for recovery of such purchases through natural gas and fuel cost adjustment mechanisms.

The Company does engage in limited wholesale power marketing and other marketing activities that may expose it to commodity price risk associated with fluctuating electric power, natural gas, and coal commodity prices.

The Company's wholesale power marketing activities manage the utilization of its available electric generating capacity. The Company's other commodity marketing activities purchase and sell natural gas and coal to meet customer demands. These operations enter into forward contracts that commit the Company to purchase and sell commodities in the future.

Commodity price risk results from forward sales contracts that commit the Company to deliver commodities on specified future dates. Power marketing uses planned unutilized generation capability and forward purchase contracts to protect certain sales transactions from unanticipated fluctuations in the price of electric power, and periodically, will use derivative financial instruments to protect its interests from unplanned outages and shifts in demand. Additionally, other commodity marketing activities use stored inventory and forward purchase contracts to protect certain sales transactions from unanticipated fluctuations in commodity prices.

Open positions in terms of price, volume and specified delivery points may occur to a limited extent and are managed using methods described above and frequent management reporting.

Market risk is measured by management as the potential impact on pre-tax earnings resulting from a 10% adverse change in the forward price of commodity prices on market sensitive financial instruments (all contracts not expected to be settled by physical receipt or delivery). For the year ended December 31, 2001, a 10% adverse change in the forward prices of electricity and natural gas on market sensitive financial instruments would have decreased pre-tax earnings by approximately \$2.0 million.

Commodity Price Risk from Unconsolidated Affiliate. ProLiance Energy, LLC (ProLiance), a nonregulated, energy marketing affiliate, engages in energy hedging activities to manage pricing decisions, minimize the risk of price volatility, and minimize price risk exposure in the energy markets. ProLiance's market exposure arises from storage inventory, imbalances, and fixed-price forward purchase and sale contracts, which are entered into to support ProLiance's operating activities. Currently, ProLiance buys and sells physical commodities and utilizes financial instruments to hedge its market exposure. However, net open positions in terms of price, volume and specified delivery point do occur. ProLiance manages open positions with policies which limit its exposure to market risk and require reporting potential financial exposure to its management and its members. As a result of ProLiance's risk management policies, management believes that ProLiance's exposure to market risk will not result in material earnings or cash flow loss to the Company.

Interest Rate Risk. The Company is exposed to interest rate risk associated with its adjustable rate borrowing arrangements. Its risk management program seeks to reduce the potentially adverse effects that market volatility may have on operations.

Under normal circumstances, the Company tries to limit the amount of adjustable rate borrowing arrangements exposed to short-term interest rate volatility to a maximum of 25% of total debt. However, there are times when this targeted level of interest rate exposure may be exceeded. To manage this exposure, the Company may periodically use derivative financial instruments to reduce earnings fluctuations caused by interest rate volatility.

At December 31, 2001, such obligations represented 29% of the Company's total debt portfolio, due primarily to financing the increased working capital requirements resulting from extraordinarily high gas costs experienced during the 2000 - 2001 heating season.

Market risk is estimated as the potential impact resulting from fluctuations in interest rates on adjustable rate borrowing arrangements exposed to short-term interest rate volatility including bank notes, lines of credit, commercial paper, and certain adjustable rate long-term debt instruments. At December 31, 2001 and 2000, the combined borrowings under these facilities totaled \$404.2 million and \$782.4 million, respectively. Based upon average borrowing rates under these facilities during the years ended December 31, 2001 and 2000, an increase of 100 basis points (1%) in the rates would have increased interest expense by \$6.2 million and \$3.4 million, respectively.

Other Risks By using forward purchase contracts and derivative financial instruments to manage risk, the Company exposes itself to counter-party credit risk and market risk. The Company manages this exposure to counter-party credit risk by entering into contracts with financially sound companies that can be expected to fully perform under the terms of the contract. The Company attempts to manage exposure to market risk associated with commodity contracts and interest rates by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. As of December 31, 2001, the Company has a net receivable from Enron Corp. of approximately \$1.0 million, which has been fully reserved.

The Company's customer receivables from gas and electric sales and gas transportation services are primarily derived from a diversified base of residential, commercial, and industrial customers located in Indiana and west central Ohio. The Company manages credit risk associated with its receivables by continually reviewing creditworthiness and requests cash deposits based on that review. Credit risk associated with certain investments is also managed by a review of creditworthiness and receipt of collateral.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

### **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS**

The management of Vectren Corporation is responsible for the preparation of the consolidated financial statements and the related financial data contained in this report. The financial statements are prepared in conformity with accounting principles generally accepted in the United States and follow accounting policies and principles applicable to regulated public utilities.

The integrity and objectivity of the data in this report, including required estimates and judgments, are the responsibilities of management. Management maintains a system of internal control and utilizes an internal auditing program to provide reasonable assurance of compliance with company policies and procedures and the safeguard of assets.

The board of directors pursues its responsibility for these financial statements through its audit committee, which meets periodically with management, the internal auditors and the independent auditors, to assure that each is carrying out its responsibilities. Both the internal auditors and the independent auditors meet with the audit committee of Vectren Corporation's board of directors, with and without management representatives present, to discuss the scope and results of their audits, their comments on the adequacy of internal accounting control and the quality of financial reporting.

/s/ Niel C. Ellerbrook  
Niel C. Ellerbrook  
Chairman & Chief Executive Officer  
January 24, 2002.

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders and Board of Directors of Vectren Corporation:

We have audited the accompanying consolidated balance sheets of Vectren Corporation (an Indiana corporation) and subsidiary companies as of December 31, 2001 and 2000, and the related consolidated statements of income, common shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Vectren Corporation and subsidiary companies as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 16 to the consolidated financial statements, effective January 1, 2001, the Company changed its method of accounting for derivative instruments and hedging activities.

/S/ Arthur Andersen LLP  
Arthur Andersen LLP

Indianapolis, Indiana,  
January 24, 2002.

VECTREN CORPORATION AND SUBSIDIARY COMPANIES  
CONSOLIDATED BALANCE SHEETS  
(In millions)

	At December 31,	
	2001	2000
<b>ASSETS</b>		
Current Assets		
Cash & cash equivalents	\$ 27.2	\$ 15.2
Accounts receivable-less reserves of \$5.9 & \$5.7, respectively	213.8	295.4
Accrued unbilled revenues	78.4	143.4
Inventories	71.4	95.2
Recoverable fuel & natural gas costs	76.5	96.1
Prepayments & other current assets	103.4	62.3
Total current assets	570.7	707.6
Utility Plant		
Original cost	2,903.2	2,788.8
Less: accumulated depreciation & amortization	1,308.2	1,233.0
Net utility plant	1,595.0	1,555.8
Investments in unconsolidated affiliates	127.7	108.6
Other investments	100.3	171.5
Non-utility property-net	181.7	104.4
Goodwill-net	193.1	198.0
Regulatory assets	61.4	56.3
Other assets	26.9	24.1
<b>TOTAL ASSETS</b>	<b>\$ 2,856.8</b>	<b>\$ 2,926.3</b>

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

VECTREN CORPORATION AND SUBSIDIARY COMPANIES  
CONSOLIDATED BALANCE SHEETS  
(In millions)

	At December 31,	
	2001	2000
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>		
Current Liabilities		
Accounts payable	\$ 144.4	\$ 153.5
Accounts payable to affiliated companies	37.2	150.4
Accrued liabilities	101.4	106.2
Short-term borrowings	381.7	609.9
Notes payable, 6.64%	-	150.0
Long-term debt subject to tender	11.5	53.7
Current maturities of long-term debt	1.3	0.2
Total current liabilities	677.5	1,223.9
Deferred Income Taxes & Other Liabilities		
Deferred income taxes	206.7	221.1
Deferred credits & other liabilities	108.1	99.2
Total deferred credits & other liabilities	314.8	320.3
Commitments & Contingencies (Notes 4, 13-15)		
Minority Interest in Subsidiary	1.4	1.4
Capitalization		
Long-term debt-net of current maturities and debt subject to tender	1,014.0	632.0
Cumulative preferred stock of subsidiary		
Redeemable	0.5	8.1
Nonredeemable	-	8.9
Total preferred stock of subsidiary	0.5	17.0
Common shareholders' equity		
Common stock (no par value) - issued & outstanding		
67.7 and 61.4, respectively	346.1	217.8
Retained earnings	498.3	506.4
Accumulated other comprehensive income	4.2	7.5
Total common shareholders' equity	848.6	731.7
Total capitalization	1,863.1	1,380.7
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>	<b>\$ 2,856.8</b>	<b>\$ 2,926.3</b>

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



**VECTREN CORPORATION AND SUBSIDIARY COMPANIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(In millions, except per share amounts)

	Year Ended December 31,		
	2001	2000	1999
<b>OPERATING REVENUES</b>			
Gas utility	\$ 1,031.5	\$ 818.8	\$ 499.6
Electric utility	378.9	336.4	307.5
Energy services & other	759.6	493.5	261.3
Total operating revenues	2,170.0	1,648.7	1,068.4
<b>OPERATING EXPENSES</b>			
Cost of gas sold	708.2	552.5	266.4
Fuel for electric generation	74.4	75.7	72.2
Purchased electric energy	91.7	36.4	20.8
Cost of energy services & other	720.2	468.8	241.8
Other operating	236.9	199.4	189.5
Merger & integration costs	2.8	41.1	-
Restructuring costs	19.0	-	-
Depreciation & amortization	123.7	105.7	87.0
Taxes other than income taxes	53.5	38.0	29.9
Total operating expenses	2,030.4	1,517.6	907.6
<b>OPERATING INCOME</b>	139.6	131.1	160.8
<b>OTHER INCOME</b>			
Equity in earnings of unconsolidated affiliates	14.1	9.8	6.4
Other - net	16.3	23.7	14.1
Total other income	30.4	33.5	20.5
Interest expense	82.6	56.4	42.9
<b>INCOME BEFORE INCOME TAXES</b>	87.4	108.2	138.4
Income taxes	18.6	34.2	45.7
Minority interest in subsidiary	0.6	1.0	0.9
Preferred dividend requirement of subsidiary	0.8	1.0	1.1
<b>INCOME BEFORE EXTRAORDINARY LOSS &amp; CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE</b>	67.4	72.0	90.7
Extraordinary loss - net of tax	(7.7)	-	-
Cumulative effect of change in accounting principle - net of tax	3.9	-	-
<b>NET INCOME</b>	\$ 63.6	\$ 72.0	\$ 90.7
<b>AVERAGE COMMON SHARES OUTSTANDING</b>	66.7	61.3	61.3
<b>DILUTED COMMON SHARES OUTSTANDING</b>	66.9	61.4	61.4
<b>EARNINGS PER SHARE OF COMMON STOCK:</b>			
<b>BASIC</b>			
INCOME BEFORE EXTRAORDINARY LOSS & CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	\$ 1.01	\$ 1.18	\$ 1.48
Extraordinary loss - net of tax	(0.12)	-	-
Cumulative effect of change in accounting principle - net of tax	0.06	-	-
<b>BASIC EARNINGS PER SHARE OF COMMON STOCK</b>	\$ 0.95	\$ 1.18	\$ 1.48
<b>DILUTED</b>			
INCOME BEFORE EXTRAORDINARY LOSS & CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	\$ 1.01	\$ 1.17	\$ 1.48
Extraordinary loss - net of tax	(0.12)	-	-
Cumulative effect of change in accounting principle - net of tax	0.06	-	-
<b>DILUTED EARNINGS PER SHARE OF COMMON STOCK</b>	\$ 0.95	\$ 1.17	\$ 1.48

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

**VECTREN CORPORATION AND SUBSIDIARY COMPANIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In millions)

	Year Ended December 31,		
	2001	2000	1999
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 63.6	\$ 72.0	\$ 90.7
Adjustments to reconcile net income to cash from operating activities:			
Depreciation & amortization	123.7	105.7	87.0
Deferred income taxes & investment tax credits	9.8	(5.8)	7.3
Equity in earnings of unconsolidated affiliates	(14.1)	(9.8)	(6.4)
Net unrealized gain on derivative instruments, including cumulative effect of change in accounting principle	(3.1)	-	-
Extraordinary loss on sale of leveraged leases - net of tax	7.7	-	-
Other non-cash charges- net	20.8	9.4	11.5
Changes in assets and liabilities:			
Accounts receivable & accrued unbilled revenue	128.4	(255.8)	(23.6)
Inventories	23.9	17.8	7.8
Recoverable fuel & natural gas costs	19.6	(82.3)	0.3
Prepayments & other current assets	(40.5)	(3.4)	(28.7)
Regulatory assets	(1.5)	(1.2)	3.0
Accounts payable, including to affiliated companies	(122.2)	208.2	11.7
Accrued liabilities	(29.7)	(2.4)	3.4
Other noncurrent assets & liabilities	(2.9)	(11.7)	(14.8)
<b>Total adjustments</b>	<b>119.9</b>	<b>(31.3)</b>	<b>58.5</b>
<b>Net cash flows from operating activities</b>	<b>183.5</b>	<b>40.7</b>	<b>149.2</b>
<b>CASH FLOWS (REQUIRED FOR) FROM FINANCING ACTIVITIES</b>			
Proceeds from:			
Long-term debt - net of issuance costs	344.0	145.3	108.5
Issuance of common stock - net of issuance costs	129.4	-	-
Short-term notes payable	-	150.0	-
Requirements for:			
Retirement of short-term notes payable	(150.0)	-	-
Dividends on common stock	(69.5)	(60.0)	(57.4)
Dividends on preferred stock of subsidiary	(0.8)	(1.0)	(1.1)
Retirement of long-term debt	(7.6)	(3.3)	(66.7)
Redemption of preferred stock of subsidiary	(17.7)	(2.0)	(0.1)
Retirement of common stock	-	-	(2.3)
Net change in short-term borrowings	(228.2)	402.3	81.7
Proceeds (payments) from exercise of stock options & other	(2.2)	7.4	(0.5)
<b>Net cash flows (required for) from financing activities</b>	<b>(2.6)</b>	<b>638.7</b>	<b>62.1</b>
<b>CASH FLOWS (REQUIRED FOR) FROM INVESTING ACTIVITIES</b>			
Proceeds from:			
Sale of leveraged lease investments	53.8	-	-
Unconsolidated affiliate distributions	22.5	7.0	4.6
Notes receivable & other collections	16.7	9.0	9.5
Requirements for:			
Capital expenditures	(235.3)	(164.3)	(135.9)
Acquisition of Ohio operations	-	(463.3)	-
Unconsolidated affiliate investments	(22.7)	(29.4)	(10.7)
Leveraged lease investments	-	-	(46.8)
Notes receivable & other investments	(3.9)	(40.6)	(22.0)
<b>Net cash flows (required for) investing activities</b>	<b>(168.9)</b>	<b>(681.6)</b>	<b>(201.3)</b>
Net increase (decrease) in cash & cash equivalents	12.0	(2.2)	10.0
Cash & cash equivalents at beginning of period	15.2	17.4	7.4
Cash & cash equivalents at end of period	\$ 27.2	\$ 15.2	\$ 17.4

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

VECTREN CORPORATION AND SUBSIDIARY COMPANIES  
CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDERS' EQUITY  
(In millions, except per share amounts)

	Common Stock		Restricted Stock Grants	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount				
<b>Balance at December 31, 1998</b>	<b>61.4</b>	<b>\$ 218.6</b>	<b>\$ (1.4)</b>	<b>\$ 460.7</b>	<b>\$ -</b>	<b>\$ 677.9</b>
Comprehensive income:						
Net income				90.7		90.7
Minimum pension liability adjustments & other - net of tax					(0.1)	(0.1)
<b>Total comprehensive income</b>						<b>90.6</b>
Common stock:						
Dividends (\$0.94 per share)				(57.4)		(57.4)
Repurchases	(0.1)	(2.3)				(2.3)
Other		1.2	(0.1)	(0.1)		1.0
<b>Balance at December 31, 1999</b>	<b>61.3</b>	<b>217.5</b>	<b>(1.5)</b>	<b>493.9</b>	<b>(0.1)</b>	<b>709.8</b>
Comprehensive income:						
Net income				72.0		72.0
Minimum pension liability adjustments & other - net of tax					0.1	0.1
Comprehensive income of unconsolidated affiliates - net of tax					7.5	7.5
<b>Total comprehensive income</b>						<b>79.6</b>
Common stock dividends (\$0.98 per share)				(60.0)		(60.0)
Other	0.1	1.8		0.5		2.3
<b>Balance at December 31, 2000</b>	<b>61.4</b>	<b>219.3</b>	<b>(1.5)</b>	<b>506.4</b>	<b>7.5</b>	<b>731.7</b>
Comprehensive income:						
Net income				63.6		63.6
Minimum pension liability adjustments & other - net of tax					(1.7)	(1.7)
Comprehensive income of unconsolidated affiliates - net of tax					(1.6)	(1.6)
<b>Total comprehensive income</b>						<b>60.3</b>
Common stock:						
Issuance - net of \$5.1 issuance costs	6.3	129.4				129.4
Dividends (\$1.03 per share)				(69.5)		(69.5)
Other	-	(0.1)	(1.0)	(2.2)		(3.3)
<b>Balance at December 31, 2001</b>	<b>67.7</b>	<b>\$ 348.6</b>	<b>\$ (2.5)</b>	<b>\$ 498.3</b>	<b>\$ 4.2</b>	<b>\$ 848.6</b>

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

## VECTREN CORPORATION AND SUBSIDIARY COMPANIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 1. Organization and Nature of Operations

##### Overview

Vectren Corporation (the Company or Vectren), an Indiana corporation, is an energy and applied technology holding company headquartered in Evansville, Indiana. The Company was organized on June 10, 1999 solely for the purpose of effecting the merger of Indiana Energy, Inc. (Indiana Energy) and SIGCORP, Inc. (SIGCORP). On March 31, 2000, the merger of Indiana Energy with SIGCORP and into Vectren was consummated with a tax-free exchange of shares and has been accounted for as a pooling-of-interests in accordance with Accounting Principles Board (APB) Opinion No. 16 "Business Combinations" (APB 16).

The Company's wholly owned subsidiary, Vectren Utility Holdings, Inc. (VUHI), serves as the intermediate holding company for its three operating public utilities: Indiana Gas Company, Inc. (Indiana Gas), formerly a wholly owned subsidiary of Indiana Energy, Southern Indiana Gas and Electric Company (SIGECO), formerly a wholly owned subsidiary of SIGCORP, and the Ohio operations (defined hereafter). Both Vectren and VUHI are exempt from registration pursuant to Section 3(a)(1) and 3(c) of the Public Utility Holding Company Act of 1935.

Indiana Gas provides natural gas distribution and transportation services to a diversified customer base in 311 communities in 49 of Indiana's 92 counties. SIGECO provides electric generation, transmission, and distribution services to Evansville, Indiana, and 74 other communities in 8 counties in southwestern Indiana and participates in the wholesale power market. SIGECO also provides natural gas distribution and transportation services to Evansville, Indiana, and 64 communities in 10 counties in southwestern Indiana. The Ohio operations provide natural gas distribution and transportation services to Dayton, Ohio, and 87 other communities in 17 counties in west central Ohio.

The Company is also involved in nonregulated activities in four primary business areas: Energy Marketing and Services, Coal Mining, Utility Infrastructure Services, and Broadband. Energy Marketing and Services markets natural gas, provides fuel supply management, and provides energy performance contracting services. Coal Mining provides the mining and sale of coal to the Company's utility operations and to other third parties and generates income tax credits through an Internal Revenue Service (IRS) Code Section 29 investment tax credit relating to the production of coal-based synthetic fuels. Utility Infrastructure Services provides underground construction and repair, facilities locating, and meter reading. Broadband invests in broadband communication services such as cable television, high-speed Internet, and advanced local and long distance phone services. In addition, the nonregulated group has investments in other businesses that invest in energy-related opportunities and provide supply chain services, debt collection services, and environmental compliance testing services.

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

On October 31, 2000, the Company acquired the natural gas distribution assets of The Dayton Power and Light Company for approximately \$465.0 million. The acquisition has been accounted for as a purchase transaction in accordance with APB 16, and accordingly, the results of operations of the acquired businesses are included in the accompanying financial statements since the date of acquisition.

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

The purchase price was allocated to the assets and liabilities acquired based on the fair value of those assets and liabilities as of the acquisition date. Because of the regulatory environment in which the Ohio operations operate, the book value of rate-regulated assets and liabilities is generally considered to be fair value. Goodwill, in the amount of \$198.0 million, has been recognized for the excess amount of the purchase price paid over the fair value

of the net assets acquired. Prior to the Company's adoption of Statement of Financial Accounting Standards (SFAS) No.142 "Goodwill and Intangible Assets" on January 1, 2002, this goodwill was amortized on a straight-line basis over 40 years. (See Note 19 for further information on the adoption of this standard.)

Had the acquisition of the Ohio operations occurred on January 1, 1999, pro forma operating revenues, net income, and basic and diluted earnings per share for the year ended December 31, 2000 would have been \$1,831.1 million, \$72.0 million, \$1.17, and \$1.17, respectively. For the year ended December 31, 1999, pro forma operating revenues, net income and basic and diluted earnings per share would have been \$1,287.3 million, \$87.4 million, \$1.43, and \$1.42, respectively. This pro forma information is not necessarily indicative of the results that actually would have occurred if the transaction had been consummated at the beginning of the periods presented and is not intended to be a projection of future results. These pro forma results are unaudited.

## 2. Summary of Significant Accounting Policies

### A. Principles of Consolidation

The accompanying consolidated financial statements for periods prior to March 31, 2000 reflect the Company on a historical basis as restated for the effects of the pooling-of-interests transaction completed on March 31, 2000 between Indiana Energy and SIGCORP. The consolidated financial statements include the accounts of the Company and its wholly owned and majority owned subsidiaries, after elimination of intercompany transactions and also reflect the consolidation of a majority-owned affiliate, Energy Systems Group, LLC, which was an equity method investment of Indiana Energy and SIGCORP prior to the merger.

For the three months ended March 31, 2000, operating revenues and net income contributed by the predecessor companies were \$172.0 million and \$22.1 million, respectively, by Indiana Energy and \$187.4 million and \$19.3 million, respectively, by SIGCORP. For the year ended December 31, 1999, operating revenues and net income contributed were \$433.3 million and \$38.7 million, respectively, by Indiana Energy and \$604.5 million and \$52.1 million, respectively by SIGCORP.

### B. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

### C. Cash & Cash Equivalents

All highly liquid investments with an original maturity of three months or less at the date of purchase are considered cash equivalents. Cash paid during the periods reported for interest, income taxes, and acquired assets and liabilities is as follows:

In millions	Year Ended December 31,		
	2001	2000	1999
Cash paid for			
Interest (net of amount capitalized)	\$ 74.9	\$ 55.7	\$ 34.8
Income taxes	38.0	53.5	36.9
Details of acquisition (Note 1)			
Book value of assets acquired	\$ -	\$ 278.1	\$ -
Liabilities assumed	-	7.9	-
Net assets acquired	\$ -	\$ 270.2	\$ -

#### D. Inventories

Inventories consist of the following:

In millions	At December 31,	
	2001	2000
Gas in storage – at LIFO cost	\$ 24.3	\$ 19.0
Materials & supplies	21.5	17.0
Gas in storage – at average cost	11.6	49.4
Fuel (coal & oil) for electric generation	10.3	4.4
Emission allowances	1.4	3.9
Other	2.3	1.5
Total inventories	\$ 71.4	\$ 95.2

Based on the average cost of gas purchased during December, the cost of replacing the current portion of gas in storage carried at LIFO cost exceeded LIFO cost at December 31, 2001 and 2000 by approximately \$17.9 million and \$64.3 million, respectively. All other inventories are carried at average cost.

#### E. Utility Plant & Depreciation

Utility plant is stated at historical cost, including an allowance for the cost of funds used during construction (AFUDC). Depreciation of utility property is provided using the straight-line method over the estimated service lives of the depreciable assets. The original cost of utility plant, together with depreciation rates expressed as a percentage of original cost, is as follows:

In millions	At and For the Year Ended December 31,			
	2001		2000	
	Original Cost	Depreciation Rates as a Percent of Original Cost	Original Cost	Depreciation Rates as a Percent of Original Cost
Gas utility plant	\$ 1,523.0	3.6%	\$ 1,543.9	3.6%
Electric utility plant	1,148.9	3.3%	1,136.8	3.3%
Common utility plant	41.3	2.6%	47.3	3.3%
Construction work in progress	190.0	-	60.8	-
Total original cost	\$ 2,903.2		\$ 2,788.8	

AFUDC represents the cost of borrowed and equity funds used for construction purposes and is charged to construction work in progress during the construction period and is included in other – net in the Consolidated Statements of Income. The total AFUDC capitalized into utility plant and the portion of which was computed on borrowed and equity funds for all periods reported is as follows:

In millions	Year Ended December 31,		
	2001	2000	1999
AFUDC – equity funds	\$ 3.0	\$ 2.6	\$ 0.7
AFUDC – borrowed funds	2.6	2.6	2.9
Total AFUDC capitalized	\$ 5.6	\$ 5.2	\$ 3.6

Maintenance and repairs, including the cost of removal of minor items of property and planned major maintenance projects, are charged to expense as incurred. When property that represents a retirement unit is replaced or

removed, the cost of such property is credited to utility plant, and such cost, together with the cost of removal less salvage, is charged to accumulated depreciation.

#### F. Non-utility Property

Non-utility property, net of accumulated depreciation and amortization, by operating segment is as follows:

In millions	At December 31,	
	2001	2000
Corporate & Other	\$ 103.2	\$ 54.7
Nonregulated Operations	72.2	44.1
Electric & Gas Utility Services	6.3	5.6
Non-utility property-net	\$ 181.7	\$ 104.4

The depreciation of non-utility property is charged against income over its estimated useful life (ranging from 5 to 40 years), using the straight-line method of depreciation or units-of-production method of amortization. Repairs and maintenance, which are not considered improvements and do not extend the useful life of the non-utility property, are charged to expense as incurred. When non-utility property is retired, or otherwise disposed of, the asset and accumulated depreciation are removed, and the resulting gain or loss is reflected in income. Non-utility property is presented net of accumulated depreciation and amortization totaling \$82.9 million and \$53.6 million as of December 31, 2001 and 2000, respectively.

#### G. Impairment Review of Long-Lived Assets

Long-lived assets are reviewed for impairment in accordance with SFAS No. 121, "Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" as facts and circumstances indicate that the carrying amount may be impaired. Specifically, the evaluation for impairment involves the comparison of an asset's carrying value to the estimated future cash flows the asset is expected to generate over its remaining life. If this evaluation were to conclude that the carrying value of the asset is impaired, an impairment charge would be recorded as a charge to operations based on the difference between the asset's carrying amount and its fair value. (See Note 19 for further information on the adoption of SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets.") The same policy is currently utilized for goodwill.

#### H. Regulation

Retail public utility operations affecting Indiana customers are subject to regulation by the Indiana Utility Regulatory Commission (IURC), and retail public utility operations affecting Ohio customers are subject to regulation by the Public Utilities Commission of Ohio (PUCO). The Company's wholesale energy transactions are subject to regulation by the Federal Energy Regulatory Commission (FERC).

#### SFAS 71

The Company's accounting policies give recognition to the rate-making and accounting practices of these agencies and to accounting principles generally accepted in the United States, including the provisions of SFAS No. 71 "Accounting for the Effects of Certain Types of Regulation" (SFAS 71). Regulatory assets represent probable future revenues associated with certain incurred costs, which will be recovered from customers through the rate-making process. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are to be credited to customers through the rate-making process.

The Company continually assesses the recoverability of costs recognized as regulatory assets and the ability to continue to account for its activities in accordance with SFAS 71, based on the criteria set forth in SFAS 71. Based on current regulation, the Company believes such accounting is appropriate. If all or part of the Company's operations cease to meet the criteria of SFAS 71, a write-off of related regulatory assets and liabilities could be required. In addition, the Company would be required to determine any impairment to the carrying costs of deregulated plant and inventory assets. Regulatory assets consist of the following:

At December 31,		
In millions	2001	2000
Demand side management programs	\$ 26.2	\$ 26.2
Unamortized debt discount & expenses	21.5	16.7
Other	13.7	13.4
Total regulatory assets	\$ 61.4	\$ 56.3

As of December 31, 2001, \$38.8 million of regulatory assets is reflected in rates charged to customers. The remaining \$22.6 million, which is not yet included in rates, represents electric demand side management (DSM) costs incurred after 1993. The Company is currently recovering \$3.6 million of DSM costs in rates. Based upon this prior regulatory authority, management believes that future recovery of DSM costs not currently included in rates is probable. At December 31, 2001 and 2000, the weighted average recovery period of regulatory assets included in rates is 23.1 years and 23.3 years, respectively.

#### Refundable or Recoverable Gas Costs, Fuel for Electric Production & Purchased Power

All metered gas rates contain a gas cost adjustment clause that allows the Company to charge for changes in the cost of purchased gas. Metered electric rates typically contain a fuel adjustment clause that allows for adjustment in charges for electric energy to reflect changes in the cost of fuel and the net energy cost of purchased power. Metered electric rates also allow recovery, through a quarterly rate adjustment mechanism, for the margin on electric sales lost due to the implementation of demand side management programs.

The Company records any under-or-over-recovery resulting from gas and fuel adjustment clauses each month in revenues. A corresponding asset or liability is recorded until the under-or-over-recovery is billed or refunded to utility customers. The cost of gas sold is charged to operating expense as delivered to customers, and the cost of fuel for electric generation is charged to operating expense when consumed.

#### I. Comprehensive Income

Comprehensive income is a measure of all changes in equity that result from the transactions or other economic events during the period from non-shareholder transactions. This information is reported in the Consolidated Statements of Common Shareholders' Equity. A summary of the components of and changes in accumulated comprehensive income for the past three years is as follows:

In millions	1999			2000		2001	
	Beginning of Year Balance	Changes During Year	End of Year Balance	Changes During Year	End of Year Balance	Changes During Year	End of Year Balance
Unconsolidated affiliates	\$ -	\$ -	\$ -	\$ 7.5	\$ 7.5	\$ (1.6)	\$ 5.9
Minimum pension liability adjustments & other	-	(0.1)	(0.1)	0.1	-	(1.7)	\$ (1.7)
Accumulated comprehensive income	\$ -	\$ (0.1)	\$ (0.1)	\$ 7.6	\$ 7.5	\$ (3.3)	\$ 4.2

Accumulated comprehensive income arising from unconsolidated affiliates is the Company's portion of ProLiance Energy, LLC's other comprehensive income related to its adoption of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," and continued use of cash flow hedges and other comprehensive income related to unrealized gains and losses of available for sale securities of Haddington Energy Partners, LP. (See Note 4 for more information on ProLiance Energy, LLC and Haddington Energy Partners, LP.)



#### J. Revenues

Revenues are recorded as products and services are delivered to customers. To more closely match revenues and expenses, the Company records revenues for all gas and electricity delivered to customers but not billed at the end of the accounting period.

#### K. Excise Taxes

Excise taxes are included in rates charged to customers. Accordingly, the Company records excise tax received as a component of operating revenues. Excise taxes paid are recorded as a component of taxes other than income taxes.

#### L. Reclassifications

Certain reclassifications have been made to the prior years' financial statements to conform to the current year presentation. These reclassifications have no impact on net income previously reported.

### 3. Special Charges

#### Merger & Integration Costs

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

Since March 31, 2000, \$43.9 million has been expensed associated with merger and integration activities. Accruals were established at March 31, 2000 totaling \$20.7 million. Of this amount, \$5.5 million related to employee and executive severance costs, \$13.1 million related to transaction costs and regulatory filing fees incurred prior to the closing of the merger, and the remaining \$2.1 million related to employee relocations that occurred prior to or coincident with the merger closing. At December 31, 2001, the remaining accrual related to employee severance was not significant. The remaining \$23.2 million was expensed (\$20.4 million in 2000 and \$2.8 million in 2001) for accounting fees resulting from merger related filing requirements, consulting fees related to integration activities such as organization structure, employee travel between company locations, internal labor of employees assigned to integration teams, investor relations communication activities, and certain benefit costs.

During the merger planning process, approximately 135 positions were identified for elimination. As of December 31, 2001, all such identified positions have been vacated.

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

As a result of merger integration activities, management retired certain information systems in 2001. Accordingly, the useful lives of these assets were shortened to reflect this decision, resulting in additional depreciation expense of approximately \$9.6 million (\$6.0 million after tax) for the year ended December 31, 2001 and \$11.4 million (\$7.1 million after tax) for the year ended December 31, 2000.

#### Restructuring & Related Charges

As part of continued cost saving efforts, in June 2001, the Company's management and the board of directors approved a plan to restructure, primarily, its regulated operations. The restructuring plan included the elimination of certain administrative and supervisory positions in its utility operations and corporate office. Charges of \$11.8 million were expensed in June 2001 as a direct result of the restructuring plan. Additional charges of \$7.2 million were incurred during the remainder of 2001 primarily for consulting fees, employee relocation, and duplicate facilities costs. In total, the Company has incurred restructuring charges of \$19.0 million. These charges were comprised of \$10.9 million for employee severance, related benefits and other employee related costs, \$4.0 million for lease termination fees related to duplicate facilities and other facility costs, and \$4.1 million for consulting and other fees incurred through December 31, 2001. Components of restructuring expense incurred through December 31, 2001 are as follows:

In millions	Accrual for Cash Payments	Incurred Expenses		Total Expense
		Paid in Cash	Non-Cash	
Severance & related costs	\$ 2.1	\$ 8.0	\$ 0.8	\$ 10.9
Lease termination fees	3.0	-	1.0	4.0
Consulting fees & other	-	4.1	-	4.1
Total	\$ 5.1	\$ 12.1	\$ 1.8	\$ 19.0

The \$10.9 million expensed for employee severance and related costs are associated with approximately 100 employees. Employee separation benefits include severance, healthcare, and outplacement services. As of December 31, 2001, approximately 80 employees have exited the business. The restructuring program was completed during 2001, except for the departure of the remaining employees impacted by the restructuring and the final settlement of the lease obligation.

Components of the accrual for expected cash payments, which is included in accrued liabilities, as of December 31, 2001 is as follows:

In millions	Accrual at June 30, 2001	Cash		Accrual at December 31, 2001
		Payments	Additions	
Severance & related costs	\$ 6.8	\$ (6.8)	\$ 2.1	\$ 2.1
Lease termination fees	2.0	-	1.0	3.0
Total	\$ 8.8	\$ (6.8)	\$ 3.1	\$ 5.1

#### 4. Investments in Unconsolidated Affiliates

Investments in unconsolidated affiliates where the Company has significant influence are accounted for using the equity method of accounting. The Company's share of net income or loss from these investments is recorded in equity in earnings of unconsolidated affiliates. Dividends are recorded as a reduction of the carrying value of the investment when received. Investments in unconsolidated affiliates where the Company does not have significant influence are accounted for at cost less write-downs for declines in value judged to be other than temporary. Dividends are recorded as other-net when received. Investments in unconsolidated affiliates consist of the following:

In millions	At December 31,	
	2001	2000
Haddington Energy Partnerships	\$ 26.8	\$ 13.0
ProLiance Energy, LLC	25.6	27.8
Reliant Services, LLC	20.6	19.2
Utilicom Networks, LLC & related entities	14.5	9.1
Pace Carbon Synfuels, LP	7.2	6.7
Other partnerships & corporations	33.0	32.8
Total investments in unconsolidated affiliates	\$ 127.7	\$ 108.6

#### Haddington Energy Partnerships

The Company has an approximate 40% ownership interest in Haddington Energy Partners, LP (Haddington). Haddington raised \$27.0 million to invest in energy projects. In July 2000, the Company made a commitment to fund an additional \$20.0 million in Haddington Energy Partners II, LP (Haddington II), which is expected to raise a total of approximately \$50.0 million. This second fund plans to provide additional capital for Haddington portfolio companies and make investments in new areas, such as distributed generation, power backup and quality devices, and emerging technologies such as fuel cells, microturbines and photovoltaics. At December 31, 2001, \$11.9

million of the commitment remains. Upon complete funding, the Company will have an approximate 40% ownership interest in Haddington II. Both Haddington ventures are accounted for using the equity method of accounting. For the year ended December 31, 2001, the partnerships' contribution to pre-tax earnings was \$6.2 million. Prior to 2001, the earnings contribution was not significant.

The following is summarized financial information as to the assets, liabilities, and results of operations of the Haddington Partnerships. For the year ended December 31, 2001 revenues were \$23.6 million and operating income and net income were both \$22.5 million. Revenues, operating income, and net loss for the years ended December 31, 2000 and 1999 were (in millions) \$0.0, (\$0.9), (\$0.9) and \$0.0, (\$0.7), (\$0.1), respectively. As of December 31, 2001, investments were \$79.1 million and other assets were \$5.0 million. As of December 31, 2000, investments were \$31.5 million and other assets were \$0.7 million. At both December 31, 2001 and 2000, liabilities were \$0.2 million.

#### ProLiance Energy, LLC

ProLiance Energy, LLC (ProLiance), a nonregulated, energy marketing affiliate of Vectren, began providing natural gas and related services to Indiana Gas, Citizens Gas and Coke Utility (Citizens Gas) and others in April 1996. ProLiance also provides services to the Ohio operations. Effective in March 2001, the operating agreement between Vectren and Citizens Gas was modified to increase on a prospective basis Vectren's allocable share of profits and losses from 50% to 52.5%. The provisions of the operating agreement call for governance, including voting rights, to remain at 50% for each member. Prior to March 2001, profits and governance were 50% for each member. As governance of ProLiance remains equal between the members, Vectren continues to account for its investment in ProLiance using the equity method of accounting.

The sale of gas and provision of other services to Indiana Gas by ProLiance is subject to regulatory review through the quarterly gas cost adjustment (GCA) process administered by the IURC. On September 12, 1997, the IURC issued a decision finding the gas supply and portfolio administration agreements between ProLiance and Indiana Gas and ProLiance and Citizens Gas to be consistent with the public interest and that ProLiance is not subject to regulation by the IURC as a public utility. The IURC's decision reflected the significant gas cost savings to customers obtained through ProLiance's services and suggested that all material provisions of the agreements between ProLiance and the utilities are reasonable. Nevertheless, with respect to the pricing of gas commodity purchased from ProLiance, the price paid by ProLiance to the utilities for the prospect of using pipeline entitlements if and when they are not required to serve the utilities' firm customers, and the pricing of fees paid by the utilities to ProLiance for portfolio administration services, the IURC concluded that additional review in the GCA process would be appropriate and directed that these matters be considered further in the pending, consolidated GCA proceeding involving Indiana Gas and Citizens Gas.

The IURC has recently commenced processing the GCA proceeding regarding the three pricing issues. The IURC has indicated that it will also consider the prospective relationship of ProLiance with the utilities in this proceeding. Discovery is ongoing, and an evidentiary hearing is scheduled for May 2002. Until the IURC resolves these outstanding issues, the Company will continue to reserve a portion of its share of ProLiance earnings.

Indiana Gas continues to record gas costs in accordance with the terms of the ProLiance contract, and Vectren continues to record its proportional share of ProLiance's earnings. Pre-tax income of \$12.8 million, \$5.4 million and \$6.7 million was recognized as ProLiance's contribution to earnings for the years ended December 31, 2001, 2000 and 1999, respectively. Earnings recognized from ProLiance are included in equity in earnings of unconsolidated affiliates. At December 31, 2001 and 2000, the Company has reserved approximately \$3.2 million and \$2.4 million, respectively, of ProLiance's after tax earnings pending resolution of the remaining issues. The reserve represents 10% of ProLiance's cumulative earnings and serves as management's best estimate of potential exposure arising from issues reserved by the IURC.

In August 1998, Indiana Gas, Citizens Gas and ProLiance each received a Civil Investigative Demand (CID) from the United States Department of Justice requesting information relating to Indiana Gas' and Citizens Gas' relationships with and the activities of ProLiance. The Department of Justice issued the CID to gather information regarding ProLiance's formation and operations, and to determine if trade or commerce had been restrained. In

October 2001, the Antitrust Division of the Department of Justice informed the Company that it closed the investigation without further action.

Purchases from ProLiance for resale and for injections into storage for the years ended December 31, 2001, 2000 and 1999 totaled \$610.6 million, \$478.9 million and \$240.7 million, respectively. Amounts owed to ProLiance at December 31, 2001 and 2000 for those purchases were \$36.1 million and \$147.2 million, respectively, and are included in accounts payable to affiliated companies in the Consolidated Balance Sheets. Amounts charged by ProLiance are market based as evidenced by a competitive bidding process for capacity and storage services and commodity indexes.

The following is summarized financial information as to the assets, liabilities, and results of operations of ProLiance. For the year ended December 31, 2001, revenues were \$1,599.5 million, margin was \$40.9 million, operating income was \$26.1 million, and net income was \$27.7 million. For the year ended December 31, 2000, revenues were \$945.8 million, margin was \$21.1 million, operating income was \$10.4 million, and net income was \$12.1 million. For the year ended December 31, 1999, revenues were \$609.9 million, margin was \$27.6 million, operating income was \$15.0 million, and net income was \$14.8 million. As of December 31, 2001, current assets were \$206.8 million, noncurrent assets were \$24.3 million, and current liabilities were \$180.8 million. As of December 31, 2000, current assets were \$284.0 million, noncurrent assets were \$9.4 million, and current liabilities were \$237.8 million. At both December 31, 2001 and 2000, noncurrent liabilities were zero.

#### Utilicom Networks, LLC & Related Entities

Utilicom Networks, LLC (Utilicom) is a provider of bundled communication services through high capacity broadband networks, including cable television, high-speed Internet, and advanced local and long distance telephone services. The Company has a 14% interest in Class A units of Utilicom, which is accounted for using the equity method of accounting. The Company also has a minority interest in SIGECOM Holdings, Inc. (Holdings), which was formed by Utilicom to hold interests in SIGECOM, LLC (SIGECOM). The Company accounts for its investment in Holdings on the cost method. SIGECOM provides broadband services to the greater Evansville, Indiana, area. Utilicom also plans to provide broadband services to the greater Indianapolis, Indiana, and Dayton, Ohio, markets.

In January 2000, the Company restructured its investment in SIGECOM. Affiliates of The Blackstone Group acquired a majority ownership interest in Utilicom in the form of Class B units. In connection with The Blackstone Group investment, the Company exchanged its 49% preferred equity interest in SIGECOM for \$16.5 million of convertible subordinated debt of Utilicom and an 18.9% common equity interest in Holdings, which was valued at \$6.5 million. The carrying value of the Company's 49% preferred equity interest was \$15.0 million prior to the exchange. The Company received consideration in the exchange based upon an investment bank analysis of the fair value of SIGECOM at the transaction date. The investment restructuring resulted in a pre-tax gain of \$8.0 million, which is classified in equity in earnings in unconsolidated affiliates in the accompanying Consolidated Statements of Income. For the year ended December 31, 2000, the Company also recognized losses of \$1.0 million to reflect its share of Utilicom's operating results. The Company's share of Utilicom's operating results for the year ended December 31, 2001 was not significant.

In December 2001, Utilicom announced plans to raise \$600.0 million in capital to establish separate operating ventures in Indianapolis and Dayton and to recapitalize SIGECOM. The Company has committed to invest up to a total of \$100.0 million in Utilicom and the Indianapolis and Dayton ventures, subject to Utilicom obtaining commitments for the entire \$600.0 million of anticipated funding. The Company's investments may take the form of convertible subordinated debt or common equity. At December 31, 2001, the remaining commitment is \$86.5 million.

At December 31, 2001, the Company has \$24.8 million of notes receivable from Utilicom-related entities which are convertible into equity interests. Notes receivable totaling \$22.9 million are convertible into Class A units of Utilicom at the Company's option or upon the event of a public offering of stock by Utilicom and \$1.9 million are convertible into common equity interests in the Indianapolis and Dayton ventures at the Company's option. Upon conversion, the Company would have up to a 12% interest in Utilicom, assuming completion of all required

funding and up to a 31% interest in the Indianapolis and Dayton ventures. Investments in convertible notes receivable are included in other investments.

In July 2001, Utilicom announced a delay in funding of the Indianapolis and Dayton projects. This delay, with which Company management agrees, is due to the current environment within the telecommunication capital markets, which has prevented Utilicom from obtaining debt financing on terms it considers acceptable. While the existing investors are still committed to the Indianapolis and Dayton markets, the Company is not required to and does not intend to proceed unless the Indianapolis and Dayton projects are fully funded. This delay necessitated and resulted in the extension of the franchising agreements into the third quarter of 2002.

At December 31, 2001 and 2000, the Company's combined investment in equity and debt securities of Utilicom-related entities totaled \$39.3 million and \$32.5 million, respectively.

#### Pace Carbon Synfuels, LP

Pace Carbon Synfuels, LP (Pace Carbon) is a limited partnership formed to develop, own, and operate four projects to produce and sell coal-based synthetic fuel. These projects generate IRS Section 29 tax credits. The Company has an 8.3% interest in Pace Carbon which is accounted for using the equity method of accounting. Additional investments in Pace Carbon will be made to the extent Pace Carbon generates Federal tax credits, with any such additional investments to be funded by these credits. The Company's portion of pre-tax losses incurred by Pace Carbon are included in equity in earnings of unconsolidated affiliates and total \$4.5 million in 2001, \$2.4 million in 2000, and \$1.4 million in 1999. The contribution to the Company's earnings after considering the tax credits Pace Carbon generated was \$4.3 million in 2001, \$2.1 million in 2000, and a loss of \$0.5 million in 1999.

The following is summarized financial information as to the assets, liabilities, and results of operations of Pace Carbon. For the year ended December 31, 2001, revenues were \$86.2 million, margin was a loss of (\$25.1) million, operating loss was (\$44.1) million, and net loss was (\$44.8) million. For the year ended December 31, 2000, revenues were \$35.8 million, margin was a loss of (\$24.3) million, operating loss was (\$33.6) million, and net loss was (\$34.1) million. For the year ended December 31, 1999, revenues were \$3.5 million, margin was a loss of (\$8.2) million, operating loss was (\$13.7) million, and net loss was (\$13.7) million. As of December 31, 2001, current assets were \$22.5 million, noncurrent assets were \$42.0 million, current liabilities were \$18.2 million, and noncurrent liabilities were \$8.4 million. As of December 31, 2000, current assets were \$13.9 million, noncurrent assets were \$38.4 million, current liabilities were \$11.3 million, and noncurrent liabilities were \$8.0 million.

#### Other Affiliate Transactions

The Company has ownership interests in other affiliated companies accounted for using the equity method of accounting that provide materials management, underground construction and repair, facilities locating, and meter reading to the Company. Fees for these services and construction-related expenditures totaled \$37.9 million, \$20.9 million, and \$20.2 million, respectively, for the years ended December 31, 2001, 2000 and 1999. Amounts charged by these affiliates are market based. Amounts owed to unconsolidated affiliates other than ProLiance totaled \$1.1 million and \$3.2 million at December 31, 2001 and 2000, respectively, and are included in accounts payable to affiliated companies in the Consolidated Balance Sheets. Amounts due from unconsolidated affiliates included in accounts receivable totaled \$0.3 million and \$1.2 million, respectively, at December 31, 2001 and 2000.

In December 2000, Reliant Services, LLC (Reliant), an equity method investment owned jointly and equally by Vectren and Cinergy Corp., purchased the common stock of Miller Pipeline Corporation from NiSource, Inc. for approximately \$68.3 million. Vectren and Cinergy Corp. each contributed \$16.0 million of equity, and the remaining \$36.3 million was funded with 7-year intermediate bank loans. The acquisition combines Reliant's utility services of underground facility locating, contract meter reading, and installation of telecommunications and electric facilities with Miller Pipeline Corporation's underground pipeline construction, replacement, and repair services.

## 5. Other Investments

Other investments consist of the following:

In millions	At December 31,	
	2001	2000
Notes receivable:		
Utilicom Networks, LLC & related entities	\$ 24.8	\$ 23.4
Other notes receivable	31.8	40.9
Total notes receivable	56.6	64.3
Leveraged leases	29.7	93.1
Other investments	14.0	14.1
Total other investments	\$ 100.3	\$ 171.5

### Notes Receivable

Interest rates on the above notes receivable range from fixed rates of 5% to 15% and variable rates from prime plus 1.75% to prime plus 3% and are due at various times through 2010. Generally, first or second mortgages and/or capital stock or partnership units serve as collateral for the notes. (See Note 4 regarding the convertibility of the Utilicom-related notes into equity interests.)

### Leveraged Leases

The Company is a lessor in several leveraged lease agreements under which real estate or equipment is leased to third parties. The economic lives and lease terms vary with the leases. The total equipment and facilities cost was approximately \$77.1 million and \$409.7 million at December 31, 2001 and 2000, respectively. The cost of the equipment and facilities was partially financed by non-recourse debt provided by lenders, who have been granted an assignment of rentals due under the leases and a security interest in the leased property, which they accepted as their sole remedy in the event of default by the lessee. Such debt amounted to approximately \$59.0 million and \$380.0 million at December 31, 2001 and 2000, respectively. The Company's net investment in leveraged leases is as follows:

In millions	At December 31,	
	2001	2000
Minimum lease payments receivable	\$ 48.9	\$ 165.1
Estimated residual value	22.1	29.1
Less: Unearned income	41.3	101.1
Investment in lease financing receivables & loans	29.7	93.1
Less: Deferred taxes arising from leveraged leases	25.5	38.3
Net investment in leveraged leases	\$ 4.2	\$ 54.8

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

## 6. Income Taxes

The components of income tax expense and utilization of investment tax credits are as follows:

	Year Ended December 31,		
In millions	2001	2000	1999
Current:			
Federal	\$ 4.3	\$ 37.1	\$ 33.0
State	4.5	2.9	5.4
Total current taxes	8.8	40.0	38.4
Deferred:			
Federal	12.5	(5.5)	8.3
State	(0.4)	2.1	1.4
Total deferred taxes	12.1	(3.4)	9.7
Amortization of investment tax credits	(2.3)	(2.4)	(2.4)
Total income tax expense	\$ 18.6	\$ 34.2	\$ 45.7

A reconciliation of the Federal statutory rate to the effective income tax rate is as follows:

	Year Ended December 31,		
	2001	2000	1999
Statutory rate	35.0 %	35.0 %	35.0 %
State and local taxes-net of Federal benefit	3.2	3.1	3.2
Nondeductible merger costs	-	4.0	-
Amortization of investment tax credit	(2.7)	(2.2)	(1.7)
Other tax credits	(11.1)	(7.1)	(3.2)
All other-net	(2.8)	(0.4)	-
Effective tax rate	21.6 %	32.4 %	33.3 %

The liability method of accounting is used for income taxes under which deferred income taxes are recognized to reflect the tax effect of temporary differences between the book and tax bases of assets and liabilities at currently enacted income tax rates. Deferred investment tax credits are amortized over the life of the related asset.

Significant components of the net deferred tax liability are as follows:

	At December 31,	
In millions	2001	2000
Deferred tax liabilities:		
Depreciation & cost recovery timing differences	\$ 191.5	\$ 178.7
Leveraged leases	25.5	38.3
Deferred fuel costs-net	22.7	20.3
Regulatory assets recoverable through future rates	33.5	34.0
Deferred tax assets:		
Regulatory liabilities to be settled through future rates	(25.2)	(22.1)
Tax credit carryforwards	-	(17.1)
LIFO inventory	(2.0)	(7.9)
Other - net	(18.6)	(7.8)
Net deferred tax liability	\$ 227.4	\$ 216.4

The Company has no tax credit carryforwards at December 31, 2001. At December 31, 2000, the Company had Alternative Minimum Tax credit carryforwards of approximately \$13.0 million which were utilized in 2001. Through certain of its nonregulated subsidiaries and investments, the Company also realizes Federal income tax

credits associated with affordable housing projects and the production of synthetic fuels. At December 31, 2000, the Company had such tax credit carryforwards of approximately \$4.1 million which were utilized in 2001.

#### 7. Retirement Plans & Other Postretirement Benefits

Effective July 1, 2000, the SIGCORP and Indiana Energy defined benefit pension plans, defined contribution retirement savings plans, and postretirement health care plans and life insurance plans for employees not covered by a collective bargaining agreement were merged. The merged plans became Vectren plans, and as a result, the respective plan assets and plan obligations were transferred to Vectren through cash payment for assets and cash receipt for obligations. These transfers resulted in no gain or loss.

The defined benefit pension and other postretirement benefit plans which cover eligible full-time regular employees are primarily noncontributory. The postretirement health care and life insurance plans are a combination of self-insured and fully insured plans.

The detailed disclosures of benefit components that follow are based on an actuarial valuation performed as of and for the years ended December 31, 2001 and 2000 and use a measurement date as of September 30. The disclosures required for the year ended December 31, 1999 have been restated based on actuarial valuations previously performed for SIGCORP as of December 31 and Indiana Energy as of September 30. In management's opinion, disclosures from revised actuarial valuations would not differ materially from those presented below. A summary of the components of net periodic benefit cost for the three years ended December 31, 2001 is as follows:

In millions	Pension Benefits			Other Benefits		
	2001	2000	1999	2001	2000	1999
Service cost	\$ 5.9	\$ 4.3	\$ 5.1	\$ 1.0	\$ 1.3	\$ 1.5
Interest cost	13.6	11.7	10.5	5.8	5.9	4.9
Expected return on plan assets	(16.3)	(15.9)	(13.9)	(0.8)	(0.8)	(0.8)
Amortization of prior service cost	0.8	0.2	0.4	-	-	-
Amortization of transitional obligation (asset)	(0.6)	(0.7)	(0.7)	3.0	3.7	3.3
Amortization of actuarial gain	(0.9)	(1.1)	-	(1.0)	(1.5)	(0.9)
Settlement, curtailment, & other charges (credits)	(1.4)	2.7	-	(0.6)	-	-
Net periodic benefit cost	\$ 1.1	\$ 1.2	\$ 1.4	\$ 7.4	\$ 8.6	\$ 8.0

A reconciliation of the plans' benefit obligations, fair value of plan assets, funded status, and amounts recognized in the Consolidated Balance Sheets at December 31, 2001 and 2000 follows:

In millions	Pension Benefits		Other Benefits	
	2001	2000	2001	2000
<b>Benefit Obligation</b>				
Benefit obligation at beginning of year	\$167.0	\$151.5	\$ 77.4	\$ 68.3
Service cost – benefits earned during the year	5.9	4.3	1.0	1.3
Interest cost on projected benefit obligation	13.6	11.7	5.8	5.9
Plan amendments	9.5	2.4	-	(0.7)
Acquisitions	-	0.7	-	-
Settlements & (curtailments)	(1.5)	2.1	(0.6)	-
Benefits paid	(13.5)	(10.4)	(1.7)	(5.4)
Actuarial loss	10.3	4.7	1.7	8.0
Benefit obligation at end of year	\$191.3	\$167.0	\$ 83.6	\$ 77.4



In millions	Pension Benefits		Other Benefits	
	2001	2000	2001	2000
<b>Fair Value of Plan Assets</b>				
Plan assets at fair value at beginning of year	\$ 193.8	\$ 187.3	\$ 11.2	\$ 11.7
Actual return on plan assets	(20.9)	16.9	(1.6)	0.6
Employer contributions	0.7	-	0.9	4.3
Benefits paid	(13.5)	(10.4)	(1.7)	(5.4)
Fair value of plan assets at end of year	\$ 160.1	\$ 193.8	\$ 8.8	\$ 11.2
<b>Funded status</b>				
Unrecognized transitional obligation (asset)	\$ (31.2)	\$ 26.8	\$ (74.8)	\$ (66.2)
Unrecognized service cost	(0.8)	(1.5)	34.9	40.0
Unrecognized net (gain) loss and other	12.0	5.4	-	-
Unrecognized net (gain) loss and other	13.4	(36.9)	(13.0)	(19.7)
Net amount recognized	\$ (6.6)	\$ (6.2)	\$ (52.9)	\$ (45.9)

At December 31, 2001, the Company incurred additional minimum pension liabilities totaling \$7.3 million which are included in deferred credits and other liabilities. These liabilities are offset by intangible assets totaling \$3.5 million which are included in other noncurrent assets and a pre-tax charge to accumulated other comprehensive income totaling \$3.8 million. At both December 31, 2001 and 2000, the net amount recognized for other postretirement benefits is included in deferred credits and other liabilities.

Pension plans with accumulated benefit obligations in excess of plan assets had projected benefit obligations of \$96.7 million and \$10.5 million as of December 31, 2001 and 2000, respectively. Those plans had accumulated benefit obligations of \$84.5 million and \$7.9 million as of December 31, 2001 and 2000, respectively. The fair value of plan assets for such pension plans as of December 31, 2001 was \$73.9 million. As of December 31, 2000, such pension plans were not funded.

Weighted-average assumptions used to develop annual costs and the benefit obligation for these plans are as follows:

	At & Year Ended December 31,			
	Pension Benefits		Other Benefits	
	2001	2000	2001	2000
Discount rate	7.25%	7.75%	7.25%	7.75%
Expected return on plan assets	9.00%	8.50%	9.00%	9.00%
Rate of compensation increase	4.75%	5.25%	4.75%	5.25%
CPI rate	N/A	N/A	12.00%	7.00%

As of December 31, 2001, the health care cost trend rate is 12.0% declining to 5.0% in 2006 and remaining level thereafter. Future changes in health care costs, work force demographics, interest rates, or plan changes could significantly affect the estimated cost of these future benefits.

A 1% change in the assumed health care cost trend rate for the postretirement health care plans would have the following effects as of and for the year ended December 31, 2001:

In millions	1% Increase	1% Decrease
Effect on the aggregate of the service & interest cost components	\$ 0.6	\$ (0.5)
Effect on the postretirement benefit obligation	6.4	(5.3)

The Company has adopted Voluntary Employee Beneficiary Association Trust Agreements for the partial funding of postretirement health benefits for retirees and their eligible dependents and beneficiaries. Annual funding is discretionary and is based on the projected cost over time of benefits to be provided to covered persons consistent with acceptable actuarial methods. To the extent these postretirement benefits are funded, the benefits are not liabilities in these consolidated financial statements.

The Company also has defined contribution retirement savings plans that are qualified under sections 401(a) and 401(k) of the Internal Revenue Code. During 2001, 2000 and 1999, the Company made contributions to these plans of \$3.4 million, \$1.6 million, and \$1.9 million, respectively.

## 8. Borrowing Arrangements

### Long-Term Debt

Senior unsecured obligations and first mortgage bonds outstanding and classified as long-term by subsidiary are as follows:

	At December 31,	
In millions	2001	2000
<b>VUHI</b>		
Fixed Rate Senior Unsecured Notes		
2011, 6.625%	\$ 250.0	\$ -
2031, 7.25%	100.0	-
Total VUHI	350.0	-
<b>SIGECO</b>		
First Mortgage Bonds		
Fixed Rate:		
2003, 1978 Series B, 6.25%, tax exempt	1.0	1.0
2016, 1986 Series, 8.875%	13.0	13.0
2023, 1993 Series, 7.60%	45.0	45.0
2023, 1993 Series B, 6.00%	22.8	22.8
2025, 1993 Series, 7.625%	20.0	20.0
2029, 1999 Senior Notes, 6.72%	80.0	80.0
Adjustable Rate:		
2015, 1985 Pollution Control Series A, presently 4.30%, tax exempt, next rate adjustment: 2004	10.0	10.0
2025, 1998 Pollution Control Series A, presently 4.75%, tax exempt, next rate adjustment: 2006	31.5	31.5
2024, 2000 Environmental Improvement Series A, tax exempt, adjusts every 35 days, weighted average for year: 3.13%	22.5	22.5
Total First Mortgage Bonds	245.8	245.8
Adjustable Rate Senior Unsecured Bonds		
2020, 1998 Pollution Control Series B, presently 4.40%, tax exempt, next rate adjustment: 2003	4.6	4.6
2030, 1998 Pollution Control Series B, presently 4.40%, tax exempt, next rate adjustment: 2003	22.0	22.0
2030, 1998 Pollution Control Series C, presently 5.00%, tax exempt, next rate adjustment: 2006	22.2	22.2
Total Adjustable Rate Senior Unsecured Bonds	48.8	48.8
Total SIGECO	294.6	294.6

In millions	At December 31,	
	2001	2000
<b>Indiana Gas</b>		
Fixed Rate Senior Unsecured Notes		
2003, Series F, 5.75%	15.0	15.0
2004, Series F, 6.36%	15.0	15.0
2007, Series E, 6.54%	6.5	6.5
2013, Series E, 6.69%	5.0	5.0
2015, Series E, 7.15%	5.0	5.0
2015, Insured Quarterly, 7.15%	20.0	20.0
2015, Series E, 6.69%	5.0	5.0
2015, Series E, 6.69%	10.0	10.0
2021, Private Placement, 9.375%, \$1.3 due annually in 2002	25.0	25.0
2021, Series A, 9.125%	-	7.0
2025, Series E, 6.31%	5.0	5.0
2025, Series E, 6.53%	10.0	10.0
2027, Series E, 6.42%	5.0	5.0
2027, Series E, 6.68%	3.5	3.5
2027, Series F, 6.34%	20.0	20.0
2028, Series F, 6.75%	13.8	14.1
2028, Series F, 6.36%	10.0	10.0
2028, Series F, 6.55%	20.0	20.0
2029, Series G, 7.08%	30.0	30.0
2030, Insured Quarterly, 7.45%	50.0	50.0
Total Indiana Gas	273.8	281.1
<b>Vectren Capital Corp.</b>		
Private Placement Fixed Rate Senior Unsecured Notes		
2005, 7.67%	38.0	38.0
2007, 7.83%	17.5	17.5
2010, 7.98%	22.5	22.5
2012, 7.43%	35.0	35.0
Total Private Placement Fixed Rate Senior Unsecured Notes	113.0	113.0
Other	-	0.2
Total Vectren Capital Corp. & other	113.0	113.2
Total long-term debt outstanding	1,031.4	688.9
Less: Debt subject to tender	11.5	53.7
Maturities & sinking fund requirements	1.3	0.2
Unamortized debt premium & discount - net	4.6	3.0
Total long-term debt-net	\$ 1,014.0	\$ 632.0

#### **VUHI**

In September 2001, VUHI filed a shelf registration statement with the Securities and Exchange Commission for \$350.0 million aggregate principal amount of unsecured senior notes. In October 2001, VUHI issued senior unsecured notes with an aggregate principal amount of \$100.0 million and an interest rate of 7.25% (the October Notes), and in December 2001, issued the remaining aggregate principal amount of \$250.0 million at an interest rate of 6.625% (the December Notes). The December Notes were priced at 99.302% to yield 6.69% to maturity.

These issues have no sinking fund requirements, and interest payments are due quarterly for the October Notes and semi-annually for the December Notes. The October Notes are due October 2031, but may be called by the Company, in whole or in part, at any time after October 2006 at 100% of the principal amount plus any accrued interest thereon. The December Notes are due December 2011, but may be called by the Company, in whole or in part, at any time for an amount equal to accrued and unpaid interest, plus the greater of 100% of the principal amount or the sum of the present values of the remaining scheduled payments of principal and interest, discounted to the redemption date on a semi-annual basis at the Treasury Rate, as defined in the indenture, plus 25 basis points.

Both issues are guaranteed by VUHI's three operating utility companies: SIGECO, Indiana Gas, and VEDO. VUHI has no significant independent assets or operations other than the assets and operations of these subsidiary guarantors. These guarantees of VUHI's debt are full and unconditional and joint and several.

The net proceeds from the sale of the senior notes and settlement of the hedging arrangements (see Note 16) totaled \$344.0 million and were used to reduce existing debt outstanding under VUHI's short-term borrowing arrangements.

#### Vectren Capital Corp.

In December 2000, Vectren Capital Corp., a wholly owned consolidated subsidiary that provides financing for the Company's nonregulated operations and investments, issued \$78.0 million of private placement unsecured senior notes to three institutional investors. The issues and terms are \$38.0 million at 7.67%, due December 2005; \$17.5 million at 7.83%, due December 2007; and \$22.5 million at 7.98%, due December 2010. The issues have no sinking fund requirements. The net proceeds totaling \$77.4 million were used to repay outstanding short-term borrowings.

#### Indiana Gas

In December 2000, \$20.0 million of 15-Year Insured Quarterly (IQ) Notes at an interest rate of 7.15% and \$50.0 million of 30-Year IQ Notes at an interest rate of 7.45% were issued. Indiana Gas may call the 15-Year IQ Notes, in whole or in part, from time to time on or after December 15, 2004 and has the option to redeem the 30-Year IQ Notes in whole or in part, from time to time on or after December 15, 2005. The IQ notes have no sinking fund requirements. The net proceeds totaling \$67.9 million were used to repay outstanding commercial paper utilized for general corporate purposes.

#### Long-Term Debt Sinking Fund Requirements & Maturities

The annual sinking fund requirement of SIGECO's first mortgage bonds is 1% of the greatest amount of bonds outstanding under the Mortgage Indenture. This requirement may be satisfied by certification to the Trustee of unfunded property additions in the prescribed amount as provided in the Mortgage Indenture. SIGECO intends to meet the 2002 sinking fund requirement by this means and, accordingly, the sinking fund requirement for 2002 is excluded from current liabilities in the Consolidated Balance Sheets. At December 31, 2001, \$279.3 million of SIGECO's utility plant remained unfunded under SIGECO's Mortgage Indenture.

Consolidated maturities and sinking fund requirements on long-term debt subject to mandatory redemption during the five years following 2001 (in millions) are \$1.3 in 2002, \$17.3 in 2003, \$16.3 in 2004, \$39.3 in 2005, and \$1.3 in 2006.

#### Long-Term Debt Put & Call Provisions

Certain long-term debt issues contain put and call provisions that can be exercised on various dates before maturity. These provisions allow holders to put debt back to the Company at face value or the Company to call debt at face value or at a premium. Long-term debt subject to tender during the years following 2001 (in millions) is \$11.5 in 2002, \$3.5 in 2004, \$10.0 in 2005, \$53.7 in 2006 and \$140.0 thereafter.

Of these debt instruments containing put options, the Company has \$31.5 million of adjustable rate pollution control series first mortgage bonds and \$22.2 million of adjustable rate pollution control series unsecured senior notes which could, at the election of the bondholder, be tendered to the Company when interest rates are reset.

Prior to the latest reset on March 1, 2001, the interest rates were reset annually, and the bonds were presented as current liabilities. Effective March 1, 2001, the bonds were reset for a five-year period and have been classified as long-term debt.

#### Short-Term Borrowings

At December 31, 2001, the Company has approximately \$540.0 million of short-term borrowing capacity, including \$360.0 million for its regulated operations and \$180.0 million for its nonregulated operations, of which approximately \$85.8 million is available for regulated operations and \$62.6 million is available for nonregulated operations. The availability of short-term borrowing is reduced by outstanding letters of credit totaling \$11.1 million, primarily collateralizing nonregulated activities. Included in regulated capacity is VUHI's credit facility, which was renewed in June 2001 and extended through June 2002. As part of the renewal, the facility's capacity decreased from \$435.0 million to \$350.0 million. Indiana Gas' \$155.0 million commercial paper program expired in 2001 and was not required and, therefore, not renewed. See the table below for interest rates and outstanding balances.

In millions	Year ended December 31,		
	2001	2000	1999
Weighted average total outstanding during the year	\$ 447.0	\$ 316.7	\$ 163.8
Weighted average interest rates during the year			
Bank loans	6.77%	6.98%	5.76%
Commercial paper	4.39%	6.53%	5.40%
At December 31,			
	2001	2000	
Bank loans	\$ 108.4	\$ 146.5	
Commercial paper	273.3	463.4	
Total short-term borrowings	\$ 381.7	\$ 609.9	

#### Covenants

Both long-term and short-term borrowing arrangements contain customary default provisions, restrictions on liens, sale leaseback transactions, mergers or consolidations, and sales of assets; and restrictions on leverage and interest coverage, among other restrictions. As of December 31, 2001, the Company was in compliance with all financial covenants.

### **9. Cumulative Preferred Stock of Subsidiary**

#### Nonredeemable

Nonredeemable preferred stock contains call options that were exercised during September 2001 for a total redemption price of \$9.8 million. The 4.80%, \$100 par value preferred stock was redeemed at its stated call price of \$110 per share, plus accrued and unpaid dividends totaling \$1.35 per share. The 4.75%, \$100 par value preferred stock was redeemed at its stated call price of \$101 per share, plus accrued and unpaid dividends totaling \$0.97 per share. Prior to the redemptions and as of December 31, 2000, there were 85,519 shares of the 4.80% Series outstanding and 3,000 shares of the 4.75% Series outstanding.

#### Redeemable

In September 2001, the 6.50%, \$100 par value preferred stock was redeemed for a total redemption price of \$7.9 million at \$104.23 per share, plus \$0.73 per share in accrued and unpaid dividends. Prior to the redemption and as of December 31, 2000, there were 75,000 shares outstanding.

As the preferred stock redeemed was that of a subsidiary, the loss on redemption of \$1.2 million in 2001 is reflected in retained earnings.

#### Redeemable, Special

This series of redeemable preferred stock has a dividend rate of 8.50% and in the event of involuntary liquidation the amount payable is \$100 per share, plus accrued dividends. This Series may be redeemed at \$100 per share, plus accrued dividends on any of its dividend payment dates and is also callable at the Company's option at a rate of 1,160 shares per year. As of December 31, 2001 and 2000, there were 4,597 shares and 5,757 shares outstanding, respectively.

### **10. Common Shareholders' Equity**

In March 2000, the merger of Indiana Energy and SIGCORP with and into Vectren was consummated with a tax-free exchange of shares and has been accounted for as a pooling of interests. The common shareholders of SIGCORP received 1,333 shares of Vectren common stock for each SIGCORP common share and the common shareholders of Indiana Energy received one share of Vectren common stock for each Indiana Energy common share, resulting in the issuance of 61.3 million shares of Vectren common stock.

In January 2001, the Company filed a registration statement with the Securities and Exchange Commission with respect to a public offering of 5.5 million shares of new common stock. In February 2001, the registration became effective, and an agreement was reached to sell approximately 6.3 million shares (the original 5.5 million shares, plus an over-allotment option of 0.8 million shares) to a group of underwriters. The net proceeds of \$129.4 million were used principally to repay outstanding commercial paper utilized for recent acquisitions and investments.

#### Authorized, Reserved Common Shares

At December 31, 2001 and 2000, the Company was authorized to issue 190.0 million shares of common stock. Of that amount, approximately 7.4 million and 3.4 million shares of common stock, respectively, were not issued, but reserved for issuance through the Company's stock-based incentive plans and benefit plans, and 114.9 million and 125.2 million shares of common stock, respectively, were not issued and not reserved. These unreserved shares are available for a variety of general corporate purposes, including future public offerings to raise additional capital and for facilitating acquisitions.

#### Shareholder Rights Agreement

The Company's board of directors has adopted a Shareholder Rights Agreement (Rights Agreement). As part of the Rights Agreement, the board of directors declared a dividend distribution of one right for each outstanding Vectren common share. Each right entitles the holder to purchase from Vectren one share of common stock at a price of \$65.00 per share (subject to adjustment to prevent dilution). The rights become exercisable 10 days following a public announcement that a person or group of affiliated or associated persons (Vectren Acquiring Person) has acquired beneficial ownership of 15% or more of the outstanding Vectren common shares (or a 10% acquirer who is determined by the board of directors to be an adverse person), or 10 days following the announcement of an intention to make a tender offer or exchange offer the consummation of which would result in any person or group becoming a Vectren Acquiring Person. The Vectren Shareholder Rights Agreement expires October 21, 2009.

### **11. Earnings Per Share**

Basic earnings per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share assumes the conversion of stock options into common shares and the lifting of restrictions on issued restricted shares using the treasury stock method to the extent the effect would be dilutive. The following table illustrates the basic and dilutive earnings per share calculations for the three years ended December 31, 2001:

In millions, except per share amounts	2001			2000			1999		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
Basic EPS	\$63.6	66.7	\$ 0.95	\$72.0	61.3	\$ 1.18	\$90.7	61.3	\$ 1.48
Effect of dilutive stock equivalents		0.2			0.1			0.1	
Diluted EPS	\$63.6	66.9	\$ 0.95	\$72.0	61.4	\$ 1.17	\$90.7	61.4	\$ 1.48

Options to purchase 836,688 shares of common stock for the year ended December 31, 2001, 526,469 shares of common stock for the year ended December 31, 2000 and 99,973 shares of common stock for the year ended December 31, 1999 were not included in the computation of dilutive earnings per share because the options' exercise price was greater than the average market price of a share of common stock during the period. Exercise prices for options excluded from the computation ranged from \$22.54 to \$24.05 in 2001; \$19.83 to \$24.05 in 2000 and equaled \$24.05 in 1999.

## 12. Stock-Based Incentive Plans

The Company has various stock-based incentive plans to encourage employees and non-employee directors to remain with the Company and to more closely align their interest with those of the Company's shareholders. At the annual shareholders meeting on April 25, 2001, shareholders approved the Company's At-Risk Compensation Plan. On May 1, 2001, per the terms of the plan, 4,000,000 shares of common stock were reserved for issuance in the form of stock options, restricted stock, and other awards. The Company applies APB Opinion 25, "Accounting for Stock Issued to Employees" and related interpretations when measuring compensation expense for these plans. The pro forma effect on net income and earnings per share, as if the fair value-based method had been applied in measuring compensation expense, is disclosed below.

### Stock Option Plans

Certain SIGCORP employees held options to purchase SIGCORP common shares. When the merger of SIGCORP and Indiana Energy was consummated, each granted and outstanding option to purchase SIGCORP common shares was converted into an option to purchase the number of Vectren common shares that could have been purchased under the original option multiplied by one and one-third. The exercise price per Vectren common share under the new option is equal to the original per share price divided by one and one-third. The new Vectren options are otherwise subject to the same terms and conditions as the original SIGCORP options. Accordingly, the conversion resulted in no compensation expense.

A summary of the status of the Company's stock option plans for the past three years is as follows:

	Options	Wtd. Avg. Exercise Price
Outstanding at December 31, 1998	671,389	\$ 17.46
Granted	272,783	20.26
Exercised	(13,168)	14.22
Outstanding at December 31, 1999	931,004	18.33
Cancelled	(30,955)	19.04
Exercised	(40,608)	15.92
Outstanding at December 31, 2000	859,441	18.41
Granted	783,999	22.54
Cancelled	(92,953)	21.84
Exercised	(122,709)	16.05
Outstanding at December 31, 2001	1,427,778	20.67

Stock options granted in 2001 become fully vested and exercisable at the end of five years for stock options issued to employees and one year for non-employee directors. Stock options granted prior to 2001 generally vest and become exercisable between one and three years in equal annual installments beginning one year after the grant date. Options granted both before and after 2001 expire ten years from the date of grant. The exercise price of stock options awarded under the Company's stock option plans is equal to the fair market value of the underlying common stock on the date of grant. Accordingly, no compensation expense has been recognized. Had compensation cost for these stock option plans been determined based on the fair value at the grant date consistent with the methodology prescribed under SFAS No. 123 "Accounting for Stock-Based Compensation," net income would have been reduced by \$1.1 million in 2001, \$0.4 million in 2000, and \$0.6 million in 1999. Basic and diluted earnings per share would have been reduced by \$0.02 in 2001 and \$0.01 in both 2000 and 1999.

The fair value of each option granted used to determine pro forma net income is estimated as of the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in the years ended December 31, 2001 and 1999: risk-free interest rate of 5.65% and 6.46%, respectively; expected option term of 8 years and 5 years, respectively; expected volatility of 26.56% and 34.00%, respectively; and dividend rates of 4.42% and 4.46%, respectively. The weighted average fair value of options granted in 2001 and 1999 were \$5.21 and \$5.05, respectively. No options were granted in 2000.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2001:

Range of Exercise Prices	Outstanding			Exercisable	
	# of Options	Wtd. Avg. Remaining Contractual Life	Wtd. Avg. Exercise Price	# of Options	Wtd. Avg. Exercise Price
\$13.82 - \$17.44	243,165	3.0	\$ 14.63	243,165	\$ 14.63
\$19.83 - \$20.26	349,925	6.5	20.09	349,925	20.09
\$22.54 - \$24.05	834,688	9.1	22.66	65,689	24.05
Total	1,427,778		20.67	658,779	18.47

As of December 31, 2000 and 1999, the number of stock options that are exercisable and those options' weighted average exercise price is 781,415 and \$18.41 in 2000; and 658,221 and \$17.53 in 1999.

#### Other Plans

Indiana Energy had a performance-based Executive Restricted Stock Plan for its principal officers and a Directors' Restricted Stock Plan through which non-employee directors received a portion of their salary. Upon consummation of the merger, the restrictions on each outstanding share of restricted stock lapsed, and all shares that were issued as restricted stock were treated as unrestricted shares in the merger exchange. In 2000, the Company adopted these plans. During the years ended December 31, 2001, 2000 and 1999, the number of restricted stock grants and the grants' weighted average fair value was 4,257 and \$22.54 per share, respectively, in 2001, 194,884 shares and \$19.90 per share, respectively, in 2000, and 15,238 shares and \$23.20 per share, respectively, in 1999. During 2001, 19,726 restricted shares were forfeited.

Members of management and non-employee directors may defer certain portions of their salary, annual bonus, incentive compensation, and earned stock-based incentives into phantom stock units. Such units are vested when granted.

Compensation expense associated with these plans for the years ended December 31, 2001, 2000, and 1999 was \$2.8 million, \$2.9 million and \$0.9 million, respectively. Approximately, \$2.3 million of compensation expense for the year ended December 31, 2000 is for the lifting of restrictions triggered by the merger transaction.



### 13. Commitments & Contingencies

#### Rental Commitments

Future minimum lease payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year during the five years following 2001 and thereafter (in millions) are \$4.4 in 2002, \$4.5 in 2003, \$3.9 in 2004, \$3.0 in 2005, \$3.0 in 2006 and \$5.6 thereafter. Total lease expense (in millions) was \$6.2 in 2001, \$3.4 in 2000 and \$2.7 in 1999.

#### Construction Commitments

The Company has entered into a contract to purchase and construct an 80-megawatt combustion gas turbine generator. The total cost of the project is estimated to be \$33.0 million and is expected to be completed by the summer of 2002. Through December 31, 2001, \$23.2 million has been expended.

#### Guarantees

The Company is party to financial guarantees with off-balance sheet risk. These guarantees include debt guarantees and performance guarantees, including the debt of and performance of energy efficiency products installed by affiliated companies. The Company estimates these guarantees totaled \$114.6 million at December 31, 2001. Of that amount, \$82.9 million relates to the Company's guarantee of Energy Systems Group, LLC's surety bonds and performance guarantees. Energy Systems Group, LLC is a two-thirds owned consolidated subsidiary.

#### Legal Proceedings

The Company is party to various legal proceedings arising in the normal course of business. In the opinion of management, there are no legal proceedings pending against the Company that are likely to have a material adverse effect on its financial position or results of operations. See Note 14 regarding the Culley Generating Station Litigation and Note 4 regarding ProLiance Energy, LLC.

### 14. Environmental Matters

#### Clean Air Act

**NOx SIP Call Matter** The Clean Air Act (the Act) requires each state to adopt a State Implementation Plan (SIP) to attain and maintain National Ambient Air Quality Standards (NAAQS) for a number of pollutants, including ozone. If the United States Environmental Protection Agency (USEPA) finds a state's SIP inadequate to achieve the NAAQS, the USEPA can call upon the state to revise its SIP (a SIP Call).

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

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

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

The IURC issued an order that (1) approves the Company's proposed project to achieve environmental compliance by investing in clean coal technology, (2) approves the Company's cost estimate for the construction, subject to periodic review of the actual costs incurred, and (3) approves a mechanism whereby, prior to an electric base rate case, the Company may recover a return on its capital costs for the project, at its overall cost of capital, including a return on equity.

Based on the level of system-wide emissions reductions required and the control technology utilized to achieve the reductions, the current estimated construction cost ranges from \$175.0 million to \$195.0 million and is expected to be expended during the 2001-2004 period. Through December 31, 2001, \$22.5 million has been expended. After the equipment is installed and operational, related additional annual operation and maintenance expenses are estimated to be between \$8.0 million and \$10.0 million.

The Company expects the Culley, Warrick and A.B. Brown SCR systems to be operational by the compliance date. Installation of SCR technology at these stations is expected to reduce the Company's overall NOx emissions to levels compliant with Indiana's NOx emissions budget allotted by the USEPA; therefore, the Company has recorded no accrual for potential penalties that may result from noncompliance.

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

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

SIGECO believes it performed only maintenance, repair and replacement activities at the Culley Generating Station, as allowed under the Act. Because proper maintenance does not require permits, application of the best available control technology, notice to the USEPA, or compliance with new source performance standards, SIGECO believes that the lawsuit is without merit, and intends to vigorously defend itself.

The lawsuit seeks fines against SIGECO in the amount of \$27,500 per day per violation. The lawsuit does not specify the number of days or violations the USEPA believes occurred. The lawsuit also seeks a court order requiring SIGECO to install the best available emissions technology at the Culley Generating Station. If the USEPA were successful in obtaining an order, SIGECO estimates that it would incur capital costs of approximately \$40.0 million to \$50.0 million to comply with the order. As a result of the NOx SIP call issue, the majority of the \$40.0 million to \$50.0 million for best available emissions technology at Culley Generating Station is included in the \$175.0 million to \$195.0 million cost range previously discussed.

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

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

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

#### Manufactured Gas Plants

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

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

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

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

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

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

#### **15. Rate & Regulatory Matters**

##### Gas Costs Proceedings

Commodity prices for natural gas purchases were significantly higher during the 2000 - 2001 heating season, primarily due to colder temperatures, increased demand and tighter supplies. Subject to compliance with applicable state laws, Vectren's utility subsidiaries are allowed full recovery of such changes in purchased gas costs from their retail customers through commission-approved gas cost adjustment mechanisms.

In March 2001, Indiana Gas and SIGECO reached agreement with the Indiana Office of Utility Consumer Counselor (OUCC) and the Citizens Action Coalition of Indiana, Inc. (CAC) regarding the matters raised by an IURC Order that disallowed \$3.8 million of Indiana Gas' gas procurement costs for the 2000 - 2001 heating season which was recognized during the year ended December 31, 2000. As part of the agreement, the companies agreed

to contribute an additional \$1.7 million to assist qualified low income gas customers, and Indiana Gas agreed to credit \$3.3 million of the \$3.8 million disallowed amount to its customers' April 2001 utility bills in exchange for both the OUCC and the CAC dropping their appeals of the IURC Order. In April 2001, the IURC issued an order approving the settlement. Substantially all of the financial assistance for low income gas customers has been distributed in 2001.

#### Purchased Power Costs

As a result of an appeal of a generic order issued by the IURC in August 1999 regarding guidelines for the recovery of purchased power costs, SIGECO entered into a settlement agreement with the OUCC that provides certain terms with respect to the recoverability of such costs. The settlement, originally approved by the IURC in August 2000, has been extended by agreement through March 2002 and additional settlement discussions are expected in 2002. Under the settlement, SIGECO can recover the entire cost of purchased power up to an established benchmark, and during forced outages, SIGECO will bear a limited share of its purchased power costs regardless of the market costs at that time. Based on this agreement, SIGECO believes it has limited its exposure to unrecoverable purchased power costs.

### **16. Risk Management, Derivatives & Other Financial Instruments**

#### Risk Management

The Company is exposed to market risks associated with commodity prices, interest rates, and counter-party credit. These financial exposures are monitored and managed by the Company as an integral part of its overall risk management program.

Commodity Price Risk The Company's regulated operations have limited exposure to commodity price risk for purchases and sales of natural gas and electric energy for its retail customers due to current Indiana and Ohio regulations, which subject to compliance with applicable state regulations, allow for recovery of such purchases through natural gas and fuel cost adjustment mechanisms.

The Company does engage in limited wholesale power marketing and other marketing activities that may expose it to commodity price risk associated with fluctuating electric power, natural gas, and coal commodity prices.

The Company's wholesale power marketing activities manage the utilization of its available electric generating capacity. The Company's other commodity marketing activities purchase and sell natural gas and coal to meet customer demands. These operations enter into forward contracts that commit the Company to purchase and sell commodities in the future.

Commodity price risk results from forward sales contracts that commit the Company to deliver commodities on specified future dates. Power marketing uses planned unutilized generation capability and forward purchase contracts to protect certain sales transactions from unanticipated fluctuations in the price of electric power, and periodically, will use derivative financial instruments to protect its interests from unplanned outages and shifts in demand. Additionally, other commodity marketing activities use stored inventory and forward purchase contracts to protect certain sales transactions from unanticipated fluctuations in commodity prices.

Open positions in terms of price, volume and specified delivery points may occur to a limited extent and are managed using methods described above and frequent management reporting.

Interest Rate Risk The Company is exposed to interest rate risk associated with its adjustable rate borrowing arrangements. Its risk management program seeks to reduce the potentially adverse effects that market volatility may have on operations.

Under normal circumstances, the Company tries to limit the amount of adjustable rate borrowing arrangements exposed to short-term interest rate volatility to a maximum of 25% of total debt. However, there are times when this targeted level of interest rate exposure may be exceeded. To manage this exposure, the Company may periodically use derivative financial instruments to reduce earnings fluctuations caused by interest rate volatility.

Other Risks By using forward purchase contracts and derivative financial instruments to manage risk, the Company exposes itself to counter-party credit risk and market risk. The Company manages this exposure to counter-party credit risk by entering into contracts with financially sound companies that can be expected to fully perform under the terms of the contract. The Company attempts to manage exposure to market risk associated with commodity contracts and interest rates by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. As of December 31, 2001, the Company has a net receivable from Enron Corp. of approximately \$1.0 million, which has been fully reserved.

The Company's customer receivables from gas and electric sales and gas transportation services are primarily derived from a diversified base of residential, commercial, and industrial customers located in Indiana and west central Ohio. The Company manages credit risk associated with its receivables by continually reviewing creditworthiness and requests cash deposits or refunds cash deposits based on that review. Credit risk associated with certain investments is also managed by a review of creditworthiness and receipt of collateral.

#### Accounting for Forward Contracts & Other Financial Instruments

Commodity Contracts At origination, all contracts to buy and sell electric power, natural gas, and coal are designated as "physical" or "other-than-trading." The Company does not have any contracts designated as "trading" as defined by EITF 98-10.

Power marketing contracts are designated as "physical" when there is intent and ability to physically deliver power from SIGECO's unutilized generating capacity. Power marketing contracts are designated as "other-than-trading" when there is intent to receive power to manage base and peak load capacity. Both contract designations generally require settlement by physical delivery of electricity. However, certain of these contracts may be net settled in accordance with industry standards when unplanned outages, favorable pricing movements, and shifts in demand occur.

Prior to the adoption of SFAS 133, contracts in the "physical" and "other-than-trading" portfolios received accounting recognition on settlement with revenues recorded in electric utility revenues and costs recorded in fuel for electric generation for those contracts fulfilled through generation and in purchased electric energy for contracts purchased in the wholesale energy market. Subsequent to the adoption of SFAS 133, certain contracts that are periodically settled net are recorded at market value.

Other commodity contracts are designated as "physical" when the Company has the intent to physically deliver or receive natural gas or coal. Certain contracts in this portfolio may be settled net in accordance with industry standards. Prior to the adoption of SFAS 133, "physical" contracts received accounting recognition upon settlement with revenues recorded in energy services and other revenues and costs recorded in cost of energy services and other. After the adoption of SFAS 133, certain contracts that are periodically settled net are recorded at market value.

Contracts recorded at market value are recorded as current or noncurrent assets or liabilities in the Consolidated Balance Sheets depending on their value and on when the contracts are expected to be settled. Changes in market value are recorded in the Consolidated Statements of Income as purchased electric energy or cost of energy services and other, as appropriate. Market value is determined using quoted market prices from independent sources.

Financial Contracts In September 2001, the Company entered into several forward starting interest rate swaps with a total notional amount of \$200.0 million in anticipation of VUHI's \$250.0 million long-term debt issuance. Upon issuance of the debt in December 2001, the swaps were settled resulting in the Company receiving \$0.9 million. The value received is being amortized from accumulated other comprehensive income to interest expense over the life of the debt.

In December 2000, the Company entered into an interest rate swap used to hedge interest rate risk associated with variable rate short-term notes payable totaling \$150.0 million. The swap was entered into concurrently with the issuance of the floating rate notes on December 28, 2000 and swapped the debt's variable interest rate of three-

month LIBOR plus 0.75% for a fixed rate of 6.64%. The swap expired on December 27, 2001, the date the debt agreement expired.

Prior to the adoption of SFAS 133, instruments hedging interest rate risk were accounted for upon settlement in interest expense. After adoption of SFAS 133, hedging instruments are carried at market value in other assets or other current liabilities, as appropriate, and changes in market value are recorded in accumulated other comprehensive income and recorded to interest expense as settled.

#### Impact of New Accounting Principle

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS 133, which requires that every derivative instrument be recorded on the balance sheet as an asset or liability measured at its market value and that changes in the derivative's market value be recognized currently in earnings unless specific hedge accounting criteria are met.

SFAS 133, as amended, requires that as of the date of initial adoption, the difference between the market value of derivative instruments recorded on the balance sheet and the previous carrying amount of those derivatives be reported in net income or other comprehensive income, as appropriate, as the cumulative effect of a change in accounting principle in accordance with APB Opinion No. 20, "Accounting Changes."

Resulting from the adoption of SFAS 133, certain contracts in the power marketing operations and other wholesale marketing operations that are periodically settled net were required to be recorded at market value. Previously, the Company accounted for these contracts on settlement. The cumulative impact of the adoption of SFAS 133 resulting from marking these contracts to market on January 1, 2001 was an earnings gain of approximately \$6.3 million (\$3.9 million net of tax) recorded as a cumulative effect of accounting change in the Consolidated Statements of Income. The majority of this gain results from the Company's power marketing operations. SFAS 133 did not impact other commodity contracts because they were normal purchases and sales specifically excluded from the provisions of SFAS 133.

As of December 31, 2001, the Company has derivative assets resulting from its power marketing operations of \$5.2 million classified in other current assets as well as derivative liabilities of \$2.0 million classified in accrued liabilities. Unrealized losses totaling \$3.2 million arising from the difference between the current market value and the market value on the date of adoption is included in purchased electric energy in the Consolidated Statements of Income for the year ended December 31, 2001. Derivatives used in other commodity marketing operations are not significant.

The Company assesses and documents the hedging relationship between its financial instruments, including interest rate swaps, and underlying risks as well as the investment's risk management objectives and anticipated effectiveness. When the hedging relationship is highly effective, these instruments are designated as cash flow hedges. The adoption of SFAS 133 had no impact as the market value of the Company's cash flow hedges was zero on January 1, 2001.

As of December 31, 2001, no interest rate swaps are outstanding. Approximately \$0.9 million remains in accumulated other comprehensive income that is related to interest rate swaps hedging future interest payments. Of that amount, \$0.1 million will be reclassified to earnings within the next twelve months.

In addition to the Company's wholly owned subsidiaries, ProLiance, an equity method investment, adopted SFAS 133 during 2000. The Company's share of the impact of adoption and continued use of derivatives by ProLiance is reflected in accumulated other comprehensive income due to the nature of the derivatives used.

#### Fair Value of Other Financial Instruments

The carrying values and estimated fair values of the Company's other financial instruments were as follows:

In millions	At December 31,			
	2001		2000	
	Carrying Amount	Est. Fair Value	Carrying Amount	Est. Fair Value
Long-term debt	\$1,031.4	\$1,022.4	\$ 688.9	\$ 672.4
Short-term borrowings & notes payable	381.7	381.7	759.9	759.9
Redeemable preferred stock of subsidiary	-	-	7.5	7.7
Partnership obligations	-	-	0.2	0.3

Certain methods and assumptions must be used to estimate the fair value of financial instruments. The fair value of the Company's other financial instruments was estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Company for instruments with similar characteristics. Because of the maturity dates and variable interest rates of short-term borrowings, its carrying amount approximates its fair value.

Under current regulatory treatment, call premiums on reacquisition of long-term debt are generally recovered in customer rates over the life of the refunding issue or over a 15-year period. Accordingly, any reacquisition would not be expected to have a material effect on the Company's financial position or results of operations.

Because of the customized nature of certain cost method investments included in investments in unconsolidated affiliates and notes receivable included in other investments, and since there is no readily available market for these investments, it is not practicable to estimate the fair value of these financial instruments.

#### 17. Additional Operational & Balance Sheet Information

Other – net in the Consolidated Statements of Income consists of the following:

In millions	Year ended December 31,		
	2001	2000	1999
Interest income	\$ 5.7	\$ 8.6	\$ 5.8
Leveraged lease investment income	4.6	7.7	4.2
AFUDC	5.6	5.2	3.6
Other income	6.0	7.2	2.6
Other expense	(5.6)	(5.0)	(2.3)
Total other – net	\$ 16.3	\$ 23.7	\$ 13.9

Other current assets in the Consolidated Balance Sheets consists of the following:

In millions	At December 31,	
	2001	2000
Prepaid gas delivery service	\$ 67.7	\$ 34.8
Other prepayments & current assets	35.7	27.5
Total prepayments & other current assets	\$ 103.4	\$ 62.3

Accrued liabilities in the Consolidated Balance Sheets consists of the following:

In millions	At December 31,	
	2001	2000
Deferred income taxes	\$ 20.7	\$ -
Refunds to customers & customer deposits	18.7	22.9
Accrued interest	13.3	10.3
Accrued taxes	9.4	17.6
Other	39.3	55.4
Total accrued liabilities	\$ 101.4	\$ 106.2

## 18. Segment Reporting

The Company had four operating segments during 2001: (1) Gas Utility Services, (2) Electric Utility Services, (3) Nonregulated Operations, and (4) Corporate and Other. The Gas Utility Services segment includes the operations of Indiana Gas, the Ohio operations, and SIGECO's natural gas distribution business and provides natural gas distribution and transportation services in nearly two-thirds of Indiana and west central Ohio. The Electric Utility Services segment includes the operations of SIGECO's power generating and marketing operations, and electric transmission and distribution services, which provides electricity to primarily southwestern Indiana. The Nonregulated Operations segment is comprised of various subsidiaries and affiliates offering and investing in energy marketing and services, coal mining, utility infrastructure services, and broadband communications among other energy-related opportunities. The Corporate and Other segment provides general and administrative support and assets, including computer hardware and software, to the Company's other operating segments. During 2001, the Company reorganized its business segments by separating the Corporate and Other segment from the Nonregulated Operations segment. Prior year data has been restated to conform to the current year presentation.

The following tables provide information about business segments. The Company makes decisions on finance and dividends at the corporate level. Investments in unconsolidated affiliates, earnings of those unconsolidated affiliates, and the extraordinary item recognized in 2001 are primarily within the Nonregulated Operations segment.

In millions	Year ended December 31,		
	2001	2000	1999
<b>Operating Revenues</b>			
Gas Utility Services	\$ 1,031.5	\$ 818.8	\$ 499.6
Electric Utility Services	378.9	336.4	307.5
Nonregulated Operations	797.1	519.2	281.7
Corporate & Other	29.7	33.6	33.2
Intersegment Eliminations	(67.2)	(59.3)	(53.6)
Total operating revenues	\$ 2,170.0	\$ 1,648.7	\$ 1,068.4
<b>Interest Expense</b>			
Gas Utility Services	\$ 51.0	\$ 28.0	\$ 19.3
Electric Utility Services	19.1	18.1	17.5
Nonregulated Operations	12.2	10.2	6.1
Corporate & Other	1.6	1.3	0.9
Intersegment Eliminations	(1.3)	(1.2)	(0.9)
Total interest expense	\$ 82.6	\$ 56.4	\$ 42.9



In millions	Year ended December 31,		
	2001	2000	1999
<b>Income Taxes</b>			
Gas Utility Services	\$ 2.4	\$ 11.5	\$ 18.9
Electric Utility Services	20.3	23.4	24.3
Nonregulated Operations	(5.0)	0.7	0.6
Corporate & Other	0.9	(1.2)	1.9
Intersegment Eliminations	-	(0.2)	-
Total income taxes	\$ 18.6	\$ 34.2	\$ 45.7
<b>Net Income</b>			
Gas Utility Services	\$ 9.9	\$ 15.6	\$ 33.6
Electric Utility Services	40.8	36.8	41.8
Nonregulated Operations	11.3	21.7	12.5
Corporate & Other	1.6	(2.1)	2.8
Net income	\$ 63.6	\$ 72.0	\$ 90.7
<b>Depreciation &amp; Amortization</b>			
Gas Utility Services	\$ 58.2	\$ 43.8	\$ 38.7
Electric Utility Services	38.7	38.6	40.8
Nonregulated Operations	5.9	1.1	0.7
Corporate & Other	20.9	22.2	6.8
Total depreciation & amortization	\$ 123.7	\$ 105.7	\$ 87.0
<b>Capital Expenditures</b>			
Gas Utility Services	\$ 76.1	\$ 73.1	\$ 72.5
Electric Utility Services	69.7	37.6	51.1
Nonregulated Operations	33.5	27.3	1.7
Corporate & Other	56.0	26.3	10.6
Total capital expenditures	\$ 235.3	\$ 164.3	\$ 135.9

In millions	At December 31,	
	2001	2000
<b>Identifiable Assets</b>		
Gas Utility Services	\$ 1,557.7	\$ 1,630.0
Electric Utility Services	802.1	806.3
Nonregulated Operations	677.7	672.0
Corporate & Other	147.3	85.1
Intersegment Eliminations	(328.0)	(267.1)
Total identifiable assets	\$ 2,856.8	\$ 2,926.3

## 19. Impact of Recently Issued Accounting Guidance

### SFAS 141 & 142

The FASB issued two new statements of financial accounting standards in July 2001: SFAS No. 141, "Business Combinations" (SFAS 141), and SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). These interrelated standards change the accounting for business combinations and goodwill in two significant ways:

SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Use of the pooling-of-interests method is prohibited. This change does not affect the pooling-of-interest transaction forming Vectren.

SFAS 142 changes the accounting for goodwill from an amortization approach to an impairment-only approach. Thus, amortization of goodwill that is not included as an allowable cost for rate-making purposes will cease upon adoption of the statement. This includes goodwill recorded in past business combinations, such as the Company's acquisition of the Ohio operations. Goodwill is to be tested for impairment at a reporting unit level at least annually.

SFAS 142 also requires the initial impairment review of all goodwill and other intangible assets within six months of the adoption date, which is January 1, 2002 for the Company. The impairment review consists of a comparison of the fair value of a reporting unit to its carrying amount. If the fair value of a reporting unit is less than its carrying amount, an impairment loss would be recognized. Results of the initial impairment review are to be treated as a change in accounting principle in accordance with APB Opinion No. 20 "Accounting Changes." An impairment loss recognized as a result of an impairment test occurring after the initial impairment review is to be reported as a part of operations.

SFAS 142 also changes certain aspects of accounting for intangible assets; however, the Company does not have any significant intangible assets.

The adoption of SFAS 141 will not materially impact operations. As required by SFAS 142, amortization of goodwill relating to the acquisition of the Ohio operations, which approximates \$5.0 million per year, will cease on January 1, 2002. Initial impairment reviews to be performed within six months of adoption of SFAS 142 are not expected to have a significant impact on operations.

#### SFAS 143

In July 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS 143). SFAS 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. SFAS 143 is effective for fiscal years beginning after June 15, 2002, with earlier application encouraged. The Company is currently evaluating the impact that SFAS 143 will have on its operations.

#### SFAS 144

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144). SFAS 144 develops one accounting model for all impaired long-lived assets and long-lived assets to be disposed of. SFAS 144 replaces the existing authoritative guidance in FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and certain aspects of APB Opinion No. 30, "Reporting Results of Operations-Reporting the Effects of Disposal of a Segment of a Business."

This new accounting model retains the framework of SFAS 121 and requires that those impaired long-lived assets and long-lived assets to be disposed of be measured at the lower of carrying amount or fair value (less cost to sell for assets to be disposed of), whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred.

SFAS 144 also broadens the reporting of discontinued operations to include all components of an entity with

operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction.

SFAS 144 is effective for fiscal years beginning after December 15, 2001, with earlier application encouraged. The Company is evaluating the impact SFAS 144 will have on its operations.

## 20. Quarterly Financial Data (Unaudited)

Summarized quarterly financial data for 2001 and 2000 is as follows:

In millions, except per share amounts	Q1	Q2	Q3	Q4
<b>2001</b>				
Operating revenues	\$ 883.1	\$ 432.2	\$ 358.4	\$ 496.3
Operating income (loss)	72.7	(4.6)	19.1	52.4
Income (loss) before extraordinary loss & cumulative effect of change in accounting principle	40.5	(10.0)	4.5	32.4
Basic earnings (loss) per share before extraordinary loss & cumulative effect of change in accounting principle	0.62	(0.15)	0.07	0.48
Diluted earnings (loss) per share before extraordinary loss & cumulative effect of change in accounting principle	0.61	(0.15)	0.07	0.48
Net income (loss)	44.4	(17.7)	4.5	32.4
Basic earnings (loss) per share	0.68	(0.26)	0.07	0.48
Diluted earnings (loss) per share	0.67	(0.26)	0.07	0.48
<b>2000</b>				
Operating revenues	\$ 359.5	\$ 263.7	\$ 317.9	\$ 707.6
Operating income	34.3	16.3	27.2	53.3
Net income	22.1	8.3	15.4	26.2
Basic earnings per share	0.36	0.14	0.25	0.43
Diluted earnings per share	0.36	0.13	0.25	0.43

1. Information in any one quarterly period is not indicative of annual results due to the seasonal variations common to the Company's utility operations.
2. Q1 of 2001 includes charges for cumulative effect of changes in accounting principle as described in Note 16.
3. Q2 of 2001 includes restructuring charges as described in Note 3.
4. Q2 of 2001 includes an extraordinary loss as described in Note 5.
5. 2001 & 2000 include merger and integration charges as described in Note 3.

**ITEM 9. CHANGE IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**PART III**

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

Except with respect to information regarding the executive officers of the Registrant, the information required by Part III, Item 10 of this Form 10-K is incorporated by reference herein, and made part of this Form 10-K, from the company's definitive Proxy Statement for its 2001 Annual Meeting of Stockholders, which was filed with the Securities and Exchange Commission, pursuant to Regulation 14A, on March 15, 2002. The information with respect to the executive officers of the Registrant is included below.

**Niel C. Ellerbrook**, age 53, has been a director of Indiana Energy or the Company since 1991. Mr. Ellerbrook is Chairman of the Board and Chief Executive Officer of the Company, having served in that capacity since March 2000. Mr. Ellerbrook served as President and Chief Executive Officer of Indiana Energy from June 1999 to March 2000. Mr. Ellerbrook served as President and Chief Operating Officer of Indiana Energy from October 1997 to March 2000. From January through October 1997, Mr. Ellerbrook served as Executive Vice President, Treasurer, and Chief Financial Officer of Indiana Energy; and from 1986 to January 1997 as Vice President, Treasurer, and Chief Financial Officer of Indiana Energy. Mr. Ellerbrook is a director of Vectren Utility Holdings, Inc., Indiana Gas Company, Inc., and Southern Indiana Gas and Electric Co. He is also a director of Fifth Third Bank, Indiana, and Deaconess Hospital of Evansville, Indiana.

**Andrew E. Goebel**, age 54, has been a director of SIGCORP or the Company since 1997. Mr. Goebel is President and Chief Operating Officer of the Company, having served in that capacity since March 2000. Mr. Goebel was President and Chief Operating Officer of SIGCORP from April 1999 to March 2000. From September 1997 through April 1999, Mr. Goebel served as Executive Vice President of SIGCORP; and from 1996 to September 1997, he served as Secretary and Treasurer of SIGCORP. Mr. Goebel is a director of Vectren Utility Holdings, Inc., Indiana Gas Company, Inc., and Southern Indiana Gas and Electric Co. Mr. Goebel is also a director of Old National Bancorp and Old National Bank.

**Jerome A. Benkert, Jr.**, age 43, has served as Executive Vice President and Chief Financial Officer of the Company since March 2000 and as Treasurer of the Company since October 2001. He was Executive Vice President and Chief Operating Officer of Indiana Energy's administrative services company from October 1997 to March 2000. Mr. Benkert has served as Controller and Vice President of Indiana Gas. Mr. Benkert is a director of Vectren Utility Holdings, Inc., Indiana Gas Company, Inc., and Southern Indiana Gas and Electric Co.

**Carl L. Chapman**, age 46, has served as Executive Vice President of the Company since March 2000. Mr. Chapman served as Assistant Treasurer of Indiana Energy from 1986 to March 2000. Since October 1997, Mr. Chapman has served as President of IGC Energy, Inc., which has been renamed Vectren Energy Solutions, Inc. Mr. Chapman served as President of ProLiance Energy, LLC ("ProLiance"), a gas supply and energy marketing joint venture partially owned by Vectren Energy Solutions, Inc., an indirect, wholly owned subsidiary of the Company, from March 1996 until April 1998. Currently, Mr. Chapman is the chairman of ProLiance. From 1995 until March 1996, he was Senior Vice President of Corporate Development for Indiana Gas.

**Ronald E. Christian**, age 43, has served as Senior Vice President, General Counsel, and Secretary of the Company since March 2000. Mr. Christian served as Vice President and General Counsel of Indiana Energy from July 1999 to March 2000. From June 1998 to July 1999, Mr. Christian was the Vice President, General Counsel and Secretary of Michigan Consolidated Gas Company in Detroit, Michigan. He served as the General Counsel and Secretary of Indiana Energy, Indiana Gas and Indiana Energy Investments, Inc. from 1993 to June 1998. Mr. Christian is a director of Vectren Utility Holdings, Inc., Indiana Gas Company, Inc., and Southern Indiana Gas and Electric Co.

**Richard G. Lynch**, age 50, has served as Senior Vice President-Human Resources and Administration of the Company since March 2000. Mr. Lynch was Vice President of Human Resources for SIGCORP from March 1999 to March 2000. Prior to joining the Company, Mr. Lynch was the Director of Human Resources for the Mead Johnson Division of Bristol Myers-Squibb in Evansville, Indiana.

**ITEM 11. EXECUTIVE COMPENSATION**

Information required by Part III, Item 11 of this Form 10-K is incorporated by reference herein, and made part of this Form 10-K, from the Company's definitive Proxy Statement for its 2002 Annual Meeting of Stockholders, which was filed with the Securities and Exchange Commission, pursuant to Regulation 14A, on March 15, 2001.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

Information required by Part III, Item 12 of this Form 10-K is incorporated by reference herein, and made part of this Form 10-K, from the Company's definitive Proxy Statement for its 2002 Annual Meeting of Stockholders, which was filed with the Securities and Exchange Commission, pursuant to Regulation 14A, on March 15, 2002.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Information required by Part III, Item 13 of this Form 10-K is incorporated by reference herein, and made part of this Form 10-K, from the Company's definitive Proxy Statement for its 2002 Annual Meeting of Stockholders, which was filed with the Securities and Exchange Commission, pursuant to Regulation 14A, on March 15, 2002.

**PART IV**

**ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K**

**(a) List Of Documents Filed As Part Of This Report**

**(1) Consolidated Financial Statements**

The consolidated financial statements and related notes, together with the report of Arthur Andersen LLP, appear in Part II Item 8 Financial Statements and Supplementary Data of this Form 10-K.

**(2) Consolidated Financial Statement Schedules**

	<u>PAGE IN FORM 10-K</u>
Report of Arthur Andersen LLP	79
For the years ended December 31, 2001, 2000, and 1999: Schedule II -- Valuation and Qualifying Accounts	80

All other schedules are omitted as the required information is inapplicable or the information is presented in the Consolidated Financial Statements or related notes.

**(3) List of Exhibits**

The Company has incorporated by reference herein certain exhibits as specified below pursuant to Rule 12b-32 under the Exchange Act.

Exhibits for the Company are listed in the Index to Exhibits beginning on page 83.  
Exhibits for the Company attached to this filing are listed on page 89.

**(b) Reports On Form 8-K During The Last Calendar Quarter**

On October 24, 2001 and November 26, 2001, Vectren Corporation filed a Current Report on Form 8-K with respect to the release of financial information to the investment community regarding the Company's results of operations, financial position and cash flows for the three, six, and nine month periods ended September 30, 2001. The financial information was released to the public through this filing.

**Item 5. Other Events**

**Item 7. Exhibits**

99.1 – Press Release - Third Quarter 2001 Vectren Corporation Earnings

99.2 – Cautionary Statement for Purposes of the "Safe Harbor" Provisions of the Private Securities Litigation Reform Act of 1995

On November 26, 2001, Vectren Corporation filed a Current Report on Form 8-K with respect to an analyst meeting where a discussion of the Company's current financial and operating results and plans for the future will occur.

**Item 5. Other Events**

**Item 7. Exhibits**

99.1 – Press Release - Vectren to Update Business Strategies

99.2 – Cautionary Statement for Purposes of the "Safe Harbor" Provisions of the Private Securities Litigation Reform Act of 1995

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders and Board of Directors of Vectren Corporation:

We have audited in accordance with auditing standards generally accepted in the United States, the consolidated financial statements included in Vectren Corporation's annual report to shareholders included in this Form 10-K, and have issued our report thereon dated January 24, 2002. Our audit was made for the purpose of forming an opinion on those statements taken as a whole. The schedule listed in Item 14(a)(2) is the responsibility of the Company's management and is presented for the purpose of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. The schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ Arthur Andersen LLP  
Arthur Andersen LLP

Indianapolis, Indiana,  
January 24, 2001.

SCHEDULE II

Vectren Corporation and Subsidiaries  
VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

Column A	Column B	Column C		Column D	Column E
Description (In millions)	Balance at Beginning Of Year	Additions		Deductions from Reserves, Net	Balance at End of Year
		Charged to Expenses	Charged to Other Accounts		
VALUATION AND QUALIFYING ACCOUNTS:					
Year 2001 – Accumulated provision for uncollectible accounts	\$ 5.7	\$ 17.3	\$ -	\$ 17.1	\$ 5.9
Year 2000 – Accumulated provision for uncollectible accounts	\$ 3.9	\$ 7.7	\$ 0.5	\$ 6.4	\$ 5.7
Year 1999 – Accumulated provision for uncollectible accounts	\$ 3.9	\$ 4.0	\$ -	\$ 4.0	\$ 3.9
OTHER RESERVES:					
Year 2001 – Reserve for merger and integration charges	\$ 1.8	\$ -	\$ -	\$ 1.4	\$ 0.4
Year 2000 – Reserve for merger and integration charges	\$ -	\$ 27.2	\$ -	\$ 25.4	\$ 1.8
Year 2001 – Reserve for restructuring costs	\$ -	\$ 11.9	\$ -	\$ 6.8	\$ 5.1
Year 2001 – Reserve for injuries and damages	\$ 1.8	\$ 2.9	\$ -	\$ 3.0	\$ 1.7
Year 2000 – Reserve for injuries and damages	\$ 1.5	\$ 0.9	\$ -	\$ 0.6	\$ 1.8
Year 1999 – Reserve for injuries and damages	\$ 1.3	\$ 0.6	\$ -	\$ 0.4	\$ 1.5



## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

VECTREN CORPORATION

Dated March 28, 2002

/S/ Niel C. Ellerbrook

Niel C. Ellerbrook, Chairman and Chief Executive Officer, Director

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in capacities and on the dates indicated.

Signature	Title	Date
<u>/S/ Niel C. Ellerbrook</u> Niel C. Ellerbrook	Chairman & Chief Executive Officer, Director (Principal Executive Officer)	<u>March 28, 2002</u>
<u>/S/ Jerome A. Benkert, Jr.</u> Jerome A. Benkert, Jr.	Executive Vice President, Chief Financial Officer, & Treasurer (Principal Financial Officer)	<u>March 28, 2002</u>
<u>/S/ M. Susan Hardwick</u> M. Susan Hardwick	Vice President & Controller (Principal Accounting Officer)	<u>March 28, 2002</u>
<u>/S/ John M. Dunn</u> John M. Dunn	Director	<u>March 28, 2002</u>
<u>/S/ John D. Engelbrecht</u> John D. Engelbrecht	Director	<u>March 28, 2002</u>
<u>/S/ Lawrence A. Ferger</u> Lawrence A. Ferger	Director	<u>March 28, 2002</u>
<u>/S/ Anton H. George</u> Anton H. George	Director	<u>March 28, 2002</u>

<u>/S/ Andrew E. Goebel</u> Andrew E. Goebel	Director	<u>March 28, 2002</u>
<u>/S/ Robert L. Koch II</u> Robert L. Koch II	Director	<u>March 28, 2002</u>
<u>/S/ William G. Mays</u> William G. Mays	Director	<u>March 28, 2002</u>
<u>/S/ J. Timothy McGinley</u> J. Timothy McGinley	Director	<u>March 28, 2002</u>
<u>/S/ Richard P. Rechter</u> Richard P. Rechter	Director	<u>March 28, 2002</u>
<u>/S/ Ronald G. Reheman</u> Ronald G. Reheman	Director	<u>March 28, 2002</u>
<u>/S/ Richard W. Shymanski</u> Richard W. Shymanski	Director	<u>March 28, 2002</u>
<u>/S/ Jean L. Wojtowicz</u> Jean L. Wojtowicz	Director	<u>March 28, 2002</u>

## INDEX TO EXHIBITS

### 2. Plan Of Acquisition, Reorganization, Arrangement, Liquidation Or Succession

- 2.1 Agreement and Plan of Merger dated as of June 11, 1999 among Indiana Energy, Inc., SIGCORP, Inc. and Vectren Corporation (the "Merger Agreement"). (Filed and designated in Form S-4 to (No. 333-90763) filed on November 12, 1999, File No. 1-15467, as Exhibit 2.)
- 2.2 Amendment No.1 to the Merger Agreement dated December 14, 1999 (Filed and designated in Current Report on Form 8-K filed December 16, 1999, File No. 1-09091, as Exhibit 2.)
- 2.3 Asset Purchase Agreement dated December 14, 1999 between Indiana Energy, Inc. and The Dayton Power and Light Company and Number-3CHK with a commitment letter for a 364-Day Credit Facility dated December 16, 1999. (Filed and designated in Current Report on Form 8-K dated December 28, 1999, File No. 1-9091, as Exhibit 2 and 99.1.)

### 3. Articles Of Incorporation And By-Laws

- 3.1 Amended and Restated Articles of Incorporation of Vectren Corporation effective March 31, 2000. (Filed and designated in Current Report on Form 8-K filed April 14, 2000, File No. 1-15467, as Exhibit 4.1.)
- 3.2 Code of By-Laws of Vectren Corporation. (Filed and designated in Form S-3 (No. 333-5390), filed January 19, 2001, File No. 1-15467, as Exhibit 4.2.)
- 3.3 Shareholders Rights Agreement dated as of October 21, 1999 between Vectren Corporation and Equiserve Trust Company, N.A., as Rights Agent. (Filed and designated in Form S-4 (No. 333-90763), filed November 12, 1999, File No. 1-15467, as Exhibit 4.)

### 4. Instruments Defining The Rights Of Security Holders, Including Indentures

- 4.1 Mortgage and Deed of Trust dated as of April 1, 1932 between Southern Indiana Gas and Electric Company and Bankers Trust Company, as Trustee, and Supplemental Indentures thereto dated August 31, 1936, October 1, 1937, March 22, 1939, July 1, 1948, June 1, 1949, October 1, 1949, January 1, 1951, April 1, 1954, March 1, 1957, October 1, 1965, September 1, 1966, August 1, 1968, May 1, 1970, August 1, 1971, April 1, 1972, October 1, 1973, April 1, 1975, January 15, 1977, April 1, 1978, June 4, 1981, January 20, 1983, November 1, 1983, March 1, 1984, June 1, 1984, November 1, 1984, July 1, 1985, November 1, 1985, June 1, 1986. (Filed and designated in Registration No. 2-2536 as Exhibits B-1 and B-2; in Post-effective Amendment No. 1 to Registration No. 2-62032 as Exhibit (b)(4)(ii), in Registration No. 2-88923 as Exhibit 4(b)(2), in Form 8-K, File No. 1-3553, dated June 1, 1984 as Exhibit (4), File No. 1-3553, dated March 24, 1986 as Exhibit 4-A, in Form 8-K, File No. 1-3553, dated June 3, 1986 as Exhibit (4).) July 1, 1985 and November 1, 1985 (Filed and designated in Form 10-K, for the fiscal year 1985, File No. 1-3553, as Exhibit 4-A.) November 15, 1986 and January 15, 1987. (Filed and designated in Form 10-K, for the fiscal year 1986, File No. 1-3553, as Exhibit 4-A.) December 15, 1987. (Filed and designated in Form 10-K, for the fiscal year 1987, File No. 1-3553, as Exhibit 4-A.) December 13, 1990. (Filed and designated in Form 10-K, for the fiscal year 1990, File No. 1-3553, as Exhibit 4-A.) April 1, 1993. (Filed and designated in Form 8-K, dated April 13, 1993, File No. 1-3553, as Exhibit 4.) June 1, 1993 (Filed and designated in Form 8-K, dated June 14, 1993, File No. 1-3553, as Exhibit 4.) May 1, 1993. (Filed and designated in Form 10-K, for the fiscal year 1993, File No. 1-3553, as Exhibit 4(a).) July 1, 1999. (Filed and designated in Form 10-Q, dated August 16, 1999, File No. 1-3553, as Exhibit 4(a).) March 1, 2000. (Filed herewith.)

- 4.2 Indenture dated February 1, 1991, between Indiana Gas and U.S. Bank Trust National Association (formerly know as First Trust National Association, which was formerly know as Bank of America Illinois, which was formerly know as Continental Bank, National Association. Inc.'s. (Filed and designated in Current Report on Form 8-K filed February 15, 1991, File No. 1-6494.); First Supplemental Indenture thereto dated as of February 15, 1991. (Filed and designated in Current Report on Form 8-K filed February 15, 1991, File No. 1-6494, as Exhibit 4(b).); Second Supplemental Indenture thereto dated as of September 15, 1991, (Filed and designated in Current Report on Form 8-K filed September 25, 1991, File No. 1-6494, as Exhibit 4(b).); Third supplemental Indenture thereto dated as of September 15, 1991 (Filed and designated in Current Report on Form 8-K filed September 25, 1991, File No. 1-6494, as Exhibit 4(c).); Fourth Supplemental Indenture thereto dated as of December 2, 1992, (Filed and designated in Current Report on Form 8-K filed December 8, 1992, File No. 1-6494, as Exhibit 4(b).); Fifth Supplemental Indenture thereto dated as of December 28, 2000, (Filed and designated in Current Report on Form 8-K filed December 27, 2000, File No. 1-6494, as Exhibit 4.)
- 4.3 \$350.0 million Credit Agreement arranged by Banc One Capital Markets, Inc. dated as of June 28, 2001 among Vectren Utility Holdings, Inc., as borrower; Indiana Gas Company, Inc. as guarantor; Southern Indiana Gas and Electric Company, as guarantor; Vectren Energy Delivery of Ohio, Inc., as guarantor; and Lenders: Banc One, NA, as Agent; Firststar Bank, N.A., as Co-Syndication Agent; ABN AMRO Bank, N.V., as Co-Syndication Agent; The Bank of New York, as Co-Documentation Agent; The Industrial Bank of Japan, Limited, as Co-Documentation Agent; the Fuji Bank, Limited, as Co-Documentation Agent; and National City Bank of Indiana, as Co-Agent. (Filed and designated on Form 10-K for the year ended December 31, 2001, File No. 1-16739, as Exhibit 4.3.)
- 4.4 Indenture dated October 19, 2001, between Vectren Utility Holdings, Inc., Indiana Gas Company, Inc., Southern Indiana Gas and Electric Company, Vectren Energy Delivery of Ohio, Inc., and U.S. Bank Trust National Association. (Filed and designated in Form 8-K, dated October 19, 2001, File No. 1-16739, as Exhibit 4.1); First Supplemental Indenture, dated October 19, 2001, between Vectren Utility Holdings, Inc., Indiana Gas Company, Inc., Southern Indiana Gas and Electric Company, Vectren Energy Delivery of Ohio, Inc., and U.S. Bank Trust National Association. (Filed and designated in Form 8-K, dated October 19, 2001, File No. 1-16739, as Exhibit 4.2); Second Supplemental Indenture, between Vectren Utility Holdings, Inc., Indiana Gas Company, Inc., Southern Indiana Gas and Electric Company, Vectren Energy Delivery of Ohio, Inc., and U.S. Bank Trust National Association. (Filed and designated in Form 8-K, dated November 29, 2001, File No. 1-16739, as Exhibit 4.1).

#### 9. Voting Trust Agreement

Not applicable.

#### 10. Material Contracts

- 10.1 Agreement, dated, January 30, 1968, for Unit No. 4 at the Warrick Power Plant of Alcoa Generating Corporation ("Alcoa"), between Alcoa and Southern Indiana Gas and Electric Company. (Filed and designated in Registration No. 2-29653 as Exhibit 4(d)-A.)
- 10.2 Letter of Agreement, dated June 1, 1971, and Letter Agreement, dated June 26, 1969, between Alcoa and Southern Indiana Gas and Electric Company. (Filed and designated in Registration No. 2-41209 as Exhibit 4(e)-2.)
- 10.3 Letter Agreement, dated April 9, 1973, and Agreement dated April 30, 1973, between Alcoa and Southern Indiana Gas and Electric Company. (Filed and designated in Registration No. 2-53005 as Exhibit 4(e)-4.)
- 10.4 Electric Power Agreement (the "Power Agreement"), dated May 28, 1971, between Alcoa and Southern Indiana Gas and Electric Company. (Filed and designated in Registration No. 2-41209 as Exhibit 4(e)-1.)

- 10.5 Second Supplement, dated as of July 10, 1975, to the Power Agreement and Letter Agreement dated April 30, 1973 - First Supplement. (Filed and designated in Form 10-K for the fiscal year 1975, File No. 1-3553, as Exhibit 1(e).)
- 10.6 Third Supplement, dated as of May 26, 1978, to the Power Agreement. (Filed and designated in Form 10-K for the fiscal year 1978 as Exhibit A-1.)
- 10.7 Letter Agreement dated August 22, 1978 between Southern Indiana Gas and Electric Company and Alcoa, which amends Agreement for Sale in an Emergency of Electrical Power and Energy Generation by Alcoa and Southern Indiana Gas and Electric Company dated June 26, 1979. (Filed and designated in Form 10-K for the fiscal year 1978, File No. 1-3553, as Exhibit A-2.)
- 10.8 Fifth Supplement, dated as of December 13, 1978, to the Power Agreement. (Filed and designated in Form 10-K for the fiscal year 1979, File No. 1-3553, as Exhibit A-3.)
- 10.9 Sixth Supplement, dated as of July 1, 1979, to the Power Agreement. (Filed and designated in Form 10-K for the fiscal year 1979, File No. 1-3553, as Exhibit A-5.)
- 10.10 Seventh Supplement, dated as of October 1, 1979, to the Power Agreement. (Filed and designated in Form 10-K for the fiscal year 1979, File No. 1-3553, as Exhibit A-6.)
- 10.11 Eighth Supplement, dated as of June 1, 1980 to the Electric Power Agreement, dated May 28, 1971, between Alcoa and Southern Indiana Gas and Electric Company. (Filed and designated in Form 10-K for the fiscal year 1980, File No. 1-3553, as Exhibit (20)-1.)
- 10.12 Amendment Agreement, dated March 3, 2001, between Alcoa Power Generating Inc. and Southern Indiana Gas and Electric Company. (Filed herewith.)
- 10.13 Summary description of Southern Indiana Gas and Electric Company's nonqualified Supplemental Retirement Plan (Filed and designated in Form 10-K for the fiscal year 1992, File No. 1-3553, as Exhibit 10-A-17.)
- 10.14 Southern Indiana Gas and Electric Company 1994 Stock Option Plan (Filed and designated in Southern Indiana Gas and Electric Company's Proxy Statement dated February 22, 1994, File No. 1-3553, as Exhibit A.)
- 10.15 Southern Indiana Gas and Electric Company's nonqualified Supplemental Retirement Plan as amended, effective April 16, 1997. (Filed and designated in Form 10-K for the fiscal year 1997, File No. 1-3553, as Exhibit 10.29.)
- 10.16 Vectren Corporation Retirement Savings Plan. (Filed and designated in Form 10-Q for the quarterly period ended September 30, 2000, File No. 1-15467, as Exhibit 99.1.)
- 10.17 Vectren Corporation Combined Non-Bargaining Retirement Plan. (Filed and designated in Form 10-Q for the quarterly period ended September 30, 2000, File No. 1-15467, as Exhibit 99.2.)
- 10.18 Indiana Energy, Inc. Unfunded Supplemental Retirement Plan for a Select Group of Management Employees as amended and restated effective December 1, 1998. (Filed and designated in Form 10-Q for the quarterly period ended December 31, 1998, File No. 1-9091, as Exhibit 10-G.)

- 10.19 Indiana Energy, Inc. Nonqualified Deferred Compensation Plan effective January 1, 1999. (Filed and designated in Form 10-Q for the quarterly period ended December 31, 1998, File No. 1-9091, as Exhibit 10-H.)
- 10.20 Formation Agreement among Indiana Energy, Inc., Indiana Gas Company, Inc., IGC Energy, Inc., Indiana Energy Services, Inc., Citizens Gas & Coke Utility, Citizens Energy Services Corporation and ProLiance Energy, LLC, effective March 15, 1996. (Filed and designated in Form 10-Q for the quarterly period ended March 31, 1996, File No. 1-9091, as Exhibit 10-C.)
- 10.21 Gas Sales and Portfolio Administration Agreement between Indiana Gas Company, Inc. and ProLiance Energy, LLC, effective March 15, 1996, for services to begin April 1, 1996. (Filed and designated in Form 10-Q for the quarterly period ended March 31, 1996, File No. 1-6494, as Exhibit 10-C.)
- 10.22 Amended appendices to the Gas Sales and Portfolio Administration Agreement between Indiana Gas Company, Inc. and ProLiance Energy, LLC effective November 1, 1998. (Filed and designated in Form 10-Q for the quarterly period ended March 31, 1999, File No. 1-6494, as Exhibit 10-A.)
- 10.23 Amended appendices to the Gas Sales and Portfolio Administration Agreement between Indiana Gas Company, Inc. and ProLiance Energy, LLC effective November 1, 1999. (Filed and designated in Form 10-K for the fiscal year ended September 30, 1999, File No. 1-6494, as Exhibit 10-V.)
- 10.24 Gas Sales and Portfolio Administration Agreement between Vectren Energy Delivery of Ohio and ProLiance Energy, LLC, effective October 31, 2000, for services to begin November 1, 2000. (Filed herewith.)
- 10.25 Indiana Energy, Inc. Executive Restricted Stock Plan as amended and restated effective October 1, 1998. (Filed and designated in Form 10-K for the fiscal year ended September 30, 1998, File No. 1-9091, as Exhibit 10-O.)
- 10.26 Amendment to Indiana Energy, Inc. Executive Restricted Stock Plan effective December 1, 1998. (Filed and designated in Form 10-Q for the quarterly period ended December 31, 1998, File No. 1-9091, as Exhibit 10-I.)
- 10.27 Indiana Energy, Inc. Director's Restricted Stock Plan as amended and restated effective May 1, 1997. (Filed and designated in Form 10-Q for the quarterly period ended June 30, 1997, File No. 1-9091, as Exhibit 10-B.)
- 10.28 First Amendment to Indiana Energy, Inc. Directors' Restricted Stock Plan, effective December 1, 1998. (Filed and designated in Form 10-Q for the quarterly period ended December 31, 1998, File No. 1-9091, as Exhibit 10-J.)
- 10.29 Second Amendment to Indiana Energy, Inc. Directors Restricted Stock Plan, renamed the Vectren Corporation Directors Restricted Stock Plan effective October 1, 2000. (Filed and designated in Form 10-K for the year ended December 31, 2000, File No. 1-15467, as Exhibit 10-34.)
- 10.30 Third Amendment to Indiana Energy, Inc. Directors Restricted Stock Plan, renamed the Vectren Corporation Directors Restricted Stock Plan effective March 28, 2001. (Filed and designated in Form 10-K for the year ended December 31, 2000, File No. 1-15467, as Exhibit 10-35.)
- 10.31 Vectren Corporation At Risk Compensation Plan effective May 1, 2001. (Filed and designated in Vectren Corporation's Proxy Statement dated March 16, 2001, File No. 1-15467, as Appendix B.)

- 10.32 Vectren Corporation Non-Qualified Deferred Compensation Plan, as amended and restated effective January 1, 2001. (Filed herewith.)
- 10.33 Vectren Corporation Employment Agreement between Vectren Corporation and Niel C. Ellerbrook dated as of March 31, 2000. (Filed and designated in Form 10-Q for the quarterly period ended June 30, 2000, File No. 1-15467, as Exhibit 99.1.)
- 10.34 Vectren Corporation Employment Agreement between Vectren Corporation and Andrew E. Goebel dated as of March 31, 2000 (Filed and designated in Form 10-Q for the quarterly period ended June 30, 2000, File No. 1-15467, as Exhibit 99.2.)
- 10.35 Vectren Corporation Employment Agreement between Vectren Corporation and Jerome A. Benkert, Jr. dated as of March 31, 2000. (Filed and designated in Form 10-Q for the quarterly period ended June 30, 2000, File No. 1-15467, as Exhibit 99.3.)
- 10.36 Vectren Corporation Employment Agreement between Vectren Corporation and Carl L. Chapman dated as of March 31, 2000. (Filed and designated in Form 10-Q for the quarterly period ended June 30, 2000, File No. 1-15467, as Exhibit 99.4.)
- 10.37 Vectren Corporation Employment Agreement between Vectren Corporation and Ronald E. Christian dated as of March 31, 2000. (Filed and designated in Form 10-Q for the quarterly period ended June 30, 2000, File No. 1-15467, as Exhibit 99.5.)
- 10.38 Vectren Corporation Employment Agreement between Vectren Corporation and Timothy M. Hewitt dated as of March 31, 2000. (Filed and designated in Form 10-Q for the quarterly period ended June 30, 2000, File No. 1-15467, as Exhibit 99.6.)
- 10.39 Vectren Corporation Retirement Agreement between Vectren Corporation and Timothy M. Hewitt dated as of May 31, 2001. (Filed herewith.)
- 10.40 Vectren Corporation Employment Agreement between Vectren Corporation and J. Gordon Hurst dated as of March 31, 2000. (Filed and designated in Form 10-Q for the quarterly period ended June 30, 2000, File No. 1-15467, as Exhibit 99.7.)
- 10.41 Vectren Corporation Retirement Agreement between Vectren Corporation and J. Gordon Hurst dated as of May 31, 2001. (Filed herewith.)
- 10.42 Vectren Corporation Employment Agreement between Vectren Corporation and Richard G. Lynch dated as of March 31, 2000. (Filed and designated in Form 10-Q for the quarterly period ended June 30, 2000, File No. 1-15467, as Exhibit 99.8.)
- 10.43 Vectren Corporation Employment Agreement between Vectren Corporation and William S. Doty dated as of April 30, 2001. (Filed herewith.)
- 10.44 Vectren Corporation Retirement Agreement between Vectren Corporation and Thomas J. Zabor dated as of May 31, 2001. (Filed herewith.)

**11. Statement Re Computation Of Per Share Earnings**

Not applicable.

**12. Statements Re Computation Of Ratios**

Not applicable.

**13. Annual Report To Security Holders, Form 10-Q Or Quarterly Report To Security Holders**

Not applicable.

**16. Letter Re Change In Certifying Accountant**

Not applicable.

**18. Letter Re Change In Accounting Principles**

Not applicable.

**21. Subsidiaries Of The Company**

The list of the Company's significant subsidiaries is attached hereto as Exhibit 21.1.

**22. Published Report Regarding Matters Submitted To Vote Of Security Holders**

Not applicable.

**23. Consents Of Experts And Counsel**

The consent of Arthur Andersen LLP is attached hereto as Exhibit 23.1.

**24. Power Of Attorney**

Not applicable.

**99. Additional Exhibits**

99.1 Current Report on Form 8-K, regarding replacement of the Company's independent auditors, dated March 22, 2002 (Filed herewith.)

99.2 Letter regarding audit quality representation of Arthur Andersen LLP (Filed herewith)



**Vectren Corporation  
2001 Form 10-K  
Attached Exhibits**

The following Exhibits are attached hereto. See Page 85 of this Annual Report on Form 10-K for a complete list of exhibits.

<b><u>Exhibit Number</u></b>	<b><u>Document</u></b>
4.1	Supplemental Indenture to Mortgage and Deed of Trust dated March 1, 2000 between Southern Indiana Gas and Electric Company and Bankers Trust Company, as Trustee.
10.12	Amendment Agreement between Alcoa Power Generating Inc. and Southern Indiana Gas and Electric Company
10.24	Gas Sales and Portfolio Administration Agreement between Vectren Energy Delivery of Ohio and ProLiance Energy, LLC, effective October 31, 2000, for services to begin November 1, 2000.
10.32	Vectren Corporation Non-Qualified Deferred Compensation Plan, as amended and restated effective January 1, 2001.
10.39	Vectren Corporation Retirement Agreement between Vectren Corporation and Timothy M. Hewitt
10.41	Vectren Corporation Retirement Agreement between Vectren Corporation and J. Gordon Hurst
10.43	Vectren Corporation Employment Agreement between Vectren Corporation and William S. Doty
10.44	Vectren Corporation Retirement Agreement between Vectren Corporation and Thomas J. Zabor dated as of May 31, 2001. (Filed herewith.)
21.1	Subsidiaries of the Company
23.1	Consent of Independent Public Accountants
99.1	Current Report on Form 8-K, regarding the replacement of the Company's independent auditors, dated March 22, 2002.
99.2	Letter regarding audit quality representation of Arthur Andersen LLP

**EXHIBIT C-3**

**FINANCIAL STATEMENTS**

**(FILED UNDER SEAL)**

{C10544:}

**VECTREN RETAIL, LLC**

**EXHIBIT C-4**

**FINANCIAL ARRANGEMENTS**

**(FILED UNDER SEAL)**

{C10544:}

**VECTREN RETAIL, LLC**

**EXHIBIT C-5**

**FORECASTED FINANCIAL STATEMENTS**

**(FILED UNDER SEAL)**

{C10544:}

**VECTREN RETAIL, LLC**

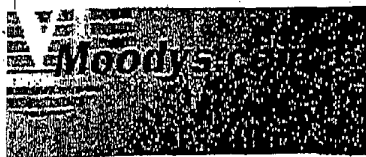
**EXHIBIT C-6**

**CREDIT RATING**

Vectren Source does not have its own credit rating. Therefore the credit rating of Vectren Corp. is attached hereto. Additionally, a Financial Services Agreement is being filed under seal as Supplemental Information to Exhibit C-6.

{C10544:}

**VECTREN RETAIL, LLC**



search by **Issuer Name**  
for **Vectren**

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Tim Burke  
is currently  
logged in

Select a Business Line  
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SEARCH RESULTS > CORPORATE, BANKING & SOVEREIGN > ISSUER SUMMARY

## Vectren Capital Corporation

Select a portfolio

### Research Links

Report Type	Date	Title
Rating Action	7 DEC 2000	MOODY'S ASSIGNS Baa2 RATINGS TO VECTREN CAPITAL CORP.'S SR. UNS. NOTES

1 records

### Analyst Information

**Analyst:** Mihoko Manabe  
**Phone Number:** 212-553-1942  
**Backup Analyst:**  
**Managing Director:** John Diaz  
**Rating Group:** Corporate Finance

### Rating Information

**LT Senior-Most Rating:**  
**ST Most Recent Rating:**  
**Watchlist Status:** N  
**Date:**  
**Direction:**

### Issuer Details

**Ticker:**  
**Domicile:** UNITED STATES  
**Previous Name:**

**Broad Industry:** PUBLIC UTILITY  
**Specific Industry:** GAS

[Related Issuers](#)

### Current Rating List

Debt Id	Class	Curr	Rating	Date	Action	Watch Date/Direction
	BACKED Senior Unsecured	USD	Baa2	7 DEC 2000	Assign	N
	BACKED Senior Unsecured	USD	Baa2	7 DEC 2000	Assign	N

2 records

**STANDARD  
& POORS****RATINGS DIRECT****Ratings**

Return to Regular Format

**Vectren Enterprises Corp.****■ Current Ratings**

Type	Date	Ratings
Credit rating	12-Oct-2001	A-/Stable/-

**■ Profile**

Country: United States  
 State/Province: Indiana  
 Primary SIC: Gas Production And/Or Distribution(4925)  
 CUSIP: 92240@  
 Ticker: 24200Z  
 Analyst: Peter Otersen, New York, (1) 212-438-7674

**■ Ratings History**

Date	Local Currency	Foreign Currency
01-Dec-2000	A/-	A/-

**■ Senior Unsecured**

Description	Rating/ Outlook/ Creditwatch	Date	Former Rating	CUSIP (CINS/ISIN)
\$35 mil sr nts due 2005	BBB+	12-Oct-2001	A-	92240@AA3
\$40 mil sr nts due 2015	BBB+	12-Oct-2001	A-	92240@9B9

**■ Related Entities**

Name  
 Indiana Gas Co. Inc.  
 Southern Indiana Gas & Electric Co.  
 Vectren Corp  
 Vectren Energy Delivery of Ohio Inc.  
 Vectren Enterprises Corp.  
 Vectren Utility Holdings Inc.

**■ Related Research**

Date	Description
18-Jan-2002	U.S. Utilities' Credit Quality Displayed Steep Decline in 2001; Negative Trend Likely to Continue
10-Jan-2002	Southern Indiana Gas & Electric Co.
07-Jan-2002	Indiana Gas Co. Inc.
12-Oct-2001	Vectren Corp., Units Ratings Lowered; New Debt Assigned Rating
10-Jul-2001	Summary: Vectren Enterprises Corp.
29-Nov-2000	Vectren Capital Corp. Assigned Ratings; Outlook Negative

Dates are effective dates of ratings and publication in New York. Owing to the securities law regulations,

**EXHIBIT C-6**

**SUPPLEMENTAL INFORMATION TO EXHIBIT C-6**

**(FILED UNDER SEAL)**

{C10544;}

**VECTREN RETAIL, LLC**



**EXHIBIT C-7**

**CREDIT REPORT**

{C10544;}

**VECTREN RETAIL, LLC**



Decide with Confidence

## Business Information Report

To save report(s) to your PC, [click here for instructions](#).

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ATTN: Elizabeth+Besing

Report Printed: JUL 03 2002

### BUSINESS SUMMARY

**VECTREN RETAIL LLC**  
(SUBSIDIARY OF VECTREN CORPORATION, EVANSVILLE, IN)  
20 Nw 4th St  
Evansville, IN 47708

Telephone:	812 491-4286	D-U-N-S® Number:	06-797-0926
Fax:	812 491-4078	Parent D-U-N-S®:	13-550-4913
Chief executive:	GREG COLLINS, MEMBER	SIC:	4932
Year started:	2001	Line of business:	Energy services provider
Employs:	14	D&B Rating:	--
History:	CLEAR		

### SUMMARY ANALYSIS

#### D&B Rating:--

The blank rating symbol should not be interpreted as indicating that credit should be denied. It simply means that the information available to D&B does not permit us to classify the company within our rating key and that further enquiry should be made before reaching a decision. Some reasons for using a "--" symbol include: deficit net worth, bankruptcy proceedings, insufficient payment information, or incomplete history information. For more information, see the D&B Rating Key.

Below is an overview of the company's rating history since 11/06/01:

D&B Rating	Date Applied
--	11/06/01

The Summary Analysis section reflects information in D&B's file as of July 3, 2002.

### CUSTOMER SERVICE

If you have questions about this report, please call our Customer Resource Center at 1.800.234.3867 from anywhere within the U.S. If you are outside the U.S. contact your local D&B office.

\*\*\* Additional Decision Support Available \*\*\*

Additional D&B products, monitoring services and specialized investigations are available to help you evaluate this company or its industry. Call Dun & Bradstreet's Customer Resource Center at 1.800.234.3867 from anywhere within the U.S. or visit our website at [www.dnb.com](http://www.dnb.com).

## HISTORY

The following information was reported **07/02/2002**:

**Officer(s):** GREG COLLINS, MEMBER

**DIRECTOR(5):** THE OFFICER(S)

Company is registered as a Limited Liability Company in Indiana since 07/27/01.

Business started 2001 by Greg Collins.

GREG COLLINS. Antecedents not available.

## OPERATIONS

07/02/2002

**Description:** Subsidiary of VECTREN CORPORATION, EVANSVILLE, IN which operates as retailer of gas in deregulated markets.

Operates as retailer of gas in the deregulated markets.

Terms were unavailable. Sells to general public. Territory : Local.

**Employees:** 14.

**Facilities:** Owns premises in 2 story brick building.

**Location:** Central business section on main street.

## SIC & NAICS

### SIC:

Based on information in our file, D&B has assigned this company an extended 8-digit SIC. D&B's use of 8-digit SICs enables us to be more specific to a company's operations than if we use the standard 4-digit code.

The 4-digit SIC numbers link to the description on the Occupational Safety & Health Administration (OSHA) Web site. Links open in a new browser window.

49320000 Gas and other services combined

### NAICS:

221210 Natural Gas Distribution (pt)

## PAYMENT SUMMARY

D&B has not received a sufficient sample of payment experiences to establish a PAYDEX score.

The Payment Summary section reflects payment information in D&B's file as of the date of this report.

Below is an overview of the company's dollar-weighted payments, segmented by its suppliers' primary industries:

Total	Total Dollar	Largest High	Within	Days Slow
-------	--------------	--------------	--------	-----------

	Rcv'd (\$)	Amts (\$)	Credit (\$)	Terms (%)	<31 31-60 61-90 90> (%)
<b>Top industries:</b>					
Nonclassified	1	250	250	100	- - - -
<b>Other payment categories:</b>					
Cash experiences	0	0	0		
Payment record unknown	0	0	0		
Unfavorable comments	0	0	0		
<b>Placed for collections:</b>					
With D&B	0	0			
Other	0	N/A			
<b>Total in D&amp;B's file</b>	<b>1</b>	<b>250</b>	<b>250</b>		

The highest **Now Owes** on file is \$0

The highest **Past Due** on file is \$0

D&B receives over 315 million payment experiences each year. We enter these new and updated experiences into D&B Reports as this information is received.

#### PAYMENT DETAILS

##### Detailed payment history

Date Reported (mm/yy)	Paying Record	High Credit (\$)	Now Owes (\$)	Past Due (\$)	Selling Terms	Last Sale Within (months)
04/02	Ppt	250	0	0		4-5 mos

Each experience shown is from a separate supplier. Updated trade experiences replace those previously reported.

#### FINANCE

05/31/2002

Repeated attempts to contact business were unsuccessful.

#### PUBLIC FILINGS

A check of D&B's public records database indicates that no filings were found for VECTREN RETAIL LLC at 20 Nw 4th St, Evansville IN.

D&B's extensive database of public record information is updated daily to ensure timely reporting of changes and additions. It includes business-related suits, liens, judgments, bankruptcies, UCC financing statements and business registrations from every state and the District of Columbia, as well as select filing types from Puerto Rico and the U.S. Virgin Islands.

D&B collects public records through a combination of court reporters, third parties and direct electronic links with federal and local authorities. Its database of U.S. business-related filings is now the largest of its kind.

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**EXHIBIT C-8**

**BANKRUPTCY INFORMATION**

Not Applicable.

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**VECTREN RETAIL, LLC**

**EXHIBIT C-9**

**MERGER INFORMATION**

Not Applicable.

{C10544;}

**VECTREN RETAIL, LLC**

**EXHIBIT D-1**

**OPERATIONS**

Vectren Source utilizes the operational expertise of its affiliate, Sigcorp Energy Services, LLC ("Sigcorp") to perform the commodity operations support services for its energy retail activities. Sigcorp recently announced the integration of its operations with another Vectren Source affiliate, ProLiance Energy, LLC. This newly integrated entity further enhances internal resources available to Vectren Source. Upstream and city gate services performed by Vectren Source's affiliates include: procurement, transportation, nominations, scheduling, delivery, and risk management.

**EXHIBIT D-2**

**OPERATIONS EXPERTISE**

As a result of its integration with Sigcorp, ProLiance serves over 1,000 customers throughout the Midwest and Southeast, managing approximately 1.2 billion cubic feet of gas per day. Together the organizations are active in fourteen states and Canada. ProLiance's corporate office is located in Indianapolis, Indiana with regional marketing offices located in Ohio, Michigan, and Kentucky.

Vectren Source has executed an agreement with Sigcorp that will be assumed by ProLiance following completion of the organizational integration of these two entities. ProLiance's assumption of the agreement between Vectren Source and Sigcorp enables the continuation of the operational and technical resources to support Vectren Source's retail services to residential and small commercial customers in the state of Ohio. This contractual relationship is managed internally by Vectren Source's Director of Commodity Operations.



**EXHIBIT D-3**

**KEY TECHNICAL PERSONNEL**

**Lawrence K. Friedeman**, Vice President Commodity Operations & Regulatory Affairs

Email Address: [lfriedeman@vectren.com](mailto:lfriedeman@vectren.com)  
Telephone Number: 812-491-4282

**BACKGROUND**

Mr. Friedeman attended the University of Pittsburgh where he was awarded a Bachelor of Arts degree, graduating summa cum laude, as well as his Juris Doctorate degree. Mr. Friedeman spent many years with a Northwest Ohio manufacturer, achieving the position of President & CEO. Immediately prior to his association with Vectren Source, Mr. Friedeman was the Regulatory Liaison for Columbia Energy Services Corporation, where he represented Columbia Energy Services before the Regulatory Commissions of Ohio, Michigan, Pennsylvania, New Jersey, Virginia, Maryland, and Georgia in regard to the retail energy endeavors of Columbia Energy Services.

**Paul E. Stringer**, Director of Commodity Operations

Email Address: [pestringer@vectren.com](mailto:pestringer@vectren.com)  
Telephone Number: 812-491-4076

**BACKGROUND**

Paul Stringer is Director, Commodity Operations for Vectren Source. Mr. Stringer assumes primary responsibility for all commodity related activity including development and coordination of commodity and agent relationships, natural gas purchases, gas operations and asset management. Mr. Stringer has over twenty-one years experience in the energy industry commencing with Columbia Gulf Transmission, working offshore in the Gulf of Mexico for six years and progressing into pipeline gas control. Mr. Stringer developed and managed gas marketing businesses with AGIP Petroleum, SONAT Marketing and Murphy Oil in Houston, Texas later assuming positions with Midcon Gas Services and PP&L Inc. to develop energy marketing programs in the North Eastern United States. This included developing gas and electric products and services as well as selling electricity in the deregulated Pennsylvania market.

**Jerry Westerfield, Senior Vice President Sigcorp Energy Services, LLC**

Email Address: jwesterfield@sigcorpenergy.com  
Telephone Number: 812-465-5231

**BACKGROUND**

Jerry Westerfield is currently Senior Vice-President of Sigcorp Energy Services, LLC. He is responsible for the day-to-day operations of Sigcorp and its related subsidiaries. The primary areas of responsibility of Mr. Westerfield include overseeing the company's Trading, Operations, Information Technology and Finance and Accounting Groups. Mr. Westerfield joined Sigcorp in January 1997 as a member of the senior management team to develop and execute Sigcorp's entry into the unregulated gas marketing business. Mr. Westerfield has eighteen years of experience in the energy industry with sixteen of those years in the unregulated energy marketing business. His sixteen years of unregulated experience is comprised of accomplishments in trading, transactional operations, transportation optimization, strategic planning, business systems and process development. Mr. Westerfield's entry in the unregulated energy marketing business began in 1985 with a start up natural gas marketing company, EnTrade Corporation. As a member of its management team, this company grew from a start up company to a company with sales exceeding \$500 million within five years of operation. Mr. Westerfield has held senior management positions with several start-up and mature energy companies, EnTrade Corporation, American Central Gas Marketing, DGS Trading Company and TXU Energy Services (formerly Enserch Energy Services). He has gained notable experience in start-up organizations with emphasis on the development of the organizational infrastructure and system development. At Sigcorp, Mr. Westerfield has led the development of a proprietary transactional management system that has enabled the company to achieve exponential growth while maintaining superior earnings. In addition, he has led the development of a successful trading group that has generated significant operating margins to the company, while supporting the company's primary market of retail aggregation.

**Paul McLean, Director of Utility Services ProLiance Energy, LLC**

Email Address: PMclean@ProLiance.com  
Telephone Number: 317-231-6860

**BACKGROUND**

Paul McLean is currently the Director of Utility Services for ProLiance Energy LLC ("ProLiance"). He has been with ProLiance since December 2000, and has served as both the Director and General Manager of Trading and Supply. Mr. McLean worked for Nicor Gas Company (Northern Illinois Gas) as the General Manager of Energy Ventures and the General Manager of Supply from September 1988 to November 2000. As the General Manager of Energy Ventures, Mr. McLean was involved mostly with new business ventures involving underground storage. Mr. McLean also began the Chicago

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**VECTREN RETAIL, LLC**

Hub and developed the business of supplying gas services to new electric peakers. While he was the General Manager of Supply at Nicor, Mr. McLean was involved in all aspects of running Nicor's gas supply department. He also worked as the Director of Gas Purchases and the Project Engineer at Phillips Petroleum from 1980 through 1988. He was involved in both negotiating wellhead purchases with producers, and developing new products for gas gathering and gas processing plants. Mr. McLean's education includes a Juris Doctorate from the University of Tulsa College of Law in 1987 and a B.S. in Chemical Engineering from Brigham Young University in 1980.

**David Lorenz, Resource Manager ProLiance Energy, LLC**

Email Address: DLorenz@ProLiance.com  
Telephone Number: 317-231-6858

#### **BACKGROUND**

David Lorenz has over 15 years of experience in the natural gas marketing and trading business. David is currently employed by ProLiance Energy as Resource Manager. His responsibilities include optimizing transportation opportunities and storage contracts. David also oversees the structure and pricing of new business opportunities that are originated by ProLiance's marketing personnel. Prior to joining ProLiance, David gained valuable experience in the natural gas marketing business working with Columbia Energy Services, Louisville Gas and Electric and Enron. David is a graduate of Indiana University and resides in Indianapolis, Indiana.



*Vectren Corporation 2000 Annual Report*



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NYSE: VVC

## CORPORATE PROFILE

Vectren Corporation is an energy and applied technology holding company headquartered in Evansville, Indiana. Our operations began on March 31, 2000 through the combination of two Indiana-based companies, Indiana Energy, Inc. and SIGCORP, Inc. On October 31, 2000, we acquired the natural gas distribution assets of The Dayton Power and Light Company ("Dayton Power and Light") located in western Ohio.

The name Vectren is a combination of the words "vector" (forward direction) and "energy." It denotes a company moving in new directions consistent with its core energy industry skills to create growing value for its shareholders.

Vectren's regulated subsidiaries provide gas and/or electricity to approximately one million customers in adjoining service territories that cover nearly two-thirds of Indiana and 16 counties in west central Ohio, as well as the production and marketing of wholesale electric power.

Vectren's non-regulated subsidiaries and affiliates consist of three main business groups providing services to customers throughout the region. Energy Services provides energy supply management services, trades and markets natural gas, and provides energy performance contracting to commercial, industrial and municipal customers. Utility Services provides utility products and services, such as outsourced underground construction and facilities locating, meter reading, debt collections, materials management, and the mining and sale of coal. Communications provides broadband communications services, including local and long distance telephone, Internet access and cable television to residential and commercial customers.