

VECTREN UTILITY HOLDINGS INC
Form 10-Q
November 09, 2007

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2007

OR

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

For the transition period from _____ to _____

Commission file number: **1-16739**

VECTREN UTILITY HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

INDIANA (State or other jurisdiction of incorporation or organization)
35-2104850 (IRS Employer Identification No.)

**One Vectren Square,
Evansville, Indiana,
47708**
(Address of principal executive offices)
(Zip Code)

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

| | | |
|-----------------------------------------------|------------------|--------------------------------|
| <u>Common Stock- Without Par Value</u> | <u>10</u> | <u>October 31, 2007</u> |
| Class | Number of Shares | Date |

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Access to Information

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

| | | |
|---------------------------|----------------|------------------------------------|
| Mailing Address: | Phone Number: | Investor Relations Contact: |
| One Vectren Square | (812) 491-4000 | Steven M. Schein |
| Evansville, Indiana 47708 | | Vice President, Investor Relations |

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Definitions

| | |
|------------------------------------------------------|--------------------------------------------------------------------------|
| AFUDC: allowance for funds used during construction | MMBTU: millions of British thermal units |
| APB: Accounting Principles Board | MW: megawatts |
| EITF: Emerging Issues Task Force | MWh / GWh: megawatt hours / thousands of megawatt hours (gigawatt hours) |
| FASB: Financial Accounting Standards Board | NOx: nitrogen oxide |
| FERC: Federal Energy Regulatory Commission | OCC: Ohio Office of the Consumer Counselor |
| IDEM: Indiana Department of Environmental Management | OUCC: Indiana Office of the Utility Consumer Counselor |
| IURC: Indiana Utility Regulatory Commission | PUCO: Public Utilities Commission of Ohio |
| MCF / BCF: thousands / billions of cubic feet | SFAS: Statement of Financial Accounting Standards |
| MDth / MMDth: thousands / millions of dekatherms | USEPA: United States Environmental Protection Agency |
| MISO: Midwest Independent System Operator | Throughput: combined gas sales and gas transportation volumes |

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

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

| | September 30, 2007 | December 31, 2006 |
|--------------------------------------------------------------------|--------------------------|-------------------------|
| <u>ASSETS</u> | | |
| Current Assets | | |
| Cash & cash equivalents | \$ 7.0 | \$ 28.5 |
| Accounts receivable - less reserves of \$3.2 & \$2.6, respectively | 78.9 | 134.8 |
| Receivables due from other Vectren companies | 0.8 | 0.3 |
| Accrued unbilled revenues | 43.9 | 121.4 |
| Inventories | 170.2 | 141.9 |
| Recoverable fuel & natural gas costs | - | 1.8 |
| Prepayments & other current assets | 117.0 | 103.2 |
| Total current assets | 417.8 | 531.9 |
| Utility Plant | | |
| Original cost | 3,990.8 | 3,820.2 |
| Less: accumulated depreciation & amortization | 1,499.1 | 1,434.7 |
| Net utility plant | 2,491.7 | 2,385.5 |
| Investments in unconsolidated affiliates | 0.2 | 0.2 |
| Other investments | 21.7 | 21.4 |
| Nonutility property - net | 174.7 | 163.1 |
| Goodwill - net | 205.0 | 205.0 |
| Regulatory assets | 138.1 | 116.8 |
| Other assets | 10.7 | 16.9 |
| TOTAL ASSETS | \$ 3,459.9 | \$ 3,440.8 |

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

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

| | September 30, 2007 | December 31, 2006 |
|---------------------------------------------------------------------|--------------------------|-------------------------|
| <u>LIABILITIES & SHAREHOLDER'S EQUITY</u> | | |
| Current Liabilities | | |
| Accounts payable | \$ 118.0 | \$ 136.2 |
| Accounts payable to affiliated companies | 29.9 | 68.2 |
| Payables to other Vectren companies | 24.8 | 25.3 |
| Refundable fuel & natural gas costs | 26.0 | 35.3 |
| Accrued liabilities | 113.9 | 115.8 |
| Short-term borrowings | 352.2 | 270.1 |
| Current maturities of long-term debt | - | 6.5 |
| Long-term debt subject to tender | 20.0 | 20.0 |
| Total current liabilities | 684.8 | 677.4 |
| Long-Term Debt - Net of Current Maturities & Debt Subject to Tender | | |
| | 1,025.4 | 1,025.3 |
| Deferred Income Taxes & Other Liabilities | | |
| Deferred income taxes | 264.7 | 282.2 |
| Regulatory liabilities | 303.1 | 291.1 |
| Deferred credits & other liabilities | 114.3 | 108.1 |
| Total deferred credits & other liabilities | 682.1 | 681.4 |
| Commitments & Contingencies (Notes 8 - 10) | | |
| Common Shareholder's Equity | | |
| Common stock (no par value) | 632.9 | 632.9 |
| Retained earnings | 434.2 | 422.9 |
| Accumulated other comprehensive income | 0.5 | 0.9 |
| Total common shareholder's equity | 1,067.6 | 1,056.7 |
| TOTAL LIABILITIES & SHAREHOLDER'S EQUITY | \$ 3,459.9 | \$ 3,440.8 |

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

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-----------------------------------|-------------------------------------|---------------|------------------------------------|----------------|
| | 2007 | 2006 | 2007 | 2006 |
| OPERATING REVENUES | | | | |
| Gas utility revenues | \$ 114.0 | \$ 116.8 | \$ 890.0 | \$ 848.6 |
| Electric utility revenues | 143.6 | 123.2 | 361.6 | 324.4 |
| Other revenues | 0.4 | 0.5 | 1.3 | 1.4 |
| Total operating revenues | 258.0 | 240.5 | 1,252.9 | 1,174.4 |
| OPERATING EXPENSES | | | | |
| Cost of gas sold | 52.9 | 59.9 | 592.0 | 577.4 |
| Cost of fuel & purchased power | 50.5 | 46.8 | 129.5 | 115.8 |
| Other operating | 65.6 | 61.6 | 198.4 | 182.8 |
| Depreciation & amortization | 40.4 | 38.0 | 119.4 | 112.8 |
| Taxes other than income taxes | 11.3 | 10.5 | 49.6 | 44.9 |
| Total operating expenses | 220.7 | 216.8 | 1,088.9 | 1,033.7 |
| OPERATING INCOME | 37.3 | 23.7 | 164.0 | 140.7 |
| OTHER INCOME - NET | 1.3 | 2.0 | 6.2 | 4.8 |
| INTEREST EXPENSE | 20.8 | 19.2 | 58.8 | 57.4 |
| INCOME BEFORE INCOME TAXES | 17.8 | 6.5 | 111.4 | 88.1 |
| INCOME TAXES | 7.1 | - | 41.8 | 31.1 |
| NET INCOME | \$ 10.7 | \$ 6.5 | \$ 69.6 | \$ 57.0 |

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

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

| | Nine Months Ended September 30, | |
|------------------------------------------------------------------------|---------------------------------|----------------|
| | 2007 | 2006 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 69.6 | \$ 57.0 |
| Adjustments to reconcile net income to cash from operating activities: | | |
| Depreciation & amortization | 119.4 | 112.8 |
| Deferred income taxes & investment tax credits | 4.1 | (0.4) |
| Expense portion of pension & postretirement periodic benefit cost | 2.9 | 3.1 |
| Provision for uncollectible accounts | 11.5 | 11.2 |
| Other non-cash charges - net | 3.1 | 1.6 |
| Changes in working capital accounts: | | |
| Accounts receivable, including to Vectren companies | | |
| & accrued unbilled revenue | 121.4 | 268.2 |
| Inventories | (28.3) | (38.9) |
| Recoverable/refundable fuel & natural gas costs | (7.5) | 31.9 |
| Prepayments & other current assets | (18.2) | (27.4) |
| Accounts payable, including to Vectren companies | | |
| & affiliated companies | (59.9) | (145.0) |
| Accrued liabilities | (15.5) | (36.5) |
| Changes in noncurrent assets | (10.2) | (23.1) |
| Changes in noncurrent liabilities | (19.3) | - |
| Net cash flows from operating activities | 173.1 | 214.5 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Requirements for: | | |
| Dividends to parent | (57.4) | (55.9) |
| Retirement of long-term debt | (6.5) | - |
| Net change in short-term borrowings | 82.1 | 0.7 |
| Net cash flows from financing activities | 18.2 | (55.2) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from other investing activities | 0.3 | 0.1 |
| Requirements for: Capital expenditures, excluding AFUDC-equity | (213.1) | (168.2) |
| Net cash flows from investing activities | (212.8) | (168.1) |
| Net decrease in cash & cash equivalents | (21.5) | (8.8) |
| Cash & cash equivalents at beginning of period | 28.5 | 11.7 |
| Cash & cash equivalents at end of period | \$ 7.0 | \$ 2.9 |

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

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

1. Organization and Nature of Operations

Vectren Utility Holdings, Inc. (Utility Holdings or the Company), an Indiana corporation, serves as the intermediate holding company for Vectren Corporation's (Vectren) three operating public utilities: Indiana Gas Company, Inc. (Indiana Gas or Vectren North), Southern Indiana Gas and Electric Company (SIGECO or Vectren South), and the Ohio operations. Utility Holdings also has other assets that provide information technology and other services to the three utilities. Vectren is an energy holding company headquartered in Evansville, Indiana. Vectren and Utility Holdings are holding companies as defined by the Energy Policy Act of 2005.

Indiana Gas provides energy delivery services to approximately 565,000 natural gas customers located in central and southern Indiana. SIGECO provides energy delivery services to approximately 141,000 electric customers and approximately 112,000 gas customers located near Evansville in southwestern Indiana. SIGECO also owns and operates electric generation to serve its electric customers and optimizes those assets in the wholesale power market. Indiana Gas and SIGECO generally do business as Vectren Energy Delivery of Indiana. The Ohio operations provide energy delivery services to approximately 318,000 natural gas customers located near Dayton in west central Ohio. The Ohio operations are owned as a tenancy in common by Vectren Energy Delivery of Ohio, Inc. (VEDO), a wholly owned subsidiary, (53% ownership) and Indiana Gas (47% ownership). The Ohio operations generally do business as Vectren Energy Delivery of Ohio.

2. Basis of Presentation

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 note 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, 2006, filed with the SEC February 27, 2007 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.

3. Subsidiary Guarantor and Consolidating Information

The Company's three operating utility companies, SIGECO, Indiana Gas, and VEDO are guarantors of Utility Holdings' \$515 million in short-term credit facilities, of which \$352.5 million is outstanding at September 30, 2007, and Utility Holdings' \$700 million unsecured senior notes outstanding at September 30, 2007. The guarantees are full and unconditional and joint and several, and Utility Holdings has no subsidiaries other than the subsidiary guarantors. However, Utility Holdings does have operations other than those of the subsidiary guarantors. Pursuant to Article 3-10 of Regulation S-X, disclosure of the results of operations and balance sheets of the subsidiary guarantors separate from the parent company's operations is required. Following are consolidating financial

statements including information on the combined operations of the subsidiary guarantors separate from the other operations of the parent company.

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Condensed Consolidating Statement of Income for the three months ended September 30, 2007 (in millions):

| | Subsidiary Guarantors | Parent Company | Eliminations & Reclassifications | Consolidated |
|----------------------------------------------|--------------------------|-------------------|-------------------------------------|----------------|
| OPERATING REVENUES | | | | |
| Gas utility revenues | \$ 114.0 | \$ - | \$ - | \$ 114.0 |
| Electric utility revenues | 143.6 | - | - | 143.6 |
| Other revenues | - | 10.1 | (9.7) | 0.4 |
| Total operating revenues | 257.6 | 10.1 | (9.7) | 258.0 |
| OPERATING EXPENSES | | | | |
| Cost of gas sold | 52.9 | - | - | 52.9 |
| Cost of fuel & purchased power | 50.5 | - | - | 50.5 |
| Other operating | 74.3 | - | (8.7) | 65.6 |
| Depreciation & amortization | 34.5 | 5.8 | 0.1 | 40.4 |
| Taxes other than income taxes | 10.1 | 1.2 | - | 11.3 |
| Total operating expenses | 222.3 | 7.0 | (8.6) | 220.7 |
| OPERATING INCOME | 35.3 | 3.1 | (1.1) | 37.3 |
| OTHER INCOME (EXPENSE) - NET | | | | |
| Equity in earnings of consolidated companies | - | 10.2 | (10.2) | - |
| Other income (expense) – net | (0.2) | 12.1 | (10.6) | 1.3 |
| Total other income (expense) - net | (0.2) | 22.3 | (20.8) | 1.3 |
| Interest expense | 17.7 | 14.8 | (11.7) | 20.8 |
| INCOME BEFORE INCOME TAXES | 17.4 | 10.6 | (10.2) | 17.8 |
| Income taxes | 7.2 | (0.1) | - | 7.1 |
| NET INCOME | \$ 10.2 | \$ 10.7 | \$ (10.2) | \$ 10.7 |

Condensed Consolidating Statement of Income for the three months ended September 30, 2006 (in millions):

| | Subsidiary Guarantors | Parent Company | Eliminations & Reclassifications | Consolidated |
|----------------------------------------------|--------------------------|-------------------|-------------------------------------|--------------|
| OPERATING REVENUES | | | | |
| Gas utility revenues | \$ 116.8 | \$ - | \$ - | \$ 116.8 |
| Electric utility revenues | 123.2 | - | - | 123.2 |
| Other revenues | - | 9.2 | (8.7) | 0.5 |
| Total operating revenues | 240.0 | 9.2 | (8.7) | 240.5 |
| OPERATING EXPENSES | | | | |
| Cost of gas sold | 59.9 | - | - | 59.9 |
| Cost of fuel & purchased power | 46.8 | - | - | 46.8 |
| Other operating | 69.9 | - | (8.3) | 61.6 |
| Depreciation & amortization | 32.4 | 5.5 | 0.1 | 38.0 |
| Taxes other than income taxes | 10.2 | 0.3 | - | 10.5 |
| Total operating expenses | 219.2 | 5.8 | (8.2) | 216.8 |
| OPERATING INCOME | 20.8 | 3.4 | (0.5) | 23.7 |
| OTHER INCOME (EXPENSE) - NET | | | | |
| Equity in earnings of consolidated companies | - | 4.0 | (4.0) | - |
| Other income (expense) – net | 1.3 | 10.6 | (9.9) | 2.0 |
| Total other income (expense) - net | 1.3 | 14.6 | (13.9) | 2.0 |
| Interest expense | 16.4 | 13.2 | (10.4) | 19.2 |
| INCOME BEFORE INCOME TAXES | 5.7 | 4.8 | (4.0) | 6.5 |
| Income taxes | 1.7 | (1.7) | - | - |

| | | | | | | | | |
|-------------------|-----------|------------|-----------|------------|-----------|--------------|-----------|------------|
| NET INCOME | \$ | 4.0 | \$ | 6.5 | \$ | (4.0) | \$ | 6.5 |
|-------------------|-----------|------------|-----------|------------|-----------|--------------|-----------|------------|

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Condensed Consolidating Statement of Income for the nine months ended September 30, 2007 (in millions):

| | Subsidiary Guarantors | Parent Company | Eliminations & Reclassifications | Consolidated |
|----------------------------------------------|--------------------------|-------------------|-------------------------------------|----------------|
| OPERATING REVENUES | | | | |
| Gas utility revenues | \$ 890.0 | \$ - | \$ - | \$ 890.0 |
| Electric utility revenues | 361.6 | - | - | 361.6 |
| Other revenues | - | 30.3 | (29.0) | 1.3 |
| Total operating revenues | 1,251.6 | 30.3 | (29.0) | 1,252.9 |
| OPERATING EXPENSES | | | | |
| Cost of gas sold | 592.0 | - | - | 592.0 |
| Cost of fuel & purchased power | 129.5 | - | - | 129.5 |
| Other operating | 224.2 | - | (25.8) | 198.4 |
| Depreciation & amortization | 101.8 | 17.3 | 0.3 | 119.4 |
| Taxes other than income taxes | 47.7 | 1.8 | 0.1 | 49.6 |
| Total operating expenses | 1,095.2 | 19.1 | (25.4) | 1,088.9 |
| OPERATING INCOME | 156.4 | 11.2 | (3.6) | 164.0 |
| OTHER INCOME (EXPENSE) - NET | | | | |
| Equity in earnings of consolidated companies | - | 65.6 | (65.6) | - |
| Other income (expense) – net | 2.5 | 33.5 | (29.8) | 6.2 |
| Total other income (expense) - net | 2.5 | 99.1 | (95.4) | 6.2 |
| Interest expense | 50.6 | 41.6 | (33.4) | 58.8 |
| INCOME BEFORE INCOME TAXES | 108.3 | 68.7 | (65.6) | 111.4 |
| Income taxes | 42.7 | (0.9) | - | 41.8 |
| NET INCOME | \$ 65.6 | \$ 69.6 | \$ (65.6) | \$ 69.6 |

Condensed Consolidating Statement of Income for the nine months ended September 30, 2006 (in millions):

| | Subsidiary Guarantors | Parent Company | Eliminations & Reclassifications | Consolidated |
|----------------------------------------------|--------------------------|-------------------|----------------------------------------|----------------|
| OPERATING REVENUES | | | | |
| Gas utility revenues | \$ 848.6 | \$ - | \$ - | \$ 848.6 |
| Electric utility revenues | 324.4 | - | - | 324.4 |
| Other revenues | - | 27.5 | (26.1) | 1.4 |
| Total operating revenues | 1,173.0 | 27.5 | (26.1) | 1,174.4 |
| OPERATING EXPENSES | | | | |
| Cost of gas sold | 577.4 | - | - | 577.4 |
| Cost of fuel & purchased power | 115.8 | - | - | 115.8 |
| Other operating | 206.9 | - | (24.1) | 182.8 |
| Depreciation & amortization | 96.6 | 16.1 | 0.1 | 112.8 |
| Taxes other than income taxes | 44.0 | 0.8 | 0.1 | 44.9 |
| Total operating expenses | 1,040.7 | 16.9 | (23.9) | 1,033.7 |
| OPERATING INCOME | 132.3 | 10.6 | (2.2) | 140.7 |
| OTHER INCOME (EXPENSE) - NET | | | | |
| Equity in earnings of consolidated companies | - | 52.3 | (52.3) | - |
| Other income (expense) – net | 2.2 | 31.1 | (28.5) | 4.8 |
| Total other income (expense) - net | 2.2 | 83.4 | (80.8) | 4.8 |
| Interest expense | 49.3 | 38.8 | (30.7) | 57.4 |
| INCOME BEFORE INCOME TAXES | 85.2 | 55.2 | (52.3) | 88.1 |
| Income taxes | 32.9 | (1.8) | - | 31.1 |

| | | | | | | | | |
|-------------------|----|-------------|----|-------------|----|---------------|----|-------------|
| NET INCOME | \$ | 52.3 | \$ | 57.0 | \$ | (52.3) | \$ | 57.0 |
|-------------------|----|-------------|----|-------------|----|---------------|----|-------------|

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Condensed Consolidating Statement of Cash Flows for the nine months ended September 30, 2007 (in millions):

| | Subsidiary Guarantors | Parent Company | Eliminations | Consolidated |
|--------------------------------------------------------------|--------------------------|-------------------|---------------|-----------------|
| NET CASH FLOWS FROM OPERATING ACTIVITIES | \$ 144.3 | \$ 28.8 | \$ - | \$ 173.1 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Requirements for: | | | | |
| Dividends to parent | (57.4) | (57.4) | 57.4 | (57.4) |
| Retirement of long-term debt | (6.5) | - | - | (6.5) |
| Net change in short-term borrowings | 105.2 | 82.1 | (105.2) | 82.1 |
| Net cash flows from financing activities | 41.3 | 24.7 | (47.8) | 18.2 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Proceeds from: | | | | |
| Consolidated subsidiary distributions | - | 57.4 | (57.4) | - |
| Other investing activities | - | 0.3 | - | 0.3 |
| Requirements for: | | | | |
| Capital expenditures, excluding AFUDC-equity | (186.2) | (26.9) | - | (213.1) |
| Net change in notes receivable to other Vectren companies | - | (105.2) | 105.2 | - |
| Net cash flows from investing activities | (186.2) | (74.4) | 47.8 | (212.8) |
| Net decrease in cash & cash equivalents | (0.6) | (20.9) | - | (21.5) |
| Cash & cash equivalents at beginning of period | 5.7 | 22.8 | - | 28.5 |
| Cash & cash equivalents at end of period | \$ 5.1 | \$ 1.9 | \$ - | \$ 7.0 |

Condensed Consolidating Statement of Cash Flows for the nine months ended September 30, 2006 (in millions):

| | Subsidiary Guarantors | Parent Company | Eliminations | Consolidated |
|--------------------------------------------------------------|--------------------------|-------------------|--------------|-----------------|
| NET CASH FLOWS FROM OPERATING ACTIVITIES | \$ 211.7 | \$ 2.8 | \$ - | \$ 214.5 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Proceeds from: | | | | |
| Additional capital contribution | 20.0 | - | (20.0) | - |
| Long-term debt - net of issuance costs & hedging proceeds | 150.0 | - | (150.0) | - |
| Requirements for: | | | | |
| Dividends to parent | (55.9) | (55.9) | 55.9 | (55.9) |
| Net change in short-term borrowings | (183.9) | 0.7 | 183.9 | 0.7 |
| Net cash flows from financing activities | (69.8) | (55.2) | 69.8 | (55.2) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Proceeds from: | | | | |
| Consolidated subsidiary distributions | - | 55.9 | (55.9) | - |
| Other investing activities | - | 0.1 | - | 0.1 |
| Requirements for: | | | | |

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| | | | | |
|-----------------------------------------------------------|----------------|-------------|---------------|----------------|
| Capital expenditures, excluding AFUDC-equity | (150.7) | (17.5) | - | (168.2) |
| Consolidated affiliate and other investments | - | (170.0) | 170.0 | - |
| Net change in notes receivable to other Vectren companies | - | 183.9 | (183.9) | - |
| Net cash flows from investing activities | (150.7) | 52.4 | (69.8) | (168.1) |
| Net decrease in cash & cash equivalents | (8.8) | - | | (8.8) |
| Cash & cash equivalents at beginning of period | 11.0 | 0.7 | | 11.7 |
| Cash & cash equivalents at end of period | \$ 2.2 | \$ 0.7 | \$ - | \$ 2.9 |

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Condensed Consolidating Balance Sheet as of September 30, 2007 (in millions):

| <u>ASSETS</u> | Subsidiary Guarantors | Parent Company | Eliminations | Consolidated |
|-------------------------------------------------|--------------------------|-------------------|---------------------|-------------------|
| Current Assets | | | | |
| Cash & cash equivalents | \$ 5.1 | \$ 1.9 | \$ - | \$ 7.0 |
| Accounts receivable - less reserves | 78.9 | - | - | 78.9 |
| Receivables due from other Vectren companies | 0.4 | 251.2 | (250.8) | 0.8 |
| Accrued unbilled revenues | 43.9 | - | - | 43.9 |
| Inventories | 169.3 | 0.9 | - | 170.2 |
| Prepayments & other current assets | 109.0 | 10.6 | (2.6) | 117.0 |
| Total current assets | 406.6 | 264.6 | (253.4) | 417.8 |
| Utility Plant | | | | |
| Original cost | 3,990.8 | - | - | 3,990.8 |
| Less: accumulated depreciation & amortization | 1,499.1 | - | - | 1,499.1 |
| Net utility plant | 2,491.7 | - | - | 2,491.7 |
| Investments in consolidated subsidiaries | - | 1,137.7 | (1,137.7) | - |
| Notes receivable from consolidated subsidiaries | - | 575.4 | (575.4) | - |
| Investments in unconsolidated affiliates | 0.2 | - | - | 0.2 |
| Other investments | 15.9 | 5.8 | - | 21.7 |
| Nonutility property - net | 5.5 | 169.2 | - | 174.7 |
| Goodwill - net | 205.0 | - | - | 205.0 |
| Regulatory assets | 125.4 | 12.7 | - | 138.1 |
| Other assets | 15.0 | 0.3 | (4.6) | 10.7 |
| TOTAL ASSETS | \$ 3,265.3 | \$ 2,165.7 | \$ (1,971.1) | \$ 3,459.9 |

LIABILITIES & SHAREHOLDER'S

| <u>EQUITY</u> | Subsidiary Guarantors | Parent Company | Eliminations | Consolidated |
|---------------------------------------------------------------------|--------------------------|-------------------|----------------|--------------|
| Current Liabilities | | | | |
| Accounts payable | \$ 108.8 | \$ 9.2 | \$ - | \$ 118.0 |
| Accounts payable to affiliated companies | 29.9 | - | - | 29.9 |
| Payables to other Vectren companies | 34.3 | 0.3 | (9.8) | 24.8 |
| Refundable fuel & natural gas costs | 26.0 | - | - | 26.0 |
| Accrued liabilities | 106.1 | 14.5 | (6.7) | 113.9 |
| Short-term borrowings | - | 352.2 | - | 352.2 |
| Short-term borrowings from other Vectren Companies | 236.9 | - | (236.9) | - |
| Long-term debt subject to tender | 20.0 | - | - | 20.0 |
| Total current liabilities | 562.0 | 376.2 | (253.4) | 684.8 |
| Long-Term Debt | | | | |
| Long-term debt - net of current maturities & debt subject to tender | 327.2 | 698.2 | - | 1,025.4 |
| Long-term debt due to Utility Holdings | 575.4 | - | (575.4) | - |
| Total long-term debt - net | 902.6 | 698.2 | (575.4) | 1,025.4 |
| Deferred Income Taxes & Other Liabilities | | | | |
| Deferred income taxes | 255.1 | 9.6 | - | 264.7 |
| Regulatory liabilities | 300.8 | 2.3 | - | 303.1 |
| Deferred credits & other liabilities | 107.1 | 11.8 | (4.6) | 114.3 |

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| | | | | |
|-------------------------------------------------------|-------------------|-------------------|---------------------|-------------------|
| Total deferred credits & other liabilities | 663.0 | 23.7 | (4.6) | 682.1 |
| Common Shareholder's Equity | | | | |
| Common stock (no par value) | 776.3 | 632.9 | (776.3) | 632.9 |
| Retained earnings | 360.9 | 434.2 | (360.9) | 434.2 |
| Accumulated other comprehensive income | 0.5 | 0.5 | (0.5) | 0.5 |
| Total common shareholder's equity | 1,137.7 | 1,067.6 | (1,137.7) | 1,067.6 |
| TOTAL LIABILITIES & SHAREHOLDER'S EQUITY | \$ 3,265.3 | \$ 2,165.7 | \$ (1,971.1) | \$ 3,459.9 |

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Condensed Consolidating Balance Sheet as of December 31, 2006 (in millions):

| <u>ASSETS</u> | Subsidiary Guarantors | Parent Company | Eliminations | Consolidated |
|-------------------------------------------------|--------------------------|-------------------|---------------------|-------------------|
| Current Assets | | | | |
| Cash & cash equivalents | \$ 5.7 | \$ 22.8 | \$ - | \$ 28.5 |
| Accounts receivable - less reserves | 134.8 | - | - | 134.8 |
| Receivables due from other Vectren companies | 6.1 | 146.0 | (151.8) | 0.3 |
| Accrued unbilled revenues | 121.4 | - | - | 121.4 |
| Inventories | 139.6 | 2.3 | - | 141.9 |
| Recoverable fuel & natural gas costs | 1.8 | - | - | 1.8 |
| Prepayments & other current assets | 91.2 | 14.7 | (2.7) | 103.2 |
| Total current assets | 500.6 | 185.8 | (154.5) | 531.9 |
| Utility Plant | | | | |
| Original cost | 3,820.2 | - | - | 3,820.2 |
| Less: accumulated depreciation & amortization | 1,434.7 | - | - | 1,434.7 |
| Net utility plant | 2,385.5 | - | - | 2,385.5 |
| Investments in consolidated subsidiaries | - | 1,129.7 | (1,129.7) | - |
| Notes receivable from consolidated subsidiaries | - | 575.3 | (575.3) | - |
| Investments in unconsolidated affiliates | 0.2 | - | - | 0.2 |
| Other investments | 15.4 | 6.0 | - | 21.4 |
| Nonutility property - net | 5.2 | 157.9 | - | 163.1 |
| Goodwill - net | 205.0 | - | - | 205.0 |
| Regulatory assets | 103.3 | 13.5 | - | 116.8 |
| Other assets | 16.1 | 0.8 | - | 16.9 |
| TOTAL ASSETS | \$ 3,231.3 | \$ 2,069.0 | \$ (1,859.5) | \$ 3,440.8 |

LIABILITIES & SHAREHOLDER'S EQUITY

| | Subsidiary Guarantors | Parent Company | Eliminations | Consolidated |
|---------------------------------------------------------------------|--------------------------|-------------------|----------------|--------------|
| Current Liabilities | | | | |
| Accounts payable | \$ 131.5 | \$ 4.7 | \$ - | \$ 136.2 |
| Accounts payable to affiliated companies | 68.1 | 0.1 | - | 68.2 |
| Payables to other Vectren companies | 44.0 | 0.1 | (18.8) | 25.3 |
| Refundable fuel & natural gas costs | 35.3 | - | - | 35.3 |
| Accrued liabilities | 107.3 | 11.2 | (2.7) | 115.8 |
| Short-term borrowings | - | 270.1 | - | 270.1 |
| Short-term borrowings from other Vectren Companies | 133.0 | - | (133.0) | - |
| Current maturities of long-term debt | 6.5 | - | - | 6.5 |
| Long-term debt subject to tender | 20.0 | - | - | 20.0 |
| Total current liabilities | 545.7 | 286.2 | (154.5) | 677.4 |
| Long-Term Debt | | | | |
| Long-term debt - net of current maturities & debt subject to tender | 327.3 | 698.0 | - | 1,025.3 |
| Long-term debt due to Utility Holdings | 575.3 | - | (575.3) | - |
| Total long-term debt - net | 902.6 | 698.0 | (575.3) | 1,025.3 |
| Deferred Income Taxes & Other Liabilities | | | | |
| Deferred income taxes | 265.9 | 16.3 | - | 282.2 |
| Regulatory liabilities | 285.0 | 6.1 | - | 291.1 |
| Deferred credits & other liabilities | 102.4 | 5.7 | - | 108.1 |
| Total deferred credits & other liabilities | 653.3 | 28.1 | - | 681.4 |
| Common Shareholder's Equity | | | | |

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| | | | | |
|-----------------------------------------------------|-------------------|-------------------|---------------------|-------------------|
| Common stock (no par value) | 776.3 | 632.9 | (776.3) | 632.9 |
| Retained earnings | 352.5 | 422.9 | (352.5) | 422.9 |
| Accumulated other comprehensive income | 0.9 | 0.9 | (0.9) | 0.9 |
| Total common shareholder's equity | 1,129.7 | 1,056.7 | (1,129.7) | 1,056.7 |
| TOTAL LIABILITIES & SHAREHOLDER'S EQUITY | \$ 3,231.3 | \$ 2,069.0 | \$ (1,859.5) | \$ 3,440.8 |

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Table of Contents**4. Excise and Utility Receipts Taxes**

Excise taxes and a portion of utility receipts taxes are included in rates charged to customers. Accordingly, the Company records these taxes received as a component of operating revenues, which totaled \$4.9 million and \$4.7 million, respectively for the three months ended September 30, 2007 and 2006. For the nine months ended September 30, 2007 and 2006, these taxes totaled \$29.6 million and \$27.9 million, respectively. Expenses associated with excise and utility receipts taxes are recorded as a component of *Taxes other than income taxes*.

5. Comprehensive Income

Comprehensive income consists of the following:

| <i>(In millions)</i> | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-----------------------------------|-------------------------------------|---------------|------------------------------------|----------------|
| | 2007 | 2006 | 2007 | 2006 |
| Net income | \$ 10.7 | \$ 6.5 | \$ 69.6 | \$ 57.0 |
| Cash flow hedges | | | | |
| Unrealized losses | - | - | - | (3.7) |
| Reclassifications to net income | (0.1) | (0.1) | (0.7) | (2.2) |
| Income tax benefit (expense) | - | - | 0.3 | 2.1 |
| Total comprehensive income | \$ 10.6 | \$ 6.4 | \$ 69.2 | \$ 53.2 |

6. Transactions with Other Vectren CompaniesSupport Services and Purchases

Vectren provides corporate and general and administrative services to the Company and allocates costs to the Company, including costs for share-based compensation and for pension and other postretirement benefits that are not directly charged to subsidiaries. These costs have been allocated using various allocators, including number of employees, number of customers and/or the level of payroll, revenue contribution and capital expenditures. Allocations are based on cost. Utility Holdings received corporate allocations totaling \$20.7 million and \$17.7 million for the three months ended September 30, 2007 and 2006, respectively. For the nine months ended September 30, 2007 and 2006, Utility Holdings received corporate allocations totaling \$63.0 million and \$58.4 million, respectively.

Vectren Fuels, Inc.

Vectren Fuels, Inc., a wholly owned subsidiary of Vectren, owns and operates coal mines from which SIGECO purchases fuel used for electric generation. The Company has priced the coal consistent with letter agreements with the OUCC regarding the price of coal that is charged by Fuels to SIGECO. Amounts paid for such purchases for the three months ended September 30, 2007 and 2006, totaled \$30.3 million and \$28.9 million, respectively. For the nine months ended September 30, 2007 and 2006, amounts paid for such purchases totaled \$86.4 million and \$91.4 million, respectively.

Miller Pipeline Corporation

Effective July 1, 2006, Vectren purchased the remaining 50% ownership in Miller Pipeline Corporation (Miller), making Miller a wholly owned subsidiary of Vectren. Prior to the transaction, Miller was 50% owned by Duke Energy Corporation. Miller performs natural gas and water distribution, transmission, and construction repair and rehabilitation primarily in the Midwest and the repair and rehabilitation of gas, water, and wastewater facilities nationwide. Miller's customers include Utility Holdings' utilities. Amounts paid by Utility Holdings to Miller for purchases of utility plant and other services for the three months ended September 30, 2007 and 2006, totaled \$16.6 million and \$5.2 million, respectively. Amounts paid for the nine months ended September 30, 2007 and 2006,

totaled \$28.1 million and \$14.4 million, respectively.

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7. Transactions with ProLiance Energy, LLC

ProLiance Energy, LLC (ProLiance), a nonutility energy marketing affiliate of Vectren and Citizens Gas and Coke Utility (Citizens Gas), provides services to a broad range of municipalities, utilities, industrial operations, schools, and healthcare institutions located throughout the Midwest and Southeast United States. ProLiance also provides services to Vectren's Indiana utilities and nonutility gas supply operations as well as Citizens Gas. ProLiance's primary businesses include gas marketing, gas portfolio optimization, and other portfolio and energy management services.

Purchases from ProLiance for resale and for injections into storage for the three months ended September 30, 2007 and 2006, totaled \$111.0 million and \$107.2 million, respectively and for the nine months ended September 30, 2007 and 2006, totaled \$452.3 million and \$451.2 million, respectively. Amounts owed to ProLiance at September 30, 2007 and December 31, 2006, for those purchases were \$29.5 million and \$68.2 million, respectively, and are included in *Accounts payable to affiliated companies* in the Consolidated Balance Sheets. The Company purchased approximately 70 percent of its gas through ProLiance in 2007 and approximately 71 percent in 2006. Amounts charged by ProLiance for gas supply services are established by supply agreements with each utility which have been approved by the IURC through 2011.

8. Commitments & Contingencies

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, except those discussed herein, pending against the Company that are likely to have a material adverse effect on its financial position or results of operations or cash flows.

9. Environmental Matters

Clean Air/Climate Change

In March of 2005 USEPA finalized two new air emission reduction regulations. The Clean Air Interstate Rule (CAIR) is an allowance cap and trade program requiring further reductions in Nitrogen Oxides (NO_x) and Sulfur Dioxide (SO₂) emissions from coal-burning power plants. The Clean Air Mercury Rule (CAMR) is an allowance cap and trade program requiring further reductions in mercury emissions from coal-burning power plants. Both sets of regulations require emission reductions in two phases. The first phase deadline for both rules is 2010 (2009 for NO_x under CAIR), and the second phase deadline for compliance with the emission reductions required under CAIR is 2015, while the second phase deadline for compliance with the emission reduction requirements of CAMR is 2018. The Company is evaluating compliance options and fully expects to be in compliance by the required deadlines.

In February 2006, the IURC approved a multi-emission compliance plan filed by the Company's utility subsidiary, SIGECO. Once the plan is implemented, SIGECO's coal-fired plants will be 100% scrubbed for SO₂, 90% scrubbed for NO_x, and mercury emissions will be reduced to meet the new mercury reduction standards. The order, as previously agreed to by the OUCC and Citizens Action Coalition, allows SIGECO to recover an approximate 8% return on up to \$110 million in capital investments through a rider mechanism which is updated every six months for actual costs incurred. The Company may file periodic updates with the IURC requesting modification to the spending authority. The Company will also recover through a rider its operating expenses, including depreciation, once the equipment is placed into service. As of September 30, 2007, the Company has made capital investments of approximately \$91 million related to this environmental requirement. Of that amount, \$49.4 million was placed into service on January 1, 2007 and was included in rate base for purposes of determining new base rates that went into effect on August 15, 2007 (See Note 10).

If legislation requiring reductions in carbon dioxide and other greenhouse gases is adopted, such regulation could substantially affect both the costs and operating characteristics of the Company's fossil fuel generating plants and nonutility coal mining operations. At this time and in absence of final legislation, compliance costs and other effects associated with reductions in greenhouse gas emissions remain uncertain.

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Pursuant to an IURC order, SIGECO is studying renewable energy alternatives, and on April 9, 2007, filed a green power rider in order to allow customers to purchase green power and is also seeking approval of a contract to purchase 30 MW of power generated by wind energy. Future filings with the IURC with regard to new generation and/or further environmental compliance plans will include evaluation of potential carbon requirements.

Environmental Remediation Efforts

In the past, Indiana Gas, SIGECO, 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, those that operated these facilities may now be required to take remedial action if certain contaminants are found above the regulatory thresholds at these sites.

Indiana Gas 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 completed a remedial investigation/feasibility study (RI/FS) at one of the sites under an agreed order between Indiana Gas and the IDEM, and a Record of Decision was issued by the IDEM in January 2000. Although Indiana Gas has not begun an RI/FS at additional sites, Indiana Gas has submitted several of the sites to the IDEM's Voluntary Remediation Program (VRP) 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.

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

The estimated accrued costs are limited to Indiana Gas' 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 under insurance policies in effect when these plants were in operation in an aggregate amount approximating \$20.4 million.

In October 2002, SIGECO received a formal information request letter from the IDEM regarding five manufactured gas plants that it owned and/or operated and were not enrolled in the IDEM's VRP. In October 2003, SIGECO filed applications to enter four of the manufactured gas plant sites in IDEM's VRP. The remaining site is currently being addressed in the VRP by another Indiana utility. SIGECO added those four sites into the renewal of the global Voluntary Remediation Agreement that Indiana Gas has in place with IDEM for its manufactured gas plant sites. That renewal was approved by the IDEM in February 2004. SIGECO is also named in a lawsuit filed in federal district court in May 2007, involving another site subject to potential environmental remediation efforts.

SIGECO has filed a declaratory judgment action against its insurance carriers seeking a judgment finding its carriers liable under the policies for coverage of further investigation and any necessary remediation costs that SIGECO may accrue under the VRP program and/or related to the site subject to the May 2007 lawsuit. While the total costs that may be incurred in connection with addressing these sites cannot be determined at this time, SIGECO has recorded costs that it reasonably expects to incur totaling approximately \$7.7 million. With respect to insurance coverage, SIGECO has received and recorded settlements from insurance carriers under insurance policies in effect when these sites were in operation in an aggregate amount approximating the costs it expects to incur.

Environmental remediation costs related to Indiana Gas' and SIGECO's manufactured gas plants and other sites have had no material impact on results of operations or financial condition since costs recorded to date approximate PRP and insurance settlement recoveries. While the Company's utilities have recorded all costs which they presently expect 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 and those costs may not be subject to PRP or insurance recovery.

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10. Rate & Regulatory Matters

Vectren South (SIGECO) Electric Base Rate Order Received

On August 15, 2007, the Company received an order from the IURC which approved a settlement agreement with the OUCC and other interveners regarding the proposed changes to the base rates and charges for its electric distribution business in southwestern Indiana. The settlement agreement provides for an approximate \$60.8 million electric rate increase to cover the Company's cost of system growth, maintenance, safety and reliability. The settlement provides for, among other things: recovery of ongoing costs and deferred costs associated with the MISO; operations and maintenance (O&M) expense increases related to managing the aging workforce, including the development of expanded apprenticeship programs and the creation of defined training programs to ensure proper knowledge transfer, safety and system stability; increased O&M expense necessary to maintain and improve system reliability; benefit to customers from the sale of wholesale power by Vectren sharing evenly with customers any profit earned above or below \$10.5 million of wholesale power margin; recovery of and return on the investment in past demand side management programs to help encourage conservation during peak load periods; timely recovery of the Company's investment in certain new electric transmission projects that benefit the MISO infrastructure outside of the Company's service territory; an overall rate of return of 7.32 percent on rate base of approximately \$1,044 million and an allowed return on equity (ROE) of 10.4 percent.

Vectren South (SIGECO) Gas Base Rate Order Received

On August 1, 2007, the Company received an order from the IURC which approved, with a minor modification, the settlement agreement previously reached with the Indiana Office of the Utility Consumer Counselor (OUCC) and other interveners regarding its Vectren South gas rate case. The order provided for a base rate increase of \$5.1 million and an ROE of 10.15 percent, with an overall rate of return of 7.20 percent on rate base of approximately \$122 million. The order also includes removal of \$2.6 million of costs from base rates to be recovered through existing tracking mechanisms.

Further, additional expenditures for a multi-year bare steel and cast iron capital replacement program will be afforded certain accounting treatment that mitigates earnings attrition from the investment between rate cases. The accounting treatment allows for the continuation of the accrual for allowance for funds used during construction (AFUDC) and the deferral of depreciation expense after the projects go in service but before they are included in base rates. To qualify for this treatment, the annual expenditures are limited to \$3.0 million and the treatment cannot extend beyond three years on each project.

With this order, the company now has in place for its South gas territory weather normalization, a conservation and decoupling tariff, tracking of gas cost expense related to bad debts and unaccounted for gas through the existing gas cost adjustment mechanism, and tracking of pipeline integrity expense.

Vectren North (Indiana Gas Company, Inc.) Gas Base Rate Filing

In May 2007, the Company filed a petition with the IURC to adjust its gas base rates and charges in its North service territory. The petition requests an increase of approximately \$41 million in rates to recover the ongoing cost of operating, maintaining and expanding the approximately 12,000-mile distribution and storage system used to serve more than 565,000 natural gas customers. Components of the requested increase include return on additional utility infrastructure investment, costs associated with federally mandated pipeline integrity management, inspection and other reliability programs, and aging workforce. A hearing on the Company's request before the IURC was held in late August 2007 and the final hearing is scheduled for December 2007. The Company expects an order from the IURC in the second quarter of 2008.

Vectren Energy Delivery of Ohio, Inc. (VEDO) Filing of Pre-Filing Notice

In September 2007, the Company issued a pre-filing notice with the PUCO indicating it plans to request an increase in its base rate charges for VEDO's distribution business in its 17-county service area in west central Ohio. The filing indicates that an increase in base rates of approximately \$29 million is necessary to cover the ongoing cost of operating, maintaining and expanding the approximately 5,200-mile distribution system used to serve 318,000 customers. Components of the requested increase include return on additional utility infrastructure investment, costs associated with federally mandated pipeline integrity management, inspection and other reliability programs, and aging workforce.

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In addition, the Company is seeking extension of the decoupling mechanisms currently in place to encourage customer conservation and also is seeking approval of expanded conservation-oriented programs, such as rebate offerings on high-efficiency natural gas appliances for existing and new home construction, to help customers lower their natural gas bills.

Ohio and Indiana Lost Margin Recovery/Conservation Filings

In 2005, the Company filed conservation programs and conservation adjustment trackers in Indiana and Ohio designed to help customers conserve energy and reduce their annual gas bills. The programs allow the Company to recover costs of promoting the conservation of natural gas through conservation trackers that work in tandem with a lost margin recovery mechanism. These mechanisms are designed to allow the Company to recover the distribution portion of its rates from residential and commercial customers based on the level of customer revenues established in each utility's last general rate case.

Indiana

In December 2006, the IURC approved a settlement agreement that provides for a five-year energy efficiency program. It allows the Company's Indiana utilities to recover a majority of the costs of promoting the conservation of natural gas through conservation trackers that work in tandem with a lost margin recovery mechanism. The order was implemented in the North service territory in December 2006, and provides for recovery of 85 percent of the difference between weather normalized revenues actually collected by the Company and the revenues approved in the Company's most recent rate case. Energy efficiency programs began in the South gas territory in December 2006. A similar approach regarding lost margin recovery commenced in the South gas territory on August 1, 2007, as the new base rates went into effect, allowing for recovery of 100 percent of the difference between weather normalized revenues actually collected by the Company and the revenues approved in that rate case. It is expected that after the North filing is acted upon, it will be at 100 percent also. While most expenses associated with these programs are recoverable, in the first program year the Company is required to fund \$1.5 million in program costs without recovery.

Ohio

In June 2007, the Public Utilities Commission of Ohio (PUCO) approved a settlement that provides for the implementation of a lost margin recovery mechanism and a related conservation program for the Company's Ohio operations. This order confirms the guidance the PUCO previously provided in a September 2006 decision. The conservation program, as outlined in the September 2006 PUCO order and as affirmed in this order, provides for a two year, \$2 million total conservation program to be paid by the Company, as well as a sales reconciliation rider intended to be a recovery mechanism for the difference between the weather normalized revenues actually collected by the Company and the revenues approved by the PUCO in the Company's most recent rate case. Approximately 60 percent of the Company's Ohio customers are eligible for the conservation programs. The Ohio Consumer Counselor (OCC) and another intervener requested a rehearing of the June 2007 order and the PUCO granted that request in order to have additional time to consider the merits of the request. In accordance with accounting authorization previously provided by the PUCO, the Company began recognizing the impact of the September 2006 order on October 1, 2006, and has recognized cumulative revenues of \$2.6 million, of which \$1.3 million has been recorded in 2007. The OCC appealed the PUCO's accounting authorization to the Ohio Supreme Court, but that appeal has been dismissed as premature pending the PUCO's consideration of issues raised in the OCC's request for rehearing. Since October 1, 2006, the Company has been ratably accruing its \$2 million commitment.

MISO

Since February 2002 and with the IURC's approval, the Company has been a member of the Midwest Independent System Operator, Inc. (MISO), a FERC approved regional transmission organization. The MISO serves the electrical transmission needs of much of the Midwest and maintains operational control over the Company's electric transmission facilities as well as that of other Midwest utilities.

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On April 1, 2005, the MISO energy market commenced operation (the Day 2 energy market). As a result of being a market participant, the Company now bids its owned generation into the Day Ahead and Real Time markets and procures power for its retail customers at Locational Marginal Pricing (LMP) as determined by the MISO market. The Company is typically in a net sales position with MISO and is only occasionally in a net purchase position. Net positions are determined on an hourly basis. When the Company is a net seller such net revenues are included in *Electric Utility Revenues* and when the Company is a net purchaser such net purchases are included in *Cost of Fuel and Purchased Power*. The Company also receives transmission revenue that results from another members' use of the Company's transmission system. These revenues are also included in *Electric Utility Revenues*.

Pursuant to an order from the IURC received in December 2001, certain MISO startup costs (referred to as Day 1 costs) were deferred, and those deferred costs are now being recovered through base rates that went into effect on August 15, 2007. On June 1, 2005, Vectren, together with three other Indiana electric utilities, received regulatory authority from the IURC to recover fuel related costs and to defer other costs associated with the Day 2 energy market. The order allows fuel related costs to be passed through to customers in Vectren's existing fuel cost recovery proceedings. During 2006, the IURC reaffirmed the definition of certain costs as fuel related; the Company is following those guidelines. Other MISO fuel related and non-fuel related costs were deferred, and those deferred costs are now being recovered through base rates that went into effect on August 15, 2007. The IURC order authorizing new base rates also provides for a tracking mechanism associated with ongoing MISO-related costs and transmission revenues.

As a result of MISO's operational control over much of the Midwestern electric transmission grid, including SIGECO's transmission facilities, SIGECO's continued ability to import power, when necessary, and export power to the wholesale market has been, and may continue to be, impacted. Given the nature of MISO's policies regarding use of transmission facilities, as well as ongoing FERC initiatives, uncertainties around Day 2 energy market operations and a pending Day 3 market, where MISO plans to provide bid-based-regulation and contingency operating reserve markets, it is difficult to predict near term operational impacts. However, as stated above, it is believed that MISO's regional operation of the transmission system will ultimately lead to reliability improvements. MISO has indicated that the Day 3 ancillary services market would begin in June 2008.

The potential need to expend capital for improvements to the transmission system, both to SIGECO's facilities as well as to those facilities of adjacent utilities, over the next several years will become more predictable as MISO completes studies related to regional transmission planning and improvements. Such expenditures may be significant. The Company will timely recover its investment in certain new electric transmission projects that benefit the MISO infrastructure outside of the Company's service territory at a FERC approved rate of return.

Gas Cost Recovery (GCR) Audit Proceedings

In 2005, the PUCO issued an order disallowing the recovery of approximately \$9.6 million of gas costs relating to the two-year audit period ended October 2002 and in 2006, an additional \$0.8 million was disallowed related to the audit period ending October 2005. The initial audit period provided the PUCO staff its initial review of the portfolio administration arrangement between VEDO and ProLiance. Since November 1, 2005, the Company has used a provider other than ProLiance for these services.

Through a series of rehearings and appeals, including action by the Ohio Supreme Court in the first quarter of 2007, the Company was required to refund \$8.6 million to customers. The Company had previously recorded the impact of the PUCO findings, including its estimate of the share of the ultimate disallowance to be received from its partner in ProLiance.

Integrated Gasification Combined Cycle Project Involvement

In August 2007, the Company announced that it has determined to not participate in the proposed Edwardsport, Indiana, Integrated Gasification Combined Cycle (IGCC) generating plant with Duke Energy Indiana, Inc. (Duke).

Based upon a review and analysis of the Company's expected electric generation requirements, the expected demand for energy on the system may be more appropriately satisfied through the use of other alternatives, including additional natural gas peaking generation, purchased power, renewable resources and increased customer conservation. The Company has paid Duke approximately \$3.0 million for engineering studies and related costs. By separate agreement with Duke, the Company expects to be reimbursed for all costs and expenses it has paid to Duke.

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11. Adoption of FIN 48

Utility Holdings does not file federal or state income tax returns separate from those filed by its parent, Vectren Corporation. Vectren and/or certain of its subsidiaries file income tax returns in the U.S. federal jurisdiction and various states. The Internal Revenue Service (IRS) has conducted its examination of Vectren's U.S. federal income tax returns for tax years through December 31, 2004. The State of Indiana, Vectren's primary state tax jurisdiction, has conducted examinations of state income tax returns for tax years through December 31, 2002. No examinations are currently ongoing.

On January 1, 2007, the Company adopted FASB Interpretation No. 48 (FIN 48) "Accounting for Uncertainty in Income Taxes" an interpretation of SFAS 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of tax positions taken or expected to be taken in an income tax return. FIN 48 also provides guidance related to reversal of tax positions, balance sheet classification, interest and penalties, interim period accounting, disclosure and transition.

As a result of the implementation of FIN 48, the Company recognized an approximate \$0.9 million increase in the liability for unrecognized tax benefits, which was accounted for as a reduction to the January 1, 2007 balance of *Retained earnings*. At adoption, the total amount of gross unrecognized tax benefits for uncertain tax positions, including positions impacting only the timing of tax benefits, was \$7.0 million. At September 30, 2007, the liability for uncertain tax positions totaled \$5.0 million. The decrease results from changes in estimates that charge against deferred taxes.

The amount of unrecognized tax benefits, which, if recognized, would impact the effective tax rate as of September 30, 2007, was \$0.6 million. The remaining unrecognized tax benefit relates to tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

From time to time, the Company may consider changes to filed positions that could decrease the liability for uncertain tax positions. However, it is not expected that such changes would have a significant impact on earnings and would only affect the timing of payments to taxing authorities.

The Company accrues interest and penalties associated with unrecognized tax benefits in *Income taxes*. During the nine months ended September 30, 2007, the Company recognized expense related to interest and penalties totaling approximately \$0.3 million. The Company had approximately \$0.5 million for the payment of interest and penalties accrued as of September 30, 2007.

12. Segment Reporting

The Company's operations consist of regulated operations and other operations that provide information technology and other support services to those regulated operations. The Company segregates its regulated operations into a Gas Utility Services operating segment and an Electric Utility Services operating segment. The Gas Utility Services segment provides natural gas distribution and transportation services to nearly two-thirds of Indiana and to west central Ohio. The Electric Utility Services segment provides electric distribution services primarily to southwestern Indiana, and includes the Company's power generating and marketing operations. The Company cross manages its regulated operations as separated between Energy Delivery, which includes the gas and electric transmission and distribution functions, and Power Supply, which includes the power generating and marketing operations. In total, regulated operations supply natural gas and /or electricity to over one million customers. Utility Holdings has three operating segments as defined by SFAS 131 "Disclosure About Segments of an Enterprise and Related Information"

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(SFAS 131). Net income is the measure of profitability used by management for all operations. Information related to the Company's business segments is summarized below:

| <i>(In millions)</i> | Three Months | | Nine Months | |
|--------------------------------------------------|-----------------------------|-----------|-----------------------------|------------|
| | Ended September 30, 2007 | 2006 | Ended September 30, 2007 | 2006 |
| Revenues | | | | |
| Gas Utility Services | \$ 114.0 | \$ 116.8 | \$ 890.0 | \$ 848.6 |
| Electric Utility Services | 143.6 | 123.2 | 361.6 | 324.4 |
| Other Operations | 10.1 | 9.2 | 30.3 | 27.5 |
| Eliminations | (9.7) | (8.7) | (29.0) | (26.1) |
| Consolidated Revenues | \$ 258.0 | \$ 240.5 | \$ 1,252.9 | \$ 1,174.4 |
| Profitability Measure - Net Income/(Loss) | | | | |
| Gas Utility Services | \$ (8.4) | \$ (10.2) | \$ 26.0 | \$ 18.7 |
| Electric Utility Services | 18.6 | 14.2 | 39.6 | 33.6 |
| Other Operations | 0.5 | 2.5 | 4.0 | 4.7 |
| Total Net Income | \$ 10.7 | \$ 6.5 | \$ 69.6 | \$ 57.0 |

13. Impact of Recently Issued Accounting Guidance

SFAS No. 157

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This statement does not require any new fair value measurements; however, the standard will impact how other fair value based GAAP is applied. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company will adopt SFAS 157 on January 1, 2008, and is currently assessing the impact this statement will have on its financial statements and results of operations.

SFAS 159

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115 (SFAS 159). SFAS 159 permits entities to measure many financial instruments and certain other items at fair value. Items eligible for the fair value measurement option include: financial assets and financial liabilities with certain exceptions; firm commitments that would otherwise not be recognized at inception and that involve only financial instruments; nonfinancial insurance contracts and warranties that the insurer can settle by paying a third party to provide those goods or services; and host financial instruments resulting from separation of an embedded financial derivative instrument from a nonfinancial hybrid instrument. The fair value option may be applied instrument by instrument, with few exceptions, is an irrevocable election and is applied only to entire instruments. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company will adopt SFAS 159 on January 1, 2008, and is currently assessing the impact this statement will have on its financial statements and results of operations.

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

Description of the Business

Vectren Utility Holdings, Inc. (Utility Holdings or the Company), an Indiana corporation, serves as the intermediate holding company for Vectren Corporation's (Vectren) three operating public utilities: Indiana Gas Company, Inc. (Indiana Gas or Vectren North), Southern Indiana Gas and Electric Company (SIGECO or Vectren South), and the Ohio operations. Utility Holdings also has other assets that provide information technology and other services to the three utilities. Vectren is an energy holding company headquartered in Evansville, Indiana. Vectren and Utility Holdings are holding companies as defined by the Energy Policy Act of 2005.

Indiana Gas provides energy delivery services to approximately 565,000 natural gas customers located in central and southern Indiana. SIGECO provides energy delivery services to approximately 141,000 electric customers and approximately 112,000 gas customers located near Evansville in southwestern Indiana. SIGECO also owns and operates electric generation to serve its electric customers and optimizes those assets in the wholesale power market. Indiana Gas and SIGECO generally do business as Vectren Energy Delivery of Indiana. The Ohio operations provide energy delivery services to approximately 318,000 natural gas customers located near Dayton in west central Ohio. The Ohio operations are owned as a tenancy in common by Vectren Energy Delivery of Ohio, Inc. (VEDO), a wholly owned subsidiary, (53% ownership) and Indiana Gas (47% ownership). The Ohio operations generally do business as Vectren Energy Delivery of Ohio.

Executive Summary of Consolidated Results of Operations

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

Utility Holdings' 2007 earnings for the quarter ended September 30, 2007 were \$10.7 million compared to \$6.5 million in 2006 and \$69.6 million for the nine months ended September 30, 2007 compared to \$57.0 million in 2006. The increases in earnings resulted from base rate increases in the Vectren South service territory; the combined impact of increased residential and commercial usage and lost margin recovery; and favorable weather. The increase was offset somewhat by increased operating costs including depreciation expense and a lower effective tax rate in 2006.

In the Company's electric and Ohio natural gas service territories that are not protected by weather normalization mechanisms, management estimates the margin impact of weather experienced during the third quarter of 2007 to be \$4.8 million favorable compared to normal and \$5.5 million favorable compared to the prior year. Year to date, management estimates the margin impact of weather experienced during 2007 to be \$5.4 million favorable compared to normal and \$12.1 million favorable compared to the prior year.

Utility Holdings generates revenue primarily from the delivery of natural gas and electric service to its customers. The primary source of cash flow results from the collection of customer bills and the payment for goods and services procured for the delivery of gas and electric services. Results are impacted by weather patterns in its service territory and general economic conditions both in its Indiana and Ohio service territories as well as nationally.

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

Significant Fluctuations

Throughout this discussion, the terms Gas Utility margin and Electric Utility margin are used. Gas Utility margin is calculated as *Gas utility revenues* less the *Cost of gas*. Electric Utility margin is calculated as *Electric utility revenues* less *Cost of fuel & purchased power*. These measures exclude *Other operating expenses, Depreciation and amortization, and Taxes other than income taxes*, which are included in the calculation of operating income. The Company believes Gas Utility and Electric Utility margins are better indicators of relative contribution than revenues since gas prices and fuel costs can be volatile and are generally collected on a dollar-for-dollar basis from customers.

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Sales of natural gas and electricity to residential and commercial customers are seasonal and are impacted by weather. Trends in average use among natural gas residential and commercial customers have tended to decline in recent years as more efficient appliances and furnaces are installed and the price of natural gas has increased. Normal temperature adjustment (NTA) and lost margin recovery mechanisms largely mitigate the effect on Gas Utility margin that would otherwise be caused by variations in volumes sold due to weather and changing consumption patterns. Indiana Gas' territory has both an NTA since 2005 and lost margin recovery since December 2006. SIGECO's natural gas territory has an NTA since 2005, and lost margin recovery began when new base rates went into effect August 1, 2007. The Ohio service territory has lost margin recovery since October 2006, but does not have an NTA mechanism. Electric use among residential and commercial classes has remained relatively stable. SIGECO's electric service territory does not have an NTA mechanism and its tariffs generally do not provide for lost margin recovery.

Gas and electric margin generated from sales to large customers (generally industrial and other contract customers) is primarily impacted by overall economic conditions. Margin is also impacted by the collection of state mandated taxes, which fluctuate with gas and fuel costs, as well as other tracked expenses. Expenses subject to tracking mechanisms include Ohio bad debts and percent of income payment plan expenses, Indiana gas pipeline integrity management costs, and costs to fund Indiana energy efficiency programs. Certain operating costs associated with operating environmental compliance equipment were also tracked prior to their recovery in base rates that went into effect on August 15, 2007. The August SIGECO rate orders also provide for the tracking of MISO revenues and costs, as well as the gas cost component of bad debt expense and unaccounted for gas. Electric generating asset optimization activities are primarily affected by market conditions, the level of excess generating capacity, and electric transmission availability. Following is a discussion and analysis of margin generated from regulated utility operations.

Gas Utility Margin (Gas Utility revenues less Cost of gas sold)

Gas Utility margin and throughput by customer type follows:

| <i>(In millions)</i> | Three Months | | Nine Months | |
|----------------------------------------------------|-----------------------------|----------------|-----------------------------|-----------------|
| | Ended September 30, 2007 | 2006 | Ended September 30, 2007 | 2006 |
| Gas utility revenues | \$ 114.0 | \$ 116.8 | \$ 890.0 | \$ 848.6 |
| Cost of gas sold | 52.9 | 59.9 | 592.0 | 577.4 |
| Total gas utility margin | \$ 61.1 | \$ 56.9 | \$ 298.0 | \$ 271.2 |
| Margin attributed to: | | | | |
| Residential & Commercial | \$ 45.9 | \$ 44.8 | \$ 249.8 | \$ 226.5 |
| Industrial | 9.2 | 9.5 | 34.9 | 34.2 |
| Other | 6.0 | 2.6 | 13.3 | 10.5 |
| Sold & transported volumes in MMDth attributed to: | | | | |
| Residential & commercial customers | 6.4 | 7.0 | 75.1 | 63.7 |
| Industrial customers | 18.0 | 17.7 | 62.5 | 61.2 |
| Total throughput | 24.4 | 24.7 | 137.6 | 124.9 |

For the three and nine months ended September 30, 2007, Gas Utility margins were \$61.1 million and \$298.0 million, respectively, an increase of \$4.2 million quarter over quarter and \$26.8 million year over year. Residential and commercial customer usage, including lost margin recovery, increased margin \$1.2 million during the quarter and \$12.7 million year over year. Year to date, Ohio weather was 4 percent warmer than normal, but 10 percent colder than the prior year and resulted in an estimated increase in margin of approximately \$2.0 million compared to 2006. Margin increases associated with the Vectren South base rate increase, effective August 1, 2007, were \$0.7 million. Recovery of gas storage carrying costs in Ohio was \$1.3 million quarter over quarter and \$1.6 million year to date. Lastly, costs recovered dollar-for-dollar in margin associated with tracked expenses and revenue and usage taxes increased gas margin \$0.4 million in the quarter and \$8.3 million year over year. The average cost per dekatherm of

gas purchased for the nine months ended September 30, 2007, was \$8.13 compared to \$8.89 in 2006.

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Table of Contents*Electric Utility Margin (Electric Utility revenues less Cost of fuel & purchased power)*

Electric Utility margin by customer type follows:

| <i>(In millions)</i> | Three Months | | Nine Months | |
|----------------------------------------------|-----------------------------|----------------|-----------------------------|-----------------|
| | Ended September 30, 2007 | 2006 | Ended September 30, 2007 | 2006 |
| Electric utility revenues | \$ 143.6 | \$ 123.2 | \$ 361.6 | \$ 324.4 |
| Cost of fuel & purchased power | 50.5 | 46.8 | 129.5 | 115.8 |
| Total electric utility margin | \$ 93.1 | \$ 76.4 | \$ 232.1 | \$ 208.6 |
| Residential & commercial | \$ 64.5 | \$ 49.3 | \$ 147.9 | \$ 125.6 |
| Industrial | 21.6 | 18.9 | 56.4 | 53.4 |
| Municipalities & other | 4.4 | 6.6 | 14.7 | 18.9 |
| Subtotal: retail & firm wholesale | \$ 90.5 | \$ 74.8 | \$ 219.0 | \$ 197.9 |
| Asset optimization | \$ 2.6 | \$ 1.6 | \$ 13.1 | \$ 10.7 |

Electric volumes sold in GWh attributed to:

| | | | | |
|-------------------------------------------------------|----------------|----------------|----------------|----------------|
| Residential & commercial customers | 954.4 | 847.0 | 2,357.7 | 2,152.4 |
| Industrial customers | 638.7 | 674.7 | 1,942.4 | 1,983.9 |
| Municipalities & other customers | 192.1 | 182.9 | 483.5 | 494.7 |
| Total retail & firm wholesale volumes sold | 1,785.2 | 1,704.6 | 4,783.6 | 4,631.0 |

Retail & Firm Wholesale Margin

Electric retail and firm wholesale utility margins were \$90.5 million and \$219.0 million for the three and nine months ended September 30, 2007. These represent increases over the prior year periods of \$15.7 million and \$21.1 million, respectively. Management estimates the period over period increases in usage by residential and commercial customers due to weather to be \$5.9 million in the quarter and \$10.1 million year to date. The base rate increase that went into effect on August 15, 2007, produced incremental margin of \$6.4 million, and recovery of pollution control investments and expenses increased margin \$1.3 million in the quarter and \$3.2 million year over year. Impacts of weather on volumes sold were offset in the quarter by a large industrial customer's planned outage.

Margin from Asset Optimization Activities

Periodically, generation capacity is in excess of that needed to serve native load and firm wholesale customers. The Company markets and sells this unutilized generating and transmission capacity to optimize the return on its owned assets. On an annual basis, a majority of the margin generated from these activities is associated with wholesale off-system sales, and substantially all off-system sales occur into the MISO day-ahead market.

Following is a reconciliation of asset optimization activity:

| <i>(In millions)</i> | Three Months | | Nine Months | |
|---------------------------------|-----------------------------|---------------|-----------------------------|----------------|
| | Ended September 30, 2007 | 2006 | Ended September 30, 2007 | 2006 |
| Off-system sales | \$ 1.1 | \$ 1.2 | \$ 9.9 | \$ 11.9 |
| Transmission system sales | 1.5 | 1.0 | 3.2 | 2.5 |
| Other | - | (0.6) | - | (3.7) |
| Total asset optimization | \$ 2.6 | \$ 1.6 | \$ 13.1 | \$ 10.7 |

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For the three and nine months ended September 30, 2007, net asset optimization margins were \$2.6 million and \$13.1 million, which represents increases of \$1.0 million and \$2.4 million, compared to 2006. The increases are primarily due to losses on financial contracts experienced in 2006 offset partially by lower availability of generating units for off system sales in 2007, due largely to the retirement of 50 MW of owned generation on December 31, 2006. Year to date off-system sales totaled 571.7 GWh in 2007, compared to 755.0 GWh in 2006.

Other Operating Expenses

For the three and nine months ended September 30, 2007, *Other operating expenses* were \$65.6 million and \$198.4 million, which represent increases of \$4.0 million and \$15.6 million, compared to 2006. Pass-through costs, including costs funding new Indiana energy efficiency programs that are recovered in utility margin, increased \$0.6 million in the quarter and \$7.3 million year over year. Increases in operating costs associated with lost margin recovery and conservation initiatives that are not directly recovered in margin were \$0.3 million in the quarter and \$1.3 million year over year. Third quarter planned outage costs associated with a jointly owned turbine resulted in \$2.5 million of increased costs. The remaining increases are primarily due to increased wage and benefit costs, other operating cost increases, and timing of expenses.

Depreciation & Amortization

For the three and nine months ended September 30, 2007, *Depreciation and amortization* expenses were \$40.4 million and \$119.4 million, which represents increases of \$2.4 million and \$6.6 million compared to 2006. The increases were primarily due to increased utility plant and also include \$0.5 million of amortization associated with electric demand side management costs permitted to be recovered pursuant to the August 15th electric base rate order.

Taxes Other Than Income Taxes

For the three and nine months ended September 30, 2007, *Taxes other than income taxes* were \$11.3 million and \$49.6 million, which represent increases of \$0.8 million and \$4.7 million compared to 2006. The year to date increase results primarily from increased property taxes and higher revenues subject to taxes.

Other Income-Net

Other-net reflects income of \$1.3 million for the quarter and \$6.2 million year to date. The \$0.7 million decrease in the quarter and \$1.4 million increase year to date are primarily related to the capitalization of funds used during construction.

Interest Expense

For the three and nine months ended September 30, 2007, *Interest expense* was \$20.8 million and \$58.8 million, which represents increases of \$1.6 million and \$1.4 million compared to 2006. The increases reflect higher interest rates associated with short-term borrowings and are partially offset by the impact of financing transactions completed in October 2006, in which about \$93 million in debt-related proceeds were raised and used to retire higher interest rate debt.

Income Taxes

Federal and state *income taxes* were \$7.1 million for the quarter and \$41.8 million year to date, increases of \$7.1 million and \$10.7 million compared to the prior year periods. The higher taxes are primarily due to higher pretax income and a lower effective tax rate in 2006. The lower effective tax rate in 2006 primarily relates to favorable adjustments approximating \$2.0 million recorded in the third quarter of 2006 reflective of final taxes reported on 2005

state and federal income tax returns and a \$1.5 million favorable impact for an Indiana tax law change that resulted in the recalculation of certain state deferred income tax liabilities.

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Environmental Matters

Clean Air/Climate Change

In March of 2005 USEPA finalized two new air emission reduction regulations. The Clean Air Interstate Rule (CAIR) is an allowance cap and trade program requiring further reductions in Nitrogen Oxides (NO_x) and Sulfur Dioxide (SO₂) emissions from coal-burning power plants. The Clean Air Mercury Rule (CAMR) is an allowance cap and trade program requiring further reductions in mercury emissions from coal-burning power plants. Both sets of regulations require emission reductions in two phases. The first phase deadline for both rules is 2010 (2009 for NO_x under CAIR), and the second phase deadline for compliance with the emission reductions required under CAIR is 2015, while the second phase deadline for compliance with the emission reduction requirements of CAMR is 2018. The Company is evaluating compliance options and fully expects to be in compliance by the required deadlines.

In February 2006, the IURC approved a multi-emission compliance plan filed by the Company's utility subsidiary, SIGECO. Once the plan is implemented, SIGECO's coal-fired plants will be 100% scrubbed for SO₂, 90% scrubbed for NO_x, and mercury emissions will be reduced to meet the new mercury reduction standards. The order, as previously agreed to by the OUCC and Citizens Action Coalition, allows SIGECO to recover an approximate 8% return on up to \$110 million in capital investments through a rider mechanism which is updated every six months for actual costs incurred. The Company may file periodic updates with the IURC requesting modification to the spending authority. The Company will also recover through a rider its operating expenses, including depreciation, once the equipment is placed into service. As of September 30, 2007, the Company has made capital investments of approximately \$91 million related to this environmental requirement. Of that amount, \$49.4 million was placed into service on January 1, 2007 and was included in rate base for purposes of determining new base rates that went into effect on August 15, 2007 (See Rate and Regulatory Matter Section).

If legislation requiring reductions in carbon dioxide and other greenhouse gases is adopted, such regulation could substantially affect both the costs and operating characteristics of the Company's fossil fuel generating plants and nonutility coal mining operations. At this time and in absence of final legislation, compliance costs and other effects associated with reductions in greenhouse gas emissions remain uncertain.

Pursuant to an IURC order, SIGECO is studying renewable energy alternatives, and on April 9, 2007, filed a green power rider in order to allow customers to purchase green power and is also seeking approval of a contract to purchase 30 MW of power generated by wind energy. Future filings with the IURC with regard to new generation and/or further environmental compliance plans will include evaluation of potential carbon requirements.

Environmental Remediation Efforts

In the past, Indiana Gas, SIGECO, 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, those that operated these facilities may now be required to take remedial action if certain contaminants are found above the regulatory thresholds at these sites.

Indiana Gas 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 completed a remedial investigation/feasibility study (RI/FS) at one of the sites under an agreed order between Indiana Gas and the IDEM, and a Record of Decision was issued by the IDEM in January 2000. Although Indiana Gas has not begun an RI/FS at additional sites, Indiana Gas has submitted several of the sites to the IDEM's Voluntary Remediation Program (VRP) 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.

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

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The estimated accrued costs are limited to Indiana Gas' 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 under insurance policies in effect when these plants were in operation in an aggregate amount approximating \$20.4 million.

In October 2002, SIGECO received a formal information request letter from the IDEM regarding five manufactured gas plants that it owned and/or operated and were not enrolled in the IDEM's VRP. In October 2003, SIGECO filed applications to enter four of the manufactured gas plant sites in IDEM's VRP. The remaining site is currently being addressed in the VRP by another Indiana utility. SIGECO added those four sites into the renewal of the global Voluntary Remediation Agreement that Indiana Gas has in place with IDEM for its manufactured gas plant sites. That renewal was approved by the IDEM in February 2004. SIGECO is also named in a lawsuit filed in federal district court in May 2007, involving another site subject to potential environmental remediation efforts.

SIGECO has filed a declaratory judgment action against its insurance carriers seeking a judgment finding its carriers liable under the policies for coverage of further investigation and any necessary remediation costs that SIGECO may accrue under the VRP program and/or related to the site subject to the May 2007 lawsuit. While the total costs that may be incurred in connection with addressing these sites cannot be determined at this time, SIGECO has recorded costs that it reasonably expects to incur totaling approximately \$7.7 million. With respect to insurance coverage, SIGECO has received and recorded settlements from insurance carriers under insurance policies in effect when these sites were in operation in an aggregate amount approximating the costs it expects to incur.

Environmental remediation costs related to Indiana Gas' and SIGECO's manufactured gas plants and other sites have had no material impact on results of operations or financial condition since costs recorded to date approximate PRP and insurance settlement recoveries. While the Company's utilities have recorded all costs which they presently expect 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 and those costs may not be subject to PRP or insurance recovery.

Rate and Regulatory Matters

Vectren South (SIGECO) Electric Base Rate Order Received

On August 15, 2007, the Company received an order from the IURC which approved a settlement agreement with the OUCC and other interveners regarding the proposed changes to the base rates and charges for its electric distribution business in southwestern Indiana. The settlement agreement provides for an approximate \$60.8 million electric rate increase to cover the Company's cost of system growth, maintenance, safety and reliability. The settlement provides for, among other things: recovery of ongoing costs and deferred costs associated with the MISO; operations and maintenance (O&M) expense increases related to managing the aging workforce, including the development of expanded apprenticeship programs and the creation of defined training programs to ensure proper knowledge transfer, safety and system stability; increased O&M expense necessary to maintain and improve system reliability; benefit to customers from the sale of wholesale power by Vectren's sharing evenly with customers any profit earned above or below \$10.5 million of wholesale power margin; recovery of and return on the investment in past demand side management programs to help encourage conservation during peak load periods; timely recovery of the Company's investment in certain new electric transmission projects that benefit the MISO infrastructure outside of the Company's service territory; an overall rate of return of 7.32 percent on rate base of approximately \$1,044 million and an allowed return on equity (ROE) of 10.4 percent. The increase in *Electric Utility margin* as a result of this order totaled \$6.4 million in the three and nine months ended September 30, 2007.

Vectren South (SIGECO) Gas Base Rate Order Received

On August 1, 2007, the Company received an order from the IURC which approved, with a minor modification, the settlement agreement previously reached with the Indiana Office of the Utility Consumer Counselor (OUCC) and other interveners regarding its Vectren South gas rate case. The order provided for a base rate increase of \$5.1 million and an ROE of 10.15 percent, with an overall rate of return of 7.20 percent on rate base of approximately \$122 million. The order also includes removal of \$2.6 million of costs from base rates to be recovered through existing tracking mechanisms.

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Further, additional expenditures for a multi-year bare steel and cast iron capital replacement program will be afforded certain accounting treatment that mitigates earnings attrition from the investment between rate cases. The accounting treatment allows for the continuation of the accrual for allowance for funds used during construction (AFUDC) and the deferral of depreciation expense after the projects go in service but before they are included in base rates. To qualify for this treatment, the annual expenditures are limited to \$3.0 million and the treatment cannot extend beyond three years on each project.

With this order, the company now has in place for its South gas territory weather normalization, a conservation and decoupling tariff, tracking of gas cost expense related to bad debts and unaccounted for gas through the existing gas cost adjustment mechanism, and tracking of pipeline integrity expense. The increase in *Gas Utility margin* as a result of this order totaled \$0.7 million in the three and nine months ended September 30, 2007.

Vectren North (Indiana Gas Company, Inc.) Gas Base Rate Filing

In May 2007, the Company filed a petition with the IURC to adjust its gas base rates and charges in its North service territory. The petition requests an increase of approximately \$41 million in rates to recover the ongoing cost of operating, maintaining and expanding the approximately 12,000-mile distribution and storage system used to serve more than 565,000 natural gas customers. Components of the requested increase include return on additional utility infrastructure investment, costs associated with federally mandated pipeline integrity management, inspection and other reliability programs, and aging workforce. A hearing on the Company's request before the IURC was held in late August 2007 and the final hearing is scheduled for December 2007. The Company expects an order from the IURC in the second quarter of 2008.

Vectren Energy Delivery of Ohio, Inc. (VEDO) Filing of Pre-Filing Notice

In September 2007, the Company issued a pre-filing notice with the PUCO indicating it plans to request an increase in its base rate charges for VEDO's distribution business in its 17-county service area in west central Ohio. The filing indicates that an increase in base rates of approximately \$29 million is necessary to cover the ongoing cost of operating, maintaining and expanding the approximately 5,200-mile distribution system used to serve 318,000 customers. Components of the requested increase include return on additional utility infrastructure investment, costs associated with federally mandated pipeline integrity management, inspection and other reliability programs, and aging workforce.

In addition, the Company is seeking extension of the decoupling mechanisms currently in place to encourage customer conservation and also is seeking approval of expanded conservation-oriented programs, such as rebate offerings on high-efficiency natural gas appliances for existing and new home construction, to help customers lower their natural gas bills.

Ohio and Indiana Lost Margin Recovery/Conservation Filings

In 2005, the Company filed conservation programs and conservation adjustment trackers in Indiana and Ohio designed to help customers conserve energy and reduce their annual gas bills. The programs allow the Company to recover costs of promoting the conservation of natural gas through conservation trackers that work in tandem with a lost margin recovery mechanism. These mechanisms are designed to allow the Company to recover the distribution portion of its rates from residential and commercial customers based on the level of customer revenues established in each utility's last general rate case.

Indiana

In December 2006, the IURC approved a settlement agreement that provides for a five-year energy efficiency program. It allows the Company's Indiana utilities to recover a majority of the costs of promoting the conservation of natural gas through conservation trackers that work in tandem with a lost margin recovery mechanism. The order was implemented in the North service territory in December 2006, and provides for recovery of 85 percent of the difference between weather normalized revenues actually collected by the Company and the revenues approved in the Company's most recent rate case. Energy efficiency programs began in the South gas territory in December 2006. A similar approach regarding lost margin recovery commenced in the South gas territory on August 1, 2007, as the new base rates went into effect, allowing for recovery of 100 percent of the difference between weather normalized revenues actually collected by the Company and the revenues approved in that rate case. It is expected that after the North filing is acted upon, it will be at 100 percent also. While most expenses associated with these programs are recoverable, in the first program year the Company is required to fund \$1.5 million in program costs without recovery.

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Ohio

In June 2007, the Public Utilities Commission of Ohio (PUCO) approved a settlement that provides for the implementation of a lost margin recovery mechanism and a related conservation program for the Company's Ohio operations. This order confirms the guidance the PUCO previously provided in a September 2006 decision. The conservation program, as outlined in the September 2006 PUCO order and as affirmed in this order, provides for a two year, \$2 million total conservation program to be paid by the Company, as well as a sales reconciliation rider intended to be a recovery mechanism for the difference between the weather normalized revenues actually collected by the Company and the revenues approved by the PUCO in the Company's most recent rate case. Approximately 60 percent of the Company's Ohio customers are eligible for the conservation programs. The Ohio Consumer Counselor (OCC) and another intervener requested a rehearing of the June 2007 order and the PUCO granted that request in order to have additional time to consider the merits of the request. In accordance with accounting authorization previously provided by the PUCO, the Company began recognizing the impact of the September 2006 order on October 1, 2006, and has recognized cumulative revenues of \$2.6 million, of which \$1.3 million has been recorded in 2007. The OCC appealed the PUCO's accounting authorization to the Ohio Supreme Court, but that appeal has been dismissed as premature pending the PUCO's consideration of issues raised in the OCC's request for rehearing. Since October 1, 2006, the Company has been ratably accruing its \$2 million commitment.

MISO

Since February 2002 and with the IURC's approval, the Company has been a member of the Midwest Independent System Operator, Inc. (MISO), a FERC approved regional transmission organization. The MISO serves the electrical transmission needs of much of the Midwest and maintains operational control over the Company's electric transmission facilities as well as that of other Midwest utilities.

On April 1, 2005, the MISO energy market commenced operation (the Day 2 energy market). As a result of being a market participant, the Company now bids its owned generation into the Day Ahead and Real Time markets and procures power for its retail customers at Locational Marginal Pricing (LMP) as determined by the MISO market. The Company is typically in a net sales position with MISO and is only occasionally in a net purchase position. Net positions are determined on an hourly basis. When the Company is a net seller such net revenues are included in *Electric Utility Revenues* and when the Company is a net purchaser such net purchases are included in *Cost of Fuel and Purchased Power*. The Company also receives transmission revenue that results from another members' use of the Company's transmission system. These revenues are also included in *Electric Utility Revenues*.

Pursuant to an order from the IURC received in December 2001, certain MISO startup costs (referred to as Day 1 costs) were deferred, and those deferred costs are now being recovered through base rates that went into effect on August 15, 2007. On June 1, 2005, Vectren, together with three other Indiana electric utilities, received regulatory authority from the IURC to recover fuel related costs and to defer other costs associated with the Day 2 energy market. The order allows fuel related costs to be passed through to customers in Vectren's existing fuel cost recovery proceedings. During 2006, the IURC reaffirmed the definition of certain costs as fuel related; the Company is following those guidelines. Other MISO fuel related and non-fuel related administrative related costs were deferred, and those deferred costs are now being recovered through base rates that went into effect on August 15, 2007. The IURC order authorizing new base rates also provides for a tracking mechanism associated with ongoing MISO-related costs and transmission revenues.

As a result of MISO's operational control over much of the Midwestern electric transmission grid, including SIGECO's transmission facilities, SIGECO's continued ability to import power, when necessary, and export power to the wholesale market has been, and may continue to be, impacted. Given the nature of MISO's policies regarding use of transmission facilities, as well as ongoing FERC initiatives, uncertainties around Day 2 energy market operations and a pending Day 3 market, where MISO plans to provide bid-based-regulation and contingency operating reserve

markets, it is difficult to predict near term operational impacts. However, as stated above, it is believed that MISO's regional operation of the transmission system will ultimately lead to reliability improvements. MISO has indicated that the Day 3 ancillary services market would begin in June 2008.

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The potential need to expend capital for improvements to the transmission system, both to SIGECO's facilities as well as to those facilities of adjacent utilities, over the next several years will become more predictable as MISO completes studies related to regional transmission planning and improvements. Such expenditures may be significant. The Company will timely recover its investment in certain new electric transmission projects that benefit the MISO infrastructure outside of the Company's service territory at a FERC approved rate of return.

Gas Cost Recovery (GCR) Audit Proceedings

In 2005, the PUCO issued an order disallowing the recovery of approximately \$9.6 million of gas costs relating to the two-year audit period ended October 2002 and in 2006, an additional \$0.8 million was disallowed related to the audit period ending October 2005. The initial audit period provided the PUCO staff its initial review of the portfolio administration arrangement between VEDO and ProLiance. Since November 1, 2005, the Company has used a provider other than ProLiance for these services.

Through a series of rehearings and appeals, including action by the Ohio Supreme Court in the first quarter of 2007, the Company was required to refund \$8.6 million to customers. The Company had previously recorded the impact of the PUCO findings, including its estimate of the share of the ultimate disallowance to be received from its partner in ProLiance.

Integrated Gasification Combined Cycle Project Involvement

In August 2007, the Company announced that it has determined to not participate in the proposed Edwardsport, Indiana, Integrated Gasification Combined Cycle (IGCC) generating plant with Duke Energy Indiana, Inc. (Duke). Based upon a review and analysis of the Company's expected electric generation requirements, the expected demand for energy on the system may be more appropriately satisfied through the use of other alternatives, including additional natural gas peaking generation, purchased power, renewable resources and increased customer conservation. The Company has paid Duke approximately \$3.0 million for engineering studies and related costs. By separate agreement with Duke, the Company expects to be reimbursed for all costs and expenses it has paid to Duke.

Impact of Recently Issued Accounting Guidance

FIN 48

On January 1, 2007, the Company adopted FASB Interpretation No. 48 (FIN 48) "Accounting for Uncertainty in Income Taxes" an interpretation of SFAS 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of tax positions taken or expected to be taken in an income tax return. FIN 48 also provides guidance related to reversal of tax positions, balance sheet classification, interest and penalties, interim period accounting, disclosure and transition.

At adoption, the total amount of gross unrecognized tax benefits for uncertain tax positions, including positions impacting only the timing of tax benefits was \$7.0 million. The accumulation of this amount resulted in an adjustment to beginning *Retained earnings* of \$0.9 million.

SFAS No. 157

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This statement does not require any new fair value measurements; however, the standard will impact how other fair value based GAAP is applied. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company will adopt SFAS

157 on January 1, 2008, and is currently assessing the impact this statement will have on its financial statements and results of operations.

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SFAS 159

In February 2007, the FASB issued Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115 (SFAS 159). SFAS 159 permits entities to measure many financial instruments and certain other items at fair value. Items eligible for the fair value measurement option include: financial assets and financial liabilities with certain exceptions; firm commitments that would otherwise not be recognized at inception and that involve only financial instruments; nonfinancial insurance contracts and warranties that the insurer can settle by paying a third party to provide those goods or services; and host financial instruments resulting from separation of an embedded financial derivative instrument from a nonfinancial hybrid instrument. The fair value option may be applied instrument by instrument, with few exceptions, is an irrevocable election and is applied only to entire instruments. The Company will adopt SFAS 159 on January 1, 2008, and is currently assessing the impact this statement will have on its financial statements and results of operations.

Financial Condition

Utility Holdings, the parent company, funds the short-term and long-term financing needs of its consolidated operations. Vectren does not guarantee Utility Holdings' debt. Utility Holdings' currently outstanding long-term and short-term borrowing arrangements are jointly and severally guaranteed by Indiana Gas, SIGECO, and VEDO. The guarantees are full and unconditional and joint and several, and Utility Holdings has no subsidiaries other than the subsidiary guarantors. Utility Holdings' long-term and short-term obligations outstanding at September 30, 2007, totaled \$700.0 million and \$352.5 million, respectively. Additionally, prior to Utility Holdings' formation, Indiana Gas and SIGECO funded their operations separately, and therefore, have long-term debt outstanding funded solely by their operations. Utility Holdings' operations have historically funded the significant portion of Vectren's common stock dividends.

The credit ratings of the senior unsecured debt of Utility Holdings, SIGECO and Indiana Gas, at September 30, 2007, are A-/Baa1 as rated by Standard and Poor's Ratings Services (Standard and Poor's) and Moody's Investors Service (Moody's), respectively. The credit ratings on SIGECO's secured debt are A/A3. Utility Holdings' commercial paper has a credit rating of A-2/P-2. The current outlook of both Moody's and Standard and Poor's is stable. These ratings and outlooks have not changed since December 31, 2006. A security rating is not a recommendation to buy, sell, or hold securities. The rating is subject to revision or withdrawal at any time, and each rating should be evaluated independently of any other rating. Standard and Poor's and Moody's lowest level investment grade rating is BBB- and Baa3, respectively.

The Company's consolidated equity capitalization objective is 45-55% of long-term capitalization. This objective may have varied, and will vary, depending on particular business opportunities, capital spending requirements, execution of long-term financing plans and seasonal factors that affect the Company's operations. The Company's equity component was 51% and 50% of long-term capitalization at September 30, 2007, and December 31, 2006, respectively. Long-term capitalization includes long-term debt, including current maturities and debt subject to tender, as well as common shareholder's equity.

Utility Holdings expects the majority of its capital expenditures, investments, and debt security redemptions to be provided by internally generated funds. However, due to significant capital expenditures, the Company may require additional permanent financing. As of September 30, 2007, the Company was in compliance with all financial covenants.

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Sources & Uses of Liquidity

Operating Cash Flow

The Company's primary historical source of liquidity to fund working capital requirements has been cash generated from operations. While net income has increased, cash flow from operating activities of \$173.1 million decreased \$41.4 million during the nine months ended September 30, 2007, compared to 2006. The decrease was primarily a result of changes in working capital accounts. Net income before non-cash charges of \$210.6 million increased \$25.3 million compared to the prior year. Working capital changes used cash of \$8.0 million in 2007 compared to cash generated of \$52.3 million in 2006.

Financing Cash Flow

Although working capital requirements are generally funded by cash flow from operations, the Company uses short-term borrowings to supplement working capital needs when accounts receivable balances are at their highest and gas storage is refilled. Additionally, short-term borrowings are required for capital projects and investments until they are financed on a long-term basis.

Cash flow provided by financing activities was \$18.2 million for the nine months ended September 30, 2007 compared to cash required of \$55.2 million in 2006. This change was primarily due to higher short-term borrowings, which increased \$82.1 million year to date and were used to fund increased capital expenditures and working capital. The retirement of \$6.5 million in long-term debt during the quarter and an increase in dividends paid of \$1.5 million year over year also contributed to the change.

Investing Cash Flow

Cash flow required for investing activities was \$212.8 million for the nine months ended September 30, 2007, an increase of \$44.7 million over the prior year. The increase is attributable to increased electric transmission and pollution control capital expenditures.

Available Sources of Liquidity

Short-term Borrowing Arrangements

At September 30, 2007, the Company has \$520 million of short-term borrowing capacity, of which approximately \$168 million is available.

Long-term Borrowing Arrangements

Utility Holdings filed a shelf registration statement with the Securities and Exchange Commission for \$300 million aggregate principal amount of unsecured senior notes in September 2007, which is anticipated to meet Utility Holdings' estimated debt financing requirements over the next 3 years. In October 2007 the SEC declared the registration statement to be effective. When issued, the unsecured notes will be guaranteed by Utility Holdings' three operating utility companies: SIGECO, Indiana Gas, and VEDO. These guarantees of Utility Holdings' debt will be full and unconditional and joint and several.

Potential Capital Contributions from Vectren

Equity Forward

As of September 30, 2007, Vectren Corporation has access to approximately \$126 million in proceeds generated from an SEC-registered equity offering of its common stock. Vectren executed an equity forward sale agreement (equity forward) in connection with the offering, and therefore, did not receive proceeds at the time of the equity offering. The equity forward allowed Vectren to price the offering under market conditions existing at that time, and to better match the receipt of the offering proceeds with the implementation of regulatory initiatives, providing a return on the new equity employed. The offering proceeds, when and if received, will likely be contributed to Utility Holdings and used to permanently finance its subsidiaries' primarily electric utility capital expenditures. The equity forward must be settled prior to February 28, 2009.

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Proceeds from Stock Plans

Vectren may periodically issue new common shares to satisfy dividend reinvestment plan, stock option plan, and other employee benefit plan requirements and contribute those proceeds to Utility Holdings.

Potential Uses of Liquidity

Planned Capital Expenditures

Capital expenditures for the remainder of 2007 are estimated to be approximately \$91 million.

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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 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 include, 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, regulatory or 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 electric and natural gas transmission and distribution, natural gas gathering and processing, electric power supply; and similar entities with regulatory oversight.
- Economic conditions including the effects of an economic downturn, inflation rates, commodity prices, and monetary fluctuations.
- Increased natural gas commodity prices and the potential impact on customer consumption, uncollectible accounts expense, unaccounted for gas and interest expense.
- 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.
- Direct or indirect effects on the Company’s business, financial condition, liquidity and results of operations resulting from changes in credit ratings, changes in interest rates, and/or changes in market perceptions of the utility industry and other energy-related industries.
- Employee or contractor workforce factors including changes in key executives, collective bargaining agreements with union employees, aging workforce issues, or work stoppages.
- Legal and regulatory delays and other obstacles associated with mergers, acquisitions and investments in joint ventures.
- Costs, fines, penalties and other effects of legal and administrative proceedings, settlements, investigations, claims, including, but not limited to, such matters involving inadvertent violations of state and federal laws.
- Changes in federal, state or local legislative requirements, such as changes in tax laws or rates, environmental laws, including laws governing greenhouse gases, and other 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.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to various business 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. The Company's risk management program includes, among other things, the use of derivatives. The Company also executes derivative contracts in the normal course of operations while buying and selling commodities to be used in operations and optimizing its generation assets.

The Company has in place a risk management committee that consists of senior management as well as financial and operational management. The committee is actively involved in identifying risks as well as reviewing and authorizing risk mitigation strategies.

These risks are not significantly different from the information set forth in Item 7A Quantitative and Qualitative Disclosures About Market Risk included in the Utility Holdings 2006 Form 10-K and are therefore not presented herein.

ITEM 4. CONTROLS AND PROCEDURES

Changes in Internal Controls Over Financial Reporting

During the quarter ended September 30, 2007, there have been no changes to the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

As of September 30, 2007, the Company conducted an evaluation under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer of the effectiveness and the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective as of September 30, 2007, to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is:

- 1) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and
- 2) accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

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. See the notes to the consolidated condensed financial statements regarding commitments and contingencies, environmental matters, and rate and regulatory matters. The consolidated condensed financial statements are included in Part 1 Item 1.

ITEM 1A. RISK FACTORS

The Company's risk factors have not changed from the information set forth in Item 1A Risk Factors included in the Utility Holdings 2006 Form 10-K and are therefore not presented herein.

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ITEM 6. EXHIBITS

Exhibits and Certifications

Exhibits

12. Ratio of Earnings to Fixed Charges

Certifications

31.1 Certification Pursuant To Section 302 of The Sarbanes-Oxley Act Of 2002- Chief Executive Officer

31.2 Certification Pursuant To Section 302 of The Sarbanes-Oxley Act Of 2002- Chief Financial Officer

32 Certification Pursuant To Section 906 of The Sarbanes-Oxley Act Of 2002

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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
UTILITY
HOLDINGS,
INC.**
Registrant

November 9, 2007 /s/Jerome A. Benkert, Jr.
Jerome A. Benkert, Jr.
Executive Vice President & Chief Financial Officer
(Principal Financial Officer)

/s/M. Susan Hardwick
M. Susan Hardwick
Vice President, Controller & Assistant Treasurer
(Principal Accounting Officer)