



REPORT OF THE AUDIT AND RISK MANAGEMENT COMMITTEE

The Audit and Risk Management Committee (“**Audit Committee**”) oversees the Company’s financial reporting process on behalf of the full Board. The Audit Committee currently consists of four members, who each satisfy the “independence” standard established by the full Board, as well as the independence requirements contained in the Corporate Governance Listing Standards of the NYSE. The Audit Committee met five times during the past fiscal year. At each meeting, the Audit Committee conducts an executive session without management present.

Scope of Responsibilities

The Audit Committee operates under a written Audit and Risk Management Committee Charter containing provisions that address requirements imposed by the SEC and the NYSE. That charter is posted on the Company’s website at www.vectren.com. The Audit Committee’s responsibilities include the authority and the responsibility of overseeing:

- the integrity of the Company’s financial statements;
- the Company’s compliance with legal and regulatory requirements;
- the registered public accounting firm’s (independent auditor’s) qualifications and independence;
- the performance of the Company’s internal audit function (Corporate Audit) and independent auditor;
- the Company’s system of disclosure controls and system of internal controls regarding finance, accounting, and legal compliance that management and the Board have established; and
- the Company’s practices and processes relating to risk assessment and risk management.

The Audit Committee, on behalf of the Board, has primary responsibility for monitoring the Company’s risk management. In fulfilling its oversight responsibilities, the Audit Committee receives reports, and meets with, the Chief Financial Officer, the Director of Corporate Audit, the General Counsel and the Company’s independent public auditors. Each Audit Committee meeting includes a Risk Management report. Further discussion of this oversight is provided at page 11 of this proxy statement under the heading “Board’s Role In Risk Oversight”.

2009 Accomplishments

In fulfilling its oversight responsibilities, the Audit Committee reviewed and discussed with management and the independent registered public accounting firm the financial statements and report of management on the effectiveness of internal control over financial reporting included in the Annual Report on Form 10-K. The Audit Committee also received reports from management with respect to each of the Company’s Quarterly Reports on Form 10-Q and reviewed drafts of the Company’s earnings releases prior to public dissemination.

Mr. Michael L. Smith was appointed Chair of the Audit Committee at the May 2009 Board of Directors meeting. Additionally, Mr. Smith continues to serve as the Audit Committee’s designated “audit committee financial expert.” The appointment and designation were reviewed and approved by the Nominating and Corporate Governance Committee and confirmed by the Board of Directors. See “Item 1. Election of Directors” for a description of Mr. Smith’s relevant experience. The Board has determined that Mr. Smith’s service on our own Audit Committee as well as the audit committees of three other public companies does not impair his ability to serve on our Audit Committee. To the contrary, the Board believes such service by Mr. Smith, who is retired, on the other committees enhances the expertise and perspective that Mr. Smith brings to the service of our Committee.

The Audit Committee reviewed with the independent registered public accounting firm its judgments as to the quality and the acceptability of the Company’s financial reporting and such other matters as are required to be discussed with the Audit Committee under generally accepted auditing standards.

In addition, the Audit Committee has discussed with the independent registered public accounting firm its independence from management and the Company, including the matters in such firm’s written disclosures made to the Audit Committee pursuant to the requirements of the Independence Standards Board.

The Audit Committee also discussed with the Company's corporate auditors and independent registered public accounting firm the overall scope and plans for their respective audits. The Audit Committee meets periodically with the corporate auditors and independent registered public accounting firm, with and without management present, to discuss the results of the examinations, their evaluations of the Company's internal controls, and the overall quality of the Company's financial reporting.

During the year, the Audit Committee administered the Company's policy regarding when and under what circumstances the Company can engage its independent registered public accounting firm to provide non-audit related services.

During the year, the Audit Committee received reports from the Company's legal counsel with respect to litigation, claims and other legal matters potentially affecting the Company.

In early 2009, the Audit Committee reviewed and approved the Corporate Audit department work plan for activities to be undertaken by the department during 2009.

The Audit Committee has discussed with Deloitte & Touche LLP the matters required to be discussed by the Statement of Auditing Standards No. 61 (AICPA, Professional Standards, Vol. 1, AU380), as amended, as adopted by the Public Company Accounting Oversight Board. The Audit Committee has received the written disclosures and the letter from Deloitte & Touche LLP required by applicable requirements of the Public Company Accounting Oversight Board regarding Deloitte & Touche LLP's communications with the Audit Committee concerning independence, and has discussed with Deloitte & Touche LLP their independence.

Corporate Code of Conduct

As provided for in its charter, the Audit Committee is responsible for establishing, reviewing and updating periodically a Corporate Code of Conduct ("Code") and ensuring that management has established a system to enforce this Code. This includes ensuring that the Code is in compliance with all applicable rules and regulations. Additionally, processes have been outlined within the Code that provides the ability to directly contact the Chair of the Audit Committee with issues arising under the Code. A copy of the Code is posted on the Company's website at www.vectren.com. The Audit Committee reviews management's monitoring of the Company's compliance with the Code, and ensures that management has the proper review system in place to provide that the Company's financial statements, reports and other financial information disseminated to governmental organizations and the public satisfy legal requirements. The Audit Committee also confirmed, with assistance from the Corporate Audit Department, that during 2009 the members of the Board have complied with the Code. During 2009, the Audit Committees oversaw activities undertaken by management to benchmark and revise the Code. The revised Code was approved by the Committee and presented to the Board for approval, and became effective June 1, 2009.

Risk Management

As provided for in its charter, throughout the year the Audit Committee received and reviewed reports from management regarding enterprise risk issues affecting the Company and considered by management's risk management committee. This included a comprehensive and regular review of numerous business matters that present potential risks for the Company as well as matters considered by the Company's risk management committee. This activity is also more fully discussed at page 11 of this proxy statement under the heading titled "Board's Role In Risk Oversight".

Sarbanes-Oxley Section 404 Compliance

Throughout the year the Audit Committee received and reviewed reports from the director of Corporate Audit regarding the Company's ongoing compliance with Sarbanes-Oxley Section 404. The Audit Committee also received reports on this subject from the Company's chief financial officer and chief accounting officer, as well as commentary from the Company's independent registered public accounting firm with respect to the Company's compliance. These efforts included monitoring management's documentation, testing and evaluation of the Company's system of internal controls over financial reporting in response to the certification and attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002.

Delineation of Responsibilities Among Management, the Independent Registered Public Accounting Firm, and the Audit Committee

Management is responsible for the Company's financial reporting process, including its system of internal controls, and for the preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; establishing and maintaining disclosure controls and procedures; establishing and maintaining internal controls over financial reporting; evaluating the effectiveness of disclosure controls and procedures; evaluating the effectiveness of internal controls over financial reporting; and evaluating any change in internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect, internal controls over financial reporting.

The Company's independent registered public accounting firm is responsible for auditing the financial statements prepared by management and expressing an opinion on the conformity of those financial statements with accounting principles generally accepted in the United States of America, as well as expressing an opinion on the effectiveness of internal controls over financial reporting.

The Audit Committee's responsibility is to monitor and review the processes performed by management and the independent registered public accounting firm. It is not the Audit Committee's duty or responsibility to conduct auditing or accounting reviews or procedures. The Audit Committee members are not employees of the Company. Therefore, the Audit Committee has relied, without independent verification, on management's representation that the financial statements have been prepared with integrity and objectivity and in conformity with accounting principles generally accepted in the United States of America and on the representations of the independent registered public accounting firm included in its report on the Company's financial statements. Furthermore, the Audit Committee's considerations and discussions with management and the independent registered public accounting firm concerning the Company's audited and unaudited financial statements, internal controls and related matters do not assure that the Company's financial statements are presented in accordance with generally accepted accounting principles, that the audit of the Company's financial statements has been carried out in accordance with generally accepted auditing standards or that the Company's independent registered public accounting firm is in fact "independent."

2009 Form 10-K

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the full Board that the audited consolidated financial statements of the Company and its subsidiaries for 2009 be included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2009 for filing with the SEC.

A copy of the Company's 10-K is available without charge upon request as discussed at page 66 of this proxy statement.

Reappointment of Deloitte & Touche LLP ("Deloitte")

The Audit Committee considered and has recommended to the full Board that Deloitte be reappointed as the Company's independent registered public accounting firm for fiscal year 2010. That recommendation calls for the reappointment to be subject to ratification by the shareholders of the Company at the 2010 Annual Meeting.

Annual Committee Charter Review and Performance Evaluation

As required by the Audit Committee's charter, during 2009 the Committee reviewed the charter. Based on the review, the charter was amended and restated to confirm that the Audit Committee would work in concert with the Finance Committee on accounting and investment matters related to employee benefit plans. The Compensation and Benefits Committee's charter was also revised to provide that risks related to employee compensation matters would be referred to and reviewed by the Audit Committee. The revisions were presented to and approved by the full Board. Also, as required by the Audit Committee's charter, the Committee conducted an annual performance evaluation, the results of which have been discussed among the Committee members.

Commitment

The Audit committee is committed to ensuring that the Company implements and follows necessary and appropriate financial reporting processes. The Audit Committee anticipates meeting at least quarterly throughout 2010.

Audit and Risk Management Committee

Michael L. Smith, *Chair*,
Richard P. Rechter,
R. Daniel Sadlier, and
Jean L. Wojtowicz