



## REPORT OF THE COMPENSATION AND BENEFITS COMMITTEE

### Compensation and Benefits Committee

The Compensation and Benefits Committee (“**Compensation Committee**”) has five members and met four times in fiscal 2010. The Compensation Committee is comprised solely of non-employee Directors, all of whom the Board has determined are independent pursuant to the NYSE rules. The Compensation Committee members are also required to meet other independence requirements imposed by federal laws and regulations. The Board has adopted a charter for the Compensation Committee, which is available on the Company’s website at [www.vectren.com](http://www.vectren.com). At each meeting, the Compensation Committee conducts an executive session without management present.

The Compensation Committee’s responsibilities, which are discussed in detail in its charter, include, among other duties, the responsibility to:

- Establish the base salary, incentive compensation and any other compensation for the Company’s President and Chief Executive Officer and the other executive officers of the Company;
- Administer the Company’s management incentive and stock-based compensation plans, and oversee the administration of the Company’s retirement and welfare plans and discharge the duties imposed on the Compensation Committee by the terms of the plans; and
- Conduct the performance appraisal for the President and Chief Executive Officer; and perform other functions or duties that are deemed appropriate by the full Board.

Compensation decisions for the five executive officers, which include the President and Chief Executive Officer and other executive officers of the Company, are made by the Compensation Committee. Decisions regarding non-equity compensation for other officers are made by the Company’s President and Chief Executive Officer and are reviewed and evaluated by the Compensation Committee. The Committee has engaged Hay Group, Inc. (“**Hay Group**”), an independent outside global human resources consulting firm, to conduct an annual review of the Company’s total compensation program (base salary, annual incentives and long-term incentives) for the executive officers. At the Compensation Committee’s direction, Hay Group also provides advice with respect to the total compensation for the Company’s other officers, as well as the officers of the Company’s primary subsidiaries.

The agendas for meetings of the Compensation Committee are established by its Chair with assistance from the other members of the Committee, the Compensation Committee’s independent compensation consultant, and the Company’s President and Chief Executive Officer, Chief Financial Officer, and Chief Legal and External Affairs Officer and Secretary. Compensation Committee meetings are regularly attended by the President and Chief Executive Officer, Chief Financial Officer, Chief Legal and External Affairs Officer and Secretary, and the Vice President of Human Resources. The Compensation Committee’s Chair reports the Committee’s recommendations on executive compensation to the Board. Independent advisors, as directed by the Committee, support the Compensation Committee in its duties. In addition, one or more of the Company’s officers, as well as the Company’s Human Resources department, may be delegated authority to fulfill certain administrative duties regarding the compensation programs. The Company’s Human Resources department is charged by the Committee with the task of executing the compensation plans and programs adopted by the Committee, as well as implementing changes in compensation levels as directed by the Committee. The Compensation Committee has authority under its charter to retain, approve fees for and terminate advisors, consultants and agents as it deems necessary or advisable to assist in the fulfillment of its responsibilities.

## **Role of President and Chief Executive Officer in the Compensation Process**

Compensation determinations for our five named executive officers, including the President and Chief Executive Officer, are made by the Compensation Committee. The Committee delegates certain administrative duties to, and solicits recommendations from, Mr. Chapman, the President and Chief Executive Officer. He provides recommendations to the Committee regarding the base salary, annual incentive and stock-based compensation opportunities for the other executive officers. He receives and reviews market data from the Committee's independent compensation consultant. After considering that data, Mr. Chapman also takes internal pay equity into account in making his recommendations, as well as the overall performance of each officer, the officer's contributions to the Company over the past year, the officer's experience and potential, and any change in the officer's functional responsibility. Mr. Chapman's recommendations are reviewed by the Committee with assistance from its independent compensation consultant, and the Committee can accept or make upward or downward adjustments to the recommended amounts. Determinations regarding short-term and long-term incentive opportunities under the Company's At Risk Compensation Plan ("**At Risk Plan**") for officers are made by the Committee.

The President and Chief Executive Officer regularly attends Committee meetings to provide input as a representative of management. At each meeting the Committee goes into an executive session and excuses Mr. Chapman and any other members of management who may be present.

## **Share Ownership Policy**

Our Company's share ownership policy requires officers and non-employee directors to meet share ownership targets. The Committee adopted that policy in 2000 and it provides a five-year transition period for officers to comply with their applicable share ownership targets. The Compensation Committee expects the officers to make ratable progress toward compliance each year. The program includes these key features:

- Participants who are officers have a share ownership target based on a multiple of their base salary, which is two times base salary for Mr. Bohls, three times base salary for Messrs. Benkert, Christian, and Doty, and five times base salary for Mr. Chapman. As of February 2, 2011, all of the five named executive officers listed in the Summary Compensation Table exceeded the established ownership requirements. Mr. Ellerbrook, who retired as Chief Executive Officer in May of 2010, is also listed in the summary compensation table. As of the date of his retirement, he was in compliance with the stock ownership guidelines that were applicable to him as the Company's Chief Executive Officer. The Committee reviews executive officers' stock ownership on an annual basis. As of February 2, 2011, all of the Company's current officers subject to the share ownership policy either held the required level of shares or they were still in their five year compliance transition period.
- A participant may count toward his or her target the value of owned shares, derivative units of our stock in our nonqualified deferred compensation plans and vested "in the money" stock options, restricted shares and stock unit awards, with value based on the market price of our common stock.

## **Compensation Consultant**

The Compensation Committee has the authority under its charter to retain outside consultants to provide assistance. In accordance with this authority, the Committee engaged Hay Group as its independent compensation consultant for 2010. The representatives of Hay Group report directly to the Compensation Committee and in performing their engagements work under the direction and supervision of the Chair of the Compensation Committee. Once that work is completed, it is then reported to the entire Committee for review, discussion and, if appropriate, action by the Committee. As discussed on pages 17-18 of this proxy statement, Hay Group is also engaged from time to time by the Nominating and Corporate Governance Committee to assist with the review and establishment of appropriate, market based compensation for the non-employee members of the Board. Hay Group is not engaged in providing services or advice to other parts of our business. Under the direction and supervision of the Chair of the Compensation Committee,

Hay Group provides market data concerning compensation of executives at comparable companies in order to assist the Committee in determining whether the compensation system is a reasonable and appropriate means to achieve the Company's business objectives. From time to time, Hay Group is also engaged by the Compensation Committee to provide advice with respect to other elements of executive compensation, including providing regulatory updates, as well as advice with respect to employment agreements, perquisites, and other arrangements affecting executives. The Committee has reengaged Hay Group as its independent compensation consultant for 2011.

Early in 2011 the Compensation Committee codified its long-standing practice of providing that its compensation consultant must be independent. To ensure that occurs, the consultant can only perform work for the Company pursuant to an engagement of the Compensation Committee which provides that the work is performed under the direction and supervision of the Committee Chair, and work for the Nominating and Corporate Governance Committee with respect to the compensation for non-employee members of the Board. The policy, which is entitled the Vectren Corporation Compensation Consultant Engagement Policy, is available on the Company's website at [www.vectren.com](http://www.vectren.com). This policy is also intended to ensure that the Compensation Committee remains in compliance with the independence requirements imposed by the Dodd-Frank Act ("**Dodd-Frank Act**").

### **Recoupment or Clawback Policy**

Early in 2011, the Compensation Committee adopted a recommended pay recoupment or clawback policy which provides, under certain conditions, for the return of annual incentive compensation received by officers of the Company and its subsidiaries for a period of up to three years. Generally stated, those conditions are a material restatement of the Company's consolidated financial statements for a prior period, which, if such restated financial statements had been in effect at the time that compensation was paid would have resulted in a lesser payment. The policy is intended to position the Company to comply with the requirements of the Dodd-Frank Act in this area, recognizing that neither the Securities and Exchange Commission nor the New York Stock Exchange has adopted rules implementing this part of the law. The policy explicitly acknowledges that upon the adoption of further guidance from these authorities, the policy will need to be revised. Given the pending uncertainty in this area due to the lack of definitive guidance from the SEC and the NYSE, the Compensation Committee reserved the right in the At Risk Plan to be voted upon at this meeting and grant agreements for 2011 awards of long-term incentive compensation issued under the At Risk Plan to subject those grants to any successor policy adopted by the Committee during the pendency of those grants. The Committee's recommended pay recoupment or clawback policy has been approved by the Board and is available on the Company's website at [www.vectren.com](http://www.vectren.com).

### **Oversight of Company Benefits Plans**

In addition to the responsibilities with respect to executive compensation, which are fully discussed in the Compensation Discussion and Analysis starting on page 31 of this proxy statement, pursuant to its charter the Compensation Committee also has general oversight authority of the Company's benefit plans applicable to all employees and retirees. In furtherance of that charge, during 2010 the Committee received reports from management regarding the Company's retirement and welfare plans. Those reports included an assessment of the impact of federal health care reform on the Company's benefit plans and obligations. The Compensation Committee anticipates continuing to receive such informational reports during 2011. As discussed on page 26 of this proxy statement, the Finance Committee also has some shared responsibilities with respect to certain of the Company's benefit plans.

The Compensation Committee also received reports from management regarding ongoing efforts by the Company to continuously improve the design of its incentive plans applicable to the majority of the Company's employees. While the Committee does not directly administer those plans, it provides counsel to management with respect to plan design issues. The Committee anticipates continuing to play such a role in 2011.

### **Employee Engagement Survey**

During 2010 the Compensation Committee received detailed reports from management with respect to the Company's biennial employee survey conducted with all employees. The Committee offered its counsel to management regarding the survey results and how best to continuously improve those results.

### **Company's Human Resources Advisory Committee**

The Company has a Human Resources Advisory Committee ("HRAC") that is composed solely of management and is focused upon establishing policy for human resource matters. Under its charter, the Compensation Committee is charged with appointing the members to the HRAC. Each year the Committee reviews HRAC membership, and, with input from the President and Chief Executive Officer, selects members of management to serve on that committee.

### **Compliance with Internal Revenue Service Code Section 409A**

Throughout 2010 the Compensation Committee oversaw management's actions to ensure compliance with Internal Revenue Code Section 409A. These efforts included reviewing all plans and agreements of the Company, its subsidiaries and affiliates, to confirm they properly conform to the requirements of that law. As of the end of 2010, management advised the Committee that all of those plans and agreements are in conformity with the requirements of that law.

### **Regulatory Updates and Governance Practices**

Throughout 2010 the Compensation Committee regularly received updates from Hay Group regarding regulatory developments in the area of executive compensation. Those updates also addressed executive pay and governance practices as established by corporate governance rating firms. In establishing the executive compensation program that is more fully described in the Compensation Discussion and Analysis starting on page 31 of this proxy statement, the Committee is ever mindful of these regulatory developments regarding executive pay and governance practices and endeavors to ensure that the Company's executive compensation program is in alignment with those developments and practices.

### **Deductibility of Executive Compensation**

Section 162(m) of the Internal Revenue Code, disallows the deduction from corporate taxable income of "compensation" paid in excess of one million dollars to the Chief Executive Officer and the other three highest paid employees unless the compensation is payable solely on achievement of one or more pre-established objective performance goals. The At Risk Plan, as re-approved by our shareholders in April 2006 and as proposed to be reapproved at this meeting, has been structured to give the Committee the discretion to award compensation which satisfies the requirements of Section 162(m) of the Internal Revenue Code. Consequently, the Committee intends to the extent practical and consistent with the best interests of the Company and its shareholders to use compensation policies and programs that preserve the tax deductibility of compensation expenses. The At Risk Plan also permits the Compensation Committee to require the deferral of any payment to these executives if the deduction would be eliminated by Section 162(m) until the deduction would no longer be eliminated or the executive officer separates from service. The delayed payment is automatically transferred to our nonqualified deferred compensation plan.

### **Compensation Discussion and Analysis**

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this proxy statement and incorporated by reference to the Company's Annual Report on Form 10-K.

### **Annual Committee Charter Review and Performance Evaluation**

As required by the Compensation Committee's charter, late in 2010 the Committee reviewed the charter and determined that no modifications were necessary or advisable. Also, as required by the Compensation Committee's charter, the Committee has conducted an annual performance evaluation, the results of which have been discussed by the Committee.

The Compensation Committee expects to meet at least three times in 2011.

Compensation and Benefits Committee

Jean L. Wojtowicz, *Chair*,  
Anton H. George,  
Martin C. Jischke,  
R. Daniel Sadlier, and  
Michael L. Smith