



## **REPORT OF THE NOMINATING AND CORPORATE GOVERNANCE COMMITTEE**

The Nominating and Corporate Governance Committee (“**Governance Committee**”) is primarily responsible for corporate governance matters affecting the Company and its subsidiaries. The Governance Committee has four members and is composed entirely of non-employee directors all of whom the Board has determined to be independent pursuant to the New York Stock Exchange (“**NYSE**”) rules. The Governance Committee met three times during the past fiscal year. At each meeting, the Governance Committee conducts an executive session without management present.

### **Scope of Responsibilities**

The Governance Committee has a number of significant responsibilities which are set forth in its charter posted at [www.vectren.com](http://www.vectren.com), including:

- Serving as a conduit for shareholders and other interested parties to communicate with the non-employee members of the Board regarding nominees and other matters affecting Company business;
- Overseeing the succession planning process for the office of Chief Executive Officer, senior management and the primary leadership of the Company’s subsidiaries and affiliates;
- Monitoring other corporate governance matters, including periodically reviewing the Company’s Code of By-Laws and Articles of Incorporation as they relate to corporate governance;
- Formulating recommendations concerning the composition, organization and functions of the Board and its committees;
- Identifying and selecting qualified nominees for election to the Board, including assessing the viewpoint, background and demographics of nominees, and whether their presence on the Board would contribute to the overall diversity of the Board;
- Recommending programs for continuing Board member education and development;
- Establishing qualification criteria for service as a member of the Board, including “independence;”
- Assessing the contributions of existing members of the Board for reelection;
- Monitoring the effectiveness and functioning of the Board and its various committees;
- Approving management participation on compensated third party Boards of Directors; and
- Establishing compensation for non-employee members of the Board.

### **2010 Accomplishments**

Throughout the year, the Governance Committee gathered, assessed, and, as appropriate, acted upon information relating to corporate governance, including governance-related items described in the Sarbanes-Oxley Act of 2002 (“**Sarbanes-Oxley**”), the Dodd-Frank Wall Street Reform and Consumer Protection Act (“**Dodd-Frank**”), and those regulatory changes affecting listed companies established by the New York Stock Exchange (“**NYSE**”) and the Securities and Exchange Commission (“**SEC**”). These efforts by the Governance Committee are ongoing.

As required by the Governance Committee's Charter, which is posted on the Company's website at [www.vectren.com](http://www.vectren.com), the Governance Committee conducted an annual review of the Corporate Governance Guidelines applicable to the full Board. Based upon that review, the Governance Committee concluded that no modifications were necessary or advisable at the current time. The current Corporate Governance Guidelines are posted on the Company's website at [www.vectren.com](http://www.vectren.com).

The Governance Committee considers nominees for director, including nominees recommended by security holders. The policy for director nominations by shareholders is included under "Nomination of Directors by Shareholders" on page 10 of this proxy statement. The criteria considered by the Governance Committee and the full Board when assessing candidates are contained in the Company's Code of By-Laws ("**By-Laws**") and are also set forth in *Appendix A* of this proxy statement.

In anticipation of the impending retirement of Robert L. Koch II, over the course of 2010 the Committee conducted a search for a potential replacement director. After an extended process, the Governance Committee selected Mr. Robert G. Jones. Mr. Jones' qualifications and experience are set forth on page 5 of this proxy statement. He was recommended for election by the Governance Committee and he was elected to the Board at the February 2, 2011 meeting. Mr. Jones is standing for election by the shareholders at this Annual Meeting.

During the year, the Governance Committee provided ongoing oversight with respect to each Board member's relationship with the Company and its subsidiaries. This action was required under the "independence" standards for the Board, which were developed by the Governance Committee as required by the Company's Corporate Governance Guidelines, and were approved by the full Board. The independence standards are set forth and discussed on pages 19-20 of this proxy statement. Based on these standards, the Board has determined that with the exception of Mr. Ellerbrook, who is non-executive Chair of the Board, and Mr. Chapman, who is President and Chief Executive Officer of the Company, all members of the Board are independent.

During the year, the Governance Committee evaluated each Board member's presence on committees in light of the applicable qualification requirements, including additional independence requirements pertinent to certain of the committees. Based upon this evaluation the Governance Committee recommended the composition and leadership of each committee to the full Board. Thereafter, those recommendations were adopted by the full Board.

During the year, the Governance Committee oversaw a formal communication process to ensure there is adequate information provided to the Board regarding actions taken by the boards of directors at the Company's wholly-owned subsidiaries and affiliates. That process provides for quarterly management updates to the Governance Committee relative to these actions.

The Governance Committee oversees non-employee directors' compliance with the stock ownership guidelines that have been established by the Board. Those guidelines are more fully discussed on page 18 of this proxy statement. During the past year, stock ownership by directors was monitored and, as discussed on page 18 of this proxy statement, as of February 2, 2011, each director, with the exception of Martin C. Jischke, who was elected to the Board effective February 1, 2007, James DeGraffenreidt, Jr., who was elected to the Board effective March 3, 2010, and Robert G. Jones, who was elected to the Board effective February 2, 2011, met the ownership threshold required by those guidelines. There is a five-year transition period for compliance by new directors and each of the three directors mentioned above is still within that transition period.

During the year, the Governance Committee continued with the administration of the succession planning process for the senior management of the Company and the primary leadership of the Company's subsidiaries and affiliates. The Governance Committee believes that actively engaging in the succession planning process is a critical part of the Company's long-term management continuity preparedness. Succession planning is an ongoing process with respect to management positions across the Company and is an integral part of the Company's normal personnel planning activities. Reports on this process were provided to the Governance Committee during the year. On a regular basis the chair of the Governance

Committee provides updates on this subject to the Board as part of the executive session segments of Board meetings.

As part of their oversight of the succession planning process for the Chief Executive Officer position, the Governance Committee discussed during 2010 the organizational structures that could result from the possible retirement of Mr. Ellerbrook, the current non-executive Chair of the Board. Following Mr. Ellerbrook's retirement last year as Chief Executive Officer, the Governance Committee decided that he should have a continuing role as non-executive Chair of the Board during the transition of leadership to his successor, Mr. Chapman. Such a continuing role was provided for in Section I.G. of the Corporate Governance Guidelines. Throughout the year under the leadership of the Lead director, the Governance Committee assessed the transition process and has concluded that it has been successful. As a result, the Governance Committee recommended to the Board that Mr. Chapman be elected Board Chair effective immediately following the 2011 Annual Meeting, subject to his reelection to the Board by the shareholders at that meeting. This recommendation was adopted by the Full Board on March 2, 2011. The Governance Committee and the Board have also determined that given Mr. Ellerbrook's significant knowledge and expertise in the energy industry, it would be valuable to the Company and its stakeholders for Mr. Ellerbrook to continue to serve as a director. This subject is more fully discussed on pages 34-36 of this proxy statement under the heading "Retirement of the CEO."

Under the oversight of the Governance Committee, formal Board development activities were undertaken during the past year. The Board conducted a multi-day development session where they heard presentations from various external professionals with respect to important issues affecting the Company. As part of that session, the Board also received in-depth presentations from senior management regarding industry issues and processes affecting the Company and its subsidiaries. In addition, some members of the Board attended training activities focused on the development of directors' skills.

The Governance Committee is charged with oversight of compensation for the non-employee members of the Board. Periodically, the Committee directs the preparation of an analysis of the continuing market competitiveness of that compensation. In early 2010 the Governance Committee had such an analysis prepared by Hay Group, Inc., which is the independent compensation consultant employed by the Compensation and Benefits Committee, and determined, based upon the results of that analysis, that the existing level of director compensation was not market competitive. The analysis included a review of the annual board retainer, board meeting attendance fees, committee retainers, committee meeting attendance fees, and equity grants. The analysis primarily relied upon a review of comparative data from the group of companies within the industry peer group that has been used by the Company to measure its performance and used by the Compensation and Benefits Committee when establishing executive compensation. Based upon the analysis and review of current market data, it was the conclusion of the independent consultant that the compensation to outside directors was well below both the average and the median for the Company's peer group. In October of 2010, the Governance Committee took action in response to that information and recommended an increase in director compensation. That recommendation was adopted by the Board at its November meeting, with an effective date of January 1, 2011. Director compensation is more fully discussed on pages 12-15 of this proxy statement under the "Director Compensation."

As the plan administrator of the Vectren Compensation At-Risk Compensation Plan ("**At-Risk Plan**") with respect to compensation for non-employee members of the Board, the Governance Committee has determined, subject to each director's re-election to the Board at the 2011 Annual Meeting to recommend annual awards of restricted units for directors effective as of May 11, 2011. The role of equity compensation as part of the total compensation provided to non-employee directors is more fully discussed on pages 12-15 of this proxy statement.

The chair of the Governance Committee administered the annual Board performance evaluation process pursuant to which the Board critiqued its performance. The chair of the Governance Committee then presented the evaluation results to the full Board. In response, senior management will develop an action plan that will be executed over the course of 2011.

Early in 2011, the chair of the Governance Committee received affirmations from the chairs of all other committees certifying that their respective charters were adhered to in 2010, and specifying whether

any changes to those charters were determined to be necessary or advisable. During the year the Governance Committee amended its charter on two occasions. The first related to the expiration of the Company's shareholder rights agreement. Following that occurrence, it was necessary to delete references to that agreement from the charter. The second occurred as a result of the enactment of the Dodd-Frank Act and addressed that law's requirements with respect to shareholder access provisions under the rules of the SEC. In response to the Dodd-Frank Act, the Governance Committee also developed and recommended related changes to the Corporate Governance Principles and the Code of By-Laws. All of the Governance Committee's recommended changes were approved by the Board during 2010.

In connection with the 2011 Annual Meeting, and employing the qualification criteria set forth in the Corporate Governance Guidelines, as well as the director retention criteria approved by the Board, the Governance Committee evaluated all of the nominees who are standing for reelection. As a result of that process, the Governance Committee concluded that the full Board should recommend to the shareholders that, with the exception of Mr. Robert L. Koch, II, who is retiring at the 2011 Annual Meeting, all of the existing directors should be reelected.

### **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 non-employee directors to comply with their applicable share ownership targets. The Board expects the covered persons to make ratable progress toward compliance each year. The program includes these key features:

- Participants who are non-employee directors have a share ownership target based on a multiple of five times their annual cash retainer, which for the past year amounted to \$150,000. As of January 1, 2011, when the revised director compensation became effective,<sup>1</sup> that ownership target increased to \$225,000. As of February 2, 2011, all of the non-employee directors, excluding Messrs. Jischke, DeGraffenreidt and Jones, who are all still in the transitional five year compliance period, exceeded the established ownership requirements. The Governance Committee reviews non-employee director stock ownership on an annual basis.
- 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.

<sup>1</sup> The revision to director compensation is discussed on pages 12-15 of this proxy statement.

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

As required by the Governance Committee's charter, earlier this year the Committee reviewed its charter and determined that two modifications were advisable. Those modifications are discussed earlier in this report. Also, as required by the Governance Committee's charter, the Committee conducted an annual performance evaluation, the results of which have been discussed among the Committee members.

### **Director Independence Standards**

In determining director independence, the Board considers broadly all relevant facts and circumstances, including the corporate governance listing standards of the NYSE, which are summarized below. The Board considers the issue not merely from the perspective of a director, but also from that of persons or organizations with which the director has an affiliation. An independent director must be free of any relationship with the Company that impairs the director's ability to make independent judgments, including indirectly as a partner, shareholder or officer of an organization that has a relationship with the Company.

At a minimum, in making the independence determination, the Board applies the following standards, and it also considers any other relationships it deems relevant. A director will not be considered independent if any of the following criteria apply:

1. The director is, or has been within the last three years, an employee of the Company, or an immediate family member is, or has been within the last three years, an executive officer,<sup>2</sup> of the Company.

2. The director has received, or has an immediate family member who has received, during any twelve-month period within the last three years, more than \$120,000 in direct compensation from the Company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service).

3. (A) The director is a current partner or employee of a firm that is the Company's internal or external auditor; (B) the director has an immediate family member who is a current partner of such a firm; (C) the director has an immediate family member who is a current employee of such a firm and personally works on the Company's audit; or, (D) the director or an immediate family member was within the last three years a partner or employee of such a firm and personally worked on the Company's audit within that time.

4. The director or an immediate family member is, or has been within the last three years, employed as an executive officer of another company where any of the Company's present executive officers at the same time serves or served on that company's Compensation Committee.

5. The director is a current employee, or an immediate family member is a current executive officer, of a company that has made payments to, or received payments from, the Company for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million, or 2% of such other company's consolidated gross revenues.

In determining that the independent directors satisfied the above criteria, the Governance Committee considered the following transactions. In 2010, the Company purchased from Koch Enterprises, Inc., a corporation in which Mr. Koch has an interest, commodity-type products, including air conditioning units, in the aggregate amount of approximately \$878,470. These purchases represent a very small percentage of the consolidated 2010 revenues for Koch Enterprises, Inc. In 2010, the Company purchased approximately \$58,920 of advertising time from South Central Communications, Inc., a corporation in which Mr. Engelbrecht has an interest, which represents a very small percentage of that corporation's 2010 revenues. In 2010, the Company had banking relationships with Old National Bank, of which Mr. Jones is President and Chief Executive Officer. The

<sup>2</sup> For purposes of this standard, the term "executive officer" has the same meaning specified for the term "officer" in Rule 16a-1(f) under the Securities Exchange Act of 1934. total fees paid for those relationships, were \$149,675, and represent a very small percentage of that corporation's 2010 revenues. In addition, Old National Bank purchased utility services from the Company which also did not represent a significant percentage of Old National Bank's revenues. The Governance Committee determined that the amounts involved in these transactions were well below the levels provided in the director independence standards and were not material to the relevant directors or to any person or organization with whom they are affiliated.

## **Selection and Evaluation of Director Candidates**

All director candidates must meet the requirements established by the Governance Committee from time to time and the director qualification standards included in the Company's Corporate Governance Guidelines. Candidates are reviewed in the context of the current composition of the Board, the operating requirements of the Company and the long-term interests of shareholders. In considering director nominees, pursuant to its charter the Governance Committee considers diversity, including geographic as well as other considerations described below, as a key factor in selecting candidates for election to the Board. In discharging this responsibility, the Governance Committee assesses the viewpoint, background and demographics of the candidates. The Governance Committee seeks to create a board that is strong in its collective knowledge and diversity of skills and experience with respect to accounting and finance, management and leadership, vision and strategy, business operations, business judgment, industry knowledge, corporate governance and other factors the Corporate Governance Committee deems appropriate. When considering a candidate, the Governance Committee looks specifically at the candidate's qualifications in light of the needs of the Board and the Company at that time, given the then current mix of director attributes, including the matters discussed above, as well as ethnicity, race and gender. Specific selection criteria are set forth in the By-Laws and are also included in *Appendix A*.

## **Commitment**

The Governance Committee is committed to ensuring that the Company implements and follows corporate governance principles that fulfill its responsibilities under its charter and to enhance, where appropriate, the company's corporate governance practices. The Governance Committee anticipates meeting at least three times in 2011.

Nominating and Corporate Governance Committee

Robert L. Koch II, *Chair*,  
Anton H. George,  
William G. Mays, and  
J. Timothy McGinley