



VECTREN

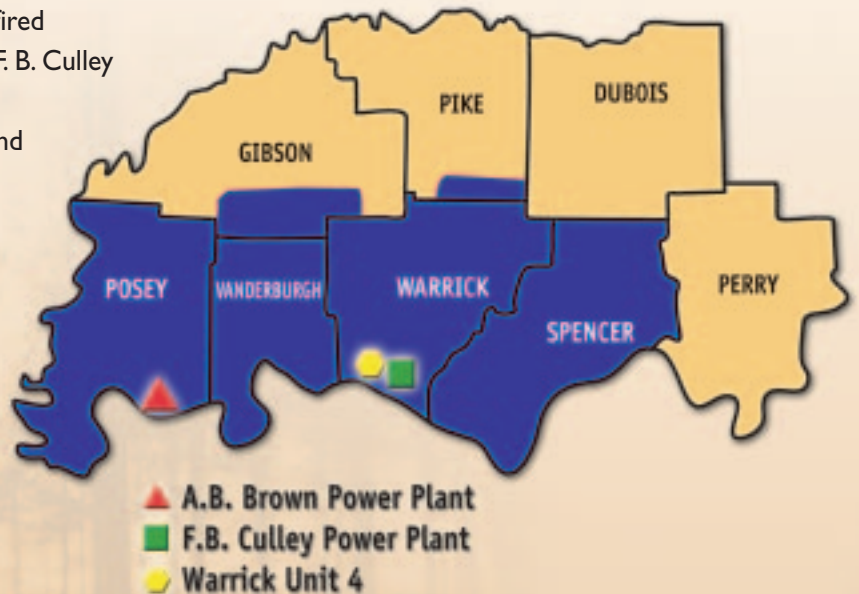
Not just power. Possibility.

Environmental Stewardship  Report

Vectren's Electric Generation System

Vectren Power Supply

Vectren Power Supply generates electricity with both coal-fired units and natural gas-fired or oil-fired turbines. Our generation facilities include: F. B. Culley Generating Station; A. B. Brown Generating Station; Warrick Unit 4, whose operation and ownership is shared with Alcoa; Northeast Gas Turbines, Broadway Avenue Generating Station Gas Turbines and two A. B. Brown Gas Turbines. Jointly, Vectren's electric generation fleet has the capacity to generate 1,351 megawatts to serve 136,000 customers in a six-county area including Posey, Gibson, Vanderburgh, Warrick, Spencer and Pike.



F.B. CULLEY POWER PLANT – NEWBURGH, IND., WARRICK COUNTY

- Unit 1* – 46 MW, Coal-fired generation unit, established 1955
- Unit 2 – 90 MW, Coal-fired generation unit, established 1966
- Unit 3 – 270 MW, Coal-fired generation unit, established 1973

*Will cease operation by December 31, 2006

WARRICK UNIT 4 – NEWBURGH, IND., WARRICK COUNTY

- Unit 4 – 150 MW, Coal-fired generation unit, established 1970

A.B. BROWN POWER PLANT – MT. VERNON, IND., POSEY COUNTY

- Unit 1 – 250 MW, Coal-fired generation unit, established 1979
- Unit 2 – 250 MW, Coal-fired generation unit, established 1986
- Unit 3 – 80 MW, Natural gas or oil-fired generation unit, established 1991
- Unit 4 – 80 MW, Natural gas-fired generation unit, established 2002

Our Environmental Policy

Mission Statement: Environmental stewardship is a basic value and belief for each one of us at Vectren. Our employees and their families live and work in the same cities and towns, breathe the same air and utilize the same natural resources as our customers. Each of us is committed to meet environmental regulation standards and ensure that our energy products and services not only meet customer needs, but also enhance the quality of life in each of our communities and leave behind a better environment for us all.

NATURAL GAS TURBINE PEAKING UNITS

- BAGS 1 & 2 – 50 and 65 MW respectively, established 1971 and 1981 respectively
- Northeast 1 & 2 – 10 MWs each, established 1964 and 1963 respectively

Vectren's Natural Gas Distribution System

Vectren Energy Delivery provides natural gas service to nearly one million customers in Indiana and west central Ohio. We safely and reliably operate more than 20,000 miles of natural gas pipeline to serve 57 counties in Indiana and another 17 counties in Ohio.



Message from the Chairman

I'm pleased to present Vectren's inaugural report on our continued efforts for active, environmental stewardship. By no means is environmental stewardship a new concept for us, rather we realized that

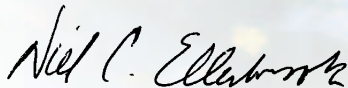


Vectren has a compelling story to tell about our electric generation fleet and additional environmental projects and expenditures benefiting the Midwest. This report simply illustrates a sample of our accomplishments and our commitment to a cleaner environment.

From clean air to clean water to clean land, we take environmental responsibility and our customers' needs for affordable energy to heart. We achieve this balance by effectively managing the environmental impact of our operations, using natural resources wisely and by implementing technologies to take advantage of Indiana coal and improve our environmental performance. After all, Vectren is headquartered in Evansville. We live and work in the southwestern Indiana region that reaps the benefits of our local electric generation's ability to safely and reliably serve our native load.

We certainly realize there are still many environmental challenges and opportunities before us. Fulfilling our environmental policy is an on-going initiative as federal, state and local environmental requirements continue to evolve. However, while many in our industry talk about their commitment to environmental stewardship, Vectren has been quietly acting on its commitment to a cleaner environment. And I think by reading this report you will see that when it comes to our documented performance and achievements, we are indeed focused on the pursuit of excellence and raising the bar for our fellow electric utilities in the Midwest. Furthermore, we look forward to taking on the next big challenge facing our industry; the reduction of greenhouse gas emissions and the exploration of renewable energy technologies.

Sincerely,



Niel C. Ellerbrook
Chairman, President and CEO
Vectren Corporation

1 Through the investment of millions of dollars in emissions control equipment, Vectren's power system is already one of the best-controlled in the Midwest.

2 By 2010, Vectren will have beaten EPA deadlines with fully operational, state-of-the-art pollution control equipment installed on 100% of Vectren's coal-fired generation units.

3 To meet future customer demand, Vectren is exploring clean-coal technologies to create the best balance between the use of Indiana coal, regional economic development and protecting the environment.

Historic Air Emission Reductions

National Progress

Since the passage of the Clean Air Act in 1970, emissions of air pollutants from the coal burning electric power industry have decreased significantly.

SO₂ (sulfur dioxide) emissions are down 40% since 1970.

NO_x (nitrogen oxide) emissions are down 70% since 1970.

PM (particulate matter) emissions are down 30% since 1986.*

* EPA began nationwide monitoring of particulate emissions in 1986.

Our Progress

By contrast, air emissions from Vectren's system have decreased even more dramatically in the same time period. Through the investment of millions of dollars in emissions control equipment, Vectren's power system is one of the best controlled in the Midwest.

SO₂ emissions are down 90% since 1970.

NO_x emissions are down 80% since 1970.

By the end of 2006, two of Vectren's largest units will employ state-of-the-art fabric filters for particulate control. Fabric filters remove PM at an average of 99% efficiency rate.

CLEAR AIR ACT

Congress passed the core provisions of the Clean Air Act and instituted the creation of its governing body, the United States Environmental Protection Agency (EPA), in 1970. The law was amended in 1977 and again in 1990 to extend deadlines but also to specify new strategies for cleaning up the air. The basic framework of the law and its public health objective to protect our environment from damage caused by air pollution have remained intact.



Cheryl Barnett uses state-of-the-art equipment to monitor the pollution control equipment and electric generation at A.B. Brown.

Multi-Pollutant Compliance

In 2004, the EPA announced new multi-pollutant reduction requirements, mandating further significant emission reductions in SO₂, NO_x and mercury. In May of 2005, Vectren filed a new multi-emission compliance plan with the Indiana Utility Regulatory Commission (IURC). When implemented, Vectren's entire electric generation fleet will be controlled for SO₂ and NO_x and will further reduce mercury 65% across the system to meet the new mercury reduction requirements.

Included in phase one of the proposed project is an expenditure of approximately \$110 million to fund the construction of a flue gas desulfurization system (scrubber) at Warrick Unit 4, scheduled for completion by 2009 and the installation of a fabric filter at F.B. Culley Unit 3, scheduled to be in service by late 2006.

SO₂ – Sulfur Dioxide

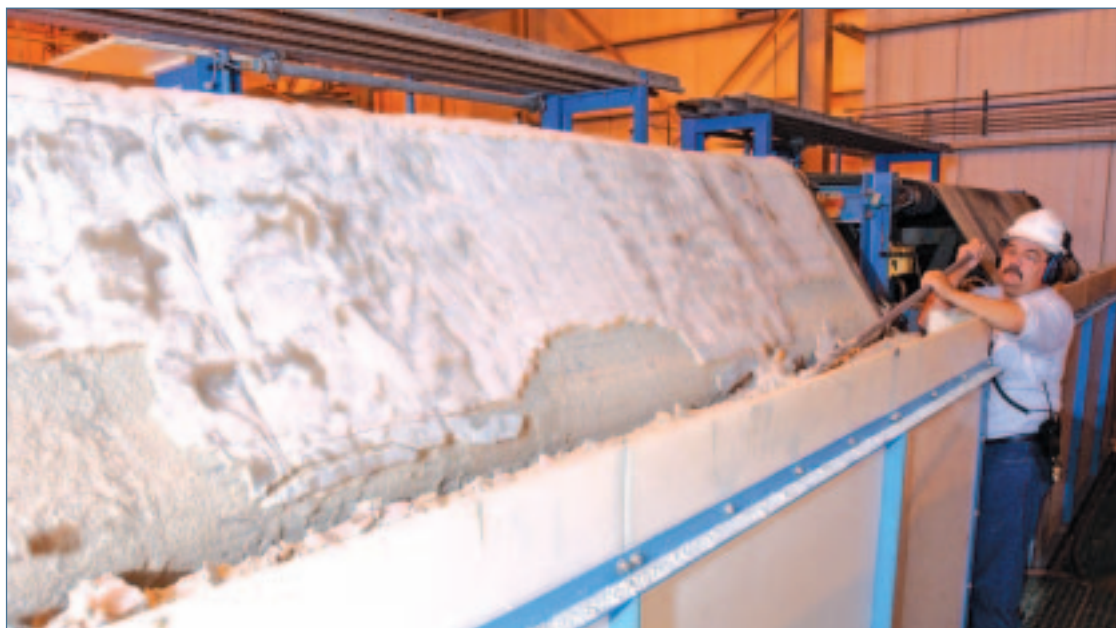
Current SO₂ Emissions Control Equipment

FGD UNITS/SCRUBBERS – After combustion, SO₂ can be removed or scrubbed from flue gas in a process known as flue gas desulfurization (FGD). The SO₂ is removed from the flue gas stream and converted to gypsum or calcium sulfate which can be used in the manufacture of plaster products.

VECTREN'S FGD UNITS – F.B. Culley Units 2 and 3 share an FGD unit. The \$107 million investment, which has been in operation since September 1994, uses 140,000 tons of limestone annually.

ABOUT SO₂

SO₂ belongs to the family of sulfur oxide gases (SO_x). Sulfur is prevalent in all raw materials, including crude oil, coal and ore that contain common metals like aluminum, copper, zinc, lead, and iron. The sulfur present in nearly all fossil fuels combines with oxygen when coal is burned and is released into the atmosphere as SO₂ gas.



Culley's Bill McDowell inspects the gypsum conveyor belt. A byproduct of the FGD unit, gypsum is used in the manufacturing of drywall.

DUAL-ALKALI SCRUBBERS – Another wet scrubbing technology, dual-alkali scrubbers use a sodium solution to absorb SO₂. One component of the waste stream is a sodium bisulfite solution, which is being successfully reinjected into the flue gas at Culley to reduce emissions of sulfuric acid mist.

VECTREN'S DUAL-ALKALI SCRUBBERS – A.B. Brown Units 1 and 2 each have a dual-alkali scrubber. The \$18 million investment for Unit 1 was implemented in 1979, and Unit 2's \$30 million scrubber has been operational since 1986.

Future SO₂ Emissions Control Investments

Upon the completion of the Warrick Unit 4 scrubber and the shut down of F.B. Culley Unit 1, the entire Vectren system will be scrubbed for SO₂. But Vectren does not intend to stop there. We are currently studying enhancements to the older dual-alkali scrubbers at A.B. Brown to make Vectren's control of SO₂ emissions even more effective.

NO_x – Nitrogen Oxide

In May of 2005, Vectren completed the installation of the last of four selective catalytic reduction (SCR) devices on its baseload generation fleet. The \$255 million project, which began in the fall of 2001, was implemented specifically to target NO_x emissions. The pollution control equipment has successfully cut NO_x emissions by 80% over the past four years.

Current NO_x Emissions Control Equipment

LOW-NO_x BURNERS – Cut NO_x emissions approximately 40 to 70% by incorporating staged combustion to limit the amount of air in the initial stages of combustion when fuel bound nitrogen is released.

VECTREN'S LOW-NO_x BURNERS – The low- NO_x burner at Culley Unit 2 has been in operation since 1994.

SCR UNITS – A Selective Catalytic Reduction device (SCR) is basically a large metal box containing several layers of catalyst. The SCR cuts emissions of nitrogen oxides by converting NO_x into nitrogen and water through the reaction of ammonia vapor with the flue gas in the presence of a catalyst.

ABOUT NO_x

When fossil fuels burn at sufficiently high temperatures, nitrogen oxides (NO_x) are formed. Although there are many sources of NO_x – for example, gasoline-powered automobiles are major sources of NO_x – coal-fired power plants account for approximately 25% of the emissions of NO_x in the U.S.

Multi-Pollutant Compliance



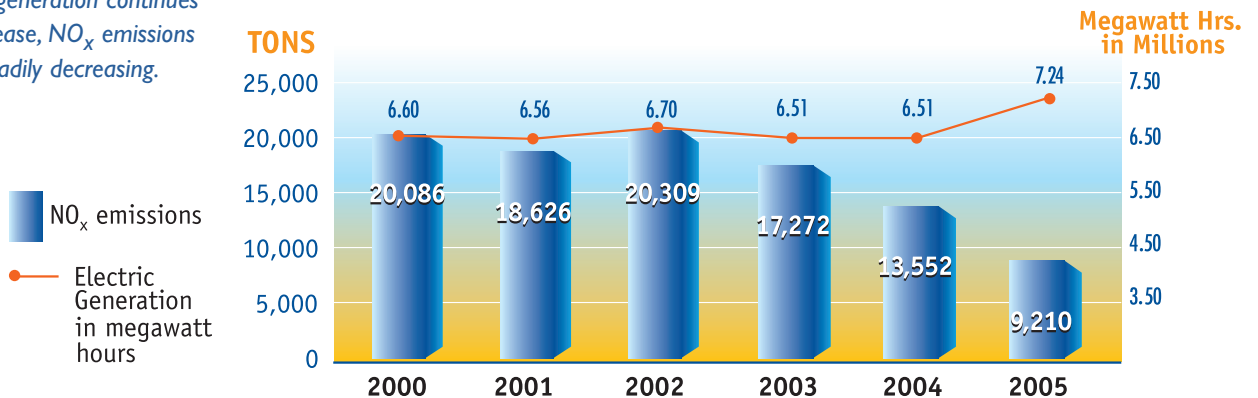
VECTREN'S SCR UNITS – Vectren has invested more than \$255 million to equip four of its six coal-fired generation units with SCR equipment.

- A.B. Brown Unit 1 :
Completed in May 2005
- A.B. Brown Unit 2:
Completed in May 2004
- F.B. Culley Unit 3:
Completed in August 2003
- Warrick Unit 4:
Completed in May 2004

The Culley Unit 3 SCR unit was the first unit installed on Vectren's coal-fired fleet. The SCR has been operational since August 2003.

A SIX-YEAR HISTORY OF NO_x AIR EMISSIONS

While generation continues to increase, NO_x emissions are steadily decreasing.

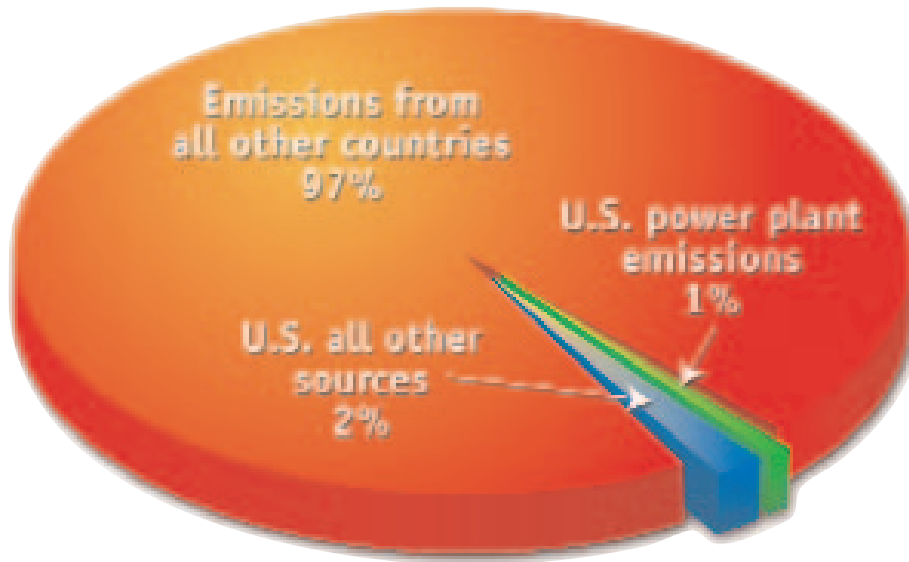


Mercury

Mercury is a far more complex pollutant to control than SO₂, NO_x and particulate matter. Mercury exhibits speciation - meaning there are three distinct species of mercury. There is currently no commercially proven technology that can control all three species of mercury over the broad spectrum of coal types.

MERCURY EMISSIONS ARE A GLOBAL PROBLEM

1999 Global Mercury Emissions



Source: Based on Pacyna, J., Presentation at Workshop on Mercury, Brussels, March 29-30, 2004.

ABOUT MERCURY

Mercury is a naturally occurring element that is found in air, water and soil. Mercury is also found in many geological sources, including coal. When coal is burned, small amounts of mercury are released into the atmosphere and can be carried long distances for up to a year before falling back to earth. According to the Edison Electric Institute, coal-fired power plants currently emit about 48 tons of mercury annually, comprising about one third of man-made emissions in the U.S., and just 1% percent of total global emissions.

Current Mercury Emissions Control Equipment

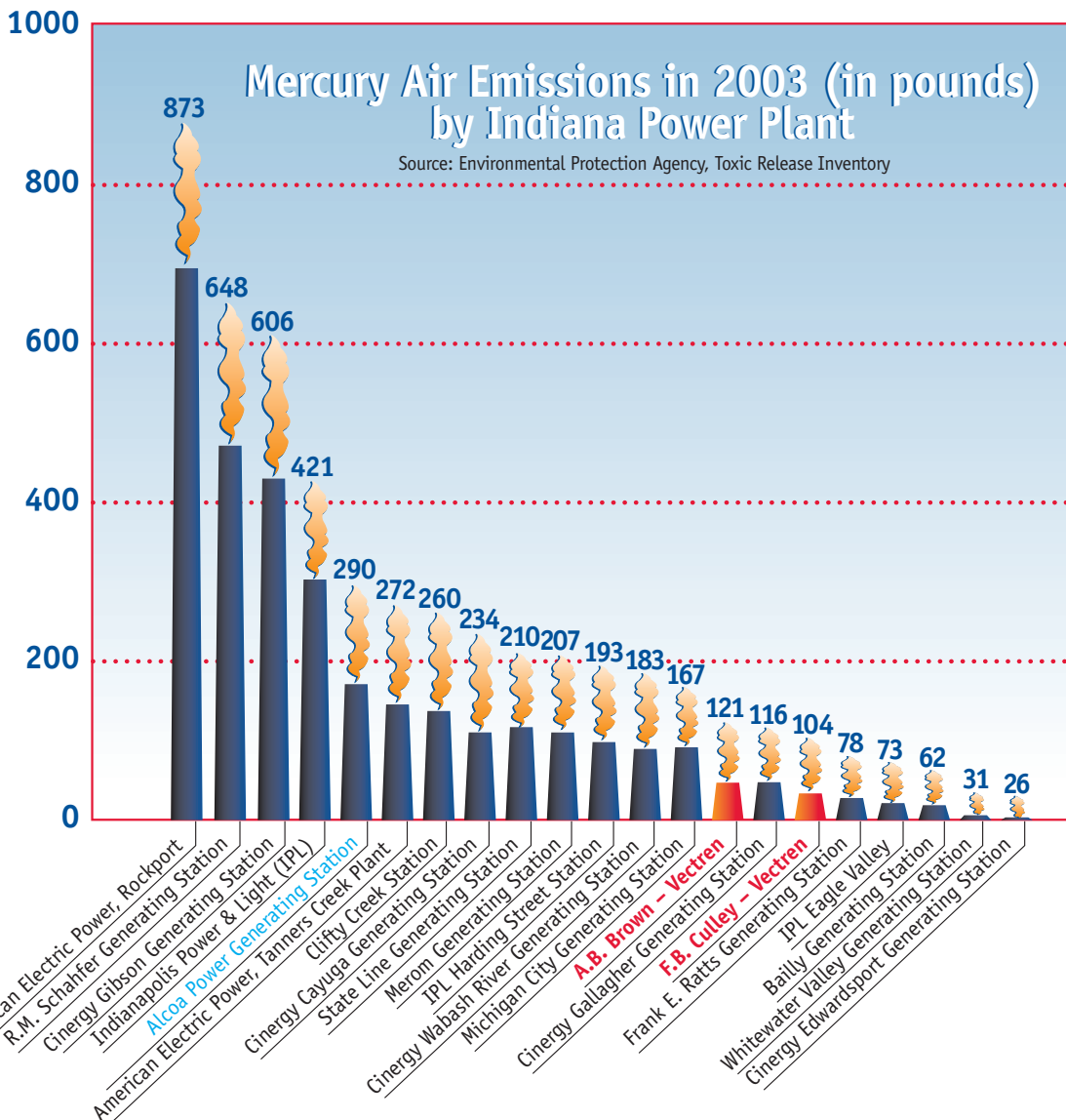
The most effective removal strategy of mercury results from the combination of existing pollutant removal technologies employed to remove SO₂, NO_x and particulate matter. Vectren's pollution control technology controls mercury at high levels of efficiency, as indicated by the low ranking of Vectren units in the EPA's mercury emissions chart on the following page.

Multi-Pollutant Compliance

Future Mercury Emissions Control Investments

With the shutdown of Culley Unit 1 in 2006, the installation of the Culley Unit 3 fabric filter in 2006 and the completed construction of the scrubber on Warrick Unit 4 in 2009, Vectren will further reduce its mercury emissions across the Vectren system by 65%.

INDIANA RESULTS – There are 21 coal-fired power plants in Indiana. Vectren’s A.B. Brown and F.B. Culley facilities are among the lowest in annual mercury emissions according to the Environmental Protection Agency’s (EPA) 2003 report, ending the year at 14 and 16, respectively. The Alcoa Power Generating Station, of which Vectren co-owns one 150-MW unit, should have a scrubber installed by 2009 pending approval of the May 2005 multi-emission compliance plan. This scrubber will reduce mercury and other pollutant emissions. See chart below.





Environmental scientist Al Rose and A.B. Brown Director Wayne Games discuss Brown's fabric filter. The giant hoppers, located at the base of the filter, collect soot and ash from Unit 1's exhaust gas.

PM (Particulate Matter)

Current PM Emissions Control Equipment

Power plants typically install electrostatic precipitators (devices that use electrical charges to attract particles) to capture solid particles emitted from their coal furnaces. Vectren is one of the few Midwestern utilities to install state-of-the-art fabric filter technology on units that burn high sulfur coal.

FABRIC FILTERS – Fabric filters work like giant vacuums to remove soot and ash from a boiler's exhaust gases before it goes up the stack.

VECTREN'S FABRIC FILTER – In 2004, Vectren replaced an existing electrostatic precipitator at Brown Unit 1 with a state-of-the-art fabric filter which increased the particulate removal rate of the unit to 99%.

Future Mercury Emissions Control Investments

Vectren will spend an additional \$40 million to construct a fabric filter at Culley Unit 3 which is expected to be in full operation by late 2006.

ABOUT PM

PM describes a mixture of tiny solid particles such as dirt, soil, dust, and ashes, as well as liquid droplets that are suspended in the atmosphere. They come from a variety of sources such as cars, trucks, buses, factories, construction sites, tilled fields, unpaved roads, stone crushing, and burning of wood. PM is indirectly formed when gases from burning fossil fuels react with sunlight and water vapor. These can result from fuel combustion in motor vehicles, at power plants, and in other industrial processes.

Coal-Fired Generation Fleet

Current Emissions Control

Unit	SO ₂	NO _x	Particulate Matter
Culley 1	Low-sulfur coal	None	Electrostatic precipitator
Culley 2	Flue gas desulfurization	Low NO _x burner	Electrostatic precipitator
Culley 3	Flue gas desulfurization	SCR	Electrostatic precipitator
Warrick 4	Low-sulfur coal	SCR	Electrostatic precipitator
Brown 1	Flue gas desulfurization	SCR	Fabric filter
Brown 2	Flue gas desulfurization	SCR	Electrostatic precipitator

A.B. Brown

A.B. Brown Unit 1 is among the cleanest generation units in the country. The pollution control equipment is twice the size and three times the price of the generation unit.



1. Coal is burned in Brown Unit 1 to generate the steam to power the 250 megawatt turbine.



2.

The exhaust gases then travel through the SCR unit where they are scrubbed for NO_x and mercury emissions.

Emissions Control by 2010

Unit	SO ₂	NO _x	Particulate Matter
Culley 1	Shut down	Shut down	Shut down
Culley 2	Flue gas desulfurization	Low NO _x burner	Electrostatic precipitator
Culley 3	Flue gas desulfurization	SCR	Fabric filter
Warrick 4	Flue gas desulfurization	SCR	Electrostatic precipitator
Brown 1	Flue gas desulfurization	SCR	Fabric filter
Brown 2	Flue gas desulfurization	SCR	Electrostatic precipitator

Then, they enter the fabric filter which works like a giant vacuum to remove soot and ash.

3.

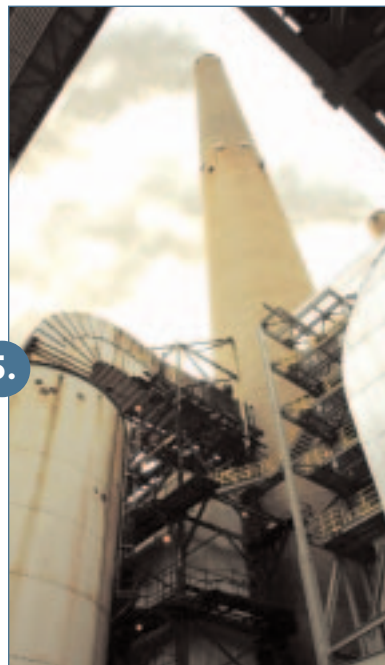


4.



From there, they enter a flue gas desulfurization (FGD) unit which removes SO₂ with the help of limestone.

5.



After passing through three distinctly different pollution control mechanisms, the gases are emitted to the atmosphere as primarily steam.

Additional Environmental Activities

Vectren's focus on environmental stewardship goes beyond our generation fleet. Over the past several years, we have undertaken significant efforts to improve both land and air quality and expand our outreach throughout our service territory.

Manufactured Gas Plants

In 1999, Vectren was the first utility in Indiana to enroll former manufactured gas plant (MGP) sites in the state's voluntary remediation program.

Why are former MGP sites a concern?

Most of these plants have been closed for at least 50 years, and in some cases over 100 years. As such, the sites were typically decommissioned under the standards of that era. In many cases, subsequent redevelopment of the MGP sites has removed or covered wastes that were exposed at the surface. However, these sites often contain abandoned underground structures and pipes containing coal tar or other MGP residuals. Some of these waste materials (especially coal tars) may have migrated from existing/former structures and may be present in the subsurface.

WHAT'S AN MGP?

An MGP is an industrial facility at which gas was produced from coal, oil and other feedstocks. The gas was stored, and then piped to the surrounding area, where it was used for lighting, cooking, and heating homes and businesses. The first MGPs in Indiana were constructed in the late 1800s. Most were closed during the early-to-middle 1900s.



Phase 1

Terre Haute MGP site in the mid-1900s.



Phase 2

Terre Haute MGP destruction and disposal efforts in the late 1990s.

OUR PROGRESS

To date, Vectren has completed remedial activities at eight of the original 26 sites enrolled in the voluntary remediation program. Vectren recently completed a \$2 million clean-up of the former manufactured gas plant site located in Terre Haute, Indiana. That location, along the Wabash River, is now the site of Vectren's new service center for the Terre Haute region. In 2004, Vectren added an additional five former manufactured gas plant sites located in southwestern Indiana to the voluntary remediation program.



Phase 3

Former site of the Terre Haute MGP and current site of the Vectren Energy Delivery Terre Haute operations center.

Additional Environmental Activities

Gibson County Conservation Easement

Early in 1999, Vectren purchased 1,100 acres of river bottomland along the Wabash River in Gibson County. The property had been cultivated historically for agricultural purposes, but crops were frequently flooded due to its immediate proximity to the river. Vectren purchased the property and placed a permanent conservation easement on the property and enrolled it in the U.S. Natural Resource Conservation Service's Wetlands Reserve Program.

To date, Vectren has planted 120,000 trees and 14,000 native shrubs on the Gibson County property to help absorb greenhouse gases. We have also constructed hawk perches throughout the property to facilitate wildlife conservation efforts in the rivershed area.

Energy Systems Group

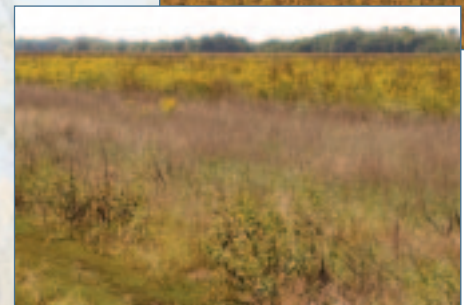
Vectren's wholly-owned subsidiary, Energy Systems Group (ESG), is an award winning and premier energy services and performance contracting company. As an accredited leader in facility improvement and energy efficiency programs, their mission is to implement solutions that preserve and improve the environment.

One such award-winning project entailed an upgrade of the Old Vanderburgh County Courthouse in Evansville, Indiana. ESG completed dozens of energy efficiency and technological upgrades, from the installation of new HVAC equipment to new lighting and windows, to ensure historical preservation and bring the functionality of the 120-year-old building into the 21st century.

ESG implemented a three-pronged strategy to address the courthouse's needs:

- Energy commodity procurement
- Asset modernization
- Program management/Financial structuring

The end result proved to benefit the courthouse in all aspects of the energy cycle – commodity acquisition, equipment improvement and comprehensive program management. In addition to the direct reduction in energy consumption, the project positively impacted the local environment, improved the safety of the building and earned a 2004 John Biasini Environmental Excellence Award.



Vectren's conservation easement in Gibson County.



Old Vanderburgh County Courthouse.

There are still many environmental challenges and opportunities ahead. Customer demand for reliable and affordable electricity and natural gas is anticipated to grow, and we must find new technologies and sources of energy to meet that need – keeping our commitment to environmental stewardship at the forefront of every business decision. Below is a snapshot of what the near future holds for Vectren.

Climate Policy

Carbon regulation will be the next significant environmental challenge facing energy providers. Carbon emissions, often referred to as greenhouse gases, originate from the burning of fossil fuels. The challenge before the energy industry is to reduce these emissions, even as generation increases in direct response to our nation's growing energy demand. Today, no commercially proven technology exists to cost effectively collect and remove carbon emissions from existing generating units. In the meantime, Vectren is exploring alternatives for addressing carbon emissions through potential carbon sequestration projects such as its reforestation project in Gibson County, studying feasibility of Integrated Gasification Combined Cycle technology (see below) and investigating the potential for renewables development.



IGCC technology may allow Vectren to take advantage of Indiana's most abundant natural resource, coal.

Integrated Gasification Combined Cycle

In August of 2005, Vectren and Cinergy made a joint filing with the Indiana Utility Regulatory Commission to commence an engineering study to determine the feasibility of constructing a new power plant that uses Integrated Gasification Combined Cycle (IGCC) to create electricity. The study of this technology will allow us to consider an environmentally-friendly method of generation as one of several clean-coal technologies we are considering to ensure we meet future customer demand. In effect, this project could create the best balance between the use of Indiana coal, regional economic development and protecting the environment.

Often known as coal gasification, IGCC converts coal into synthesis gas (syngas). This hot syngas is filtered to remove sulfur, mercury and particulate matter and then used to fuel combustion turbine generators. The technology has fewer emissions than a conventional coal-fired plant and has potential to remove carbon at a lower cost than conventional technology.

Renewable Energy

No single solution can meet our society's future energy needs. The challenge for all utilities is to explore renewable energy technologies that tap into natural cycles and systems, turning the ever-present energy around us into usable forms. Vectren will continue to research today's technological advancements that have developed more efficient means of harnessing and using renewable energy sources, and consider these sources as our customer demand warrants. Further, Vectren's subsidiary, ESG, is making its own advancements in renewables and recently announced its plans to co-develop a landfill gas recovery project in Johnson City, Tennessee.



VECTREN

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