



## REPORT OF THE COMPENSATION AND BENEFITS COMMITTEE

### Compensation and Benefits Committee

The Compensation and Benefits committee (“**Compensation committee**”) has five members and met three times in fiscal 2007. 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 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) and is also attached to this proxy as *Appendix F*.

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 Chair 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 Chair 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 includes the Chair 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 Chair and Chief Executive Officer and are reviewed and evaluated by the Compensation committee. The committee has engaged Hay Group, Inc., an outside global human resources consulting firm, to conduct an annual review of its total compensation program for the executive and other officers.

The agenda for meetings of the Compensation committee is determined by its Chair with assistance from the other members of the committee, the Compensation committee’s independent compensation consultant, and the Company’s Chair and Chief Executive Officer, Chief Financial Officer and Chief Administrative Officer and Secretary. Compensation committee meetings are regularly attended by the Chair and Chief Executive Officer and the Chief Administrative Officer and Secretary. At each meeting the Compensation committee conducts an executive session. The Compensation committee’s Chair reports the committee’s recommendations on executive compensation to the Board. Independent advisors and the Company’s Human Resources department support the Compensation committee in its duties and, along with the Chair and Chief Executive Officer, may be delegated authority to fulfill certain administrative duties regarding the compensation programs. The 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 Chief Executive Officer in Compensation Process

Compensation determinations for our five named executive officers, including the Chief Executive Officer, are made by the Compensation committee. The committee delegates certain administrative duties to, and solicits recommendations from, the CEO, Mr. Ellerbrook. He provides recommendations to the committee regarding the compensation and annual incentive opportunities for the other executive officers. He receives and reviews market data from the committee’s consultant. After considering that data, 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. Ellerbrook also takes internal pay equity into account in making his recommendations. Mr. Ellerbrook’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 for all officers are made by the committee.

The 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. Ellerbrook and any other members of management who may be present.

## Share Ownership Policy

Our Company's share ownership policy requires officers and 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. 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, set at three times base salary for certain participants (Messrs. Benkert, Christian, and Doty), four times for Mr. Chapman and five times for Mr. Ellerbrook. As of February 4, 2008, all of the five named executive officers listed in the Summary Compensation Table exceeded the established ownership requirements. The committee reviews executive officers' stock ownership on an annual basis. In addition, as of February 4, 2008, all of the Company's officers subject to the share ownership policy were in compliance with its requirements.
- As an incentive to maximize shareholder value, a participant may count toward his or her target the value of owned shares, including derivative units of our stock in our non-qualified deferred compensation plans, the value of vested "in the money" stock options and the market value of restricted shares and stock unit awards, with market value based on the market price of our common stock.

## Tally Sheets

The committee uses tally sheets for the executive officers included in the Summary Compensation Table.

In 2007, the committee reviewed tally sheets that summarized dollar amounts for salary, bonus, long-term incentive compensation, welfare benefits, and perquisites for 2007 and 2006, as well as the value of unexercised stock options and restricted stock awards, and the actual projected payout obligations under our qualified and non-qualified retirement plans. The tally sheets also provided potential payment obligations for each executive under various termination scenarios (voluntary, good reason other than cause, and cause). The committee did not, however, take any specific action based on its review of the tally sheets.

## 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, Inc. as its independent compensation consultant for 2007. One of the primary functions of the consultant is to provide market data to the Committee concerning compensation of comparable companies in order to assist the Committee in determining whether the compensation system is a reasonable and appropriate means to achieve the business objectives of Vectren. The committee has reengaged the Hay Group, Inc. as its independent compensation consultant for 2008.

## Deductibility of Executive Compensation

In 1993, Congress enacted Section 162(m) of the Internal Revenue Code, which disallows corporate deductibility for "compensation" paid in excess of one million dollars to the individual executives named in the Summary Compensation Table unless the compensation is payable solely on achievement of an objective performance goal. The At Risk Plan, as re-approved by our shareholders in April 2006, 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 us and our shareholders to use compensation policies and programs that preserve the tax deductibility of compensation expenses. The At Risk Plan also requires 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 non-qualified 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.

Compensation and Benefits Committee

Jean L. Wojtowicz, *Chair*,  
Anton H. George,  
Martin C. Jischke,  
Richard W. Shymanski, and  
Michael L. Smith