

**VECTREN CORPORATION**  
**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 five 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.

**Scope of Responsibilities**

The Governance committee has a number of significant responsibilities, including:

- Serving as a conduit for shareholders 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;
- Monitoring other corporate governance matters, including periodically reviewing the Company’s Shareholder Rights Agreement, 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;
- 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.

**2008 Accomplishments**

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**”) and those regulatory changes affecting listed companies established by the New York Stock Exchange (“**NYSE**”). 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 three modifications were advisable. Those modifications are discussed later in this report. 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” at page 8 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.

Following a review of practices by the companies within the industry peer group used by the Company to measure its performance, the Governance committee determined to recommend to the full Board the modification of Section 1.D. of the Corporate Governance Guidelines dealing with the limitation on Board members’ service on other public company boards of directors. The recommendation provided for a general guideline of service on no more than three other public company boards. However, the recommendation also created an exception to the general guideline if following a careful assessment of all the relevant facts and circumstances the Governance committee concludes in a particular director’s case that service on more than three such boards would not impair the director’s ability to discharge their responsibilities as a member of the Board. The recommendation did place a limit of service on no more than six public company boards of directors, including the Board. The recommendation also addressed related changes to the Company’s Code of By-Laws in Sections 3.6(b)9 and 4.15(ii) dealing with qualification criteria for proposed candidates/nominees to the Board and retention criteria applicable to the nomination of existing Board members for an additional term

of service. The full Board accepted the Governance committee's recommendations on this subject and the Corporate Governance Guidelines, as revised, are posted on the Company's website at [www.vectren.com](http://www.vectren.com). Relevant sections of the Code of By-Laws, as revised, are attached as *Appendices A and B*. Applying these revised provisions, the Governance committee has evaluated the circumstances relating to Michael L. Smith's service on four other public company boards of directors and concluded that such service would not impair his ability to discharge his responsibilities as a member of the Board. Mr. Smith is retired and formerly served as the chief financial officer for WellPoint, Inc. No other member of the Board serves on the boards of directors of more than two other public companies.

During 2008 the Governance committee also considered a revision to Section 1.H of the Corporate Governance Guidelines, which contained the Board retirement rule requiring a director to retire at the end of the month during which they turn age seventy two (72). Following a review of the practices by the companies within the industry peer group used by the company to measure its performance, the Governance committee decided to recommend the amendment of the rule to provide that retirement will occur at the end of a director's term rather than the month during which they turn age seventy two (72). Since directors are now elected annually, the effect of this change would be to nominally extend terms of office. Moreover, a majority of the companies within the Company's peer group provide that directors' terms extend to the end of the elected term of office in the event of retirement. The committee's recommendation was thereafter adopted by the Board and Section 1.H was amended accordingly.

During the year, the Governance committee determined to revise Sections 10.B. and C. of the Corporate Governance Guidelines, as well as Section III. M. of the committee's charter, which relate to oversight of the succession planning and leadership development process. Those revisions confer on the committee responsibility for overseeing the succession planning and leadership development process for the Chief Executive Officer, the other senior management of the Company, and the principal executive for each of the Company's major subsidiaries and affiliates. As part of this process the committee provides periodic reports and related recommendations to the Board. The committee's recommended changes were thereafter adopted by the Board and the above mentioned provisions of the Guidelines and charter were amended accordingly.

During the year, the Governance committee, with assistance from management, prepared a master calendar that sets forth all recurring activities undertaken by the Board and each of its committees. The master calendar was discussed with each member of the Board to ensure that all directors have a thorough understanding of those activities.

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 Governance committee also recommended to the Board that the independence standards be modified to conform to two independence rule changes proposed by the New York Stock Exchange and approved by the Securities and Exchange Commission relating to a slightly increased dollar threshold for related party transactions, and the effect of having an immediate family member who is an employee of the company's independent accounting firm. Thereafter, the Board approved that recommendation and those standards were modified accordingly. The independence standards are set forth and discussed at pages 16-17 of this proxy statement. Based on these standards, the Board has determined that with the exception of Mr. Ellerbrook, who is Chair and Chief Executive Officer of the Company, and nominee Mr. Carl L. Chapman, who is President and Chief Operating 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 joint ventures. 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. During the past year, directors' stock ownership was monitored and, as discussed at page 25 of this proxy statement, as of February 10, 2009 each director, with the exception of Dr. Jischke, who was elected to the Board effective February 1, 2007, was in compliance with those guidelines. There is a five year transition period for compliance by new directors.

During the past year the Governance committee continued with the administration of the succession planning process for the Chief Executive Officer position. The purpose of this process is twofold. First, the Governance committee believes that it is prudent to have in place a short-term contingency plan in the unlikely event that an unforeseen emergency required that a replacement Chief

Executive Officer be named. Second, 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 at its meetings. 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 this process, in the fourth quarter of 2007 Mr. Chapman was recommended by the committee to the full Board for election to the office of President and Chief Operating Officer. Thereafter, the full Board adopted that recommendation and Mr. Chapman was elected to that office effective November 1, 2007. As a continuation of this process, the Governance committee has recommended to the Board and the Board has recommended to the shareholders that Mr. Chapman be elected to the Board at the 2009 annual meeting of shareholders.

Under the oversight of the Governance committee, formal Board development activities were undertaken during the past year. The Board conducted a 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 2007 the Governance committee had such an analysis prepared by an independent compensation consultant and determined, based upon the results, that the existing level of director compensation was no longer 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 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 below both the average and the median for the company's peer group, and the cash compensation was particularly below those benchmarks. As a result of these findings, and based upon the recommendation of the independent consultant, the committee decided to recommend to the full Board that the annual retainer be increased to \$30,000, that the meeting attendance fees be increased to \$1,250, that the committee meeting attendance fees be increased to \$1,250, that the committee chair retainer for the Audit and Risk Management committee be increased to \$7,500, and that the committee chair retainer for all other committees chaired by outside directors be increased to \$5,000. Finally, the committee recommended to the full Board that the annual equity grant be increased to \$40,000. As part of this action, the recommendation provided that all cash payments should be changed effective January 1, 2008, and the equity grant change should be effective at the time of the next grant which, as discussed below, was made in May of 2008. Thereafter, each of the committee's recommendations was approved by the full Board. In 2009, the Governance committee would anticipate again reviewing the market competitiveness of compensation for non-employee members of the Board.

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 made annual awards of restricted stock for directors effective as of May 14, 2008. The role of equity compensation as part of the total compensation provided to non-employee directors is more fully discussed at pages 9-12 of this proxy statement.

During the year, the Governance committee developed a formal policy providing for professional education opportunities for non-employee directors. Based upon a review of the practices employed by the peer group used by the company to measure its performance, the Governance committee recommended a policy which provides for an annual allowance of up to \$7,500 per director to be used for continuing education programs to assist the director with the discharge of their duties to the company. Thereafter, the Board adopted the Governance committee's recommendation and the director education policy is in effect.

During the year, the Governance committee also reviewed and recommended a director matching policy that annually provides up to \$5,000 in charitable contributions by non-employee directors will be matched by the Company, provided that not more than \$2,500 will be matched for a college or university and not more than \$2,500 will be matched for an environmental charity. As discussed in the Report of the Corporate Affairs committee, which begins at page 17 of this Proxy Statement, this policy was developed by that committee and then forwarded to the Governance committee for review, and, if appropriate, recommendation to the Board for approval. The director matching policy was thereafter approved by the Board and is in effect.

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, the Chief Executive Officer developed an action plan that will be executed over the course of 2009.

Early in 2009, the chair of the Governance committee received affirmations from the chairs of all other committees certifying that their respective charters were adhered to in 2008, and specifying whether any changes to those charters were determined to be necessary and advisable. Moreover, no committee chair recommended changes to their committee's charter.

In connection with the 2009 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. Richard W. Shymanski, who is retiring at the end of his current term of office, all of the existing directors should be reelected. As discussed earlier, the Governance committee also has recommended to the Board that Mr. Chapman should be recommended to the shareholders for election to the Board.

### **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 no modifications were necessary or advisable at this time. 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, 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.

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<sup>1</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.

## **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 conducting this evaluation, the Governance committee considers the candidate's professional background, skills and such other factors as it deems appropriate given the current needs of the Board and the Company. 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 are in furtherance of the interests of the Company's stakeholders. The Governance committee anticipates meeting throughout the year to continue to enhance the Company's Corporate Governance Guidelines, which are expected to evolve coincident with the ongoing changes being implemented by the SEC under Sarbanes-Oxley and the Corporate Governance Listing Standards of the NYSE as part of its oversight of listed companies.

Nominating and Corporate Governance Committee

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