

EEI ESG/Sustainability Template – Version 1.0 – Qualitative Report



August 2018



VECTREN
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EEI ESG/Sustainability Template – INTRODUCTION



Vectren Corporation is an energy holding company headquartered in Evansville, Ind. Our energy delivery subsidiaries provide gas and/or electricity to more than one million customers in adjoining service territories that cover nearly two-thirds of Indiana and about 20 percent of Ohio, primarily in the west-central area. Our nonutility subsidiaries and affiliates currently offer energy-related products and services to customers throughout the U.S. These include infrastructure services and energy services.

Vectren is among Edison Electric Institute (EEI) member companies disclosing voluntary Environmental, Social, and Governance (ESG) metrics utilizing the EEI ESG/Sustainability Template Version 1. This portion of the

template reflects qualitative information which is also contained within Vectren's 2017 Corporate Sustainability Report and can be found at vectren.com/sustainability.

Vectren is pleased to provide the following in response to the expressed interest of investors and other stakeholders for ESG/Sustainability information that is consistent across the electric sector in terms of accessibility, content, timing, and presentation. As a fully regulated combined electric and natural gas utility, Vectren looks forward to supporting this disclosure effort as it expands beyond the electric industry. Some of the information included in the qualitative section is relevant to both the electric and natural gas segments of our business.



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ESG/SUSTAINABILITY GOVERNANCE

Board Committees & Risk Management

The Board is ultimately responsible for risk oversight across the organization. That responsibility is shared by five standing committees comprised solely of non-employee directors which oversee financial, compensation, compliance, reputational and governance risks with specific responsibility for reviewing management's risk oversight function delegated to the Board's Audit and Risk Management Committees.

- **Nominating and Corporate Governance.** This committee is primarily responsible for corporate governance matters affecting the Company and its subsidiaries. Responsibilities include overseeing the succession planning process for the Board, chief executive officer, senior management and the leadership of Company's subsidiaries.
- **Audit and Risk Management.** This committee oversees the Company's financial reporting process. Responsibilities include overseeing the integrity of the Company's financial statements, the Company's internal audit function, Company's system of internal controls and disclosures, and Company's practices and processes relating to strategic risk assessment and risk management.
- **Compensation and Benefits Committee.** This committee is responsible for establishing compensation for the Company's executive officers and administering the Company's management compensation plans.
- **Finance Committee.** This committee provides oversight relating to the financing activities of the Company's utility and nonutility businesses.
- **Corporate Responsibility and Sustainability.** This committee is primarily responsible for both ensuring the discharge of the Board's duties relating to oversight of the Company's sustainability initiatives, as well as monitoring the Company's policies, practices and procedures designed to ensure compliance with governmental regulations.

Enterprise Risk Management

The Company has an enterprise Risk Management Committee composed of senior level management whose purpose is to ensure an enterprise-wide approach to managing risk and compliance. The primary responsibility of the Committee is to anticipate, identify, prioritize and proactively manage the Company's material risks and report the results of the Committee's activities to the Audit and Risk Management Committee of the Board. Under this enterprise risk management approach, the Committee oversees and approves a comprehensive company-wide risk assessment every two years, including an assessment of which risks are significant and provides assistance to business unit managers with risk monitoring and the implementation of strategies to mitigate risk in their areas. **The Committee periodically reviews and reports the following to the Audit and Risk Management Committee of the Board, as well as the full Board:**

1. All material business risks;
2. The processes, procedures & controls in place to manage material risks; and
3. The overall effectiveness of the enterprise risk management process.

Corporate Code of Conduct

The Audit and Risk Management Committee is responsible for reviewing and updating the Corporate Code of Conduct, as well as ensuring that management enforces and monitors compliance with the Code and that the Code complies with all applicable rules and regulations.

Sustainability Governance

Environmental, social and governance initiatives are integrated into the policies and principles that govern our company and reflect our commitment to sustainable growth. The Company initiated its corporate sustainability program in 2011 with the publication of its initial corporate sustainability report. Since that time the Company continues to develop strategies that focus on those environmental, social and governance factors that contribute to the long-term growth of the Company's sustainable business model. The Company's sustainability policies and procedures are designed to assure compliance with applicable laws and regulations, and are directly overseen by the Corporate Responsibility and Sustainability Committee. The Corporate Responsibility and Sustainability Committee meets at least three times a year.

The Committee charter requires that the Vice President of Environmental Affairs and Corporate Sustainability provide a report as to the Company's environmental compliance and sustainability strategies at each of the three regular Committee meetings, and the Vice President of Environmental Affairs and Corporate Sustainability meets with the full Board on an as-needed basis to discuss sustainability strategies, sustainability reporting and any issues that may arise throughout the year. In 2017 the Company established a Corporate Sustainability Disclosure Committee composed of management employees and overseen by the Company's Chief Financial Officer whose purpose is to ensure accuracy and consistency of the Company's sustainability disclosures across all of the Company's sustainability reporting platforms.

In 2015 the Corporate Responsibility and Sustainability Committee was renamed (formerly the Corporate Affairs Committee), and the Committee charter modified to emphasize the Committee's sustainability responsibilities.

The Committee shall oversee the Company's policies, practices and procedures relating to sustainability, including monitoring of current and emerging political and social action, and public policy and environmental issues that may affect the business operations, material financial performance or public image of the company. Such oversight shall also consider policies for sustainability consistent with long-term preservation and enhancement of the Company's financial, environmental and social capital.

Company's 2017 sustainability disclosure data meets the G4 Core option established by the Global Reporting Initiative's (GRI).
Company's GRI data, as updated annually, can be found at vectren.com/sustainability.
Company's 2018 Proxy and Form 10-K can be found online at investors.vectren.com.
Company's 2018 CDP Climate Questionnaire Response can be found at vectren.com/sustainability.

VECTREN'S NEW ENERGY PORTFOLIO

- Lower Emitting Fleet
- Zero Emission Renewables
- Energy Efficiency Programs

Projected 2024 Emission Reductions:



*Assumptions based on Vectren's preferred Integrated Resource Plan portfolio with reductions from a 2005 emissions baseline.

Vectren's New Energy Portfolio

Today Vectren owns and operates approximately 1,000 megawatts of coal-fired generation, 245 megawatts of natural gas-fired peaking units and a 3-megawatt landfill gas-to-electricity facility. The Company also has 80 megawatts of wind power through two long-term purchase agreements and 32 megawatts of coal generation through its ownership in the Ohio Valley Electric Corporation. This portfolio, dependent largely on coal, is about to change dramatically. On February 20, 2018, Vectren filed a request with the Indiana Utility Regulatory Commission seeking authority to implement changes to its generation portfolio. These proposed changes would transition our electric generation portfolio from nearly total reliance on baseload coal to a fully diversified and balanced portfolio of fuels, including coal, natural gas and renewables.

If authorized by the Indiana Utility Regulatory Commission, Vectren plans to construct a 800-900 megawatt natural gas combined cycle plant to replace the coal-fired generation which the Company has slated for retirement.

Vectren will also be upgrading the wastewater treatment equipment at its coal-fired unit at the F.B. Culley 3 plant and commencing closure of the Culley West ash pond. Vectren will commence closure of its two remaining ash ponds in 2024 upon the retirement of the A.B. Brown coal-fired units and completion of the planned upgrades to F.B. Culley's wastewater discharge equipment; however, the Company is currently exploring potential recycling opportunities that could result in commencement of preliminary pond closure activities as early as 2019.

These steps, combined with our continuing efforts to modernize the critical infrastructure required to provide electric service to our customers and provide customers with the tools to manage their energy usage, will ensure that Vectren continues its steady progress toward its goal of becoming a next generation energy company, offering a safe, reliable and lower carbon electric service that our customers demand over the long term. Since 2011, Vectren has kept its promise to hold electric rates flat, and as it transforms its generation portfolio, the Company will continue its efforts to mitigate impacts to customer bills.



SUSTAINABLE GENERATION TRANSITION PLAN

Smart Energy Future

A Decade of Electric Generation Transition will Include:



Vectren's Solar Projects

Not only is Vectren upgrading its electric system, but we are also continuing our path toward a balanced energy mix with universal solar projects. Vectren will partner with First Solar, Inc. to build a 50-megawatts (MW) solar array that will be situated on approximately 300 acres and will consist of about 150,000 solar panels. The array will be mounted on a single-axis tracking system, which enables the panels to automatically pivot to enhance energy generation as the sun's rays move across the surface of the Earth. The facility, which should be operational in the fall of 2020, is expected to generate enough power to meet the needs of more than 11,000 households per year. The project will provide up to 250 jobs at its peak, many of which will be union labor. Construction will begin after the Indiana Utility Regulatory Commission authorizes the project; a decision is expected in the first half of 2019. "This significant renewable resource will be connected to our system to serve our local customers, which will bring one of the largest single-sited solar farms in the Midwest to southern Indiana," said Chapman.

Vectren Planned Solar Projects:

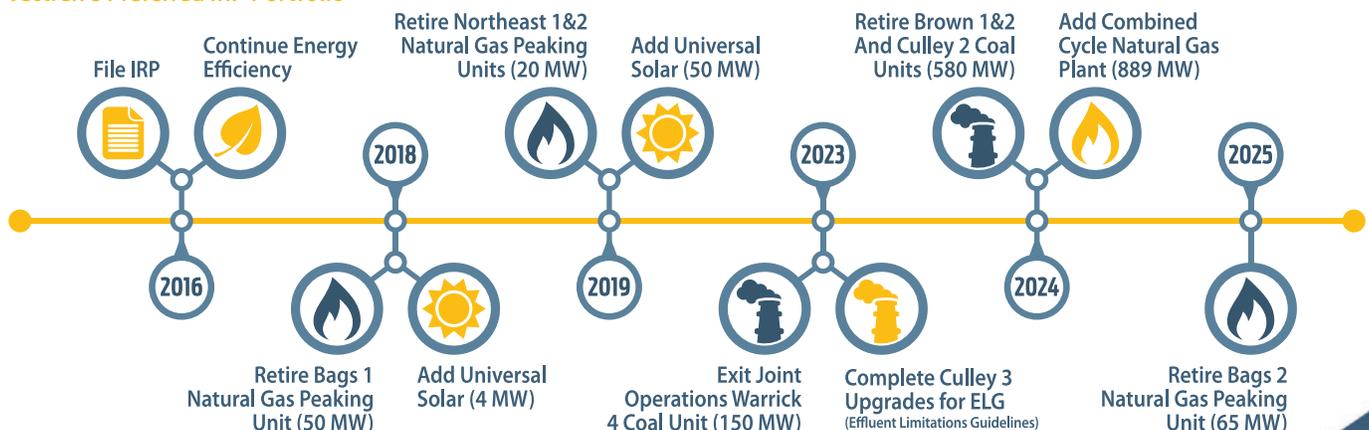
- **50MW** Utility-Scale Solar Array Built in Spencer County, Indiana
- **(2) 2MW Projects** that will be built in 2018, one near Highway 41 in Evansville, Indiana and the second near Oakhill Cemetery in Evansville, Indiana. These two combined will supply enough renewable energy to power 600 homes each year.

Vectren's Planning Process

In 2016, Vectren completed an extensive year-long integrated resource planning process, which considered a broad range of potential resources and variables to ensure the plan offered a long-term reliable and reasonably priced generation portfolio as well as a balanced energy mix. In arriving at a preferred generation portfolio we considered the costs to continue operating our existing coal-fired generation units in a manner that complies with current and anticipated future environmental requirements, as well as various resource alternatives, such as the use

of energy efficiency programs and renewable resources as part of the overall generation portfolio. The Company received robust stakeholder participation and feedback, holding three public stakeholder meetings. Vectren's generation transition plan was presented to the public in November 2016 and includes the retirement of A.B. Brown Units 1 & 2, F.B. Culley Unit 2 and exiting joint operations of Warrick Unit 4 with Alcoa, the construction of a new natural gas-fired combined cycle unit and the addition of 54 megawatts of solar by 2025.

Vectren's Preferred IRP Portfolio





SUSTAINABLE GENERATION TRANSITION PLAN

Carbon strategy is a cornerstone in Vectren's corporate planning process. Vectren regularly assesses the risks and opportunities associated with carbon as part of our overall strategic business planning and enterprise risk management processes. **Under Vectren's smart energy future transition plan the Company has identified three critical components of a sustainable carbon strategy:**

- 1. Reducing our own emissions and compliance with environmental standards.**
- 2. Ensuring our infrastructure is resilient to changing climate. See page 5 in our report for more information on steps the Company is taking to modernize its grid.**
- 3. Helping our customers reduce their emissions. See page 6 in our report for more information on steps the Company is taking to help customers meet their own carbon reduction goals.**

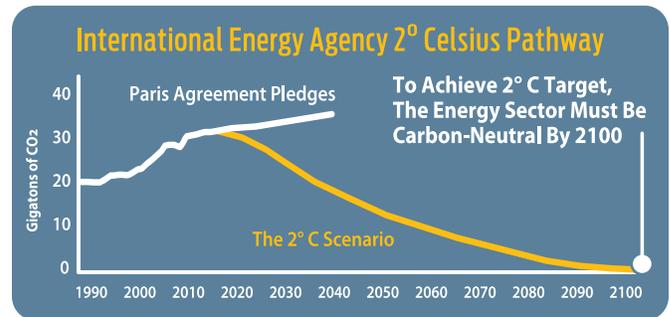
Reducing Our Own Emissions

Vectren has a long-standing commitment to environmental performance. Since the 1990's, Vectren's coal-fired generation fleet has shown a steady reduction of sulfur dioxide, nitrogen oxide, mercury and particulate emissions through its investments in scrubbers, selective catalytic reduction technology and fabric filters. In addition to reductions of these traditional pollutants, the Company has reduced its emissions of carbon by 35% below 2005 levels (on a tonnage basis) through the retirement of F.B. Culley 1, expiration of municipal contracts, successful execution of electric conservation programs, the addition of renewable generation and the installation of more efficient dense pack turbine technology.

But our commitment to carbon emission reductions does not stop there. Once approved and with the successful execution of Vectren's electric generation transition plan, Vectren will achieve its goal of 60% reduction of carbon emissions below 2005 levels by 2024. Moreover, the carbon intensity of Vectren's generation fleet will drop from 1,950 lbs CO₂/MMBtu to 980 lbs CO₂/MMBtu, well below the intensity targets set in EPA's Clean Power Plan. While it is still unclear as to the short-term future of any carbon regulation, Vectren's smart energy future transition plan will position the Company to successfully comply long-term with carbon reduction requirements.

Science-Based Goal

With its smart energy future transition plan, Vectren is taking action to reduce its own carbon emissions consistent with the international community's goal of preventing global temperatures from rising more than two degrees Celsius by the year 2100. Using guidance from the Intergovernmental Panel on Climate Change (IPCC) and the International Energy Agency's 450 parts per million (ppm) scenario, the Company assumes a 50% carbon emission reduction from 2005 levels by 2050 would be required to align with the IPCC goal. Vectren's actions being taken today as part of our electric generation transition plan will exceed the IPCC emission reduction targets meant to limit global temperature increases to two degrees Celsius by 2100 as depicted in the chart below.



EPA Natural Gas STAR Methane Challenge Program

Vectren is a founding member of the U.S. Environmental Protection Agency's Natural Gas STAR Methane Challenge Program, whereby natural gas utilities are working on an effort to reduce carbon emissions through voluntary commitments to reduce methane emissions. The natural gas companies participating in the program represent 66% of the natural gas customers served in the United States.

Vectren has committed to replacing unprotected steel and cast iron mains and services at a rate of at least five percent annually through 2021.

Further, Vectren expects to have eliminated all such piping on its system by 2023. Moreover, Vectren Infrastructure Services Company assists other natural gas utilities to do the same.



VECTREN'S CARBON REDUCTION GOAL: 60% REDUCTION OF CO₂ EMISSIONS FROM 2005 LEVELS BY 2024

Modernizing Electric & Natural Gas Infrastructure for a Smart Energy Future

As electric assets continue to age and new, more reliable and efficient technologies emerge, we must continue making essential investments in our system. Continued electric system reliability and safety, shorter electric power outages, faster electric outage identification, fewer estimated customer bills, quicker service and more information to improve customer control over energy use are all pieces of Vectren's plan to continue delivering reliable electric service to our 145,000 customers as part of our Smart Energy Future.

In 2017, Vectren sought and received approval to begin enhancing our electric system by investing approximately \$450 million in new infrastructure. Encompassing more than 800 projects over the next seven years, Vectren's energy grid modernization plan is an integral part in the company's strategy to become a next generation energy company. This robust electric infrastructure improvement strategy will enhance reliability and modernize the electric grid that delivers power to Southwestern Indiana. These electric system improvements include upgrades to portions of Vectren's substations as well as the transmission and distribution networks. This work will also prepare the grid to accept advanced technology, improving service to customers and providing them with access to better information about their energy use.

According to a study conducted by Indiana University, this grid modernization plan will provide significant benefits for the economy, including a positive economic impact of nearly

\$650 million over the investment period. Studies show this plan will generate around \$20 million in state and local government tax revenue effects through 2023, and at its peak it will support approximately 1,000 jobs.

Enhancements will also be done at the meter level. In December 2017, Vectren began a year-long program to install smart meter technology to all electric customers. Smart meters will not only provide and improve system reliability and resiliency, they also enhance the customer experience by virtually eliminating estimated bills, enabling quicker service, faster electric outage identification and more tools to manage energy use. Full deployment is expected by December 2018.

While Vectren recently received approval for its grid modernization program, work continues on its existing gas infrastructure plan. Vectren gas programs include the replacement of bare steel and cast iron distribution pipelines, as well as improvements to transmission and other distribution gas system assets. Since 2008, Vectren has invested approximately \$581 million in the replacement of aged bare steel and cast iron gas distribution pipeline infrastructure in Indiana and Ohio. Vectren has also invested approximately \$233 million on improvements to its gas transmission pipeline infrastructure since 2012, and \$78 million on improvements to its gas distribution system infrastructure since 2013. Vectren's total investment in gas infrastructure modernization programs in Indiana and Ohio is approximately \$892 million.

Changes in weather patterns resulting in more frequent and severe weather increase the risk of interruptions to service for Vectren customers. Modernizing and strengthening of the Vectren system infrastructure builds resilient service for our customers.



CUSTOMER PROGRAMS / SMART METERING / ENERGY EFFICIENCY

Transforming Our Customers' Experience

Vectren is executing an integrated, multi-year business transformation initiative focused on the technologies, which allow us to provide excellent customer experience as well as improved strategic operations. Program ExCEL (Excellent Customer Experience Lifecycle) includes enhancements to technology systems and processes associated with electric and natural gas metering as well as customer care and billing systems.

In order to support the energy grid infrastructure improvements, the strategic operations enhancements include technology added to the electric distribution system to help manage electric outage information and customer data. When fully deployed, these systems will help pinpoint causes and locations of system interference, allowing field crews to respond faster and provide better restoration times to those impacted customers.

Program ExCEL launched in 2017 with a multi-year phased approach. Systems will begin to come online in 2018 with new enhancements and offerings coming online in subsequent years.

Benefits for Customers

- Access to detailed energy usage information
- Accurate billing data due to virtual elimination of estimated meter reads
- Power outage alerts
- More precise outage restoration information

Warehouse Upgrades Lead to Increased Energy Efficiency

In 2017, Park Creek J.V. LLC made the decision to improve their heating system in their 150,000 sq. ft., Plainfield, Ind., warehouse facility. After an energy assessment and rebate from Vectren, the company was able to install six rack unit heaters to replace their previous 27 inefficient unit heaters. This replacement will allow Park Creek to use less energy and better manage their energy costs. Vectren rebates were able to offset the total project cost by more than 30 percent.

"Finding ways for businesses to manage energy costs makes a positive impact on not only their overall financial state, but also the environment as a whole since they are burning less natural gas," said Rina Harris, Vectren director of energy efficiency. "Vectren has been offering energy efficiency programs to customers for nearly a decade."

Customer Energy Efficiency

Since 2010, Vectren electric energy efficiency programs, have saved more than 1.3 million megawatt hours which equals enough energy to power

115,422
Homes for a Year

Since 2007, Vectren gas energy efficiency programs in Indiana have saved a total of more than 167 million therms which would heat

208,443
Homes for a Year

Since 2009, Vectren gas energy efficiency programs in Ohio have saved a total of more than 38 million CCFs which would heat

49,885
Homes for a Year

**All of These Programs Together
Equal a Carbon Savings of**

**1.2 Million Tons
of Carbon Dioxide**