



## 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 2011. 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 Compensation Committee members are also required to meet other independence requirements imposed by federal laws and regulations. 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). At each meeting, the Compensation Committee conducts an executive session without management present.

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 President 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 President and Chief Executive Officer; and perform other functions or duties that are deemed appropriate by the full Board.

Compensation decisions for the five named executive officers, which include the President 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 of the Company and the principal officers of the Company’s primary subsidiaries are made by the Company’s President and Chief Executive Officer and are reviewed and evaluated by the Compensation Committee. The Compensation Committee has engaged Hay Group, Inc. (“**Hay Group**”), an independent outside global human resources consulting firm, to conduct an annual review of the Company’s total compensation program (base salary, annual incentives and long-term incentives) for the named executive officers. At the Compensation Committee’s direction, Hay Group also provides advice with respect to the total compensation for the Company’s other officers, as well as the principal officers of the Company’s primary subsidiaries.

The agendas for meetings of the Compensation Committee are established by its Chair with assistance from the other members of the Compensation Committee, the Compensation Committee’s independent compensation consultant, and the Company’s President and Chief Executive Officer, Chief Financial Officer, and Chief Legal and External Affairs Officer and Secretary. Compensation Committee meetings are regularly attended by the President and Chief Executive Officer, Chief Financial Officer, Chief Legal and External Affairs Officer and Secretary, and the Vice President of Human Resources. The Compensation Committee’s Chair reports the Compensation Committee’s recommendations on executive compensation to the Board. Independent advisors, as directed by the Compensation Committee, support the Compensation Committee in its duties. In addition, one or more of the Company’s officers, as well as the Company’s Human Resources department, may be delegated authority to fulfill certain administrative duties regarding the compensation programs. The Company’s Human Resources department is charged by the Compensation Committee with the task of executing the compensation plans and programs adopted by the Compensation Committee, as well as implementing changes in compensation levels as directed by the Compensation 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 Board Chair, President and Chief Executive Officer in the Compensation Process**

Compensation determinations for our five named executive officers, including the President and Chief Executive Officer, are made by the Compensation Committee. The Compensation Committee delegates certain administrative duties to, and solicits recommendations from, Mr. Chapman, the Chair of the Board, President and Chief Executive Officer. He provides recommendations to the Compensation Committee regarding the base salary, annual incentive and stock-based compensation opportunities for the other executive officers. He receives and reviews market data from the Compensation Committee's independent compensation consultant. Mr. Chapman considers 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, any change in the officer's functional responsibility, and internal pay equity in making his recommendations. Mr. Chapman's recommendations are reviewed by the Compensation Committee with assistance from its independent compensation consultant, and the Compensation Committee can accept or make upward or downward adjustments to the recommended amounts. Determinations regarding short-term and long-term incentive opportunities under At Risk Compensation Plan ("**At Risk Plan**") for officers are made by the Compensation Committee. The Chair of the Board, President and Chief Executive Officer provides recommendations with respect to those opportunities to the Compensation Committee for the Company's officers and the principal officers of the Company's primary subsidiaries.

The Chairman, President and Chief Executive Officer regularly attends Compensation Committee meetings to provide input as a representative of management. At each meeting the Compensation Committee goes into an executive session and excuses Mr. Chapman and any other members of management who may be present.

### **Share Ownership Policy**

Our Company's share ownership policy requires officers and non-employee directors to meet share ownership targets. The Compensation Committee adopted that policy in 2000 and it provides a five-year transition period for officers to comply with their applicable share ownership targets. 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, which is two times base salary for Mr. Bohls, three times base salary for Messrs. Benkert, Christian, and Doty, and five times base salary for Mr. Chapman. As of January 24, 2012, all of the five named executive officers listed in the Summary Compensation Table exceeded the established ownership requirements. The Compensation Committee reviews executive officers' stock ownership on an annual basis. As of January 24, 2012, all of the Company's current officers who are subject to the share ownership policy either held the required level of shares or they were still in their five year compliance transition period. Moreover, based upon research conducted at the Compensation Committee's direction, the Compensation Committee determined in early 2012 that the existing share ownership targets are in line with the market for such matters.
- A participant may count toward his or her target the value of owned shares, phantom 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.

### **Compensation Consultant**

The Compensation Committee has the authority under its charter to retain outside consultants. In accordance with this authority, the Compensation Committee engaged Hay Group as its independent compensation consultant for 2011. The Compensation Committee began its relationship with Hay Group in 2005. The representatives of Hay Group report directly to the Compensation Committee and in performing their engagements work under the direction and supervision of the Chair of the Compensation Committee. Once that work is completed, it is then

reported to the entire Compensation Committee for review, discussion and, if appropriate, action by the Compensation Committee. As discussed at page 37 of this proxy statement, Hay Group is also engaged from time to time by the Nominating and Corporate Governance Committee to assist with the review and establishment of appropriate, market based compensation for the non-employee members of the Board. Under the direction and supervision of the Chair of the Compensation Committee, Hay Group provides market data concerning compensation of executives at comparable companies in order to assist the Compensation Committee in determining whether the compensation system is a reasonable and appropriate means to achieve the Company's business objectives. From time to time, Hay Group is also engaged by the Compensation Committee to provide advice with respect to other elements of executive compensation, including providing regulatory updates and advice on the positions on compensation matters taken by corporate governance firms, as well as advice with respect to employment, change in control, severance and retention agreements, perquisites, and other arrangements and practices affecting executives. The Compensation Committee has reengaged Hay Group as its independent compensation consultant for 2012.

Early in 2011 the Compensation Committee codified its long-standing practice of providing that its compensation consultant must be independent. To ensure that occurs, the consultant can only perform work for the Company pursuant to an engagement of the Compensation Committee which provides that the work is performed under the direction and supervision of the Compensation Committee Chair, and work for the Nominating and Corporate Governance Committee with respect to the compensation for non-employee members of the Board. The policy, which is titled the Vectren Corporation Compensation Consultant Engagement Policy, is available on the Company's website at [www.vectren.com](http://www.vectren.com). This policy is also intended to ensure that the Compensation Committee remains in compliance with the independence requirements imposed by the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"). The Compensation Committee has developed internal controls to ensure compliance with this policy and as part of those controls at each meeting there is a detailed review of the work that has been performed by Hay Group since the prior meeting and confirmation that the work is in conformity with the engagements between the Compensation Committee and Hay Group. Recognizing the absence of guidance under the Dodd-Frank Act, the Compensation Committee believes that it is in compliance with the independence requirements discussed above.

### **Recoupment or Clawback Policy**

Early in 2011, the Compensation Committee adopted a recommended pay recoupment or clawback policy which provides, under certain conditions, for the return of certain annual incentive compensation received by officers of the Company and its subsidiaries for a period of up to three years. Generally stated, those conditions are a material restatement of the Company's consolidated financial statements for a prior period, which, if such restated financial statements had been in effect at the time that incentive compensation was paid would have resulted in a lesser payment. The policy is intended to position the Company to comply with the requirements of the Dodd-Frank Act in this area, recognizing that neither the SEC nor the NYSE have adopted rules implementing this part of the law. The policy explicitly acknowledges that upon the adoption of further guidance from these authorities, the policy will need to be revised. Given the pending uncertainty in this area due to the lack of definitive guidance from the SEC and the NYSE, the Compensation Committee reserved the right in the grant agreements for 2011 and 2012 awards of long-term incentive compensation issued under the At Risk Plan to subject those grants to any successor policy adopted by the Compensation Committee during the pendency of those grants. The Compensation Committee's recommended pay recoupment or clawback policy has been approved by the Board and is available on the Company's website at [www.vectren.com](http://www.vectren.com).

### **Oversight of Company Benefits Plans**

In addition to the responsibilities with respect to executive compensation, which are fully discussed in the Compensation Discussion and Analysis beginning on page 32 of this proxy statement, pursuant to its charter the Compensation Committee also has general oversight authority of benefit plans applicable to all employees and retirees. In furtherance of that charge, during 2011 the Compensation Committee received reports from management regarding retirement and welfare plans. The Compensation Committee anticipates continuing to receive such informational reports during 2012.

The Compensation Committee also received reports from management regarding ongoing efforts by the Company to continuously improve the design of its incentive plans applicable to the majority of employees. While the Compensation Committee does not directly administer those plans, it provides counsel to management with respect to plan design issues. The Compensation Committee anticipates continuing to perform such a role in 2012.

### **Employment Agreements**

Over the course of 2011, the Compensation Committee, with assistance from Hay Group, reviewed the existing employment agreements between the Company and its officers, as well as the officers of certain of its primary subsidiaries. Based upon that effort the Compensation Committee concluded that certain provisions within those agreements were no longer consistent with the market and best practices for such arrangements. Those provisions included a mechanism that grossed up payments to officers following a change in control relating to excise taxes payable under Section 280G of the Internal Revenue Code and a mechanism which provided for a payment of benefits following a change in control under what is called a “single trigger” event, which allowed the executive to resign during a window period for any reason and receive severance. As a result of this effort, in December all of the existing employment agreements with the named executive officers and other officers of the Company and certain of its primary subsidiaries were terminated and replaced with participation by those officers in a corporate severance plan and the establishment of change in control agreements. Based upon advice from Hay Group, the Compensation Committee concluded that the plan and those agreements are in alignment with the market and best practices for such arrangements. Among the changes provided by those arrangements are the elimination of the gross up of the payout associated with the excise taxes mentioned above, and the change from a “single trigger” mentioned above to a “double trigger”. The “double trigger” requires both a change in control and subsequent termination by the Company or affiliate without cause or resignation for good reason to receive severance. The net effect of the adoption of the corporate severance plan and the change in control agreements was a significant reduction in benefits relative to what had been provided to executives under the employment agreements. This subject is more fully discussed on pages 50-51 of this proxy statement.

### **Perquisites**

Since the Company’s commencement of operations in 2000, the named executive officers and certain other officers were provided with nominal perquisites, with the maximum annual payout ranging from \$3,000 to \$5,000. During the past year, the Compensation Committee, with assistance from Hay Group, evaluated whether and to what extent this form of benefit should be continued. Even though Hay Group advised that the provided benefit was well below what is called for by the market and best practices with respect to perquisites, in December, the Compensation Committee determined that the benefit should be discontinued in its entirety and, as a result, provided participants in this program with a one-time adjustment in their base pay of between \$3,000 and \$5,000, with the exact amount determined by the level of perquisites they had been eligible to receive. This subject is more fully discussed on page 50 of this proxy statement.

### **Company’s Human Resources Advisory Committee**

The Company has a Human Resources Advisory Committee (HRAC) that is composed solely of management and is focused upon establishing policy with respect to human resource matters. Under its charter, the Compensation Committee is charged with appointing the membership of the HRAC. Each year the Compensation Committee reviews the membership of the HRAC, and, with input from the Chairman, President and Chief Executive Officer, selects members of management to serve on that committee.

### **Regulatory Updates and Governance Practices**

Throughout 2011 the Compensation Committee regularly received updates from Hay Group regarding regulatory developments in the area of executive compensation. Those updates also addressed executive pay and governance practices as established by corporate governance rating firms. In establishing the executive compensation program that is more fully described in the Compensation Discussion and Analysis beginning on page 32 of this proxy statement, the Compensation Committee is ever mindful of these regulatory developments and

executive pay and governance practices and endeavors to ensure that the Company's executive compensation program is in alignment with those developments and practices.

### **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 Chief Executive Officer and other three highest paid executives unless the compensation is "qualified performance-based compensation", which includes a requirement that it be payable solely on achievement of objective performance goals. The At Risk Plan, as re-approved by our shareholders in May 2011, has been structured to give the Compensation Committee the discretion to award compensation which satisfies the qualified performance-based compensation requirements of Section 162(m) of the Internal Revenue Code. Consequently, the Compensation Committee intends to the extent practical and consistent with the best interests of the Company and its 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 nonqualified deferred compensation plan. In the case of Mr. Chapman, the Chair of the Board, President and Chief Executive Officer, a portion of his 2011 compensation has been deferred pursuant to this provision.

### **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.

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

As required by the Compensation Committee's charter, late in 2011 the Compensation Committee reviewed the charter and determined that no modifications were necessary or advisable. Also, as required by the Compensation Committee's charter, the Compensation Committee has conducted an annual performance evaluation, the results of which have been discussed with the Compensation Committee.

The Compensation Committee expects to meet at least three times in 2012.

Compensation and Benefits Committee

Jean L. Wojtowicz, *Chair*,  
Anton H. George,  
Martin C. Jischke,  
R. Daniel Sadlier, and  
Michael L. Smith