VECTREN CORP
Form DEF 14A
March 14, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No. __)

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

VECTREN CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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VECTREN CORPORATION

One Vectren Square

211 N.W. Riverside Drive

Evansville, Indiana 47708-1251

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD APRIL 26, 2006

TO THE SHAREHOLDERS OF VECTREN CORPORATION:

The annual meeting of shareholders of Vectren Corporation (the Company) will be held at the corporate offices of Vectren Corporation, One Vectren Square, 211 N.W. Riverside Drive, Evansville, Indiana, on Wednesday, April 26, 2006, at 10:00 a.m. (Central Daylight Time), for the following purposes:

1. The reelection of four directors of the Company to serve for a term of three years or until their successors are duly qualified and elected;
2. The reapproval of the Vectren Corporation At Risk Compensation Plan, as amended and restated;
3. The ratification of the reappointment of Deloitte & Touche LLP as the independent registered public accounting firm for the Company and its subsidiaries for 2006; and
4. The transaction of such other business as may properly come before the meeting, or any adjournment of the meeting.

As allowed by the Company s Code of By-Laws, the board of directors has fixed the close of business on March 3, 2006, as the record date for determining the shareholders entitled to notice of and to vote at the meeting and at any adjournment of the meeting.

It is important that your stock be represented at this meeting to assure a quorum. Whether or not you now expect to be present at the meeting, please fill in, date and sign the enclosed proxy and return it promptly to the Company in the accompanying addressed envelope. No stamp is required if mailed in the United States. You may also authorize the individuals named on your proxy card to vote your shares by calling toll-free 1-888-693-8683 or using the Internet (www.cesvote.com). Please have your proxy card in hand when calling or accessing the website. Please note that if your shares are not registered in your own name, your bank, broker or other institution holding your shares may not offer telephone or Internet voting. You have the unconditional right to revoke your proxy at any time before the authority granted by it is exercised.

By order of the board of directors,

VECTREN CORPORATION
By RONALD E. CHRISTIAN

Executive Vice President, Chief Administrative Officer, General Counsel, and Corporate Secretary

Evansville, Indiana

March 15, 2006

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LOCATION OF APRIL 26, 2006

ANNUAL SHAREHOLDERS MEETING

Vectren Corporation

One Vectren Square

211 N.W. Riverside Drive

Evansville, IN 47708-1251

Parking for shareholders will be provided in the parking lot adjacent to Vectren Corporation at One Vectren Square, 211 N.W. Riverside Drive, Evansville, Indiana. Vectren Corporation is located between Vine and Court Streets off Riverside Drive in Evansville.

YOUR VOTE IS IMPORTANT

PLEASE READ THE PROXY STATEMENT AND SIGN, DATE AND MAIL THE PROXY IN THE PREPAID ENVELOPE WITHOUT DELAY, WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING. YOU MAY REVOKE YOUR PROXY PRIOR TO OR AT THE MEETING AND VOTE IN PERSON IF YOU WISH. IF YOUR SHARES ARE HELD BY A BROKER, BANK OR NOMINEE, IT IS IMPORTANT THAT THEY RECEIVE YOUR VOTING INSTRUCTIONS.

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COMMUNICATIONS TO NON-EMPLOYEE DIRECTORS

In February 2003, the Nominating and Corporate Governance committee (Governance committee) of the board of directors created a new position of Lead director, whose primary responsibilities, including serving as chair of executive sessions of the non-employee directors, are set forth in the Corporate Governance Guidelines attached as *Appendix A*. The guidelines are also posted on the Company s website at www.vectren.com. Those guidelines provide that the Chair of the Governance committee is to serve as the Lead director. In 2006, the Chair of the Governance committee is Robert L. Koch II. In February of 2003, Mr. Koch was elected Lead director by the full Board.

The Audit committee is responsible for, among other things, establishing, reviewing and updating a Code of Ethical Conduct and ensuring that management has established a system to enforce this code. That code is attached as *Appendix G*, and is also posted on the Company s website at www.vectren.com. The committee also ensures that the Company implements and follows necessary and appropriate financial reporting processes. In 2006, the Chair of the Audit committee is Richard W. Shymanski.

Shareholders and other parties interested in communicating directly with the Lead director, Chair of the Audit committee or with any of the non-employee directors as a group may do so by writing to:

Lead Director, Chair, Audit Committee, *or*
Non-Employee Directors

Vectren Corporation
P. O. Box 3144
Evansville, IN 47731-3144

ACCESS TO INFORMATION

The Company makes copies of its Corporate Code of Conduct (which is applicable to all of its employees, including the principal executive officer, the principal financial officer and the principal accounting officer, as well as the non-employee members of the board of directors), its Corporate Governance Guidelines and all committee charters, available free of charge through its website at www.vectren.com, or by request, directed to Investor Relations at the mailing address, phone number or email address that follow:

Mailing Address: P.O. Box 209 Evansville, Indiana 47702-0209	Phone Number: (812) 491-4000	Investor Relations Contact: Steven M. Schein Vice President, Investor Relations sschein@vectren.com

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VECTREN CORPORATION

One Vectren Square

211 N.W. Riverside Drive

Evansville, Indiana 47708-1251

(812) 491-4000

PROXY STATEMENT

The following information is furnished in connection with the solicitation of the enclosed proxy by and on behalf of the board of directors of the Company. The proxy will be used at the annual meeting of shareholders to be held at the corporate offices of Vectren Corporation, One Vectren Square, 211 N.W. Riverside Drive, Evansville, Indiana, on Wednesday, April 26, 2006, at 10:00 a.m. (Central Daylight Time), and at any adjournment of the meeting for the matters to be acted upon under its authority. The proxy and this proxy statement were first mailed to the shareholders on or about March 15, 2006.

SOLICITATIONS OF PROXIES

The management solicits your proxy for use at the annual meeting of the Company. Shares held in your name and represented by your proxy will be voted as you instruct if your proxy is duly executed and returned prior to the meeting. Shares represented by proxies that are returned signed but without instructions for voting will be voted as recommended by management. Shares represented by proxies that are returned unsigned or improperly marked will be treated as abstentions for voting purposes. You may revoke your proxy at any time before it is exercised by written notice to the Secretary of the Company received prior to the time of the meeting, or orally at the meeting.

If you are a participant in the Company s Automatic Dividend Reinvestment and Stock Purchase Plan, your proxy card will represent the number of shares registered in your name and the number of shares credited to your plan account. For those shares held in the plan, your proxy card will serve as direction to the Plan Administrator as to how your account is to be voted.

If your shares are held in a brokerage account, you will receive a Voting Instruction Form asking how you want your shares to be voted. If you give instructions on the form, your shares must be voted as you direct. If you do not give instructions, one of two things can happen depending on the type of proposal. For some proposals, such as the election of directors and the reappointment of independent registered public accounting firms, the broker may vote your shares at its discretion. But for other proposals, including the proposal to reapprove the Company s At Risk Compensation Plan, as amended and restated, the broker may not vote your shares at all. When that happens, it is called a broker non-vote.

PURPOSES OF MEETING

As of this date, the only known business to be presented at the 2006 annual meeting of shareholders is (1) the reelection of four directors of the Company to serve for a term of three years or until their successors are duly qualified and elected, (2) the reapproval of the Vectren Corporation At Risk Compensation Plan, as amended and restated, and (3) the ratification of the reappointment of Deloitte & Touche LLP as the independent registered public accounting firm for the Company and its subsidiaries for 2006. However, the enclosed proxy authorizes the proxy holders to vote on all other matters that may properly come before the meeting, and it is the intention of the proxy holders to take any such action utilizing their best judgment. Only shares held by those present at the meeting or for which proxies are returned will be considered to be represented at the meeting. For the purpose of determining a quorum, shares represented at the meeting are counted without regard to abstentions or broker non-votes as to any particular item.

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VOTING SECURITIES

As of March 3, 2006, the Company had one class of capital stock outstanding, consisting of 76,186,504 shares of common stock without par value. The holders of the outstanding shares of common stock are entitled to one vote for each share held of record on each matter presented to a vote of the shareholders at the meeting. However, unless the holder personally appears at the meeting, shares for which no proxy is returned (whether registered in the name of the actual holder thereof or in nominee or street name) will not be voted. Only shareholders of record at the close of business on March 3, 2006 will be entitled to vote at the meeting or at any adjournment of the meeting.

ITEM 1. ELECTION OF DIRECTORS

The Company s board of directors currently consists of twelve directors divided into three classes having staggered terms of three years each. The Class III directors, John M. Dunn, Niel C. Ellerbrook, Anton H. George, and Robert L. Koch II, are nominees for election with terms expiring in 2006. The Class I directors, John D. Engelbrecht, William G. Mays, J. Timothy McGinley, and Richard P. Rechter, have terms expiring in 2007. The Class II directors, R. Daniel Sadlier, Richard W. Shymanski, Michael L. Smith and Jean L. Wojtowicz, have terms expiring in 2008. Mr. Ellerbrook also serves as Chairman of the Board, President and Chief Executive Officer of Vectren Corporation. In addition, Mr. Ellerbrook serves as Chairman of the Board, Chief Executive Officer and director of Vectren Utility Holdings, Inc. (VUHI), a holding company for the Company s regulated gas and electric distribution company subsidiaries, Indiana Gas Company, Inc. (Indiana Gas), Southern Indiana Gas and Electric Company (SIGECO), and Vectren Energy Delivery of Ohio, Inc. Mr. Ellerbrook also serves as Chairman of the Board and director of Vectren Capital, Corp. (Vectren Capital), the Company s subsidiary that serves as the vehicle for financing non-regulated business activities, Vectren Enterprises, Inc. (Vectren Enterprises), the Company s subsidiary that serves as the corporate parent for non-regulated business activities, and Vectren Foundation, Inc. (Vectren Foundation), the entity that serves as the vehicle for fulfilling philanthropic objectives in the areas where the Company s subsidiaries provide service.

At each annual meeting of shareholders, directors are elected to succeed those whose terms then expire for a term of three years or until their successors are duly qualified and elected. Accordingly, four directors are to be elected by a plurality of votes cast at the annual meeting of shareholders to be held on April 26, 2006.

The board of directors intends that the enclosed proxy will be voted by the proxy holders in favor of the election of the nominees named below for the office of director of the Company to hold office for a term of three years or until their respective successors are duly qualified and elected. Each of such nominees is now serving as a director of the Company and has signified the willingness to serve if elected. Directors are elected by a plurality of the votes cast. Plurality means that the individuals who receive the largest number of votes cast are elected up to the maximum number of directors to be chosen at the meeting. Abstentions, broker non-votes, and instructions on the accompanying proxy card to withhold authority to vote for one or more of the nominees might result in some nominees receiving fewer votes. However, the number of votes otherwise received by the nominee will not be reduced by such action. If, however, any situation should arise under which any nominee should be unable to serve, the authority granted in the enclosed proxy may be exercised by the proxy holders for the purpose of voting for a substitute nominee.

Certain information concerning the nominees and the other directors of the Company is set forth below and under the caption Meetings and Committees of the Board of Directors. If not otherwise indicated, the principal occupation listed for any individual has been the same for at least five years.

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Class III Directors Term expiring 2006

John M. Dunn, age 68, has been a director of SIGCORP, Inc., a predecessor of the Company (SIGCORP), or the Company since 1996. Mr. Dunn is Chairman and Chief Executive Officer of Dunn Hospitality Group, Ltd. and Dunn Hospitality Group Manager, Inc., a hotel development and management company. He is also a director of Old National Bank of Evansville, Indiana.

Niel C. Ellerbrook, age 57, has been a director of Indiana Gas, Indiana Energy, SIGECO, VUHI or the Company since 1991. Mr. Ellerbrook is Chairman of the Board, President and Chief Executive Officer (CEO) of the Company. He has served as Chairman and CEO since March 2000, which was the point in time when SIGCORP and Indiana Energy, Inc. (Indiana Energy) merged to create the Company, and additionally, as President since May, 2003. Prior to that time and since June 1999, Mr. Ellerbrook served as President and Chief Executive Officer of Indiana Energy. Mr. Ellerbrook is the Chairman, Chief Executive Officer and a director of VUHI. Mr. Ellerbrook is also the Chair and a director of Vectren Capital and Vectren Enterprises and President, Chair and a director of Vectren Foundation. He is also a director of Old National Bancorp. He also serves on the Board of Trustees of the University of Evansville.

Anton H. George, age 46, has been a director of Indiana Energy or the Company since 1990. Mr. George is President and Chief Executive Officer of Indianapolis Motor Speedway Corporation, an auto racing company. Mr. George is also President and Chief Executive Officer of Hulman & Company, a manufacturer and distributor of baking powder and President of Terre Haute Realty Corporation, a real estate company. He is a director of First Financial Corporation.

Robert L. Koch II, age 67, has been a director of SIGECO, SIGCORP, or the Company since 1986. As Chair of the Nominating and Corporate Governance Committee of the Company s Board, Mr. Koch is also the Lead director among the non-employee Board members. Mr. Koch is President and Chief Executive Officer of Koch Enterprises, Inc., a holding company comprised of worldwide subsidiaries that produce aluminum die castings, industrial painting systems, structural adhesives, recycled non-ferrous metals, and distribute heating and air conditioning equipment and hydraulic and pneumatic equipment. Mr. Koch is also a director of Fifth Third Bancorp. He also serves on the Board of Trustees of the University of Evansville.

The board of directors recommends a vote FOR all nominees for Class III directors.

Class I Directors Term expiring 2007

John D. Engelbrecht, age 54, has been a director of SIGCORP or the Company since 1996. Mr. Engelbrecht is President and Chief Executive Officer of South Central Communications Corp., owner and operator of radio and television stations in Indiana, Kentucky and Tennessee, and MUZAK franchises in 14 U.S. cities. He is also a director of the University of Tennessee College of Communication and Information Science and trustee of the Evansville Museum.

William G. Mays, age 60, has been a director of Indiana Energy or the Company since 1998. Mr. Mays is President and Chief Executive Officer and founder of Mays Chemical Company, Inc., an Indianapolis, Indiana based chemical distribution company. Mr. Mays is also a director of WellPoint, Inc. and First Indiana Corporation.

J. Timothy McGinley, age 65, has been a director of Indiana Energy or the Company since January 1999. Mr. McGinley is a principal of House Investments, Inc., a real estate investment company. He is also a director of Waterfield Mortgage Corporation and he is the Chairman of the Board of Trustees of Purdue University.

Richard P. Rechter, age 66, has been a director of Indiana Gas, Indiana Energy, or the Company since 1984. Mr. Rechter is a director and Chairman of Rogers Group, Inc., a company providing crushed stone, sand and gravel, asphalt, highway construction, concrete masonry and construction materials recycling.

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Class II Directors Term expiring 2008

R. Daniel Sadlier, age 59, was elected to the board of directors of the Company in 2003. Mr. Sadlier is chairman of the Board of Directors of Fifth Third Bank (Western Ohio). He also is the Chairman of the Board of Trustees of the University of Dayton.

Richard W. Shymanski, age 69, has been a director of SIGECO, SIGCORP, or the Company since 1989. He is Chairman of Fendrich Industries, Inc., a holding company comprised of divisions that manufacture and import bandanas and other advertising specialty products; dyes and finishes yarns for the textile industry; prints on lightweight woven goods and precut fabric and engages in quilting products design and manufacturing. He is also the retired Chairman and Chief Executive Officer of Harding, Shymanski & Co., P.C., Certified Public Accountants and consultants, in Evansville, Indiana. He also serves on the Board of Trustees of the University of Evansville.

Michael L. Smith, age 57, was elected to the board of directors of the Company effective March 1, 2006 to complete the term vacated upon the retirement of Ronald G. Reherman. In addition to the Company, Mr. Smith serves on the following other public company boards of directors: Kite Realty Group, Inc., First Indiana Corporation, Emergency Medical Services Corporation, Inc., Calumet Specialty Products LP and InterMune, Inc. He also serves on the Board of Trustees of DePauw University. In order to allow Mr. Smith to fulfill his commitments and transition off several boards, the Board of Directors has determined to waive from March 1, 2006 until May 31, 2007, the director qualification standard in the Corporate Governance Guidelines attached as *Appendix A* which limits directors to service on no more than three other public company boards of directors. Mr. Smith was Executive Vice President and Chief Financial Officer of WellPoint, Inc. from 1999 until he retired on January 31, 2005.

Jean L. Wojtowicz, age 48, has been a director of Indiana Energy or the Company since 1996. Ms. Wojtowicz is President and founder of Cambridge Capital Management Corp., a consulting and venture capital firm. She is also a director of First Merchants Corporation and Windrose Medical Properties Trust.

OTHER EXECUTIVE OFFICERS

Other executive officers of the Company are Jerome A. Benkert, Jr., age 47, Carl L. Chapman, age 50, Ronald E. Christian, age 47, and William S. Doty, age 55.

Mr. Benkert has served as Executive Vice President and Chief Financial Officer of the Company since March 2000 and as Treasurer of the Company from October 2001 to March 31, 2002. Mr. Benkert has also served as director of Indiana Gas, SIGECO and VUHI since March 31, 2000. Prior to March 31, 2000 and since October 1, 1997, he was Executive Vice President and Chief Operating Officer of Indiana Energy s administrative services company.

Mr. Chapman has served as Chief Operating Officer of the Company since August 1, 2004 and as Executive Vice President since March 31, 2000. Prior to August 31, 2004 and since March 31, 2000, Mr. Chapman served as Executive Vice President of the Company and President of Vectren Enterprises. Prior to March 31, 2000 and since 1999, Mr. Chapman served as Executive Vice President and Chief Financial Officer of Indiana Energy. From October 1, 1997 to June, 2002, Mr. Chapman served as President of IGC Energy, Inc., which has been renamed Vectren Energy Marketing and Services, Inc. (VEMS). Currently, Mr. Chapman is the Chairman of ProLiance Energy, LLC.

Mr. Christian has served as Executive Vice President, Chief Administrative Officer, General Counsel and Corporate Secretary of the Company since August 1, 2004 and Executive Vice President, General Counsel and Secretary of the Company since May 1, 2003. Prior to May 1, 2003 and since March 31, 2000, Mr. Christian

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served as Senior Vice President, General Counsel and Secretary of the Company. Mr. Christian has also served as director of Indiana Gas, SIGECO and VUHI since March 31, 2000. Prior to March 31, 2000, and since 1999, he was Vice President and General Counsel of Indiana Energy.

William S. Doty has served as Executive Vice President of Utility Operations since May 1, 2003. Mr. Doty also served as Senior Vice President of Energy Delivery for the Company from April of 2001 to May of 2003. He was Senior Vice President of Customer Relationship Management from January 2001 to April 2001. From January 1999 to January 2001, Mr. Doty was Vice President of Energy Delivery for SIGECO.

COMMON STOCK OWNERSHIP BY DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth the number of shares of common stock of the Company beneficially owned by the directors, the Chief Executive Officer, the four additional named executive officers, and all directors and executive officers as a group, as of February 2, 2006. Except as otherwise indicated, each individual has sole voting and investment power with respect to the shares listed below.

Name of Individuals or Identity of Group	Shares Owned Beneficially (1)
John M. Dunn	15,220 (2)(3)(4)(7)
Niel C. Ellerbrook	684,843 (2)(3)(6)(7)
John D. Engelbrecht	21,844 (3)(4)(7)
Anton H. George	2,509,602 (1)(4)(5)(7)
Robert L. Koch II .	16,672 (2)(3)(4)(7)
William G. Mays	13,234 (4)(7)
J. Timothy McGinley	21,839 (2)(4)(7)
Richard P. Rechter	25,988 (2)(4)(7)
R. Daniel Sadlier	1,935 (2)(4)
Richard W. Shymanski	27,919 (3)(4)(7)
Michael L. Smith	1,500
Jean L. Wojtowicz .	13,550 (2)(4)(7)
Jerome A. Benkert, Jr.	183,315 (2)(6)(7)
Carl L. Chapman	256,119 (2)(6)(7)
Ronald E. Christian	175,275 (2)(6)(7)
William S. Doty	115,084 (2)(3)(6)(7)
All Directors and Executive Officers as a Group (16 Persons)	4,082,439 (1)

(1) Except for Anton H. George, no director or executive officer owned beneficially as of February 2, 2006, more than .90 percent of common stock of the Company. Excluding Anton H. George, all directors and executive officers owned beneficially an aggregate of 1,572,837 shares or 2.06 percent of common stock of the Company. The beneficial ownership by Anton H. George of 2,509,602 shares or 3.29 percent of common stock of the Company is discussed below in footnote (5).

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(2) This amount does not include derivative securities held under the Company s non-qualified deferred compensation plans. These derivative securities are in the form of phantom stock units which are valued as if they were Company common stock. The amounts shown for the following individuals include the following amounts of derivative units:

Name of Individuals or Identity of Group	Phantom Stock Units
John M. Dunn	14,558
Niel C. Ellerbrook	136,755
Robert L. Koch II	15,242
J. Timothy McGinley	2,453
Richard P. Rechter	22,431
R. Daniel Sadlier	5,379
Jean L. Wojtowicz	5,046
Jerome A. Benkert, Jr.	14,934
Carl L. Chapman	33,725
Ronald E. Christian	38,498
William S. Doty	11,115
All Directors and Executive Officers as a Group (11 Persons)	300,136

(3) Includes shares held by spouse, jointly with spouse or as custodian for a minor.

(4) Includes shares granted to non-employee directors under the Company s At Risk Compensation Plan, which are subject to certain transferability restrictions and forfeiture provisions.

(5) Of the 2,509,602 shares, Mr. George has both sole voting and investment power with respect to 11,410 shares and both shared voting and investment power with respect to 9,280 shares held in an irrevocable charitable remainder unitrust of which he is co-trustee with his wife. Also included in this number are 10,489 shares, which he has the right to acquire as of February 2, 2006, or within sixty (60) days thereafter, under the Company s At Risk Compensation Plan. Regarding the balance, he has either voting or investment power in his capacity as a member of the shareowner s board of directors, charitable donations committee, or board of managers. Mr. George disclaims beneficial interest in these shares.

(6) Includes shares granted to executives under the At Risk Compensation Plan and a restricted stock award granted to certain executives on January 1, 2006, under the Company s At Risk Compensation Plan. These shares are subject to certain transferability restrictions and forfeiture provisions.

(7) Includes shares which the named individual has the right to acquire as of February 2, 2006, or within sixty (60) days thereafter, under the 1994 Stock Option Plan (formerly SIGCORP, Inc. Stock Option Plan) or the Company s At Risk Compensation Plan.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In 2005, the Company and its subsidiaries purchased air conditioning units for approximately $350,000 from Koch Air, LLC, a wholly owned subsidiary of Koch Enterprises, Inc. (Koch). Robert L. Koch II, the Lead director, is the president and chief executive officer of Koch and he and members of his family own the shares of capital stock of Koch.

The Company and its subsidiaries paid Taylor Brothers Construction Company (Taylor) $200,000 in 2005 for construction-related services. William G. Mays, a director of the Company, owns approximately 25% of Taylor.

The Company and its subsidiaries purchased approximately $110,000 of asphalt from Rogers Group, Inc. (RGI) in 2005. Richard P. Rechter, a director of the Company, is a director and chairman of RGI and owns more than 10% of the outstanding shares of RGI.

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INDEPENDENCE, MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS

The board of directors has determined that all of the directors of the Company are independent, except for Mr. Ellerbrook, since they satisfy the Company s Director Independence Standards. Those Director Independence Standards are set forth on page 11 of this proxy statement. In reaching this conclusion, the board of directors determined that none of the relationships described under Certain Relationships and Related Transactions would impair the director s ability to make independent judgments since they involved the sale to the Company and its subsidiaries of commodity-type products and services which were immaterial in amount to the selling entities.

The board of directors of the Company had eight (8) meetings during the last fiscal year. No member attended fewer than 80 percent of the aggregate of Board meetings and meetings of the respective committees of the Board of which they are members. All of the members of the Board attended last year s annual meeting.

The members of the Company s board of directors are elected to various committees. The standing committees of the Board are: the Nominating and Corporate Governance Committee, the Corporate Affairs Committee, the Audit Committee, the Finance Committee, and the Compensation and Benefits Committee.

The members of the Nominating and Corporate Governance Committee are Robert L. Koch II, Chair, John M. Dunn, Anton H. George, William G. Mays, and J. Timothy McGinley. As Chair of the committee, Mr. Koch is also the Company s Lead Director. Membership on the committee is restricted to non-employee members of the board of directors. The functions of the committee are described under Report of the Nominating and Corporate Governance Committee below. There were five (5) meetings of the committee during the past fiscal year.

The members of the Corporate Affairs Committee are William G. Mays, Chair, John M. Dunn, Robert L. Koch II, and Richard P. Rechter. None of the members is an officer or employee of the Company. The functions of the committee are described under Report of the Corporate Affairs Committee below. There were three (3) meetings of the committee during the past fiscal year.

The members of the Audit Committee are Richard W. Shymanski, Chair, John D. Engelbrecht, Richard P. Rechter, and R. Daniel Sadlier. Mr. Shymanski is also the committee s designated financial expert . Membership on the committee is restricted to non-employee members of the board of directors. The functions of the Audit Committee are described under Report of the Audit Committee below. There were five (5) meetings of the committee during the past fiscal year.

The members of the Finance Committee are Niel C. Ellerbrook, Chair, John D. Engelbrecht, J. Timothy McGinley, and Jean L. Wojtowicz. The Finance Committee acts on behalf of the board of directors with respect to financing activities of the Company and its subsidiaries and also in instances where the Board has delegated authority to the committee to act on behalf of the Board. The functions of the committee are described under Report of the Finance Committee below. There were two (2) meetings of the committee during the past fiscal year.

The members of the Compensation and Benefits Committee are Jean L. Wojtowicz, Chair, Anton H. George, R. Daniel Sadlier, and Richard W. Shymanski. Membership on the committee is restricted to non-employee members of the board of directors. The functions of the committee are described under Report of the Compensation and Benefits Committee below. There were three (3) meetings of the committee during the past fiscal year.

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DIRECTOR COMPENSATION

As more fully discussed in the Report of the Nominating and Corporate Governance Committee, which begins at page 8, the establishment of compensation for non-employee directors is part of the responsibilities of that committee. The philosophy for the compensation decisions are discussed in that report.

Non-employee directors of the Company receive a cash retainer of $20,000 per year for service on the Board. The fees are paid in the form of a monthly retainer of $1,666.66. Committee Chairs receive an additional cash retainer of $2,000 per year, which is paid in the form of a monthly retainer of $166.66.

Non-employee directors also receive a fee of $1,000 for each Company Board meeting attended. Each non-employee member of a committee of the Board is paid a fee of $1,000 for each meeting of the committee attended, and each non-employee Chair of a committee is paid an additional fee of $500 for each meeting attended.

On May 1, 2005, each non-employee member of the Board received a grant of 1,350 shares of restricted stock under the Vectren Corporation At Risk Compensation Plan. The terms of those grants provide that, subject to certain limited exceptions, the restrictions will lift on May 1, 2006. As part of the total compensation provided to non-employee directors, a grant of restricted stock to each non-employee director will be made on May 1, 2006 with a value of $35,000 and the grant will vest at the end of one year. The equity compensation provided to non-employee directors is solely in the form of restricted stock.

In addition to the cash compensation referenced above, Mr. Smith will receive an additional monthly fee of $2,916 for the months of March and April, 2006, which is in lieu of the equity compensation he would have received attributable to such months.

The Company pays the travel and accommodation expenses of directors to attend meetings and other corporate functions, along with any taxes related to such payments. Such travel may be by Company aircraft if available.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company s officers, directors, and persons who own more than 10 percent of the Company s common stock to file reports of ownership and changes in ownership concerning the common stock with the Securities and Exchange Commission, and to furnish the Company with copies of all Section 16(a) forms they file. Based solely on the Company s review of the Section 16(a) filings that the Company has received, and on written representations from the appropriate persons that no other reports are required, the Company believes that all filings required to be made under Section 16(a) during 2005 were timely made.

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 (5) members and is composed entirely of non-employee directors who each satisfy the independence standard established by the full Board. The Governance committee met five (5) times during the past fiscal year.

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Scope of Responsibilities

The Governance committee has several 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.

2005 Accomplishments

The Governance committee achieved several accomplishments during the past year. The Governance committee gathered, assessed, and, as appropriate, acted upon information relating to corporate governance primarily arising from the enactment of the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley) and significant regulatory changes affecting listed companies and 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 attached to this proxy statement as *Appendix B*, and is posted on the Company s website at www.vectren.com, the Governance committee conducted an annual review of the corporate governance principles applicable to the full Board. Based upon that review, the Governance committee recommended a modification to the corporate governance principles to extend the retirement age for directors from 70 to 72. This recommendation was affirmed by the board of directors. The current corporate governance principles are attached to this proxy statement as *Appendix A* and are posted at the Company s website at 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 40 of this proxy statement.

The Governance committee conducted a search for a new director to complete the term of office that was vacated when Ronald G. Reherman retired at the end of August, 2005. The Governance committee identified Michael L. Smith, retired chief financial officer of WellPoint, Inc., as a candidate who met the Company s Board of Directors selection criteria and indicated a willingness to serve if elected. The Governance committee determined that, in light of his experience as the chief financial officer of a public company, Mr. Smith would be an excellent addition to the board of directors. In recommending Mr. Smith to the Company s full board of directors, the Governance committee determined that it would be appropriate to waive the director qualification standard in the Company s Corporate Governance guidelines from March 1, 2006 through May 31, 2007 which limits directors to service on no more than three other public company boards in order to allow Mr. Smith to transition off two of the five other public company boards on which he serves.

The Governance committee conducted an annual informational inquiry 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 principles, and were approved by the full Board. During 2005 the standards were modified by the Board at the recommendation of the Governance committee to comport with the New York Stock Exchange changes to the exchange s independence standard, which is the model for the Board s standard. The standards are set forth and discussed at page 11 of this proxy statement.

During the past year the Governance committee recommended to the full Board the realignment of the members of the Board on the various Board committees. In connection with this effort, 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. Upon reviewing each of the Governance committee s recommendations, they were approved by the full Board.

Also, during the past year, the Governance committee established and recommended to the Board for approval additional criteria pertaining to the selection and retention of directors. The criteria are set forth on pages B-4 to B-5 of *Appendix B* and were approved by the Board. The Governance committee and the Board are charged with applying the criteria in light of all of the relevant facts and circumstances relating to each determination.

During the past year the Governance committee established a formal process to ensure there was adequate communication with 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 updates to the Board 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 year, directors stock ownership was monitored and, as discussed at page 22 of this proxy statement, as of February 2, 2006 each director was in compliance with those guidelines.

During the past year, the Governance committee continued with the administration of the succession planning process regarding 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.

Under the oversight of the Governance committee, formal Board development activities were undertaken. During the past year the Board conducted a multi-day development session where they heard presentations from various external professionals with respect to important issues affecting the Company, including issues relating to credit quality, corporate governance and energy regulation. 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. This session was accredited as approved director training by Institutional Shareholder Services.

As the plan administrator of the existing Vectren Corporation At Risk Compensation Plan (At Risk Plan) with respect to compensation for non-employee members of the Board, and with assistance from an independent compensation consultant, the Governance committee periodically evaluates the continuing market competitiveness of the non-employee Board members compensation. The most recent evaluation occurred in late 2003 and at that time the Governance committee determined the existing level of director compensation was market competitive. A renewed evaluation is expected to occur within the next year. The Governance committee made annual awards of restricted stock for directors effective as of May 1, 2005, and again to be effective on May 1, 2006. Under the proposed At Risk Compensation Plan, as amended and restated, that is the subject of action at the annual meeting, and is discussed more fully at pages 31-38, the Governance committee would continue to be the plan administrator with respect to compensation for non-employee members of the Board.

Earlier this year, 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 2006.

Earlier this year, the Governance committee received affirmations from the chairs of all other committees certifying that their respective charters were adhered to in 2005, and specifying whether any changes to those charters were determined to be necessary and advisable. Each committee chair confirmed that their charter had been adhered to. Moreover, in the case of the Audit committee, minor changes were proposed to the charter, which were reviewed and approved by the Governance committee and the Board.

In connection with the 2006 Annual Meeting, employing the qualification criteria set forth in the corporate governance guidelines, as well as the director retention criteria approved by the Board and discussed above, the Governance committee evaluated the Board 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 the four existing directors whose terms are expiring at this meeting be reelected.

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 of directors 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 listed company, or an immediate family member is, or has been within the last three years, an executive officer,[1] of the listed company.

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[1] 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.

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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 $100,000 in direct compensation from the listed 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 or an immediate family member is a current partner of a firm that is the company s internal or external auditor; (B) the director is a current employee of such a firm; (C) the director has an immediate family member who is a current employee of such a firm and who participates in the firm s audit, assurance or tax compliance (but not tax planning) practice; or (D) the director or an immediate family member was within the last three years (but is no longer) a partner or employee of such a firm and personally worked on the listed 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 listed 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 listed 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.

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.

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 principles, which are expected to evolve coincident with the ongoing changes being implemented by the Securities and Exchange Commission 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

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REPORT OF THE CORPORATE AFFAIRS COMMITTEE

The Corporate Affairs committee is primarily responsible for ensuring the discharge of the Board s duties relating to the Company s policies, practices and procedures as a responsible corporate citizen. The Corporate Affairs committee consists of four (4) members and is composed entirely of non-employee directors who each satisfy the independence standard established by the full Board. The Corporate Affairs committee met three (3) times during the past fiscal year.

Scope of Responsibilities

The Corporate Affairs committee s responsibilities are set forth in its charter, which is attached to this proxy statement as *Appendix C* and is also posted on the Company s website at www.vectren.com. Those responsibilities include:

- Overseeing policies, practices and procedures relating to business practices, including compliance with applicable laws and regulations;
- Overseeing policies, practices and procedures relating to public communications with key stakeholders, other than the financial community;
- Overseeing policies, practices and procedures relating to community relations, including charitable contributions and community affairs;
- Overseeing policies, practices and procedures relating to customer relations, including customer satisfaction and quality of customer service;
- Overseeing policies, practices and procedures relating to employer practices and procedures, including the Company s objective of being an employer of choice, the attainment of workforce diversity, and compliance with employment related laws, regulations and policies; and
- Overseeing policies, practices and procedures relating to environmental compliance and stewardship, including adherence to environment related laws and regulations.

2005 Accomplishments

The Corporate Affairs committee considered several matters during the year. Management presentations were provided regarding the Company s relationships with its customers, including the ongoing measurement of customer satisfaction which is used by the Compensation and Benefits committee as a performance metric under the Company s existing At Risk Compensation Plan (At Risk Plan).

The Corporate Affairs committee considered how the Company communicates with its customers, including with respect to topics such as high natural gas prices. As part of this dialogue, presentations were provided by management regarding natural gas supply, including the measures employed by the Company s regulated business group to minimize price volatility for customers. Presentations were also provided with respect to the measures employed to assist customers in paying their utility bills.

The Corporate Affairs committee monitored the activities of Vectren Foundation. This monitoring included receiving regular reports regarding the foundation s activities in the Company s operating areas.

Safety performance by the Company s subsidiaries was monitored by the Corporate Affairs committee. Considerable attention was given to the types of safety issues that arise in the Company s regulated business operations, as well as efforts that can and should be implemented to minimize workplace accidents and injuries. Safety performance is also used by the Compensation and Benefits committee as a metric in establishing annual payment awards under the existing At Risk Plan.

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The Company s continuing diversity efforts were reported on to the Corporate Affairs committee. This report included a review of the company s hiring practices, as well as interaction with governmental authorities with responsibility for these matters.

The Company s environmental compliance and stewardship were considered at each meeting of the Corporate Affairs committee. Presentations were provided with respect to various environmental initiatives being undertaken by the Company.

Regulatory initiatives involving the Company s utility operations were monitored by the committee. This monitoring included receiving reports from management regarding important matters pending before the Indiana Utility Regulatory Commission and the Public Utilities Commission of Ohio.

Reports were provided to the Corporate Affairs committee by legal counsel regarding litigation affecting the Company and its subsidiaries. Those reports included environmental compliance and employment litigation matters.

Finally, legislative matters that are of importance to the Company at the federal level, as well as in Indiana and Ohio, were reviewed and considered by the Corporate Affairs committee.

Annual Committee Charter Review and Performance Evaluation

As required by the Corporate Affairs committee s charter, in late 2005 the committee reviewed the charter and determined that no modifications were necessary or advisable at this time. Also as required by the Corporate Affairs committee s charter, the committee conducted an annual performance evaluation, the results of which will be discussed by the committee at its next regularly scheduled meeting.

Commitment

The Corporate Affairs committee is committed to ensuring that the Company conducts its operations consistent with being a good corporate citizen. The Corporate Affairs committee anticipates meeting at least three times in 2006 to continue to focus on the matters set forth in its charter.

Corporate Affairs Committee

William G. Mays, *Chair,*

Robert L. Koch II,

John M. Dunn, and

Richard P. Rechter

REPORT OF THE AUDIT COMMITTEE

The Audit committee oversees the Company s financial reporting process on behalf of the full Board. The Audit committee consists of four members, who each satisfy the independence standard established by the full Board, as well as the independence requirements contained in the Corporate Governance Listing Standards of the New York Stock Exchange (NYSE). The Audit committee met five (5) times during the past fiscal year.

Scope of Responsibilities

The Audit committee operates under a written Audit Committee Charter containing provisions that address requirements imposed by the Securities and Exchange Commission (SEC) and the NYSE. That charter is attached to this proxy statement as *Appendix D* and is also posted on the Company s website at www.vectren.com. The Audit committee s responsibilities include the authority and the responsibility of:

Selecting, evaluating, and replacing the independent registered public accounting firm (independent auditors);

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Reviewing the scope, conduct, and results of audits performed;

Making inquiries as to the differences of views, if any, between such independent auditors and officers and employees of the Company and subsidiaries with respect to the financial statements and records and accounting policies, principles, methods and systems;

Considering whether the provision by the independent auditors of services for the Company in addition to the annual audit examination is compatible with maintaining the independent auditors independence; and

Reviewing the policies and guidelines of the Company and subsidiaries designed to ensure the proper use and accounting for corporate assets, and the activities of the Company s Internal Audit department.

2005 Accomplishments

In fulfilling its oversight responsibilities, the Audit committee reviewed and discussed with management and independent auditors the financial statements and report of management on the effectiveness of internal control over financial reporting included in the Annual Report on Form 10-K. The Audit committee also received reports from management with respect to each of the Company s Quarterly Reports on Form 10-Q and reviewed drafts of the Company s earnings releases prior to public dissemination.

Richard W. Shymanski continued to serve the Audit committee as the designated financial expert. This designation was reviewed and approved by the Nominating and Corporate Governance committee and confirmed by the board of directors.

The Audit committee reviewed with the independent auditors their judgments as to the quality and the acceptability of the Company s financial reporting and such other matters as are required to be discussed with the Audit committee under generally accepted auditing standards.

In addition, the Audit committee has discussed with the independent auditors the auditors independence from management and the Company, including the matters in the auditors written disclosures required by the Independence Standards Board.

The Audit committee also discussed with the Company s internal auditors and independent auditors the overall scope and plans for their respective audits. The Audit committee meets periodically with the internal auditors and independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of the Company s internal controls, and the overall quality of the Company s financial reporting.

During the year, the Audit committee administered the Company s policy to govern when and under what circumstances the Company can engage its independent auditors to provide non-audit related services.

During the year, the Audit committee received regular reports regarding risk management issues arising from the Company s business. As part of this process, management periodically provided presentations to the Audit committee regarding the matters considered by the Company s risk management committee.

During the year, the Audit committee received reports from the Company s legal counsel with respect to litigation, claims and other legal matters potentially affecting the Company.

During the year, the Audit committee was involved in monitoring the efforts undertaken by management to document, test and evaluate the Company s system of internal control over financial reporting in response to the certification and attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002.

In early 2006, the Audit committee reviewed and approved the Internal Audit department work plan for activities to be undertaken by the department during 2006. The Audit committee also reviewed and reaffirmed the department s charter.

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Corporate Code of Conduct

As provided for in its charter, the Audit committee is responsible for establishing, reviewing and updating periodically a Corporate Code of Conduct (Code) and ensuring that management has established a system to enforce this Code. This includes ensuring that the Code is in compliance with all applicable rules and regulations. A copy of the Code is attached as *Appendix G* to this proxy statement and is also posted on the Company s website at www.vectren.com. The Audit committee reviews management s monitoring of the Company s compliance with the Code, and ensures that management has the proper review system in place to provide that the Company s financial statements, reports and other financial information disseminated to governmental organizations and the public satisfy legal requirements. The Audit committee also confirmed, with assistance from the Director of Internal Audit, that during 2005 the members of the Board have complied with the Code.

Delineation of Responsibilities Between Management, the Independent Auditors, and the Audit Committee

Management is responsible for the Company s financial reporting process, including its system of internal controls, and for the preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; establishing and maintaining disclosure controls and procedures; establishing and maintaining internal control over financial reporting; evaluating the effectiveness of disclosure controls and procedures; evaluating the effectiveness of internal control over financial reporting; and evaluating any change in internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

The Company s independent auditors are responsible for auditing the financial statements prepared by management and expressing an opinion on the conformity of those financial statements with accounting principles generally accepted in the United States of America, as well as expressing an opinion on (i) management s assessment of the effectiveness of internal control over financial reporting and (ii) the effectiveness of internal control over financial reporting.

The Audit committee s responsibility is to monitor and review the processes performed by management and the independent auditors. It is not the Audit committee s duty or responsibility to conduct auditing or accounting reviews or procedures. The Audit committee members are not employees of the Company. Therefore, the Audit committee has relied, without independent verification, on management s representation that the financial statements have been prepared with integrity and objectivity and in conformity with accounting principles generally accepted in the United States of America and on the representations of the independent auditors included in their report on the Company s financial statements. Furthermore, the Audit committee s considerations and discussions with management and the independent auditors do not assure that the Company s financial statements are presented in accordance with generally accepted accounting principles, that the audit of the Company s financial statements has been carried out in accordance with generally accepted auditing standards or that the Company s independent auditors are in fact independent.

2005 Form 10-K

In reliance on the reviews and discussions referred to above, the Audit committee recommended to the board of directors that the audited financial statements for 2005 be included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2005 for filing with the SEC.

A copy of the Company s 10-K is available without charge upon request. Send your request to:

Attn: Investor Relations

Vectren Corporation

P.O. Box 209

Evansville, IN 47702-0209

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Reappointment of Deloitte & Touche LLP (Deloitte)

The Audit committee considered and has recommended to the full Board that Deloitte be reappointed as the Company s independent registered public accountants for fiscal year 2006. That recommendation calls for the reappointment to be subject to ratification by the shareholders of the Company at the 2006 Annual Meeting.

Annual Committee Charter Review and Performance Evaluation

As required by the Audit committee s charter, in early 2006 the committee reviewed the charter and determined that minor modifications were appropriate. The thrust of the modifications was to ensure that the language of the charter is action oriented. Also, as required by the Audit committee s charter, the committee conducted an annual performance evaluation, the results of which have been discussed among the committee members.

Commitment

The Audit committee is committed to ensuring that the Company implements and follows necessary and appropriate financial reporting processes. The Audit committee anticipates meeting at least quarterly throughout 2006.

Audit Committee

Richard W. Shymanski, *Chair*,

John D. Engelbrecht,

Richard P. Rechter, and

R. Daniel Sadlier

REPORT OF THE FINANCE COMMITTEE

The Finance committee is primarily responsible for ensuring the discharge of the Board s duties relating to the financing activities of the Company s regulated and non-regulated businesses. The Finance committee consists of four (4) members, three of whom are non-employee directors who each satisfy the independence standard established by the full Board. The fourth member and chair of the Finance committee is Niel C. Ellerbrook, chairman of the Board, president and chief executive officer. The Finance committee met twice during the last fiscal year.

Scope of Responsibilities

The Finance committee s responsibilities are set forth in its charter, which is attached to this proxy statement as *Appendix E* and is also posted on the Company s website at www.vectren.com. Those responsibilities include:

Acting when it is impracticable for the full Board to meet and take action with respect to financing activities of the Company, including, as necessary or advisable, financing activities of one or more of its subsidiaries or affiliates; and

Acting on behalf of the full Board in limited instances where it is impracticable for the full Board to meet and take action, and only within parameters prescribed and delegated by the full Board.

2005 Accomplishments

During the year, the Finance committee reviewed and approved the Company s overall financing program for 2005. The Finance committee monitored issues relating to credit ratings affecting the debt issued by the

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Company s subsidiaries. The Finance committee also reviewed and commented upon the Company s dividend policy prior to the presentation of that policy to the full Board. In the fall, at the Finance committee s second meeting, the Company s 2006 financing plan was reviewed and approved. At that time the committee also reviewed and commented upon a proposed five year financing plan.

Acting pursuant to delegated authority from the full Board, the Finance committee reviewed and authorized a non-utility business transaction.

Annual Committee Charter Review and Performance Evaluation

As required by the Finance committee s charter, in early 2006 the committee reviewed the charter and determined that no changes were necessary or advisable at this time. The charter is attached as *Appendix E.* Also, as required by the Finance committee s charter, the committee will conduct an annual performance evaluation, the results of which will be discussed by the committee at its next regularly scheduled meeting.

Commitment

The Finance committee is committed to overseeing the financing activities of the Company on behalf of the full Board and, in limited circumstances, to act on behalf of the Board when delegated authority to respond to certain circumstances. The Finance committee anticipates meeting at least twice in 2006 to continue to focus on the matters set forth in its charter.

Finance Committee

Niel C. Ellerbrook, *Chair,*

John D. Engelbrecht,

J. Timothy McGinley, and

Jean L. Wojtowicz

EXECUTIVE COMPENSATION AND OTHER INFORMATION

REPORT OF THE COMPENSATION AND BENEFITS COMMITTEE

The Compensation and Benefits committee (Compensation committee) is responsible for reviewing and approving all elements of the total compensation program for officers of the Company and certain of its subsidiaries and with respect to those officers serves as an administrator of the annual and long-term incentive plans, including the Company s At Risk Compensation Plan (the At Risk Plan). The Compensation committee is also responsible for monitoring the Company s executive compensation programs to ensure that they are aligned with the Company s business strategies and financial goals. The Compensation committee operates pursuant to a charter, which is attached to this proxy statement as *Appendix F* and is also posted on the Company s website at www.vectren.com.

The Compensation committee is composed of four (4) non-employee directors who each satisfy the independence standard established by the full Board. The Compensation committee met three (3) times during the past year.

A. Executive Compensation Policy

The Company s total compensation program for officers includes base salaries, as well as annual incentive and long-term incentive opportunities under the At Risk Plan.

The Compensation committee s primary objective is to achieve above-average performance by providing the opportunity to earn above-average total compensation (base salary, annual and long-term incentives) for above-average performance. Each element of total compensation is designed to work in concert. The total program is designed to attract, motivate, reward and retain the broad-based management talent required to serve shareholder, customer, and employee interests. The Company believes that the program also motivates the Company s officers to acquire and retain appropriate levels of stock ownership and is competitive with programs offered by comparable organizations of similar size. It is the opinion of the Compensation committee that the total compensation earned by Company officers in 2005 achieves these objectives and is fair and reasonable. Each aspect of the total compensation program is discussed in greater detail below.

B. Components of Executive Compensation

Base Salary

Individual salaries are set based on market comparisons to actual pay for comparable positions within the utility industry, and industry in general. In determining actual salaries, the Compensation committee takes into consideration individual performance, experience, potential, and changes in executive responsibilities. Establishing industry-based salaries provides an objective standard by which to judge the reasonableness of the Company s salaries, maintains the Company s ability to compete for and retain qualified executives, and ensures that internal responsibilities are properly rewarded.

Annual Incentive Compensation

All of the Company s officers have a significant portion of their total compensation at risk. Participation in the annual incentive opportunity under the At Risk Plan, which includes the chief executive officer, is extended to those positions that play key roles in achieving annual financial and operating objectives. Annual incentive opportunities are based on periodic reviews of prevailing practices for comparable positions among similar companies of comparable size. The potential incentive award is determined annually by the Compensation committee and is based upon a percentage of each participant s base salary. During the past year, target annual incentive opportunities for executive officers, excluding the Chief Executive Officer, ranged from 40 to 60 percent of base salary.

For 2005, under the At Risk Plan, the Compensation committee established a number of performance metrics to be used for determining whether and to what extent annual incentive payments would be made to participants. The first metric was based upon the Company s achievement of specified earnings per share (EPS) measures, as adjusted for the partial impact of abnormal weather. For 2005, excluding Mr. Ellerbrook, this metric represented 80 percent of the total annual incentive payment opportunity for Mr. Benkert and Mr. Christian. In the case of Mr. Chapman, this metric represented 60 percent of his total incentive payment opportunity. In the case of Mr. Doty, this metric represented 70 percent of his total incentive opportunity. The Compensation committee established three 2005 Company EPS measures for payments: threshold (zero payment); target; and maximum (two times target incentive). Linear interpolation was to be used for results between threshold, target and maximum. As a result of the Company s performance in 2005, the payment relating to Company EPS was at 150 percent of target.

The second metric was based upon achieving a specified level of safety performance during 2005 and, excluding Mr. Ellerbrook, represented 10 percent of the total annual incentive opportunity for the four other executive officers. This metric was designed to incent the minimization of OSHA recordable accidents at the Company and the Company s regulated subsidiaries. Similar to the EPS metric, the Compensation committee established achievement standards for 2005 OSHA Recordable Accidents as defined by the committee: threshold; target; and maximum. Similar to the measurement used for the first metric, linear interpolation was used for results between threshold, target and maximum. In 2005, the actual number of OSHA recordable accidents resulted in a 46 percent of target payment with respect to this metric.

The third metric was based upon achieving a specified level of customer satisfaction during 2005, and, excluding Mr. Ellerbrook, represented 10 percent of the total annual incentive opportunity for the four other

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executive officers. In 2005, the customer satisfaction performance resulted in a 33 percent of target payment with respect to this metric.

The fourth metric, which pertained only to Mr. Chapman and Mr. Doty, was based upon achieving a specified level of equivalent availability at the Company s regulated electric generation facilities during 2005. For Mr. Chapman and Mr. Doty, this metric represented 10 percent of the total incentive payout opportunity. Similar to the other metrics, the Compensation committee established achievement standards for equivalent availability as defined by the committee: threshold, target and maximum. Also, similar to the measurements used for the other metrics, linear interpolation was used for the results between threshold, target and maximum. In 2005, the actual equivalent availability resulted in a 200 percentage of target payment.

The fifth metric, which pertained only to Mr. Chapman, was based upon the achievement by Vectren Enterprises, the Company s holding company for non-utility businesses, of specific EPS measures. This metric represented 10 percent of Mr. Chapman s total incentive opportunity. Like the other metrics, the Compensation committee established three 2005 Enterprises EPS measures for payments: threshold (zero percent); target; and maximum (two times target incentive). Linear interpolation was to be used for results between threshold, target and maximum. In 2005, the payment relating to Enterprises EPS was at 200 percent of target.

The amounts payable under the At Risk Plan for 2006 will be determined and paid early in 2007 and accordingly will be reflected in next year s proxy statement as part of calendar year 2006 compensation.

Long-Term Incentive Compensation

The purpose of the long-term incentive opportunity under the At Risk Plan is to retain and motivate the Company s principal officers to increase their incentive to work toward the attainment of the Company s long-term growth and profit objectives. Under the plan, the Compensation committee determines the executive officers, as well as other principal officers, to whom grants will be made and the percentage of each officer s base salary to be used for determining the number of shares or options to be granted. Like the potential cash payment that may be received as the annual incentive opportunity under the At Risk Plan, this component of total compensation is also performance driven and totally at risk.

Prior to the adoption of the At Risk Plan by the Company s shareholders in April 2001, in September of 2000 the board of directors determined that it was appropriate to grant to the executive officers, as well as other principal officers, restricted stock under the Executive Restricted Stock Plan, which was originally approved by Indiana Energy s shareholders. It was adopted by the Company s board of directors as a Company plan concurrent with the effective date of the merger of Indiana Energy and SIGCORP, Inc. in March of 2000. That September 2000 grant, which was effective as of October 1, 2000, provided as prescribed by the Executive Restricted Stock Plan that, depending upon the Company s performance as measured using total shareholder return (stock price appreciation plus dividends) relative to the performance of its designated peer group, the grant could double, vest or be forfeited. The grant was subdivided into three segments, which had, respectively, performance measuring periods ending December 31, 2002, December 31, 2003 and December 31, 2004. At the end of December 31, 2002, the Company s performance placed it into the top quartile of its peer group and, as a result, one third of the grant was doubled and, as doubled, remained restricted subject to continued employment for an additional year. As of December 31, 2003, that grant, as doubled, vested.

Regarding the portions of the grant with measuring periods ending December 31, 2003 and December 31, 2004, the Compensation committee determined that in measuring the Company s performance relative to its peers, the concept of linear interpolation should be employed instead of the use of absolute quartiles. This action, which was taken in December of 2002, and subsequently ratified by the full Board (excluding Mr. Ellerbrook), provides that if the Company s performance puts it below the 25th percentile relative to its peers, the grant is forfeited. Performance by the Company between the 25th and 90th percentile of the peer group can result in the grant ranging from 0.375 to two times.

Performance by the Company at the 90th percentile and higher will result

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in the grant doubling. Based upon advice from its independent consultant, the Compensation committee concluded that this method is preferable to the use of the absolute quartile method, which relies upon measurement cliffs.

For the portion of the grant with a measuring period ending December 31, 2003, in measuring the Company s performance relative to its peers and employing linear interpolation, an award was made equal to 1.2794 the target payment. That grant, as modified for the performance adjustment, is reflected in 2003 compensation in Table I, the Summary Compensation Table, under LTIP Payouts. That grant vested as of December 31, 2004. For the portion of the grant with a measuring period ending December 31, 2004, in measuring the Company s performance relative to its peers and employing linear interpolation, an award was made equal to 1.2381 the target payment. That grant, as modified for the performance adjustment, is reflected in 2004 compensation in Table I, the Summary Compensation Table, under LTIP Payouts. That grant vested as of December 31, 2005.

On December 31, 2005, a three year measurement period ended on a grant of restricted stock made under the At Risk Plan on January 1, 2003. Similar to the grants made under the Restricted Stock Plan, the ultimate amount of the award was based upon the Company s performance (total shareholder return) relative to companies in a peer group established by the Compensation committee. In measuring the Company s performance relative to its peers and employing linear interpolation, an award was made equal to 0.6235 the target payment. That grant, as modified for the performance adjustment, is reflected in 2005 compensation in Table I, the Summary Compensation Table under LTIP Payouts. The grant is still subject to forfeiture since, except for limited circumstances provided in the At Risk Plan, *i.e.*, death or retirement, the grant recipient must remain employed by the Company for an additional year to receive the shares on an unrestricted basis.

In 2005, the Compensation committee reviewed the composition of the peer group that had been in use to determine the Company s relative Total Shareholder Return (TSR) performance. The committee decided to modify the peer group to a smaller group that would be more readily tracked for performance comparison purposes and would more closely align with the Company s attributes and business model.

In December of 2005, the Compensation committee met and decided to provide annual long-term compensation grants as part of executives total compensation opportunity for service to be provided in 2006. Those grants consisted of 100 percent restricted stock. The grants of restricted stock were effective as of January 1, 2006, the ultimate amount of which will be determined equally by (1) the Company s TSR performance relative to a peer group established by the Compensation committee and (2) the Company s earned return on equity with threshold, target, and maximum objectives established by the Compensation committee. The final determination of the grant of restricted stock will occur at the conclusion of the performance period ending December 31, 2008. With respect to the relative TSR performance, linear interpolation will be employed when performing that calculation and performance versus the peer group which is below the 25th percentile will result in a complete forfeiture of that portion, while performance at the 90th percentile will result in a doubling of that portion. With respect to earned return on equity, linear interpolation will be employed when performing that calculation and performance below threshold as established by the committee will result in a complete forfeiture of that portion, while performance at or above maximum as established by the committee will result in a doubling of that portion. Consistent with prior grants, subject to limited exceptions, the recipient will be required to remain employed by the Company through December 31, 2009 before the grant will vest.

It is the opinion of the Compensation committee that the long-term plan meets the objective of providing executive officers, as well as other principal officers, with the appropriate long-term interest in maximizing shareholder value. A participant s increased level of equity in the Company is contingent upon the additional enhancement of shareholder value relative to the performance of the Company s common stock and the Company s earned return on equity. In addition, the vesting restrictions provide an incentive for all plan participants to remain with the Company.

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C. Chief Executive Officer Compensation

The compensation of Niel C. Ellerbrook, Chairman, President and Chief Executive Officer, consists of the same components as for other executive officers, namely base salary, an at risk payment under the annual incentive plan, and an at risk long-term incentive.

In establishing Mr. Ellerbrook s total compensation for 2005, the Compensation committee considered the total compensation of other chief executive officers in comparable companies, the financial and business performance of the Company, and a subjective evaluation of the leadership role provided by Mr. Ellerbrook.

Mr. Ellerbrook s base salary was established on the same basis as the other Company officers. This basis was described previously in this report.

Mr. Ellerbrook s annual incentive opportunity and actual payment received for 2005 were established pursuant to the At Risk Plan and was based upon three of the metrics described in section B of this report with 80% of the incentive opportunity being tied to 2005 EPS and 10% being tied to each of Safety and Customer Satisfaction. With respect to 2005 EPS, Mr. Ellerbrook received $657,600, which represented 150% of the target payment opportunity. Regarding Safety, he received a payment of $25,292, and with respect to Customer Satisfaction he received a payment of $18,267, which payments represented, respectively, 46 percent and 33 percent of the applicable target payment opportunities. The methods of measurements ensured the linkage of this aspect of Mr. Ellerbrook s compensation to the Company s financial performance, as well as the maintenance of a safe workplace and customer satisfaction. Mr. Ellerbrook was eligible to receive a target annual incentive opportunity of 80 percent of salary and a maximum annual incentive of 160 percent of salary.

Mr. Ellerbrook s receipt of restricted stock under the At Risk Plan is likewise directly linked to the Company s performance.

For the same reasons expressed above with respect to the conclusion regarding the appropriateness of the total compensation provided other executive officers, it is the opinion of the Compensation committee that Mr. Ellerbrook s total compensation is reasonable and appropriate.

D. Share Ownership

The Company s share ownership policy requires officers and directors to meet share ownership targets. That policy was adopted 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, ranging from two times base salary for certain participants to five times for Mr. Ellerbrook. As of February 2, 2006, all of the five named executive officers listed in the compensation table on page 24, already exceed the established ownership requirements.

Participants who are non-employee Board members have a share ownership target of five times the annual retainer amount of $20,000. As of the February 2, 2006, all of the ten non-employee Board members, as of that date, already exceed the established ownership requirement. In the case of Mr. Smith, who was elected to the Board effective as of March 1, 2006, he does not yet comply with the ownership requirement.

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 Company stock in the Company s non-qualified deferred compensation plans, the value of vested in the money stock options and the market value of restricted shares, with market value based on the market price of the Company s common shares.

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E. Employment And Termination Benefits Agreements

In 2004, the Committee, with assistance from an independent compensation consultant, reviewed the market competitiveness of the existing forms of employment agreements between the Company and the executive officers and certain other officers. As a result of that effort the Compensation committee recommended to the Board that non renewal termination notices be provided to each officer with a contract. The effect of this action was to commence the running of the time under the contracts, which, for the executive officers, had a thirty-six (36) month term. With respect to all executive officers other than Mr. Ellerbrook, the Compensation committee recommended to the Board that new forms of agreements embodying current market terms and conditions be adopted and proffered to the executive officers for execution. Those new agreements which were accepted by such executive officers contain a number of revised terms and conditions and further provide that following the expiration of their initial terms, which in the case of the executive officers, excluding Mr. Ellerbrook, range from twenty-four (24) to thirty-six (36) months, they may be terminated by either party upon the provision of twelve (12) months prior notice. The forms of these agreements have been filed with the Securities and Exchange Commission (SEC). These employment agreements are also discussed in the next section of this report, as well as at pages 29-30 of this proxy statement.

In the case of Mr. Ellerbrook his employment agreement was terminated in 2004 with his consent and was replaced by a termination benefits agreement that is only effectuated if there is a change in control, as defined in the agreement. The termination benefits agreement provides for a payment, under defined circumstances, of an amount equivalent to three (3) times Mr. Ellerbrook s base salary and the average of the last three annual incentive payments or the then effective target annual incentive payment, whichever is higher. Mr. Ellerbrook s termination benefits agreement has also been filed with the SEC. Mr. Ellerbrook s termination benefits agreement is discussed further at pages 29-30 of this proxy statement.

F. Compensation Consultant, Termination Benefits Agreements and Deductibility Of Executive Compensation

During 2005 the Compensation committee engaged the services of an independent compensation consultant reporting directly to the Committee to consult exclusively on executive compensation. The consultant assists by evaluating the total compensation system relative to the compensation systems employed by comparable companies. The consultant also provides an additional measure of assurance that the system is a reasonable and appropriate means to achieve the Company s objectives.

As described above under the heading Employment And Termination Benefits Agreements, the Company has entered into a termination benefit agreement with Mr. Ellerbrook and employment agreements with each of the remaining executive officers. These agreements do not affect in any manner the recommendations of the Compensation committee and the determinations by the non-employee members of the Board with respect to the total compensation provided the executive officers.

In 1993, Congress enacted Section 162(m) of the Internal Revenue Code of 1986, as amended (Code), applicable to the individual executives named in the Summary Compensation Table, that disallows corporate deductibility for compensation paid in excess of One Million Dollars unless the compensation is payable solely on achievement of an objective performance goal. The At Risk Compensation Plan has been structured to give the Compensation committee the discretion to award compensation which satisfies the requirements of Section 162(m) of the 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.

G. Recommendation Regarding the Approval of the At Risk Compensation Plan

As more fully discussed with respect to Item 2, with assistance from an independent compensation consultant, the Compensation committee has reviewed the existing At Risk Plan and made a number of recommended changes to that plan to ensure it is consistent with current marketplace conditions relating to such

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plans. The Compensation committee recommended to the full Board that the plan, as modified, be approved and submitted to the shareholders for review and reapproval at this meeting. As discussed with respect to Item 2, the Board concurred with the decision of the Compensation committee and has recommended that the shareholders reapprove the plan at the Company s annual meeting.

H. Annual Review of Committee Charter and Performance Evaluation

As required by the Compensation committee s charter, in late 2005 the committee reviewed its charter and determined that no modifications were necessary or advisable at this time. Also, as required by the Compensation committee s charter, the committee conducted a performance evaluation, the results of which have been discussed among the committee members.

Compensation and Benefits Committee

Jean L. Wojtowicz, *Chair*,

Anton H. George,

R. Daniel Sadlier, and

Richard W. Shymanski

COMPENSATION

The following tabulation shows for years 2003, 2004, and 2005 the compensation paid by the Company and its subsidiaries to each of the five most highly compensated executive officers of the Company and its subsidiaries in all capacities in which they serve.

TABLE I

SUMMARY COMPENSATION TABLE

(a)	(b)	(c)	(d)	(e)	(g)	(h)	(i)
		Annual Compensation			Long-term Compensation		
Name and Principal Position	Year	Salary ($)	Bonus ($) (1)	Other Annual Compensation ($)(2)	Options (# Shares) (3)	LTIP Payouts ($)(4)	All Other Compensation ($)(5)
Niel C. Ellerbrook	2005	683,040	701,159	159,574	0	508,028	68,619
Chairman, President and	2004	674,386	336,887	127,980	85,100	557,339	79,174
Chief Executive Officer	2003	653,656	439,578	107,879	71,000	529,728	86,492

Carl L. Chapman	2005	350,098	293,831	52,445	0	152,422	28,584
Executive Vice President and	2004	329,695	56,763	40,271	32,000	189,509	32,884
Chief Operating Officer	2003	319,327	151,882	35,347	21,000	180,117	26,216
Jerome A. Benkert Jr.	2005	318,039	184,246	46,821	0	152,422	29,399
Executive Vice President and	2004	309,693	87,029	36,616	26,000	143,252	30,379
Chief Financial Officer	2003	299,328	113,250	29,156	21,000	136,142	28,885
Ronald E. Christian	2005	299,647	173,882	42,335	0	135,474	33,593
Executive Vice-President,	2004	289,694	72,368	31,536	25,000	122,643	35,626
Chief Administrative Officer,	2003	279,329	93,956	25,287	18,000	116,521	31,685
General Counsel and Secretary							
William S. Doty	2005	264,022	140,926	26,047	0	76,211	20,464
Executive Vice President	2004	259,079	64,882	18,184	16,000	61,325	17,051
Utility Operations	2003	220,656	77,178	13,060	12,000	58,273	13,344

Earnings are shown on a calendar year basis.

(1) The amounts shown in this column are exclusively payments under the Company s At Risk Compensation Plan, which is discussed above in Part B, relating to Annual Incentive Compensation, and Part C of the Compensation and Benefits Committee Report.

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(2) The amounts shown in this column are dividends paid on restricted shares issued under the Vectren Corporation Executive Restricted Stock Plan and the At Risk Compensation Plan.

(3)