LARGE FILING SEPERATOR SHEET

CASE NUMBER: 02-1668-GA-CRS

FILE DATE: 6/10/08

SECTION: 1 of 2

NUMBER OF PAGES: 151

DESCRIPTION OF DOCUMENT:

RENEWAL APP.

PUCO USE ONLY - Version 1.07		
Date Received	Renewal Certification Number	ORIGINAL CRS Case Number
		02 - 1668 - GA-CRS

RENEWAL CERTIFICATION APPLICATION
COMPETITIVE RETAIL NATURAL GAS SUPPLIERS

Please **type or print** all required information. Identify all attachments with an exhibit label and title (***Example: Exhibit A-16 - Company History***). All attachments should bear the legal name of the Applicant. Applicants should file completed applications and all related correspondence with the Public Utilities Commission of Ohio, Docketing Division, 13th Floor, 180 East Broad Street, Columbus, Ohio 43215-3793.

This PDF form is designed so that you may directly input information onto the form. You may also download the form by saving it to your local disk.

SECTION A - APPLICANT INFORMATION AND SERVICES

A-1 Applicant intends to renew its certificate as: (check all that apply)

☐ **Retail Natural Gas Aggregator** ☐ **Retail Natural Gas Broker** ☑ **Retail Natural Gas Marketer**

A-2 Applicant information:

Legal Name: Vectren Retail LLC d/b/a Vectren Source

Address: One Vectren Square, Evansville, IN 47708

Telephone No. (812) 491-4195 Web site Address www.vectrensource.com

Current PUCO Certificate No. 02-001(3) Effective Dates July 10, 2006 - July 10, 2008

A-3 Applicant information under which applicant will do business in Ohio:

Name: Vectren Source

Address: One Vectren Square, Evansville, IN 47708

Web site Address www.vectrensource.com Telephone No. (812) 491-4195

A-4 List all names under which the applicant does business in North America:

Vectren Retail LLC d/b/a Vectren Source

RECEIVED-DOCKETING DIV 2008 JUN 10 PM 4:17 PUCO

A-5 Contact person for regulatory or emergency matters:

Name Lawrence K. Friedeman Title *Senior Regulatory Counsel*

Business Address One Vectren Square, Evansville, IN 47708

Telephone No. (812) 491-4282 Fax No. (812) 492-9275 Email Address lfriedeman@vectren.com

This is to certify that the images appearing are an accurate and complete reproduction of a case file document delivered in the regular course of business.
Technician SM Date Processed 6/10/08

0001

A-6 Contact person for Commission Staff use in investigating customer complaints:

Name Sean Smith Title V.P., Customer Operations

Business address One Vectren Square, Evansville, IN 47708

Telephone No. (812) 491-4290 Fax No. (812) 492-9275 Email Address sean.smith@vectren.com

A-7 Applicant's address and toll-free number for customer service and complaints

Customer service address Vectren Source, P.O. Box 3037, Evansville, IN, 47730-3037

Toll-Free Telephone No. (866) 306-8136 Fax No. (812) 492-9275 Email Address customerservice@vectren.c

A-8 Provide "Proof of an Ohio Office and Employee," in accordance with Section 4929.22 of the Ohio Revised Code, by listing name, Ohio office address, telephone number, and Web site address of the designated Ohio Employee

Name Lawrence K. Friedeman Title Senior Regulatory Counsel

Business address 8225 Farnsworth Road, Waterville, Ohio 43566

Telephone No. (419) 878-3988 Fax No. (812) 492-9275 Email Address lfriedeman@vectren.com

A-9 Applicant's federal employer identification number 35-2146565

A-10 Applicant's form of ownership: (Check one)

- ☐ **Sole Proprietorship**
- ☐ **Partnership**
- ☐ **Limited Liability Partnership (LLP)**
- ☑ **Limited Liability Company (LLC)**
- ☐ **Corporation**
- ☐ **Other**

A-11 (Check all that apply) Identify each natural gas company service area in which the applicant is currently providing service or intends to provide service, including identification of each customer class that the applicant is currently serving or intends to serve, for example: *residential, small commercial, and/or large commercial/industrial (mercantile) customers.* (A mercantile customer, as defined in Section 4929.01(L)(1) of the Ohio Revised Code, means a customer that consumes, other than for residential use, more than 500,000 cubic feet of natural gas per year at a single location within the state or consumes natural gas, other than for residential use, as part of an undertaking having more than three locations within or outside of this state. In accordance with Section 4929.01(L)(2) of the Ohio Revised Code, "Mercantile customer" excludes a not-for-profit customer that consumes, other than for residential use, more than 500,000 cubic feet of natural gas per year at a single location within this state or consumes natural gas, other than for residential use, as part of an undertaking having more than three locations within or outside this state that has filed the necessary declaration with the Public Utilities Commission.)

✓ Columbia Gas of Ohio	✓ Residential	✓ Small Commercial	☐ Large Commercial / Industrial
✓ Dominion East Ohio	✓ Residential	✓ Small Commercial	☐ Large Commercial / Industrial
✓ Duke Energy Ohio	✓ Residential	✓ Small Commercial	☐ Large Commercial / Industrial
✓ Vectren Energy Delivery of Ohio	✓ Residential	✓ Small Commercial	☐ Large Commercial / Industrial

A-12 If applicant or an affiliated interest previously participated in any of Ohio's Natural Gas Choice Programs, for each service area and customer class, provide approximate start date(s) and/or end date(s) that the applicant began delivering and/or ended services.

☑ Columbia Gas of Ohio

✓ Residential	Beginning Date of Service	4th Quarter 2001	End Date
✓ Small Commercial	Beginning Date of Service	4th Quarter 2001	End Date
☐ Large Commercial	Beginning Date of Service		End Date
☐ Industrial	Beginning Date of Service		End Date

☑ Dominion East Ohio

✓ Residential	Beginning Date of Service	1st Quarter 2002	End Date
✓ Small Commercial	Beginning Date of Service	1st Quarter 2002	End Date
☐ Large Commercial	Beginning Date of Service		End Date
☐ Industrial	Beginning Date of Service		End Date

☑ Duke Energy Ohio

✓ Residential	Beginning Date of Service	4th Quarter 2007	End Date
✓ Small Commercial	Beginning Date of Service	4th Quarter 2007	End Date
☐ Large Commercial	Beginning Date of Service		End Date
☐ Industrial	Beginning Date of Service		End Date

☑ Vectren Energy Delivery of Ohio

✓ Residential	Beginning Date of Service	1st Quarter 2003	End Date
✓ Small Commercial	Beginning Date of Service	1st Quarter 2003	End Date
☐ Large Commercial	Beginning Date of Service		End Date
☐ Industrial	Beginning Date of Service		End Date

A-13 If not currently participating in any of Ohio's four Natural Gas Choice Programs, provide the approximate start date that the applicant proposes to begin delivering services:

☐	**Columbia Gas of Ohio**	**Intended Start Date**
☐	**Dominion East Ohio**	**Intended Start Date**
☐	**Duke Energy Ohio**	**Intended Start Date**
☐	**Vectren Energy Delivery of Ohio**	**Intended Start Date**

PROVIDE THE FOLLOWING AS SEPARATE ATTACHMENTS AND LABEL AS INDICATED.

A-14 **Exhibit A-14 "Principal Officers, Directors & Partners,"** provide the names, titles, addresses and telephone numbers of the applicant's principal officers, directors, partners, or other similar officials.

A-15 **Exhibit A-15 "Corporate Structure,"** provide a description of the applicant's corporate structure, including a graphical depiction of such structure, and a list of all affiliate and subsidiary companies that supply retail or wholesale natural gas or electricity to customers in North America.

A-16 **Exhibit A-16 "Company History,"** provide a concise description of the applicant's company history and principal business interests.

A-17 **Exhibit A-17 "Articles of Incorporation and Bylaws**, provide the articles of incorporation filed with the state or jurisdiction in which the applicant is incorporated and any amendments thereto, ***only if the contents of the originally filed documents changed since the initial application.***

A-18 **Exhibit A-18 "Secretary of State,"** provide evidence that the applicant is still currently registered with the Ohio Secretary of the State.

SECTION B - APPLICANT MANAGERIAL CAPABILITY AND EXPERIENCE

PROVIDE THE FOLLOWING AS SEPARATE ATTACHMENTS AND LABEL AS INDICATED

B-1 **Exhibit B-1 "Jurisdictions of Operation,"** provide a current list of all jurisdictions in which the applicant or any affiliated interest of the applicant is, at the date of filing the application, certified, licensed, registered, or otherwise authorized to provide retail natural gas service, or retail/wholesale electric services.

B-2 **Exhibit B-2 "Experience & Plans,"** provide a current description of the applicant's experience and plan for contracting with customers, providing contracted services, providing billing statements, and responding to customer inquiries and complaints in accordance with Commission rules adopted pursuant to Section 4929.22 of the Revised Code and contained in Chapter 4901:1-29 of the Ohio Administrative Code.

B-3 **Exhibit B-3 "Summary of Experience,"** provide a concise and current summary of the applicant's experience in providing the service(s) for which it is seeking renewed certification (e.g., number and types of customers served, utility service areas, volume of gas supplied, etc.).

B-4 **Exhibit B-4 "Disclosure of Liabilities and Investigations,"** provide a description of all existing, pending or past rulings, judgments, contingent liabilities, revocations of authority, regulatory investigations, or any other matter that could adversely impact the applicant's financial or operational

status or ability to provide the services for which it is seeking renewed certification since applicant last filed for certification.

B-5 **Exhibit B-5 "Disclosure of Consumer Protection Violations,"** disclose whether the applicant, affiliate, predecessor of the applicant, or any principal officer of the applicant has been convicted or held liable for fraud or for violation of any consumer protection or antitrust laws since applicant last filed for certification.

☑ **No** ☐ **Yes**

If Yes, provide a separate attachment labeled as Exhibit B-5 "Disclosure of Consumer Protection Violations," detailing such violation(s) and providing all relevant documents.

B-6 **Exhibit B-6 "Disclosure of Certification Denial, Curtailment, Suspension, or Revocation,"** disclose whether the applicant or a predecessor of the applicant has had any certification, license, or application to provide retail natural gas or retail/wholesale electric service denied, curtailed, suspended, or revoked, or whether the applicant or predecessor has been terminated from any of Ohio's Natural Gas Choice programs, or been in default for failure to deliver natural gas since applicant last filed for certification.

☑ **No** ☐ **Yes**

If Yes, provide a separate attachment, labeled as Exhibit B-6 "Disclosure of Certification Denial, Curtailment, Suspension, or Revocation," detailing such action(s) and providing all relevant documents.

SECTION C - APPLICANT FINANCIAL CAPABILITY AND EXPERIENCE

PROVIDE THE FOLLOWING AS SEPARATE ATTACHMENTS AND LABEL AS INDICATED

C-1 **Exhibit C-1 "Annual Reports,"** provide the two most recent Annual Reports to Shareholders. If applicant does not have annual reports, the applicant should provide similar information, labeled as Exhibit C-1, or indicate that Exhibit C-1 is not applicable and why.

C-2 **Exhibit C-2 "SEC Filings,"** provide the most recent 10-K/8-K Filings with the SEC. If applicant does not have such filings, it may submit those of its parent company. If the applicant does not have such filings, then the applicant may indicate in Exhibit C-2 whether the applicant is not required to file with the SEC and why.

C-3 **Exhibit C-3 "Financial Statements,"** provide copies of the applicant's two most recent years of audited financial statements (balance sheet, income statement, and cash flow statement). If audited financial statements are not available, provide officer-certified financial statements. If the applicant has not been in business long enough to satisfy this requirement, it shall file audited or officer-certified financial statements covering the life of the business.

C-4 **Exhibit C-4 "Financial Arrangements,"** provide copies of the applicant's current financial arrangements to conduct competitive retail natural gas service (CRNGS) as a business activity (e.g., guarantees, bank commitments, contractual arrangements, credit agreements, etc.)

C-5 **Exhibit C-5 "Forecasted Financial Statements,"** provide two years of forecasted financial statements (balance sheet, income statement, and cash flow statement) for the applicant's CRNGS operation, along with a list of assumptions, and the name, address, email address, and telephone number of the preparer.

C-6 **Exhibit C-6 "Credit Rating,"** provide a statement disclosing the applicant's current credit rating as reported by two of the following organizations: Duff & Phelps, Dun and Bradstreet Information Services, Fitch IBCA, Moody's Investors Service, Standard & Poors, or a similar organization. In instances where an applicant does not have its own credit ratings, it may substitute the credit ratings of a parent or affiliate organization, provided the applicant submits a statement signed by a principal officer of the applicant's parent or affiliate organization that guarantees the obligations of the applicant.

C-7 **Exhibit C-7 "Credit Report,"** provide a copy of the applicant's current credit report from Experion, Dun and Bradstreet, or a similar organization.

C-8 **Exhibit C-8 "Bankruptcy Information,"** provide a list and description of any reorganizations, protection from creditors, or any other form of bankruptcy filings made by the applicant, a parent or affiliate organization that guarantees the obligations of the applicant or any officer of the applicant in the current year or since applicant last filed for certification.

C-9 **Exhibit C-9 "Merger Information,"** provide a statement describing any dissolution or merger or acquisition of the applicant since applicant last filed for certification.

SECTION D – APPLICANT TECHNICAL CAPABILITY

PROVIDE THE FOLLOWING AS SEPARATE ATTACHMENTS AND LABEL AS INDICATED.

D-1 **Exhibit D-1 "Operations,"** provide a current written description of the operational nature of the applicant's business. Please include whether the applicant's operations will include the contracting of natural gas purchases for retail sales, the nomination and scheduling of retail natural gas for delivery, and the provision of retail ancillary services, as well as other services used to supply natural gas to the natural gas company city gate for retail customers.

D-2 **Exhibit D-2 "Operations Expertise,"** given the operational nature of the applicant's business, provide evidence of the applicant's current experience and technical expertise in performing such operations.

D-3 **Exhibit D-3 "Key Technical Personnel,"** provide the names, titles, email addresses, telephone numbers, and background of key personnel involved in the operational aspects of the applicant's current business.

Applicant Signature and Title President

Sworn and subscribed before me this 13th **day of** May **Month** 2008 **Year**

Signature of official administering oath **Print Name and Title** Jane E. Nichols

NOTARY PUBLIC SEAL INDIANA

My commission expires on

JANE NICHOLS
A NOTARY PUBLIC, STATE OF INDIANA
POSEY COUNTY
MY COMMISSION EXP. JUNE 16, 2012

The Public Utilities Commission of Ohio

Competitive Retail Natural Gas Service
Affidavit Form
(Version 1.07)

In the Matter of the Application of)
Vectren Retail, LLC dba Vectren Source)
for a Certificate or Renewal Certificate to Provide)
Competitive Retail Natural Gas Service in Ohio.)

Case No. 02 - 1668 **-GA-CRS**

County of Posey
State of Indiana

Gregory F. Collins [Affiant], being duly sworn/affirmed, hereby states that:

(1) The information provided within the certification or certification renewal application and supporting information is complete, true, and accurate to the best knowledge of affiant.

(2) The applicant will timely file an annual report of its intrastate gross receipts and sales of hundred cubic feet of natural gas pursuant to Sections 4905.10(A), 4911.18(A), and 4929.23(B), Ohio Revised Code.

(3) The applicant will timely pay any assessment made pursuant to Section 4905.10 or Section 4911.18(A), Ohio Revised Code.

(4) Applicant will comply with all applicable rules and orders adopted by the Public Utilities Commission of Ohio pursuant to Title 49, Ohio Revised Code.

(5) Applicant will cooperate with the Public Utilities Commission of Ohio and its staff in the investigation of any consumer complaint regarding any service offered or provided by the applicant.

(6) Applicant will comply with Section 4929.21, Ohio Revised Code, regarding consent to the jurisdiction of the Ohio courts and the service of process.

(7) Applicant will inform the Public Utilities Commission of Ohio of any material change to the information supplied in the certification or certification renewal application within 30 days of such material change, including any change in contact person for regulatory or emergency purposes or contact person for Staff use in investigating customer complaints.

(8) Affiant further sayeth naught.

Affiant Signature & Title President

Sworn and subscribed before me this 13th **day of** May **Month** 2008 **Year**

Signature of Official Administering Oath **Print Name and Title** Jane E. Nichols

NOTARY PUBLIC SEAL INDIANA

My commission expires on

JANE NICHOLS
A NOTARY PUBLIC, STATE OF INDIANA
POSEY COUNTY
MY COMMISSION EXP. JUNE 16, 2012

180 East Broad Street • Columbus, OH 43215-3793 • (614) 466-3016 • www.PUCO.ohio.gov
The Public Utilities Commission of Ohio is an Equal Opportunity Employer and Service Provider

0207

EXHIBIT A-14

PRINCIPAL OFFICERS, DIRECTORS & PARTNERS

Board of Representatives:

Vectren Energy Retail, Inc Ronald E. Christian	One Vectren Square Evansville, IN 47708	812-491-4000
Vectren Ventures, Inc Gregory F. Collins	One Vectren Square Evansville, IN 47708	812-491-4281

President:

Gregory F. Collins	One Vectren Square Evansville, IN 47708	812-491-4281

Vice President, Customer Operations:

Sean Smith	One Vectren Square Evansville, IN 47708	812-491-4290

Vice President and Controller:

Tamara R. Wilson	One Vectren Square Evansville, IN 47708	812-491-4284

Vice President, Treasurer, and Assistant Secretary:

Robert L. Goocher	One Vectren Square Evansville, IN 47708	812-491-4080

Vice President, Secretary, and Assistant Treasurer:

Ronald E. Christian	One Vectren Square Evansville, IN 47708	812-491-4202

EXHIBIT A-15

CORPORATE STRUCTURE

Applicant, Vectren Retail, LLC (Vectren Source), an indirect, wholly owned subsidiary of Vectren Corporation, has as its mission to engage in competitive natural gas and power sales to residential and small commercial consumers. Vectren Source was certified as a Competitive Retail Natural Gas Supplier by the Public Utilities Commission of Ohio in July 2002 and is currently serving retail access customers in the Columbia Gas of Ohio, Dominion East Ohio, Duke Energy Ohio and Vectren Energy Delivery of Ohio service territories. Also, Vectren Source has been approved as a competitive natural gas marketer in the Northern Indiana Public Service Company retail access program and has been an active participant in that market since September 2002. Additionally, Vectren Source was certificated by the Georgia Public Service Commission and is currently serving residential and small commercial customers in the Atlanta Gas Light Company territory. Vectren Source was licensed by the Pennsylvania Public Utility Commission as well as the New York Public Service Commission to engage in retail marketing activities in December 2003 and 2005 respectively.

Vectren Source adopts conservative supply planning strategies consistent with its mission to serve residential and small commercial customers. Thus, Vectren Source does not engage in speculative trading practices. Arbitrage activities are performed only as a tool for risk mitigation or maximization of asset value.

In addition to its own resources, Vectren Corporation provides financial support for Vectren Source's service obligations. Vectren Corporation is an energy and applied technology holding company headquartered in Evansville, Indiana. Vectren Corporation was formed through the combination of Indiana Energy, Inc. and Sigcorp, Inc. and began operations as Vectren Corporation on March 31, 2000. On October 31, 2000, Vectren Corporation acquired the natural gas distribution assets of The Dayton Power and Light Company located in western Ohio.

Vectren Corporation's regulated subsidiaries deliver gas and/or electricity to approximately one million customers in adjoining service territories that cover two-thirds of Indiana and west central Ohio. Vectren Corporation is also a low cost provider of wholesale electricity to other utilities and power marketers in the Midwest.

Vectren Corporation's non-regulated businesses provide products and services built on the company's core strengths and customer relationships. The three primary business groups are Energy Marketing and Services, Coal Mining, and Energy Infrastructure Services. In addition, the non-regulated group has investments in other businesses, including energy-related ventures.

Affiliate companies of Vectren Source that supply retail or wholesale natural gas or electricity to customers in North America include:

- ProLiance Energy, LLC
- Vectren Energy Delivery
- Indiana Gas Company d/b/a Vectren Energy Delivery of Indiana, Inc.
- Southern Indiana Gas and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc.
- Vectren Energy Delivery of Ohio, Inc.

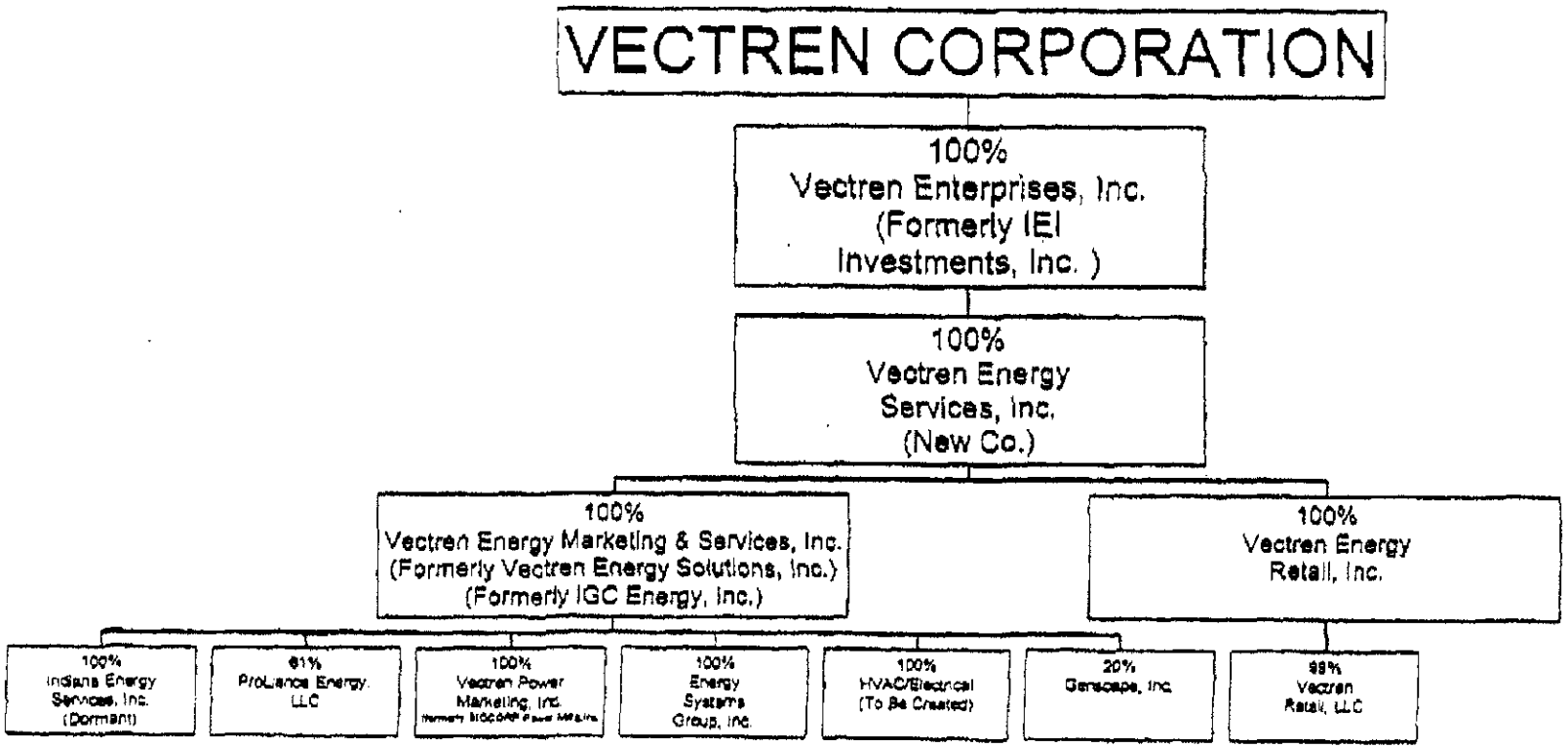

VECTREN CORPORATION
100%
Vectren Enterprises, Inc.
(Formerly IEI
Investments, Inc.)
100%
Vectren Energy
Services, Inc.
(New Co.)
100%
Vectren Energy Marketing & Services, Inc.
(Formerly Vectren Energy Solutions, Inc.)
(Formerly IGC Energy, Inc.)
100%
Vectren Energy
Retail, Inc.
100%
Indiana Energy
Services, Inc.
(Dormant)
61%
ProLance Energy,
LLC
100%
Vectren Power
Marketing, Inc.
100%
Energy
Systems
Group, Inc.
100%
HVAC/Electrical
(To Be Created)
20%
Genscape, Inc.
99%
Vectren
Retail, LLC

EXHIBIT A-16

COMPANY HISTORY

BACKGROUND

Vectren Source was formed in 2001 for the express purpose of selling retail energy commodity and other value added products and services to residential and small commercial customers. Vectren Source is an indirect, wholly-owned subsidiary of Vectren Corp., charged with selling deregulated energy (natural gas) and other products and services in select geographic regions, including Indiana, Ohio, New York, and Georgia.

MISSION

To create, or search out, and flawlessly deliver innovative products and services to save our customers money and make them more comfortable and secure.

EXHIBIT A-17

ARTICLES OF ORGANIZATION AND BYLAWS

The Articles of Organization and Bylaws have not changed since Vectren Source's initial Application in 2002.

EXHIBIT A-18

SECRETARY OF STATE CERTIFICATE

United States of America
State of Ohio
Office of the Secretary of State

I, Jennifer Brunner, do hereby certify that I am the duly elected, qualified and present acting Secretary of State for the State of Ohio, and as such have custody of the records of Ohio and Foreign business entities; that said records show VECTREN RETAIL, LLC, an Indiana Limited Liability Company, Registration Number 1255668, filed on September 27, 2001, is currently in FULL FORCE AND EFFECT upon the records of this office.

Witness my hand and the seal of the Secretary of State at Columbus, Ohio this 6th day of May, A.D. 2008

Ohio Secretary of State

Validation Number: V2008126M351EB

EXHIBIT B-1

JURISDICTION OF OPERATION

In the State of Ohio, Vectren Source is currently providing retail natural gas service in the Columbia Gas of Ohio, Dominion East Ohio, Duke Energy Ohio and Vectren Energy Delivery of Ohio service territories. In September 2002, Vectren Source initiated competitive retail gas supply services in the State of Indiana pursuant to approval by the Northern Indiana Public Service Company. Further, in December 2003 the Pennsylvania Public Utility Commission granted a license to furnish competitive natural gas supply services within the Columbia Gas of Pennsylvania Service Territory. In July 2004, Vectren Source was certificated by the Georgia Public Service Commission and began serving residential and small commercial customers in the Atlanta Gas Light Company territory. Most recently, in 2005 Vectren Source was certificated by the New York Public Service Commission and began serving residential and small commercial customers.

EXHIBIT B-2

EXPERIENCE AND PLANS

Vectren Source first entered the Columbia Gas of Ohio CHOICE program as a marketer in the fourth quarter of 2001 and has executed a number of campaigns since in the Columbia Gas of Ohio, Dominion East Ohio, Duke Energy Ohio and Vectren Energy Delivery of Ohio service territories. Vectren Source plans to continue acquisition and retention efforts as part of its business model. Upon enrollment by the customer, Vectren Source mails a confirmation letter detailing the terms and conditions of the contract. Vectren Source employs utility consolidated billing for its retail customers in Ohio.

Responding to customer inquiries and complaints:

Normal customer service hours are Monday – Friday, 8 AM – 8 PM, Eastern Standard Time. When customer concerns are received at Vectren Source's Customer Care center, the issue is researched to determine all factors influencing the concern. Once the factors involved in the issue are established, contact with the customer is made in an attempt to reach an amicable resolution. If a public agency is involved in the dispute resolution process, once an investigation is complete, the agency is notified of the results and, assuming concurrence, the matter is closed. If the customer disputes the investigation report, Vectren Source will inform the customer that PUCO Staff is available to mediate complaints.

EXHIBIT B-3

SUMMARY OF EXPERIENCE

Vectren Source has provided natural gas services to Ohio customers since December 2001. Vectren Source has marketed and acquired customers in Dominion East Ohio, Columbia Gas of Ohio, Duke Energy Ohio and Vectren Energy Delivery of Ohio service territories. Vectren Source currently serves in excess of 115,000 residential and small commercial customers in these Ohio service territories. From the inception of retail activities in the fourth quarter of 2001 through calendar year 2007, the volume of gas supplied to these consumers has been approximately 39.7 bcf.

While Vectren Source employs utility consolidated billing for its retail activities in Ohio, Vectren Source does provide supplier consolidated billing services in the State of Georgia. Those billing services require the consolidation of all utility related charges as well as supply related charges in a single bill.

EXHIBIT B-4

DISCLOSURE OF LIABILITIES AND INVESTIGATIONS

Not Applicable.

EXHIBIT C-1

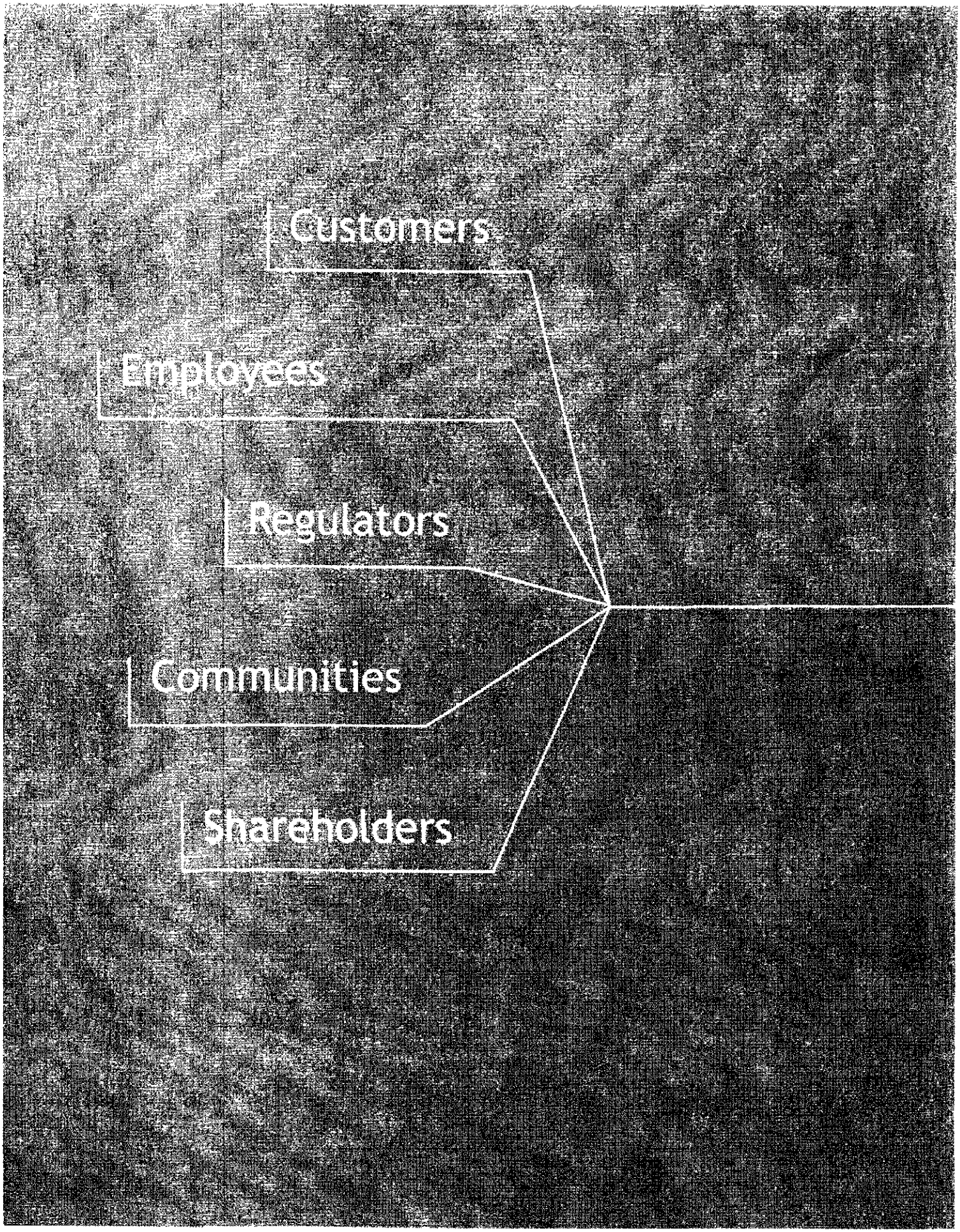
ANNUAL REPORTS

Vectren Source does not produce Annual Reports. Therefore, the two most recent Annual Reports for Vectren Corp. accompany this Application.

Vectren Corporation 2007 Summary Annual Report

Tough Questions

Honest Answers


Customers
Employees
Regulators
Communities
Shareholders

Vectren

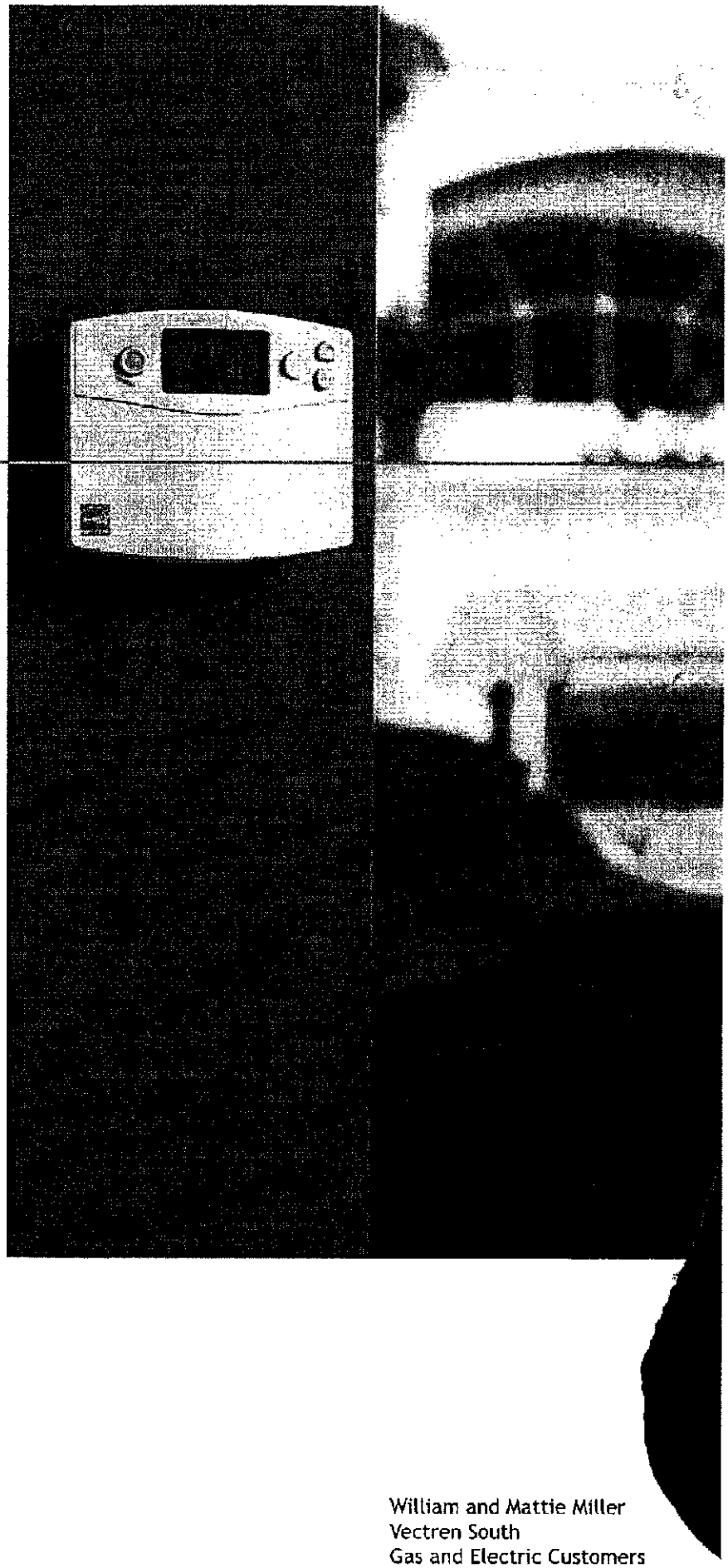
In the past, the interests of our stakeholders were sometimes at odds.

Regulatory constraints determined how we served our customers and how we charged for that service.

The past year has seen changes — for the better. The interests of Vectren and our stakeholders are now becoming aligned.

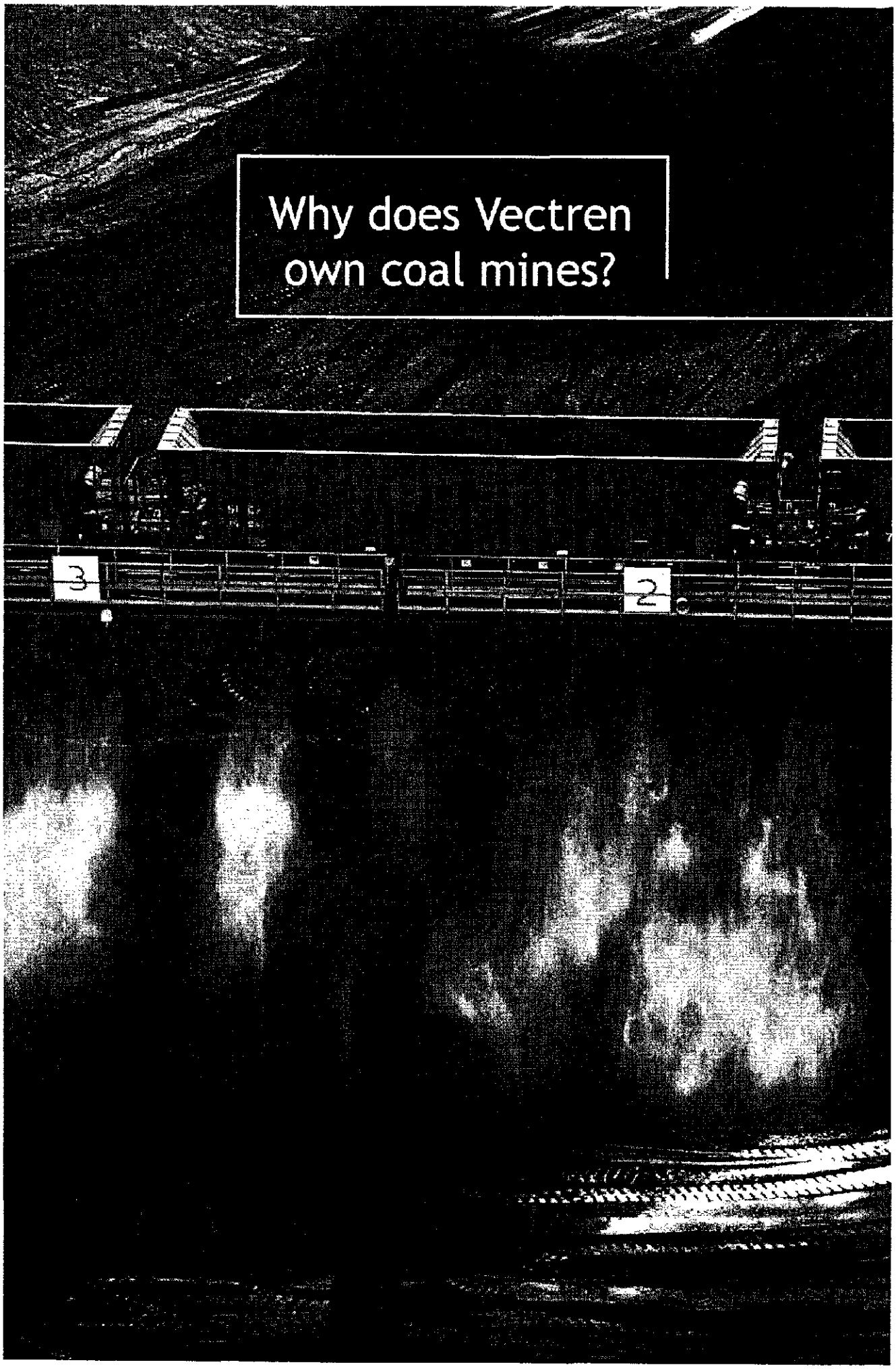
Let us show you how.

Why would Vectren want to lower my energy bills?



William and Mattie Miller
Vectren South
Gas and Electric Customers
Evansville, Indiana

Why does Vectren own coal mines?



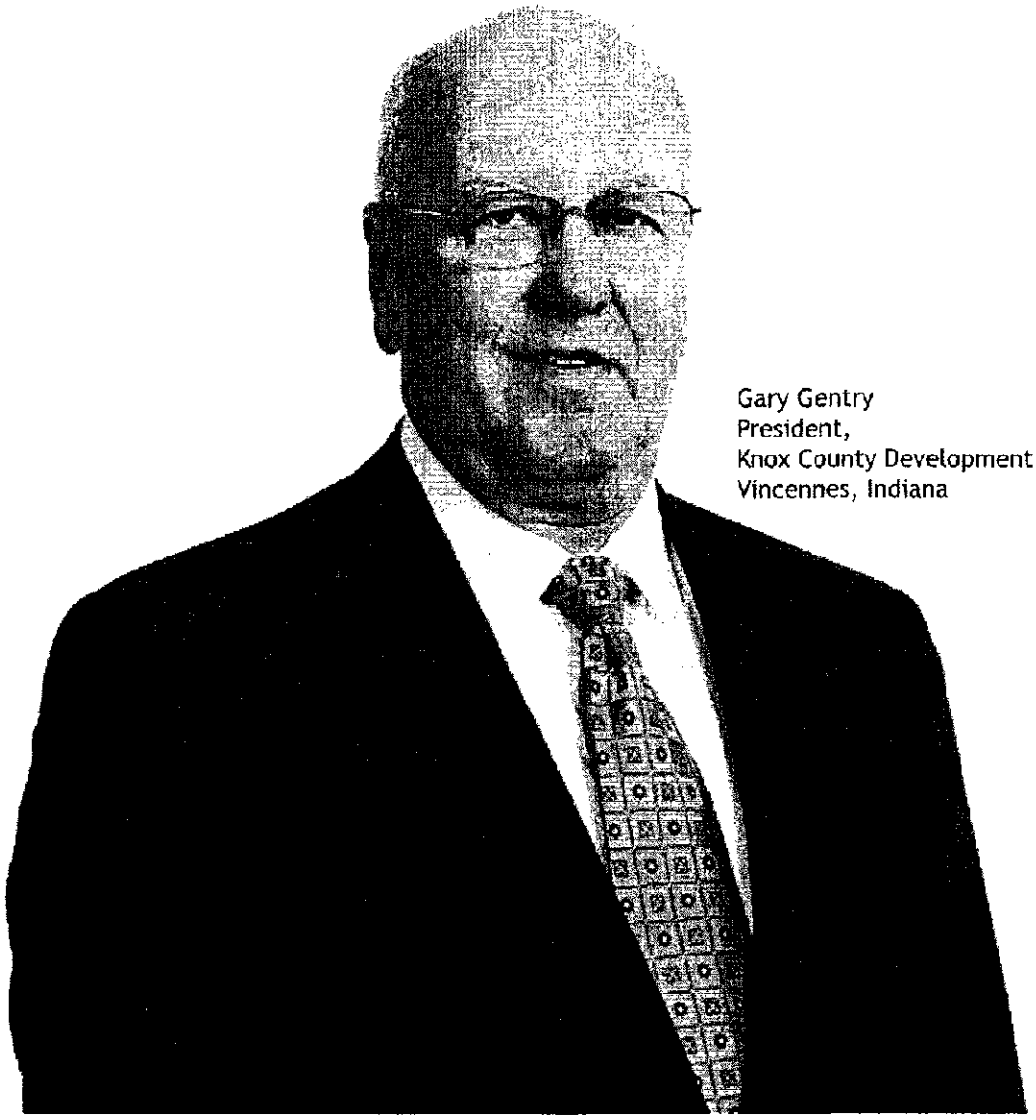
availability and value

Coal is the logical resource to generate the power needed to meet our customers' needs here in the Midwest. With several billion tons of coal reserves available in southwestern Indiana, it's hard to overlook a reliable, low-cost energy source sitting in our backyard.

The local coal industry provides thousands of jobs, fuels economic development and provides a domestic source of energy – specifically for southwestern Indiana. For Vectren, coal powers most of our generation fleet that serves more than 140,000 Hoosiers.

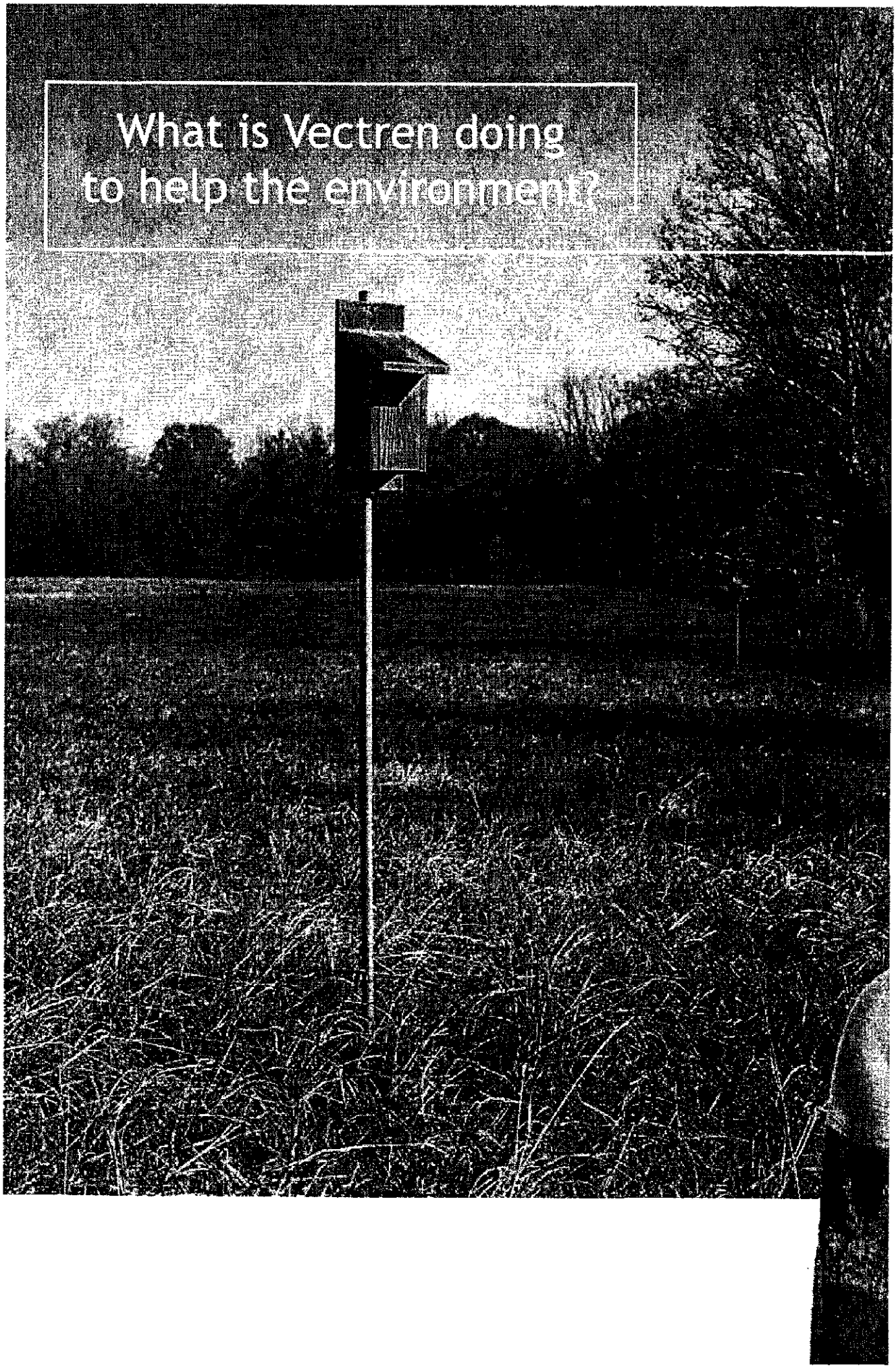
We value local mines serving local customers and believe strongly in homegrown, Indiana energy. So strongly that we are in the process of opening two more underground mines in southwestern Indiana, which will more than double our current production. When fully operational in 2010, the new mines will have created more than 400 new jobs and brought millions of dollars in economic growth to Knox County and the surrounding areas. These additional jobs will more than double Vectren's mining workforce.

Coal will and must remain a part of Indiana's and the nation's energy portfolio – especially given the growing need for electricity. Coal-fired plants produce more than 70 percent of the electricity generated in Indiana and the surrounding states. And with the advancements in clean coal technologies, it's never made more sense to tap into this abundant local energy source.



Gary Gentry
President,
Knox County Development Corp.
Vincennes, Indiana

What is Vectren doing to help the environment?



education and sustainability

Minimizing the environmental impact of our power generation fleet and energy delivery operations is paramount. Vectren employees are Vectren customers. We live and work in the same communities – sharing the same air, water and natural resources with customers like Diane Igleheart.

We're proud to say Vectren's coal-fired electric generation fleet is one of the cleanest in Indiana and among the cleanest in the Midwest. While others have delayed implementation of emission control equipment, we've blazed a trail for others to follow. By early 2009, Vectren's entire electric generation fleet will be 100 percent scrubbed for sulfur dioxide, 90 percent controlled for nitrogen oxide and will further reduce mercury emissions to help meet potential future mercury reduction requirements.

At the same time, Vectren is turning its sights on Indiana-based renewable energy sources. Partnering with a Benton County, Indiana wind farm, we will be purchasing 30 megawatts of wind power by mid-2008. Not only will renewable energy become a part of our generation portfolio, but also Vectren customers soon could have the opportunity to purchase more renewable energy at a fixed monthly charge through our Green Power program.

Now we are turning our attention to our carbon footprint. We are early in the process of creating initiatives to minimize our carbon output, which will focus on our energy delivery fleet and overall energy consumption.

Diane Igleheart
Vectren Shareholder and
Life Trustee & Former Chair of the Indiana
Chapter of The Nature Conservancy
Evansville, Indiana

Why does Vectren give money to communities instead of lowering bills further?

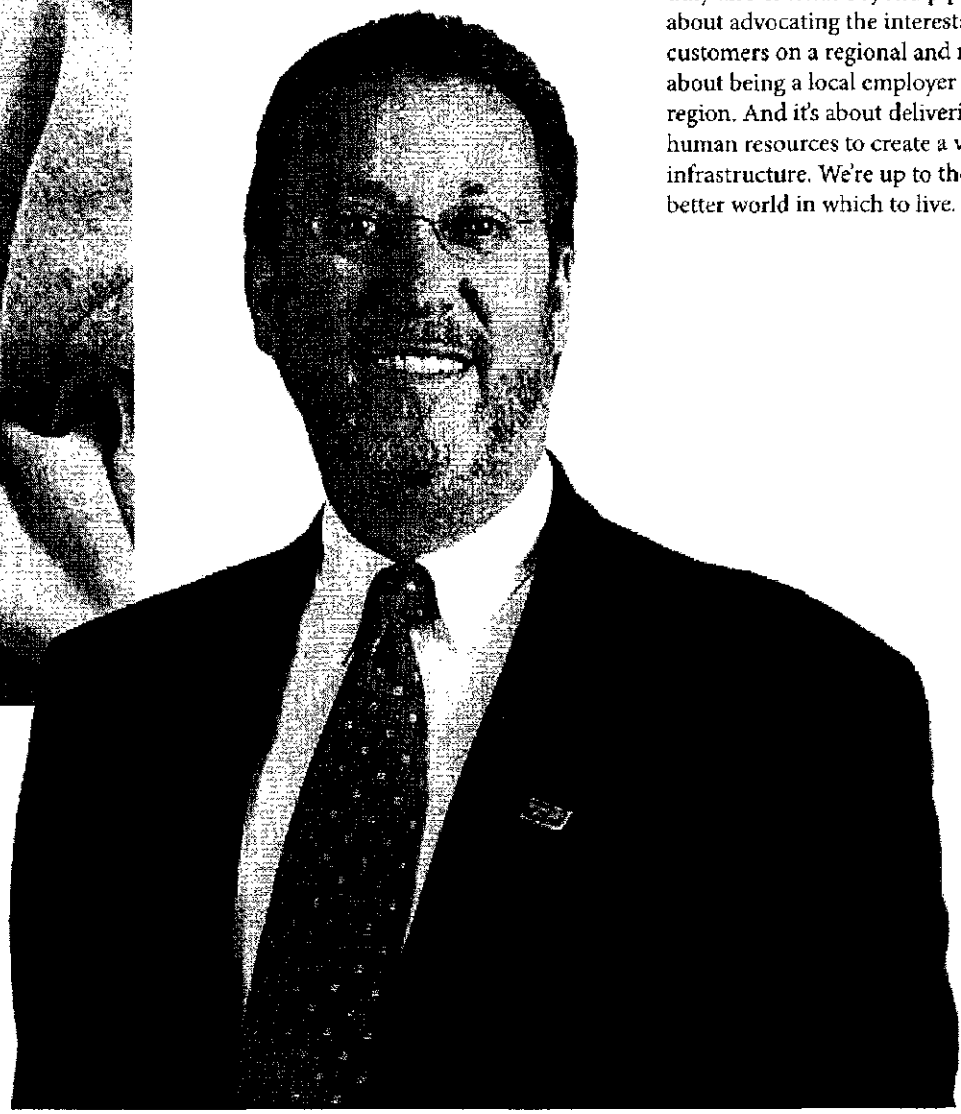
Marc R. Levy
President and CEO,
United Way of the
Greater Dayton Area
Dayton, Ohio

Commitment and values

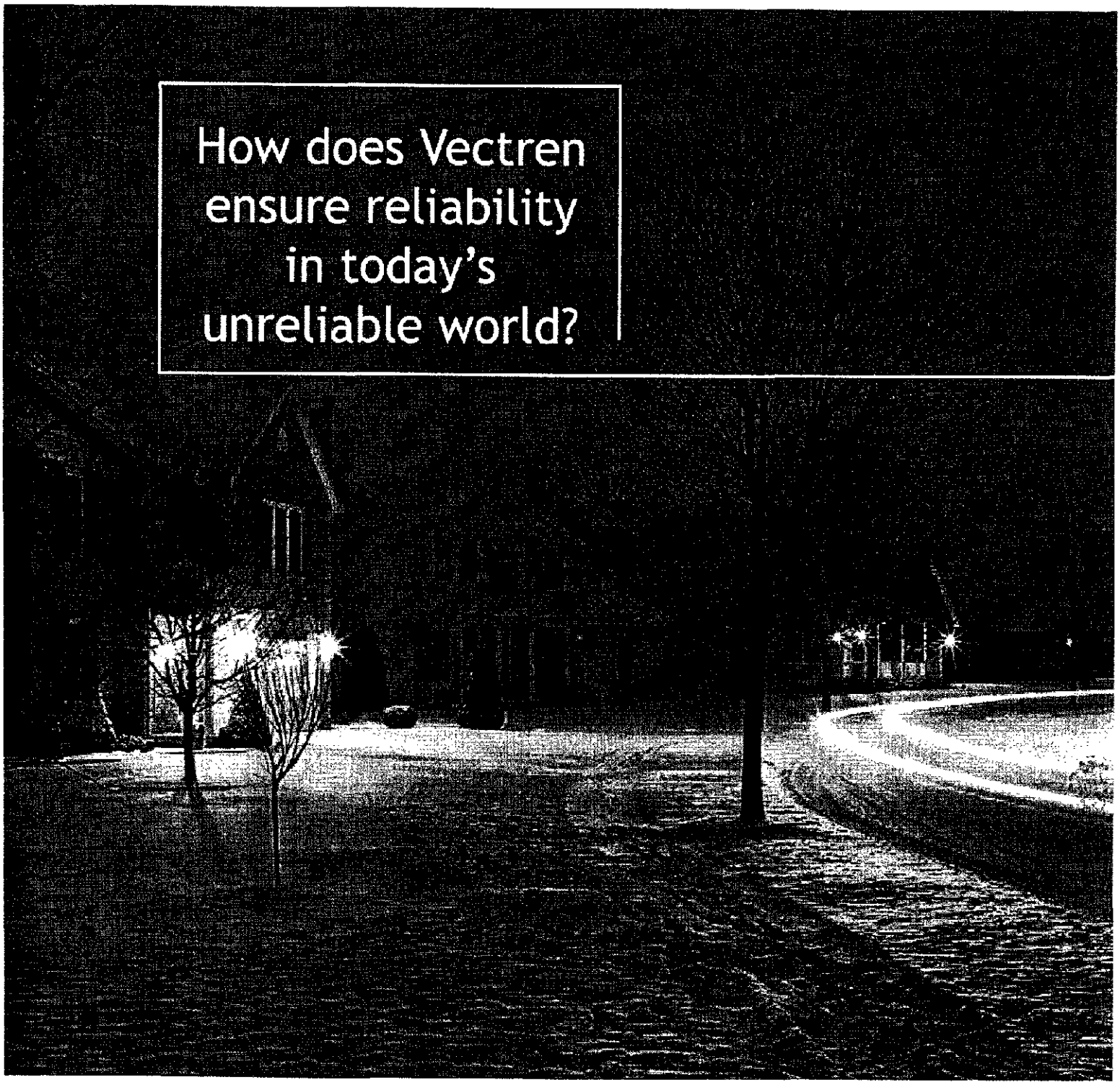
Many say you can judge the vitality of a community by the financial stability of its social service agencies. Vectren management and shareholders agree. Through the Vectren Foundation, we've donated nearly $13 million since 2000 to hundreds of civic, education and nonprofit organizations throughout our service territory. And we've done so primarily at the expense of returns to our shareholders, such as the $5.8 million contribution to the Foundation that was made from 2007 synfuel-related earnings that will help the Foundation make future contributions.

At the same time, our employees continue to set new standards for giving – both of their time and money. Vectren employees logged more than 21,000 hours in community service in 2007 and were responsible for nearly $415,000 in gifts to 60 different United Ways and their agencies throughout the Vectren service territory, such as the one that serves the Greater Dayton, Ohio area.

Our primary commitment is making sure your lights come on and that your home is comfortable during the heating season. Yet our duty also extends beyond pipes and wires. It's about advocating the interests of Indiana and Ohio customers on a regional and national level. It's about being a local employer and investing in our region. And it's about delivering the financial and human resources to create a viable social services infrastructure. We're up to the challenge of creating a better world in which to live.



How does Vectren ensure reliability in today's unreliable world?



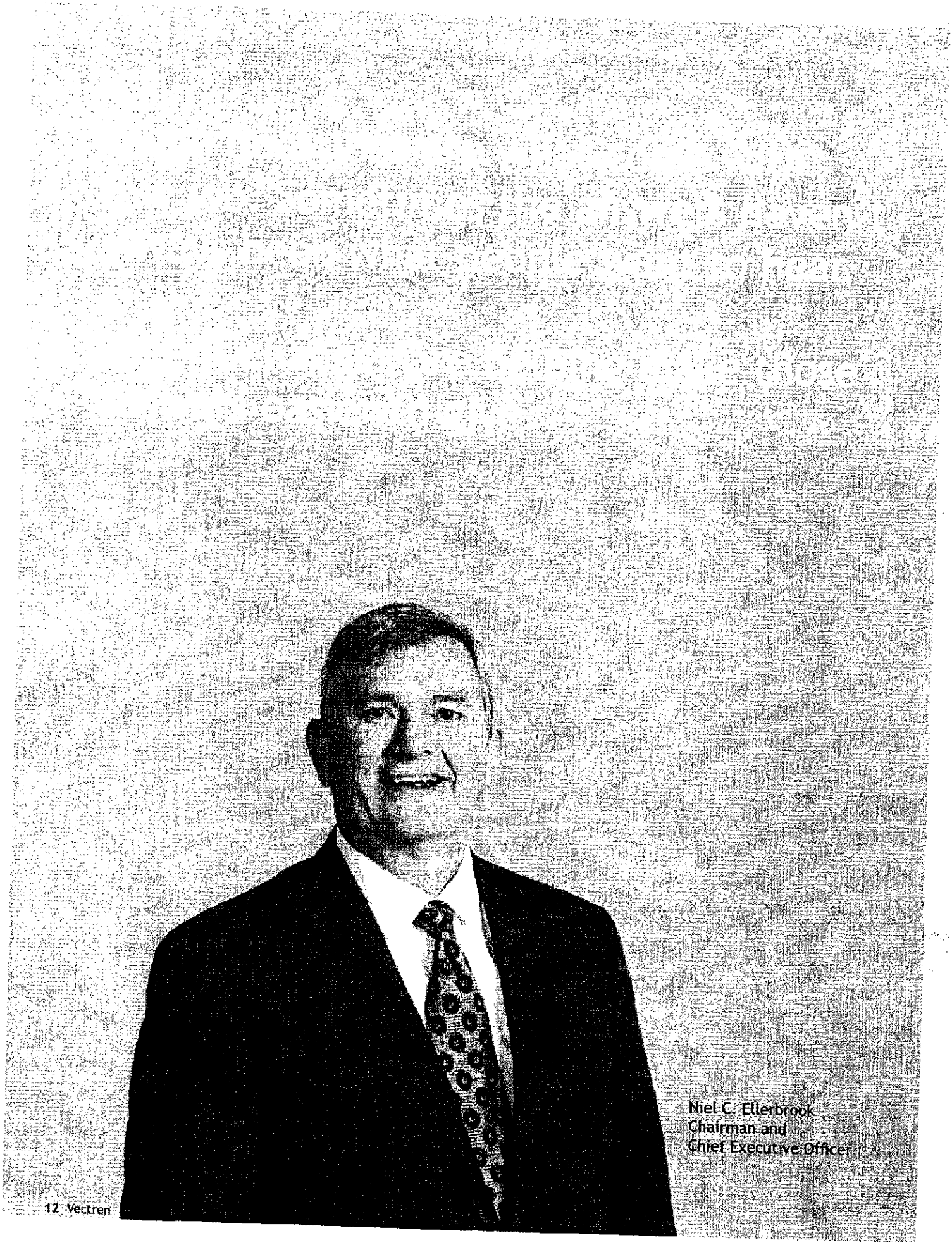
Amber and Preston Van Til
Vectren North Gas Customers
Greenwood, Indiana

collaboration and innovation

Most people only think about Vectren once a month. We prefer it that way. Our employees take pride in providing safe, reliable energy that often goes unnoticed – whether it's heating a home during a holiday party or fueling the assembly line of a local manufacturer.

Vectren's nonutility companies align well with our energy delivery business to offer customers the same peace of mind. There's a Miller Pipeline crew replacing eight miles of aging natural gas pipeline in Dayton, Ohio. Energy Systems Group is implementing an energy efficiency overhaul to an elementary school in Terre Haute, Indiana. Vectren Source is assisting municipalities and their residents manage energy costs in Ohio's competitive natural gas market. And ProLiance Energy is providing school corporations with the ability to bundle natural gas purchases so they can reduce the cost of one of their largest budget items.

With a focus on reliability, safety and customer service, Vectren and our nonutility companies are addressing the energy-related needs of our customers, like the Van Tils, adapting to the ever-changing energy environment and providing short and long-term solutions to our country's energy challenges.



Niel C. Ellerbrook
Chairman and
Chief Executive Officer

Letter To Shareholders:

Tough questions. Honest answers. From our customers to our investors, most of our stakeholders have certain views of energy companies – whether they are based on past experiences, basic assumptions or simple hearsay. These often long-standing opinions shape the way they react to our business model. Since our inception in 2000, we've been working diligently to break those paradigms and set a new standard of what it means to be an energy company in the 21st century. We want to be a customer advocate – not just a provider of basic necessities. We want to provide responsible environmental stewardship – not just responses to regulatory mandates. We want to be a part of the solution to our nation's energy crisis – not a roadblock.

We want our stakeholders to hold us accountable, ask questions and expect more, whether that individual be an energy delivery customer, a shareholder or an environmentalist. It's our intention to continue to take on the tough obstacles that present themselves in this ever-evolving energy industry and to do so transparently with the needs of our customers at the forefront. I'm proud to say we have successfully met many of these challenges, and more importantly, we have done so while simultaneously meeting investor expectations.

Financial Accomplishments

This past year was by all measures a financial success as reported 2007 net income was $143.1 million, or $1.89 per share, compared to $108.8 million, or $1.44 per share, in 2006. Earnings from Vectren's utilities were up sharply to $106.5 million in 2007 from $91.4 million in 2006. Factors that contributed to the increase were the implementation of new base rates in both the gas and electric divisions of our Indiana South territory, higher customer usage, and a full year of conservation-oriented rate structures (often referred to as decoupling) in both our Indiana and Ohio natural gas service territories.

Vectren's nonutility portfolio, excluding synfuel-related results which ended in 2007, was again a significant contributor to corporate earnings with $34.0 million compared to $23.4 million in 2006. The increase was primarily attributable to higher earnings from Miller Pipeline (Miller) and the nonrecurring, unfavorable impact of a litigation settlement involving ProLiance Energy (ProLiance) recorded in the fourth quarter of 2006.

The decision to purchase the remaining 50 percent of Miller in July 2006 and make it a wholly-owned subsidiary certainly reaped rewards in 2007. The pipeline construction and rehabilitation company contributed record earnings to Vectren of $6.1 million compared to $2.3 million in 2006. Working in collaboration with Vectren's utilities and many others throughout the Midwest and Southeast, Miller has positioned itself to help its customers tackle the costly aging infrastructure issues facing the energy, water and wastewater industries.

ProLiance, the natural gas marketer of which Vectren owns 61 percent, reported a contribution to Vectren's 2007 earnings of $22.9 million, compared to $18.3 million the prior year. The increase was primarily due to the nonrecurring 2006 litigation settlement. Although operating earnings were down modestly year over year due to lower natural gas price volatility, ProLiance has continued to grow its storage capacity and optimization opportunities. By the end of 2008, ProLiance will have increased its firm storage capacity to nearly 50 billion cubic feet (Bcf) from 35 Bcf in 2006. This increase will allow ProLiance to further grow its earnings based on presumed continuing volatility in the natural gas market.

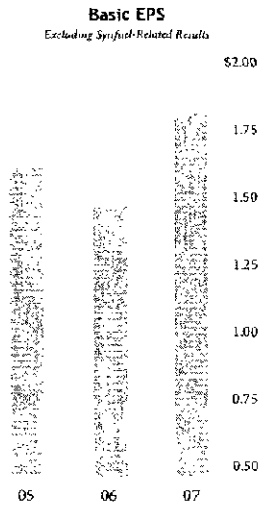
Energy Systems Group (ESG) continues to prove itself as a leader in performance-based, energy-efficiency contracting services and renewable energy projects. The wholly-owned subsidiary recorded increased earnings of $4.0 million, compared to $3.1 million in 2006, due primarily to higher revenues recorded from the monetization of the record backlog at the end of 2006. In January, the U.S. Environmental Protection Agency (EPA) awarded ESG a 2007 Project of the Year award for its Johnson City, Tennessee landfill waste-to-energy project. Recent federal legislation should continue to assist ESG's growth in these types of renewable energy projects.

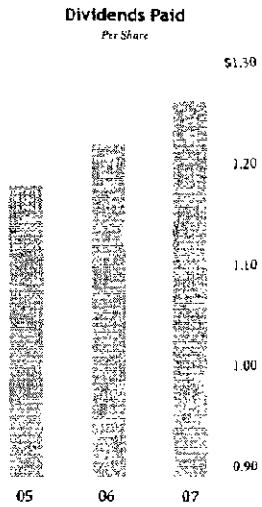
Although Vectren's generation fleet, which is primarily coal fired, and a number of other coal-fired systems throughout Indiana have spurred growth for Vectren Fuels (Fuels), 2007 results for this wholly-owned coal mining subsidiary were impacted by the effects of compliance with revised Mine Safety and Health Administration (MSHA) mine seal guidelines. The lost production time and higher sulfur content from coal mined under the revised mining plan due to the implementation of the MSHA guidelines caused Fuels' earnings to fall to $2.0 million compared to $5.0 million in 2006. Increases in coal prices and process improvements are expected to improve earnings over the next 12 months, and the anticipated 2009 opening of the first of two new Knox County, Indiana mines will continue to provide growth.

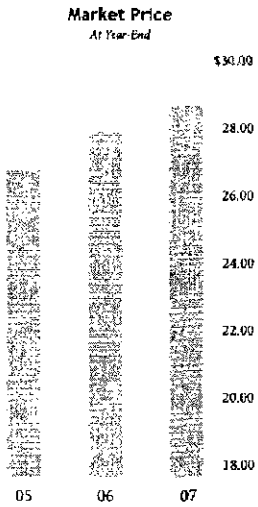
Financial and Operating Highlights

In millions, except per share amounts	Year ended December 31, 2007	2006	2005
Net income	**$ 143.1**	$108.8	$136.8
Net income, excluding synfuel-related results[1]	**140.1**	114.1	125.1
Return on average common shareholders' equity (ROE)	**11.9%**	9.4%	12.2%
ROE, excluding synfuel-related results[1]	**11.6%**	9.8%	11.2%
Shares outstanding at year-end	**76.3**	76.1	76.0
Average shares outstanding for basic earnings	**75.9**	75.7	75.6
Per Common Share			
Basic earnings	**$ 1.89**	$ 1.44	$ 1.81
Basic earnings, excluding synfuel-related results[1]	**$ 1.85**	$ 1.51	$ 1.66
Dividends paid	**$ 1.27**	$ 1.23	$ 1.19
Annual dividend rate at year-end	**$ 1.30**	$ 1.26	$ 1.22
Book value	**$ 16.13**	$15.43	$15.04
Market price at year-end	**$ 29.01**	$28.28	$27.16

(1) Synfuel-related results of $3.0 million in 2007, ($5.3) million in 2006 and $11.7 million in 2005 had been primarily driven by tax credits derived from an investment in a partnership that produced coal-based synthetic fuel and processing fees received by Vectren Fuels from an unrelated synfuel producer. Synfuel-related tax credits and fees ceased at the end of 2007. In 2007 synfuel-related results were reduced by a $3.8 million, after tax, contribution to the Vectren Foundation.







Alignment and Conservation

Customer energy efficiency programs created in collaboration with regulators in both states exceeded performance expectations in their first year. In Indiana, nearly $2 million was distributed in rebates to residential and commercial customers who chose to upgrade to high-efficiency natural gas appliances through Vectren's Conservation Connection initiative. Collectively, these energy-efficient purchases helped 11,500 customers save on their gas bills. Additionally, in Indiana we created a conservation call center that was used by more than 20,000 Hoosiers who were seeking ways to further reduce their gas bills. In Ohio, more than $3 million was distributed through the company's Project TEEM home weatherization initiative, in which hundreds of lower-income Miami Valley homeowners received free home energy efficiency makeovers, including new high-efficiency appliances, windows and insulation to help them break the cycle of sustained high energy bills. In both states, another 100,000 customers took the time to conduct online energy audits at Vectren.com in an effort to help pinpoint opportunities for energy savings based on their homes' or business' specific characteristics.

In January we began the regulatory process on demand side management initiatives for the electric side of the business, and we filed more robust gas conservation initiatives in late 2007 as part of the Vectren Energy Delivery of Ohio rate case. We are continuing to align the interests of Vectren with those of our customers as we collectively work to reduce energy consumption.

Availability and Value

Vectren has repeatedly emphasized the need for more electric generation and this past year proved to be a critical decision point for us. In the third quarter, we stepped away from the option of a partnership with Duke Energy on its integrated gasification combined cycle (IGCC) plant in Knox County, Indiana. Although this technology offers a way to burn Hoosier coal while minimizing the environmental impact and remains an endeavor Vectren supports, the initiative proved not to be the best fit for our generation needs. Therefore, we opted to pursue regulatory approval for the construction of a 100-megawatt (MW) natural gas peaker and anticipate an order in early fall 2008. This project will allow us to meet the near-term needs of our 140,000 Hoosiers with a local generating unit, while continuing to explore other generation options, particularly clean-coal and renewable alternatives, given the long-term needs of our customers.

At Vectren, we continue to believe coal has a prominent place in the generation fuel mix, especially given the abundant reserves in southwestern Indiana. We are capitalizing on the opportunities to harvest this local resource, and plans for Fuels' two new underground mines are materializing quickly. Towards the end of 2007, the company received final approvals to begin mining operations. Construction work is underway and the project, which will be within 50 miles of eight coal-fired plants, remains on schedule for a 2009 coal production target for the first mine with the second mine online in 2010.

Education and Sustainability

Vectren's emphasis on coal naturally begs the question of sound environmental responsibility. I'm confident in saying we not only talk the talk when it comes to environmental stewardship, but we also walk the walk. Already one of the cleanest generation fleets in the Midwest through more than $300 million in expenditures for emissions-control equipment and nearly $100 million in additional upgrades underway, our fleet will soon be 100 percent scrubbed for sulfur dioxide (SO2), 90 percent controlled for nitrogen oxide (NOx) and will further reduce mercury emissions to help meet potential future mercury-reduction requirements. We are well ahead of peers in these expenditures, which are critical to ensuring a cleaner environment for our communities and future generations. Furthermore, since 2001 we have successfully utilized a mechanism created by the Indiana General Assembly to ensure timely and equitable cost recovery.

In the third quarter of 2007, we received regulatory approval to incorporate a renewable energy source into our generation portfolio. By mid-2008, we will bring on 30 MW of green power from an independently-owned Benton County, Indiana wind farm. Additionally, the company is seeking approval to implement a green power program, through which customers will be able to voluntarily purchase renewable energy at a fixed monthly charge for their homes or businesses. Vectren has also created a nonprofit agency the purpose of which will be to raise money and awareness for renewable energy projects. Together, these initiatives seek to provide our customers with access to renewable energy while increasing

customer awareness and demand for these sources in the coming years.

Collaboration and Innovation

The need for continued rate increases will likely remain constant given our utilities' aging infrastructure and Vectren's commitment to ensuring safe, reliable service for our 1.1 million customers. On February 13, 2008, the IURC approved our request to increase rates in our Indiana North territory, which will allow us better opportunities to earn our authorized return on investment and recover costs related to enhanced operating and maintenance expenditures. This approval also provides for specific recovery of gas costs relating to uncollected customer bills and unaccounted for gas and the beginning of a program to replace 245 miles of bare steel and cast iron pipelines.

The regulatory review process for the Ohio rate case filed in the fourth quarter of 2007 will likely continue for most of this year. In addition to expanded conservation programs mentioned earlier, another key element of this case features movement towards a straight fixed variable rate design, which allows us to more effectively recover fixed costs that don't fluctuate with customer usage. Collectively working with regulators and consumer advocates, Vectren is developing innovative rate-making mechanisms that enable us to earn our allowed returns, while better serving our customers' needs for lower bills.

Plans are also underway in Ohio for Vectren to begin the process of exiting the merchant function, which means Vectren, in time, may no longer be the provider of the natural gas commodity to our customers. Removing Vectren from the process of purchasing natural gas will allow us to focus strictly on providing safe and reliable natural gas delivery. Our Ohio customers should see expanded options for purchasing natural gas that will give them further ability to impact their energy bills. The filing has been made, and the first phase of the exiting process should be effective as early as this next heating season.

Commitment and Values

Before I close, I would like to congratulate Carl Chapman on his promotion to President and Chief Operating Officer of Vectren effective November 1, 2007. Carl's contributions throughout his 22 years of service have greatly strengthened our business. In his new role, Carl will be able to exert even greater leadership and influence in helping the company achieve its strategic objectives.

Additionally, I would like to congratulate Doug Karl, who has been Vectren's Vice President of Marketing and Customer Service, on his retirement effective February 29, 2008, and thank him for his 18 years of service to our customers and us. Most recently Doug has been personally instrumental in shaping the services and offerings of our Conservation Connection initiative. He has served well as a voice of the Vectren customer. We will miss his innovative contributions going forward and send him off with our best wishes in retirement.

As you can see, Vectren continues to make the right strategic moves and investments to be better positioned to attract capital and to be a better customer advocate. We are firmly wrapping our arms around energy efficiency and will continue to focus on providing solutions to help our customers. Vectren will continue to address the tough questions and find long-term solutions through collaborative processes to meet today's and tomorrow's energy needs. We must work with our customers and regulators to dampen demand on both the gas and electric side of the utility business. We must help customers understand their personal role in energy consumption.

The challenges ahead are immense, but I'm confident we're headed in the right direction. On the utility side, we've positioned ourselves as a true industry leader in both innovative rate design and customer alignment, while our nonutility companies are sensible, timely businesses that relate well to key industry needs. We're focused on constantly improving results and adding long-term stability at the same time. We're ready to face the tough questions head on and continue to offer straight-forward answers that satisfy our stakeholder needs.

Niel C. Ellerbrook
Chairman and Chief Executive Officer
February 19, 2008

Vectren At A Glance

Vectren Corporation is a progressive energy holding company headquartered in Evansville, Indiana. Our nonutility operations provide energy and energy-related services to customers throughout the Midwest and Southeast and support our core utility operations of gas and electric services.

BUSINESSES	2007 HIGHLIGHTS	2008 OUTLOOK
NATURAL GAS: Vectren Energy Delivery's natural gas distribution businesses provide natural gas service to nearly one million customers in adjoining service territories that cover nearly two-thirds of Indiana and west central Ohio.	• Completed various stages of the regulatory process to implement adjusted gas base rates in Indiana South, Indiana North and VEDO. • All three territories will be able to further promote customer energy efficiency programs designed to help customers lower energy bills and implement programs designed to support capital investment in safety and reliability.	• Continue implementing programs and educating customers to drive usage down while fully implementing decoupling mechanisms to allow better opportunities to earn authorized returns. • Received regulatory approval to adjust gas base rates in Indiana North and implemented in February 2008. • Anticipate implementing new Ohio gas base rates in fall.
ELECTRIC: Vectren Energy Delivery's electric transmission and distribution services provide electricity to more than 140,000 customers in southwestern Indiana. The five coal-fired electric generation units and six peaking turbines provide the capacity to meet the power needs of our customers.	• New electric base rates in Indiana South allow for enhanced maintenance and improved customer reliability, return on investments in demand side management programs to help encourage energy efficiency, and increased customer benefit from the sale of available wholesale power. • Filed for regulatory approval for construction of 100 MW peaking generation unit needed to meet future customer demands.	• Working with various parties to develop an electric decoupling mechanism that will allow Vectren to help customers reduce their energy bills while providing Vectren with opportunities to earn its allowed return. • Once approved, construction will begin on gas peaking unit in order to meet need for additional generation by as early as 2010. • Continuing construction of Warrick Unit 4 scrubber, which when completed in early 2009 will make our fleet 100 percent scrubbed for SO_2.
ENERGY MARKETING & SERVICES: ProLiance Energy (ProLiance) optimizes transportation and storage capacity and markets natural gas services to customers in the Midwest and Southeast. Vectren Source (Source) provides retail energy and related services to customers in Ohio, Indiana, Georgia and New York.	• ProLiance increased firm storage capacity to 40 Bcf and continues construction of Liberty Gas Storage (Liberty), a joint venture with Sempra Energy in the gulf coast region of Louisiana, which is expected to be operational in the second quarter of 2008. • Began planning for Liberty expansion project that should be in service in 2010 and allow for additional returns on valuable storage investments. • Source saw improvements in earnings due to lower marketing costs and continued growth in its customer base to more than 160,000 customers.	• ProLiance expects to increase firm gas storage capacity to nearly 50 Bcf by 2008/09 heating season and will be well positioned to take advantage of the presumed return of market volatility. • ProLiance is seeking FERC approval for Liberty expansion project anticipating approval in late 2008. • ProLiance expects continued growth through storage expansion and optimization. • Source anticipates continued growth in its residential and small commercial customer base by expanding penetration in newly entered territories and new customer outreach initiatives.
COAL MINING: Vectren Fuels (Fuels) owns four southwest Indiana coal mines. Prosperity is an underground mine that produces approximately 3 million tons annually. Cypress Creek is a surface mine that produces approximately 1.3 million tons annually. Oaktown Mines 1 & 2 are underground mines currently under construction and will be phased into operation in 2009 and 2010.	• Completed mining approval process for new Oaktown mines and began construction of mine entrance. • Reduced production at Prosperity due to lost time implementing revised Mine Safety and Health Administration (MSHA) mine seal guidelines.	• Coal price increases and process improvements to increase overall productivity will increase earnings in 2008 and beyond. • Fuels anticipates construction to continue on the new mines into 2009 and 2010. • Will begin preparing for the closing and final reclamation of Cypress Creek after depletion of reserves in 2009.
ENERGY INFRASTRUCTURE SERVICES: Miller Pipeline (Miller) provides underground pipeline construction and repair services for gas, cable, water and wastewater companies. Energy Systems Group (ESG) provides energy-saving performance contracting by designing facility improvements that pay for themselves from energy and operations savings. ESG also designs, constructs and manages renewable energy projects.	• Both Miller and ESG had record earnings due to strong market growth in their respective sectors. • Miller completed several large pipeline projects including a 22-mile extension in Greensburg, Indiana and an 8-mile replacement project in Dayton, Ohio. • ESG was awarded a 2007 Project of the Year award by the U.S. Environmental Protection Agency (EPA) for its landfill waste-to-energy project in Johnson City, Tennessee.	• Increases in utility construction projects due to aging infrastructure will fuel Miller's growth. • The new Energy Independence and Security Act will expand the production of renewable fuels and focus on conservation driving ESG's future growth.

Condensed Consolidated Statements of Income

In millions, except per share amounts — *Year ended December 31,*	2007	2006	2005
Operating revenues			
Gas utility	$1,269.4	$ 1,232.5	$ 1,359.7
Electric utility	487.9	422.2	421.4
Nonutility revenues	524.6	386.9	246.9
Total operating revenues	2,281.9	2,041.6	2,028.0
Operating expenses			
Cost of gas sold	847.2	841.5	973.3
Cost of fuel and purchased power	174.8	151.5	144.1
Cost of nonutility revenues	287.7	248.7	191.0
Other operating	456.9	341.8	282.2
Depreciation and amortization	184.8	172.3	158.2
Taxes other than income taxes	70.0	65.3	66.1
Total operating expenses	2,021.4	1,821.1	1,814.9
Operating income	260.5	220.5	213.1
Other income			
Equity in earnings of unconsolidated affiliates	22.9	17.0	45.6
Other – net	36.8	(2.7)	6.2
Total other income	59.7	14.3	51.8
Interest expense	101.0	95.6	83.9
Income before income taxes	219.2	139.2	181.0
Income taxes	76.0	30.3	44.1
Minority interest and preferred dividend requirement of subsidiaries	0.1	0.1	0.1
Net income	$ 143.1	$ 108.8	$ 136.8
Average common shares outstanding	75.9	75.7	75.6
Diluted common shares outstanding	76.6	76.2	76.1
Earnings per share of common stock			
Basic	$ 1.89	$ 1.44	$ 1.81
Diluted	$ 1.87	$ 1.43	$ 1.80

The Company's consolidated financial statements, including footnotes, are included in Appendix H to the Company's 2008 proxy statement.

Condensed Consolidated Balance Sheets

In millions — *At December 31,*	2007	2006
Assets		
Current Assets		
Cash and cash equivalents	$ 20.6	$ 32.8
Accounts receivable – less reserves of $3.7 and $3.3, respectively	189.4	198.6
Accrued unbilled revenues	168.2	146.5
Inventories	160.9	163.5
Prepayments and other current assets	160.5	174.5
Total current assets	699.6	715.9
Utility Plant		
Original cost	4,062.9	3,820.2
Less: accumulated depreciation and amortization	1,523.2	1,434.7
Net utility plant	2,539.7	2,385.5
Investments in unconsolidated affiliates	208.8	181.0
Other investments	77.0	74.5
Nonutility property – net	320.3	294.4
Goodwill – net	238.0	237.8
Regulatory assets	175.3	163.5
Other assets	37.7	39.0
Total assets	$ 4,296.4	$ 4,091.6
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	$ 187.4	$ 180.0
Accounts payable to affiliated companies	83.7	89.9
Refundable fuel and natural gas costs	27.2	35.3
Accrued liabilities	171.8	147.2
Short-term borrowings	557.0	464.8
Current maturities of long-term debt	0.3	24.2
Long-term debt subject to tender	–	20.0
Total current liabilities	1,027.4	961.4
Long-term debt – net of current maturities and debt subject to tender	1,245.4	1,208.0
Deferred income taxes and other liabilities		
Deferred income taxes	318.1	260.7
Regulatory liabilities	307.2	291.1
Deferred credits and other liabilities	164.2	195.8
Total deferred credits and other liabilities	789.5	747.6
Minority interest in subsidiary	0.4	0.4
Common shareholders' equity		
Common stock (no par value) – issued and outstanding 76.3 and 76.1 shares, respectively	532.7	525.5
Retained earnings	688.5	643.6
Accumulated other comprehensive income	12.5	5.1
Total common shareholders' equity	1,233.7	1,174.2
Total liabilities and shareholders' equity	$ 4,296.4	$ 4,091.6

The Company's consolidated financial statements, including footnotes, are included in Appendix H to the Company's 2008 proxy statement.

Condensed Consolidated Statements of Cash Flows

In millions — *Year ended December 31,*	2007	2006	2005
Cash Flows From Operating Activities			
Net income	$ 143.1	$ 108.8	$ 136.8
Adjustments to reconcile net income to cash from operating activities:			
Depreciation and amortization	184.8	172.3	158.2
Deferred income taxes and investment tax credits	27.0	1.4	(8.6)
Equity in earnings of unconsolidated affiliates	(22.9)	(17.0)	(45.6)
Provision for uncollectible accounts	16.6	15.3	15.1
Expense portion of pension and postretirement benefit cost	9.8	10.7	10.7
Other non-cash charges – net	4.8	11.4	1.9
Changes in working capital accounts:			
Accounts receivable and accrued unbilled revenue	(29.1)	108.9	(102.9)
Inventories	2.6	(17.6)	(71.9)
Recoverable/refundable fuel and natural gas costs	(6.3)	41.3	3.5
Prepayments and other current assets	(3.7)	(21.2)	36.1
Accounts payable, including to affiliated companies	4.9	(71.6)	101.2
Accrued liabilities	4.6	(23.2)	27.4
Unconsolidated affiliate dividends	20.8	35.8	18.8
Changes in noncurrent assets	(21.4)	(25.8)	(6.9)
Changes in noncurrent liabilities	(37.5)	(19.3)	(5.4)
Net cash flows from operating activities	298.1	310.2	268.4
Cash Flows From Financing Activities			
Proceeds from:			
Long-term debt	16.4	92.8	274.2
Stock option exercises	5.2	–	–
Requirements for:			
Dividends on common stock	(96.4)	(93.1)	(90.5)
Retirement of long-term debt	(23.9)	(124.4)	(88.5)
Other financing activities	(0.8)	(0.6)	(0.7)
Net change in short-term borrowings	92.2	164.9	(112.5)
Net cash flows from financing activities	(7.3)	39.6	(18.0)
Cash Flows From Investing Activities			
Proceeds from:			
Unconsolidated affiliate distributions	12.7	2.0	6.9
Other collections	38.0	3.4	4.3
Requirements for:			
Capital expenditures, excluding AFUDC equity	(334.5)	(281.4)	(231.6)
Unconsolidated affiliate investments	(17.5)	(16.7)	(19.2)
Other investments	(1.7)	(44.7)	–
Net cash flows from investing activities	(303.0)	(337.4)	(239.6)
Net change in cash and cash equivalents	(12.2)	12.4	10.8
Cash and cash equivalents at beginning of period	32.8	20.4	9.6
Cash and cash equivalents at end of period	$ 20.6	$ 32.8	$ 20.4

The Company's consolidated financial statements, including footnotes, are included in Appendix H to the Company's 2008 proxy statement.

Management's and Auditor's Report

Management's Responsibility for Financial Statements

Vectren Corporation's management is responsible for establishing and maintaining adequate internal control over financial reporting. Those control procedures underlie the preparation of the condensed consolidated balance sheets, statements of income, statements of cash flows and other financial data contained in this report.

The financial data herein is derived from the Company's consolidated financial statements. Those financial statements, included in Appendix H to the 2008 Proxy Statement and filed with the Securities and Exchange Commission on Form-10K on February 20, 2008, were prepared in conformity with accounting principles generally accepted in the United States and follow accounting policies and principles applicable to regulated public utilities. The integrity and objectivity of those consolidated financial statements as well as the data in this report, including required estimates and judgments, are the responsibility of management.

The financial data herein is also subject to an evaluation of internal control over financial reporting conducted under the supervision of and with the participation of management, including the chief executive officer and chief financial officer. Based on that evaluation, conducted under the framework in *Internal Control - Integrated Framework* issued by The Committee of Sponsoring Organizations of the Treadway Commission, the Company concluded that its internal control over financial reporting was effective as of December 31, 2007. Management certified this fact in its Sarbanes Oxley Section 302 certifications, which were attached as exhibits to its 2007 Form 10-K. Management also has submitted an unqualified chief executive officer certification as required by the New York Stock Exchange.

The consolidated financial statements and the effectiveness of internal control over financial reporting as of December 31, 2007, were audited by Deloitte & Touche LLP, an independent registered public accounting firm. Its reports, which expressed unqualified opinions, also are included in Appendix H to the 2008 Proxy Statement.

Niel C. Ellerbrook
Chairman and Chief Executive Officer

Jerome A. Benkert, Jr.
Executive Vice President and Chief Financial Officer
February 19, 2008

Report of Independent Registered Public Accounting Firm

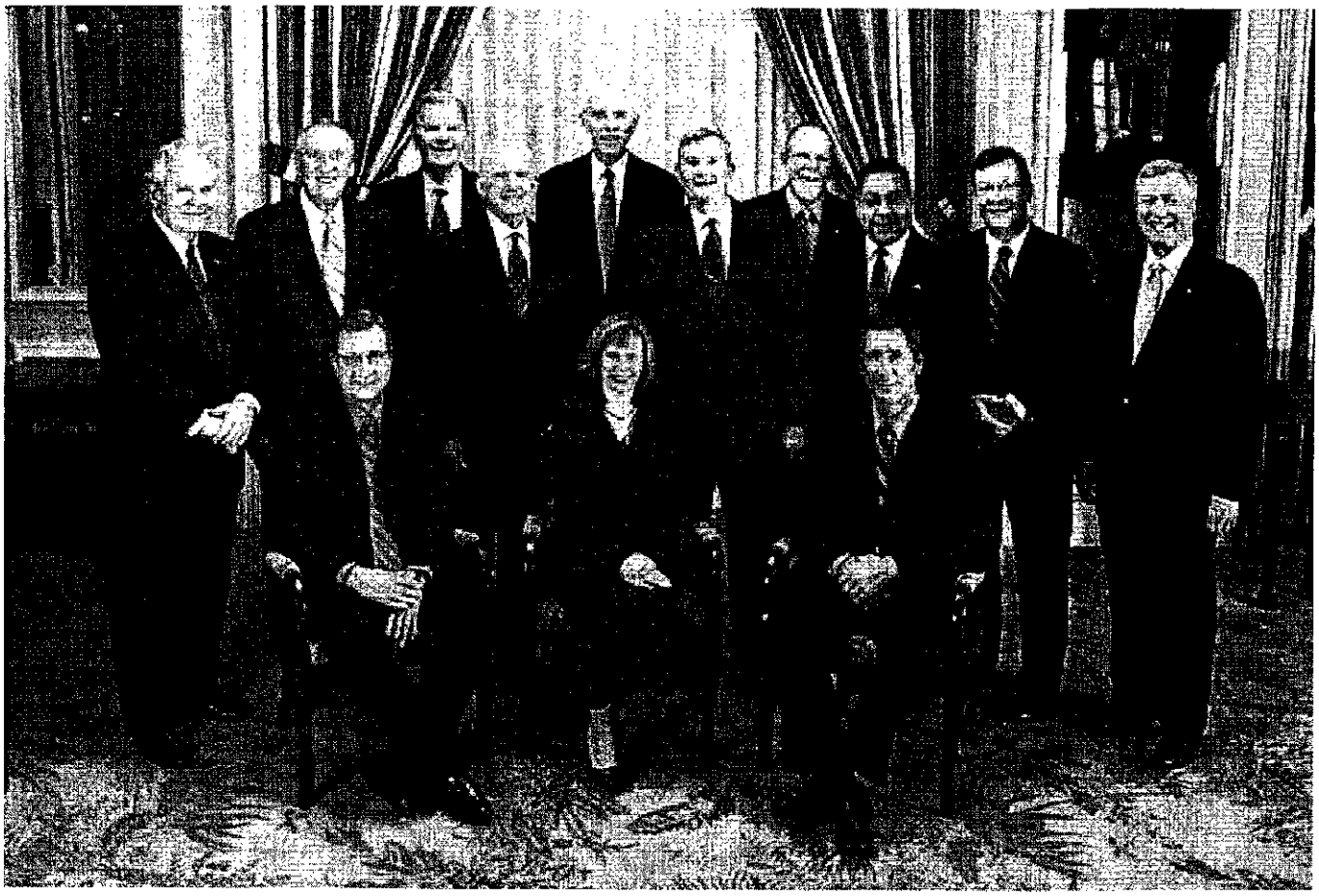
To the Board of Directors and Shareholders of Vectren Corporation

We have audited the consolidated balance sheets of Vectren Corporation and subsidiaries (the "Company") as of December 31, 2007 and 2006, and the related consolidated statements of income, common shareholders' equity and cash flows for each of the three years in the period ended December 31, 2007. We also have audited the effectiveness of the Company's internal control over financial reporting as of December 31, 2007. Such consolidated financial statements, management's assessment of the effectiveness of the Company's internal control over financial reporting, and our reports dated February 19, 2008, expressing unqualified opinions and including an explanatory paragraph referring to the adoption of FASB Statement No. 158 (which are not included herein) are included in Appendix H to the proxy statement for the 2008 annual meeting of shareholders. The accompanying condensed consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on such condensed consolidated financial statements in relation to the complete consolidated financial statements.

In our opinion, the information set forth in the accompanying condensed consolidated balance sheets as of December 31, 2007 and 2006, and the related condensed consolidated statements of income and of cash flows for each of the three years in the period ended December 31, 2007, is fairly stated in all material respects in relation to the basic consolidated financial statements from which it has been derived.

DELOITTE & TOUCHE LLP
Indianapolis, Indiana
February 19, 2008

Board of Directors



Standing: John M. Dunn, J. Timothy McGinley, Richard W. Shymanski, Robert L. Koch II, R. Daniel Sadlier, Niel C. Ellerbrook, Richard P. Rechter, William G. Mays, Michael L. Smith, Martin C. Jischke. Sitting: John D. Engelbrecht, Jean L. Wojtowicz, Anton H. George.

John M. Dunn 1,4
Director since 1996
Chairman of the Board and Chief Executive Officer of Dunn Hospitality Group, Ltd.

Niel C. Ellerbrook 5(Chair)
Director since 1991
Chairman of the Board and Chief Executive Officer of Vectren Corporation

John D. Engelbrecht 2,5
Director since 1996
Chairman of the Board and President of South Central Communications Corporation

Anton H. George 1,3
Director since 1990
President and Chief Executive Officer of Indianapolis Motor Speedway Corporation

President and Chief Executive Officer of Hulman & Company

Dr. Martin C. Jischke 3,4
Director since 2007
President Emeritus, Purdue University

Robert L. Koch II 1(Chair),5
Director since 1986
Lead Director since 2003
President and Chief Executive Officer of Koch Enterprises, Inc.

William G. Mays 1,4(Chair)
Director since 1998
President, Chief Executive Officer and founder of Mays Chemical Company, Inc.

J. Timothy McGinley 1,5
Director since 1999
Principal of House Investments, Inc.

Richard P. Rechter 2,4
Director since 1984
Chairman of the Board of Rogers Group, Inc.

R. Daniel Sadlier 4,5
Director since 2003
Chairman of the Board of Fifth Third Bank (Western Ohio)

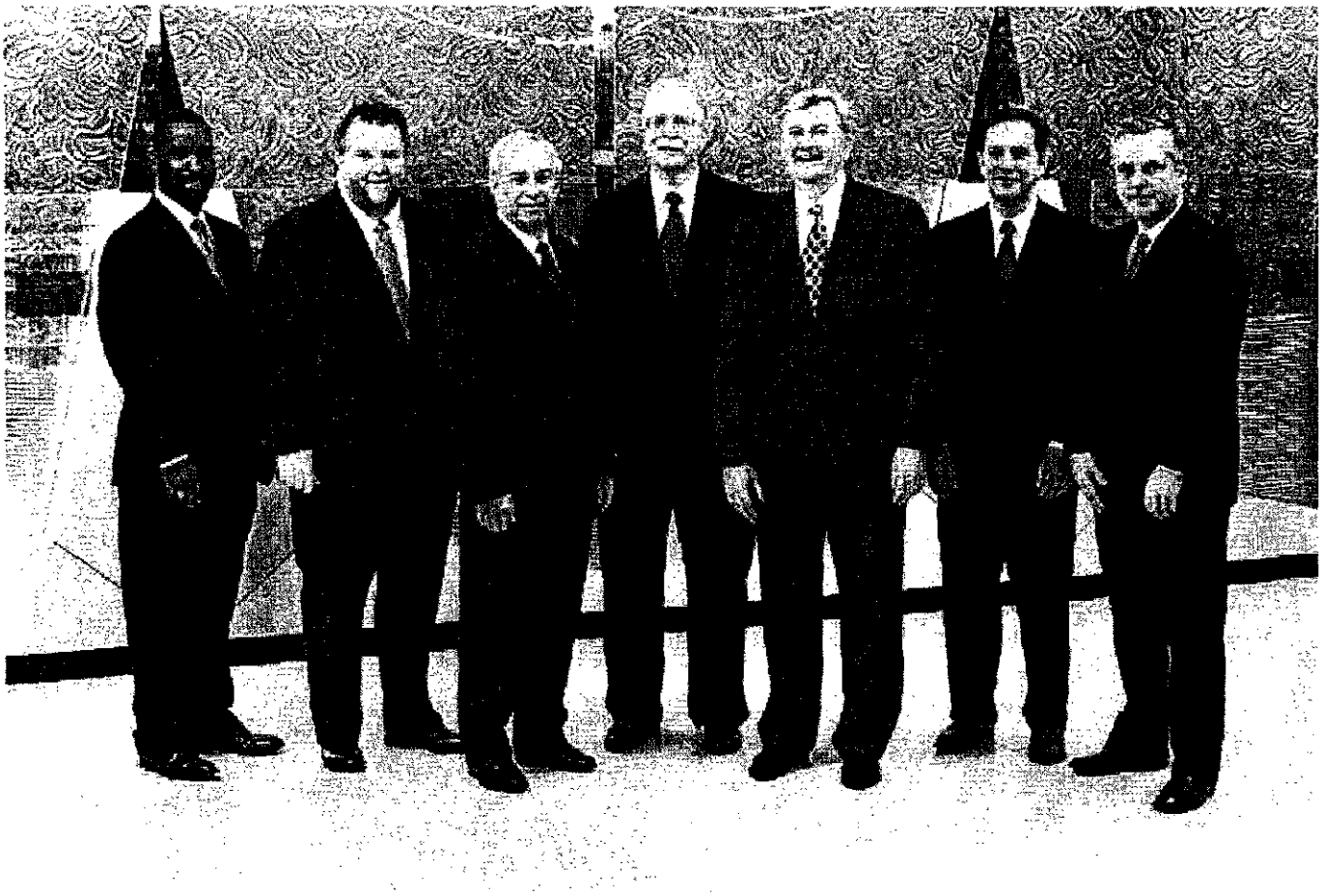
Richard W. Shymanski 2(Chair),3
Director since 1989
Chairman of the Board, President and Chief Executive Officer of Fendrich Industries, Inc.

Michael L. Smith 2,3
Director since 2006
Retired Executive Vice President and Chief Financial Officer of Wellpoint, Inc.

Jean L. Wojtowicz 2,3(Chair)
Director since 1996
President and founder of Cambridge Capital Management Corporation

Board Committees
1 Nominating and Governance
2 Audit and Risk Management
3 Compensation and Benefits
4 Corporate Affairs
5 Finance

Officers



Vectren Senior Staff:
Left to right – Ellis S. Redd, Jeffrey W. Whiteside, William S. Doty, Carl L. Chapman, Niel C. Ellerbrook, Jerome A. Benkert, Jr., and Ronald E. Christian

Executive Officers

Niel C. Ellerbrook
Chairman and Chief Executive Officer

Carl L. Chapman[1]
President and Chief Operating Officer

Jerome A. Benkert, Jr.
Executive Vice President and Chief Financial Officer

Ronald E. Christian
Executive Vice President, Chief Administrative Officer, General Counsel and Secretary

William S. Doty
Executive Vice President, Utility Operations

Corporate Officers

Daniel C. Bugher
Vice President, Information Technology

Robert L. Goocher
Vice President and Treasurer

M. Susan Hardwick
Vice President and Controller

Ellis S. Redd
Vice President, Human Resources

Steven M. Schein
Vice President, Investor Relations

Jeffrey W. Whiteside[2]
Vice President, External Affairs and Sustainability

Other Officers

Daniel G. Berry[3]
President, Vectren Energy Delivery of Ohio

John M. Bohls
President, Vectren Enterprises

Robert E. Heidorn
Vice President, VUHI – General Counsel

Ronald G. Jochum
Vice President, VUHI – Power Supply

Douglas A. Karl[4]
Vice President, VUHI – Marketing and Customer Service

L. Douglas Petitt[2]
Vice President, VUHI – Marketing and Conservation

Eric J. Schach
Vice President, VUHI – Energy Delivery

Jerrold L. Ulrey
Vice President, VUHI – Regulatory Affairs and Fuels

1 Named President effective November 1, 2007
2 Effective March 3, 2008
3 Named August 13, 2007
4 Retired as of February 29, 2008

VUHI – Vectren Utility Holdings, Inc.

5-Year Financial Review

In millions, except per share amounts	2007	2006	2005	2004	2003
Key Financial Data					
Operating revenues	$ 2,281.9	$ 2,041.6	$ 2,028.0	$ 1,689.8	$ 1,587.7
Operating income	260.5	220.5	213.1	199.5	196.0
Income before income taxes	219.2	139.2	181.0	147.0	149.0
Net income	$ 143.1	$ 108.8	$ 136.8	$ 107.9	$ 111.2
Common Stock Data					
Average shares outstanding – basic	75.9	75.7	75.6	75.6	70.6
Average shares outstanding – diluted	76.6	76.2	76.1	75.9	70.8
Earnings per share – basic	$ 1.89	$ 1.44	$ 1.81	$ 1.43	$ 1.58
Earnings per share – diluted	$ 1.87	$ 1.43	$ 1.80	$ 1.42	$ 1.57
Dividends per share	$ 1.27	$ 1.23	$ 1.19	$ 1.15	$ 1.11
Dividend payout ratio	67%	85%	66%	80%	70%
Book value per share	$ 16.13	$ 15.43	$ 15.04	$ 14.42	$ 14.17
Market price (year-end, closing)	$ 29.01	$ 28.28	$ 27.16	$ 26.80	$ 24.65
Return on average shareholders' equity	11.9%	9.4%	12.2%	10.0%	11.5%
Balance Sheet Data					
Capitalization					
Common shareholders' equity	$ 1,233.7	$ 1,174.2	$ 1,143.3	$ 1,094.8	$ 1,071.7
Preferred stock of subsidiary	–	–	–	0.1	0.2
Long-term debt	1,245.7	1,252.2	1,252.1	1,065.1	1,101.3
Total	$ 2,479.4	$ 2,426.4	$ 2,395.4	$ 2,160.0	$ 2,173.2
Capitalization ratios					
Common shareholders' equity	49.8%	48.4%	47.7%	50.7%	49.3%
Long-term debt	50.2%	51.6%	52.3%	49.3%	50.7%
Capital expenditures					
Utility and other	$ 299.8	$ 246.6	$ 214.5	$ 242.2	$ 220.3
Nonutility	34.7	34.8	17.1	10.3	13.2
Total	$ 334.5	$ 281.4	$ 231.6	$ 252.5	$ 233.5
Total assets	$ 4,296.4	$ 4,091.6	$ 3,868.1	$ 3,586.9	$ 3,353.4
Utility Operating Statistics					
Gas distribution					
Operating revenues	$ 1,269.4	$ 1,232.5	$ 1,359.7	$ 1,126.2	$ 1,112.3
Margin	$ 422.2	$ 391.0	$ 386.4	$ 347.7	$ 349.8
Average Customers (in thousands)	987	981	975	966	957
Electric					
Operating revenues	$ 487.9	$ 422.2	$ 421.4	$ 371.3	$ 335.7
Margin	$ 313.1	$ 270.7	$ 277.3	$ 254.5	$ 233.0
Average Customers (in thousands)	141	140	139	138	135
Weather as a percent of normal					
Heating degree days*	94%	89%	100%	91%	100%
Cooling degree days	133%	95%	109%	90%	80%

** Weather normalization applies to natural gas rates in Indiana beginning October 2005.*
Heating degree days as a percent of normal for 2007, 2006 and 2005 represent Ohio; for 2004 and 2003 they represent Indiana.

Shareholder Information

Corporate Headquarters

One Vectren Square
Evansville, IN 47708
Tel: (812) 491-4000
Web: www.vectren.com

You may call Vectren Shareholder Relations at
(812) 491-4190 or (800) 227-8625.

Transfer Agent and Registrar

National City Bank serves as the transfer agent and registrar for Vectren Corporation and can help with a variety of stock-related matters, including name and address changes, transfer of stock ownership, lost certificates, dividend payments and reinvestment, and Form 1099s. Inquiries may be directed to:

Vectren Corporation
c/o National City Bank
Corporate Trust Operations
P.O. Box 92301
Cleveland, OH 44193-0900
Tel: (800) 622-6757
E-mail: shareholder.inquiries@nationalcity.com

Shareholders of record also can access records and request information online at: www.vectren.com or www.nationalcitystocktransfer.com.

Dividends

Cash dividends of Vectren Corporation common stock are considered quarterly by the board of directors for payment on the first business day of March, June, September and December of each year. Vectren Corporation and its predecessors have increased dividends annually for 48 consecutive years.

Dividend Reinvestment Plan

Registered shareholders of Vectren Corporation can reinvest dividends and purchase additional Vectren stock without having to pay brokerage commissions or service charges through Vectren's Automatic Dividend Reinvestment and Stock Purchase Plan.

To participate in the plan, investors must make their initial purchase through a brokerage firm, requesting that the shares be registered in the investor's name. New shareholders of record will automatically receive a prospectus and enrollment card from Vectren's Transfer Agent, National City Bank.

Annual Meeting

The annual meeting of shareholders of Vectren Corporation will be held at 10 a.m. (Central Daylight Time), Wednesday, May 14, 2008, at Vectren's corporate headquarters located at One Vectren Square in Evansville, Indiana. Shareholders of record as of the close of business on March 12, 2008, will be eligible to vote at the meeting.

Communications to Non-Employee Directors

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:

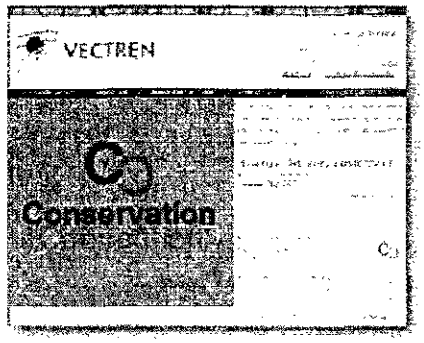
Lead Director; Chair, Audit Committee;
or Non-Employee Directors
Vectren Corporation
P.O. Box 3144
Evansville, IN 47731-3144

Investor Relations

Institutional investors and securities analysts should direct inquiries to:

Steven M. Schein
Vice President, Investor Relations
Tel: (812) 491-4209
E-mail: sschein@vectren.com

Archives and e-mail alerts of Vectren's press releases, annual reports, proxy statements, SEC filings and analyst presentations are made available on the company's Web site: www.vectren.com. Vectren's annual report on Form 10-K to the Securities and Exchange Commission may be obtained by shareholders without charge by writing to Investor Relations at the corporate address, e-mail: vvcir@vectren.com or by calling (800) 227-8625.



In today's digital age, providing easy access to investor information has become a mainstream function of corporate Web sites. Vectren.com integrates a number of resources to give investors the ability to satisfy their varied informational needs.

Among other features, Vectren.com offers:

- Access to registered shareholder accounts
- Investor webcasts and presentations
- A calendar of upcoming events
- Historical documents and investment tools

VECTREN

Vectren Communications
One Vectren Square
Evansville, Indiana 47708
(812) 491-4000
www.vectrencom.com

Contains a minimum of 10% post-consumer fiber

VECTREN

2006 Summary Annual Report

ENERGY

delivering
managing
providing
investing
creating

Vectren at a glance

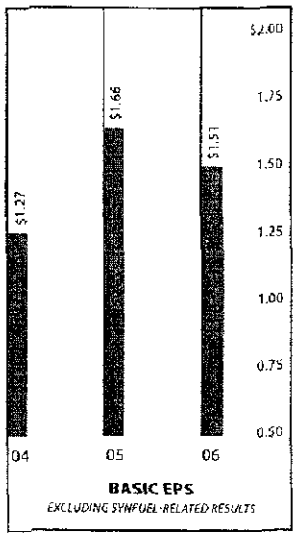
Vectren Corporation is a progressive energy holding company headquartered in Evansville, Ind. Our nonutility operations provide energy and energy-related services to customers throughout the Midwest and Southeast and support our core utility operations of gas and electric services.

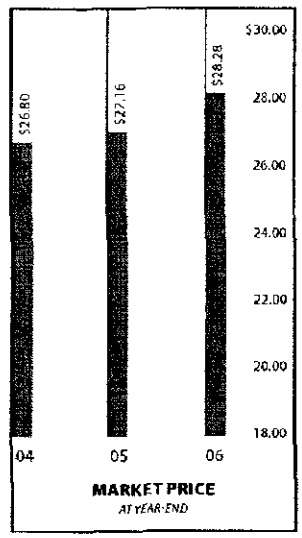
BUSINESSES	2006 HIGHLIGHTS	2007 OUTLOOK
Vectren Energy Delivery's natural gas distribution businesses provide natural gas service to nearly one million customers in adjoining service territories that cover nearly two-thirds of Indiana and west central Ohio.	• Received decoupling/conservation order in Indiana. • Filed petition with Indiana Utility Regulatory Commission (IURC) to adjust gas base rates in Indiana – South service territory.	• Implement programs and educate customers to drive usage down while fully implementing decoupling mechanisms to enable company to earn a fair return. • Anticipate implementing new Indiana – South gas rates in late summer. • Expect to file petitions to adjust gas base rates in Indiana – North and Vectren Energy Delivery of Ohio service territories.
Vectren Energy Delivery's electric transmission and distribution services provide electricity to more than 140,000 customers in southwestern Indiana. The five coal-fired electric generation units and six peaking turbines provide the capacity to meet the power needs of our customers.	• Completed the installation of a baghouse at Culley Unit 3, began construction of a SO_2 scrubber at Warrick Unit 4 and decommissioned Culley Unit 1. • Filed petition with IURC to adjust electric base rates in Indiana – South service territory for first time since 1995. • Teaming with Duke Energy to study feasibility of integrated gasification combined cycle (IGCC) generation plant.	• Anticipate implementing new Indiana – South electric rates in late summer. • Continue to explore options to meet the need, as early as 2011, for additional generation. • Continuing construction of Warrick Unit 4 scrubber, which when completed will make our fleet 100% scrubbed for SO_2.
ProLiance Energy (ProLiance) optimizes transportation and storage capacity and markets natural gas services to customers in the Midwest and Southeast. Vectren Source (Source) provides retail energy and related services to customers in Ohio, Indiana, Georgia and New York.	• ProLiance finished its 11th consecutive year of profitability with strong earnings and neared completion of a new gas storage field in Louisiana. • Source entered the natural gas choice market in New York growing its customer base to nearly 150,000 customers.	• ProLiance will seek to continue its growth through storage optimization and expansion. • Source anticipates continued growth in its residential and small commercial customer base through additional resources focused on customer retention.
Vectren Fuels (Fuels) owns two Indiana coal mines and sells coal to Vectren's utility operations and third parties.	• Installed an underground emergency shelter at the Prosperity mine that provides ventilation and supplies in the case of an accident, continuing to make it one of the safest mines in the state. • Secured the rights to open two new underground mines that will create more than 400 new contract miner jobs and an additional coal output of five million tons a year when fully operational in 2011.	• Fuels has completed land acquisition and begun the permit approval process. It anticipates construction to begin on the new mines in the fourth quarter. • Seek continued growth in customer base to meet increased coal production capacity.
Miller Pipeline (Miller) provides underground pipeline construction and repair services for gas, cable, water and wastewater companies. Energy Systems Group (ESG) provides energy saving performance contracting by designing facility improvements that pay for themselves from energy and operations savings.	• Vectren purchased Duke Energy's 50% of Miller making it a wholly owned subsidiary. • Vectren exited the meter reading and line locating businesses (Reliant Services). • ESG continues its alternative fuels focus with a landfill gas project in Tennessee.	• Seek to grow Miller by focusing on aging infrastructure projects. • Seek to grow ESG sales orders through established and new relationships and develop additional renewable energy projects.

Financial and Operating Highlights

In millions, except per share amounts	Year ended December 31, **2006**	2005	2004
Net income	**$ 108.8**	$ 136.8	$ 107.9
Net income, excluding synfuel-related results[1]	**114.1**	125.1	95.8
Return on average common shareholders' equity (ROE)	**9.4%**	12.2%	10.0%
ROE, excluding synfuel-related results[1]	**9.8%**	11.2%	8.8%
Shares outstanding at year-end	**76.1**	76.0	75.9
Average shares outstanding for basic earnings	**75.7**	75.6	75.6
Per Common Share			
Basic earnings	**$ 1.44**	$ 1.81	$ 1.43
Basic earnings, excluding synfuels-related results[1]	**$ 1.51**	$ 1.66	$ 1.27
Dividends paid	**$ 1.23**	$ 1.19	$ 1.15
Annual dividend rate at year-end	**$ 1.26**	$ 1.22	$ 1.18
Book value	**$ 15.43**	$ 15.04	$ 14.42
Market price at year-end	**$ 28.28**	$ 27.16	$ 26.80

(1) Synfuel-related results of ($5.3) million in 2006, $11.7 million in 2005 and $12.1 million in 2004, are primarily driven by tax credits derived from an investment in a partnership that produces coal-based synthetic fuel and unrelated processing fees received by Vectren Fuels from a synfuel producer. Under current tax laws, synfuel related tax credits and fees will cease at the end of 2007. The company has hedged its 2007 scheduled synfuels production which is expected to contribute positive earnings results.





Letter To Shareholders:

Investing in clean-coal technology. Delivering innovative rate design. Providing gas storage optimization. The successes, investments and overall forward-thinking initiatives of 2006 prove we've come a long way from the typical gas and electric company of 20, 15 or even five years ago. We're in an era in which higher energy prices force customers to think more about conservation; yet, at the same time, the overall demand for energy is steadily increasing. We're in an era in which cold winter weather can dramatically impact the gas commodities market while extremely warm summer weather can test the limits of regional electric systems.

Today, people think differently about how energy companies impact natural resources, the environment and the overall economy. The challenge for us is to balance our customers' need for reliable, affordable energy with shareholder expectations to enable us to attract the capital necessary to safely maintain and grow the business. A financially viable core utility business combined with a well-managed nonutility portfolio offer the best way to make progress in today's energy industry. It's about taking a leap – not based on faith – but a leap based on sound principles and prudent decision-making. In 2006, we took many of these leaps – many that have already dramatically advanced the interests of the company and our customers and some that will do so over the coming years.

2006 Financial Results

While 2006 was a very exciting year from a strategic standpoint, from a financial standpoint we met some obstacles that were difficult to overcome. Reported 2006 net income was $108.8 million, or $1.44 per share, compared to $136.8 million, or $1.81 per share, in 2005. Earnings were impacted primarily by the decline in synfuel-related results, a charge related to the ProLiance Energy (ProLiance) litigation settlement and somewhat lower utility earnings.

Earnings from Vectren's utilities decreased $3.7 million, from $95.1 million in 2005 to $91.4 million in 2006, primarily from continued declines in customer usage, lower wholesale power margins and increased depreciation and interest costs. Although overall mild weather compared to normal led to an earnings reduction of $(0.06) per share, the potentially adverse impact of warmer than normal winter weather was significantly lessened through the effects of temperature normalized rates implemented in Indiana in October 2005.

Vectren's nonutility earnings, exclusive of synfuel-related results, were $23.4 million in 2006 compared to a record performance in 2005 of $36.5 million. Several reasons contributed to the decline including a $6.6 million charge related to the settlement of a lawsuit involving the Company's subsidiary, ProLiance, and the 2005 gain on a sale of a nonutility investment. Furthermore, as expected, ProLiance was unable to repeat the unprecedented financial performance of the 2005 fourth quarter during which the natural gas marketer fared quite well in the midst of an extremely volatile, post-hurricane natural gas market. Synfuel-related results were $17 million lower year over year primarily due to high oil prices, which forced both the phase out of tax credits and the impairment of our synfuel-related investment.

Conservation and Energy Efficiency

The most important accomplishment of the year came with the regulatory approval of conservation-oriented rate proposals (often referred to as decoupling) in both our Indiana and Ohio natural gas service territories. Decoupling better aligns our interests with those of our customers by breaking the linkage between the volume of gas delivered and our return. As a result, we are

Niel C. Ellerbrook – Chairman, President and Chief Executive Officer

literally changing the way we do business and interact with our customers. In Indiana, we have implemented comprehensive public outreach programs to provide customers the tools they need to individually implement energy efficiency measures and lower their usage. In Ohio, while still working through an extended regulatory process, we are providing customers with tools to help reduce their usage. I'm confident that with decoupling we can positively impact both shareholder return and customer satisfaction.

In the electric business, we are pursuing a demand side management (DSM) collaborative with various interested stakeholders. These discussions are focused on finding ways Vectren can complement its natural gas conservation efforts with similar mechanisms for our electric customers.

Energy Systems Group (ESG), our wholly owned performance contracting subsidiary, shares the utility's message of conservation. The company showed strong performance in 2006 and closed the year with record sales orders valued at more than $114 million throughout the Midwest and Southeast. In turn, net income was up significantly at $3.1 million. The majority of these projects involve complete overhauls of older, energy inefficient education- and government-related facilities.

Natural Gas Market

In 2006, ProLiance aided its customers in managing energy supplies and prices in what continued to be a volatile natural gas market. This natural gas marketer, of which Vectren owns 61 percent, had another successful year leading the financial performance of our nonutility portfolio. Exclusive of the litigation settlement, ProLiance earnings were $24.9 million, compared to a record performance of $31.1 million in 2005. The decline in performance was primarily due to exceptional 2005 fourth quarter operating earnings that were $7.6 million higher than the same period in 2006 due to the impact the hurricanes had on natural gas prices.

The Indianapolis-headquartered company has positioned itself to continue to grow by investing in a 17 billion cubic foot (Bcf), high-deliverability, salt cavern natural gas storage facility. Known as Liberty Gas Storage, this joint venture with Sempra Energy is located in the hub of the Gulf region with ideal access to multiple interstate pipelines and the ability to support the growing liquefied natural gas market. Liberty is expected to open in mid-2007 and will bring an added degree of deliverability to ProLiance's customers.

Vectren Source, our wholly owned residential gas marketer, entered the New York state market in its bid to continue growth. Now in four states, Source remains on target to meet its market share goals, closing the year with 150,000 customers, and has become a viable competitor through successful marketing efforts and flexible pricing options.

Electric Demand and Coal

In 2006, we saw national, regional and Vectren peak electric demand records broken. Steadily increasing demand for electricity coupled with the planned Dec. 31, 2006, decommissioning of Unit 1 at our F.B. Culley generating station underscore our need for more generation. We have a plan to meet that need and, more importantly, we have the option to do it through a local energy source. Tapping into abundant coal reserves in Southwestern Indiana allows us to create more Hoosier jobs and support Indiana Governor Mitch Daniels' policy of "homegrown energy." In partnership with Duke Energy, Vectren is studying an effort to build a 630-megawatt power plant that would use advanced integrated gasification combined cycle (IGCC) technology. This

"...we've packaged together the right mix of utility innovation and nonutility opportunity to keep us moving forward."

technology offers a way to burn coal with minimal environmental impact. If this project moves forward, it would support both our commitment to environmental stewardship and to the Indiana economy through a clean coal initiative that will burn Indiana coal and create hundreds of jobs.

Our existing generation fleet, which is primarily coal fired, is one of the cleanest in the Midwest. With more than $300 million of emissions-control equipment placed in service since 2002 and another $70 million project underway; by 2009 our fleet will be 100 percent scrubbed for sulfur dioxide (SO2), 90 percent controlled for nitrogen oxide (NOx) and will further reduce mercury emissions to meet new mercury reduction requirements. This level of emissions reductions makes Vectren an industry leader in its environmental stewardship efforts among coal-fired fleets; and a timely cost recovery mechanism will benefit both customers and investors.

Our current generation fleet, the potential IGCC project and the resurgence of coal through advancements in environmental technology have positioned our wholly owned coal mining business, Vectren Fuels (Fuels), for growth. Earnings from coal mining operations were $5.0 million in 2006, slightly lower than 2005 results due to less than favorable geological conditions and higher fuel and commodities costs.

To continue capitalizing on southwestern Indiana's need for coal, Fuels announced plans in 2006 to open two underground mines in Knox County, Ind., the first of which is scheduled to open in 2009. The two mines, which are expected to yield a combined five million tons annually and will employ more than 400 contract miners, are ideally located within 50 miles of eight coal-fired power plants. Furthermore, this $125 million development will help replace the company's smaller surface mine, Cypress Creek, where reserves will be depleted by the end of 2008.

Renewable Energy

Today's technological advancements have developed more efficient means of using renewable energy sources, and ESG is leading our company's efforts to continue progress in the renewable energy arena. By year-end, ESG and one of its partners, the city of Johnson City, Tenn., had the city's innovative landfill methane recovery plant operational. ESG owns and operates the processing and distribution system that supplies renewable methane gas to local businesses and the Veteran Affairs medical center.

Vectren also initiated plans to develop its renewable portfolio for electric generation and recently issued a request for proposal for "green power." In 2007, we expect to offer our customers an option to purchase a renewable energy source, such as wind power.

Key Transactions

Another important investment was our purchase of the remaining 50 percent share of Miller Pipeline Corporation (Miller). With the industry's need to address aging pipeline infrastructure, 2006 proved to be the perfect time to make Miller, a company with more than 50 years of experience in pipeline contracting and rehabilitation services for gas, water and sewer pipelines, a wholly owned subsidiary. Vectren's portion of Miller's earnings for 2006 was $2.2 million compared to $0.9 million in 2005. As the largest pipeline construction and rehabilitation company in the Midwest, Miller will primarily focus on growth in infrastructure replacement projects for the coming years.

Miller is also involved in new pipeline construction projects. Late last year, Vectren received regulatory approval for a process that provides Miller with the opportunity to construct a 25-mile pipeline to the new $550-million Honda production facility near Greensburg, Ind. This new facility is expected to employee 2,000 people

and will fuel economic growth in the region allowing Vectren to grow its gas distribution customer base.

Our Miller purchase was followed by two divestitures from our nonutility portfolio. Reliant Services, a 50 percent owned joint venture, sold its meter reading and facility locating service contracts and assets and shut down its remaining operations. Also by year-end, we sold our investment in SIGECOM, the cable, telephone and high-speed internet services provider in the Evansville, Ind. area. Both of these transactions were consistent with previous discussions of narrowing the focus of our nonutility portfolio and, more importantly, providing the opportunity to redeploy capital into our primary nonutility businesses.

Base Rate Proceedings

Electric base rates that have remained unchanged for nearly 12 years and approval of a limited increase for gas base rates a few years prior prompted us on Sept. 1, 2006, to file both gas and electric rate cases for our Indiana – South service territory. Based on existing rate case procedural schedules, decisions are anticipated in both cases by late summer 2007 unless settlement agreements occur, which could accelerate the timing. I also expect rate cases to be initiated in our Indiana – North and Ohio service territories by mid-2007. Investments to provide safe and reliable service and competition for required capital make these rate increases necessary.

Expectations for 2007

Before I close, let me give a fond farewell and sincere extension of gratitude to Steve Bramlage and Dick Lynch, both of whom retired at the end of the year. Steve, who served as the president of Vectren Energy Delivery of Ohio, played a critical role in successfully transitioning our Ohio operations into the Vectren family and provided exceptional leadership for our natural gas business. Dick, who was responsible for our human resources department, was an integral part of Vectren's senior executive team and helped shape Vectren's culture post merger.

This summary annual report focuses on delivering, managing, providing, investing in and creating energy – all powerful words that illustrate how Vectren is action-oriented in our efforts to ensure the financial stability of our company. In closing, I must say that I am confident in the direction we're headed. Today's energy company must find a way to break the mold of the conventional utility company of yesterday, and I believe we've packaged together the right mix of utility innovation and nonutility opportunity to keep us moving forward. More importantly, we're adapting our business models and making the right investments – in technology, natural resources and operating companies – at the right time to maximize shareholder value.

Our decoupling efforts and targeted nonutility businesses have us well-positioned to continue as a champion for positive change. I look forward to the remainder of 2007, as we will have a full year of conservation results and considerable progress in rate case proceedings. Combining these elements with a dedicated work force have positioned us to deliver financial results, meet customer demand for reliable energy and set up the remainder of this decade for continued growth.

Niel C. Ellerbrook
Chairman, President and Chief Executive Officer
February 16, 2007

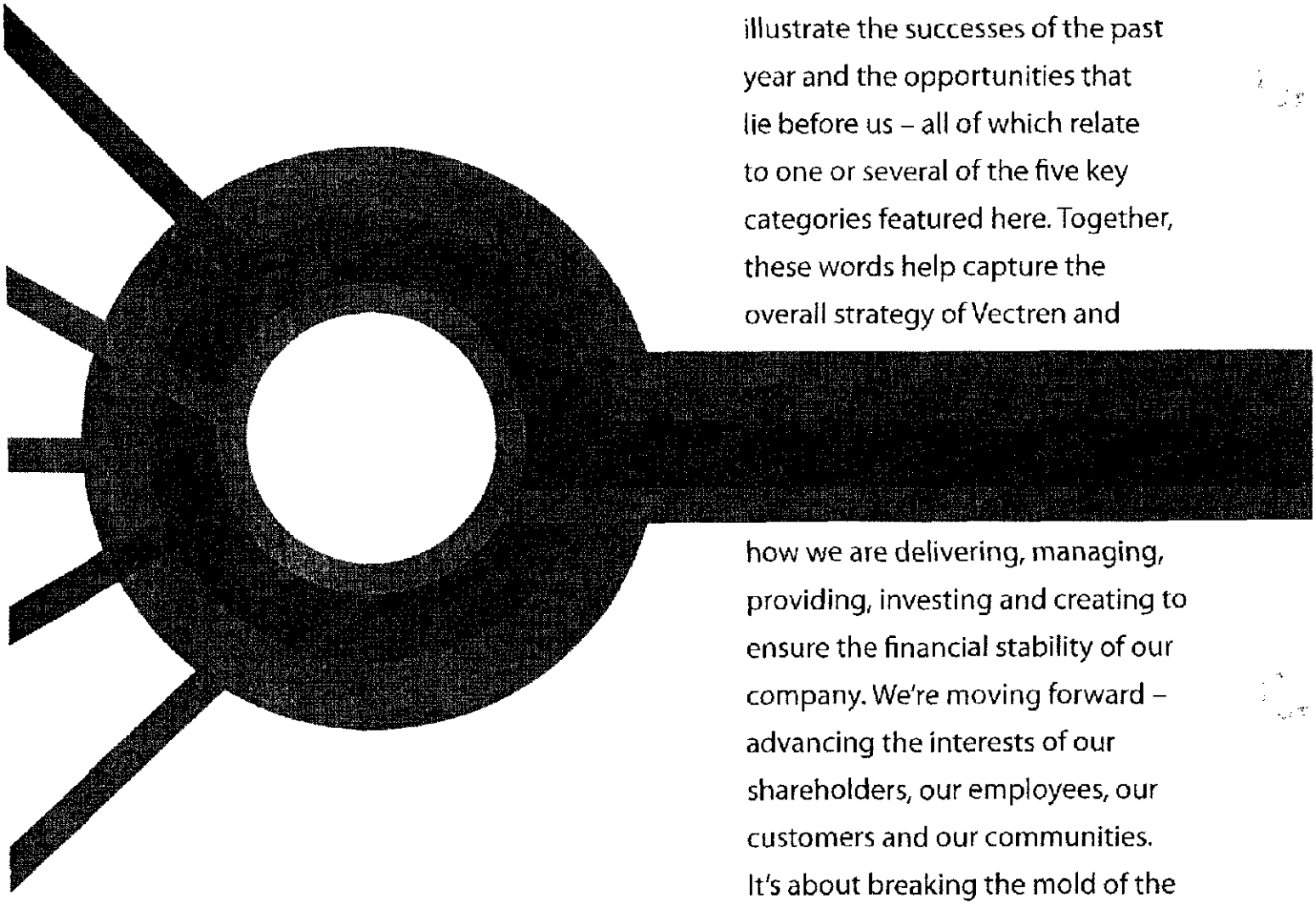
Conservation

Technology

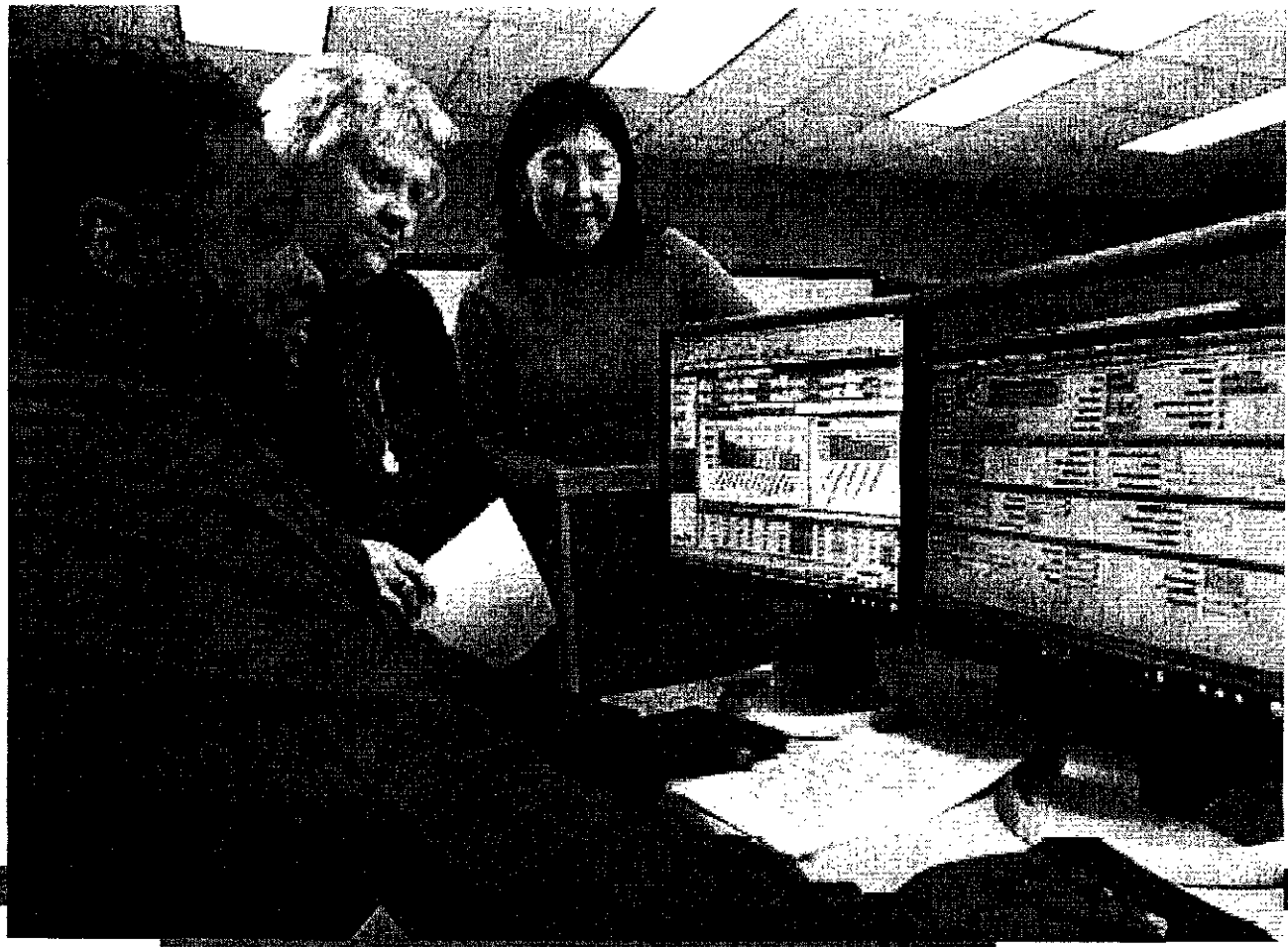
Environment

Innovation

Opportunities



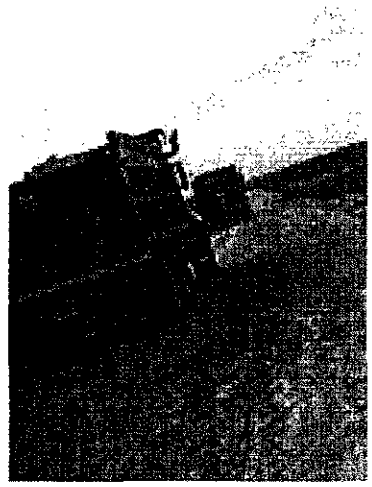
The photographs and captions listed on the following pages illustrate the successes of the past year and the opportunities that lie before us – all of which relate to one or several of the five key categories featured here. Together, these words help capture the overall strategy of Vectren and how we are delivering, managing, providing, investing and creating to ensure the financial stability of our company. We're moving forward – advancing the interests of our shareholders, our employees, our customers and our communities. It's about breaking the mold of the traditional utility company and setting a new, higher standard.



Managing resources, time and money. Enterprise asset management technology and process changes will improve the effectiveness of how Vectren's field operations employees perform work. Part of an Energy Delivery initiative known as Asset Management Transformation (AMT), electronic dashboards and work planning and scheduling technology are examples of planned improvements designed to optimize company assets to improve bottom line results and customer service. Seen here, Stephanie Riffle and Maelynn Foster Hudson work with Field Supervisor Keith Thomas in testing the new software, which will help streamline crew assignments and chart daily production.

delivering ENERGY

It's more than just providing a reliable energy source. It's about delivering excellent customer service, fueling economic development and growing our customer base.



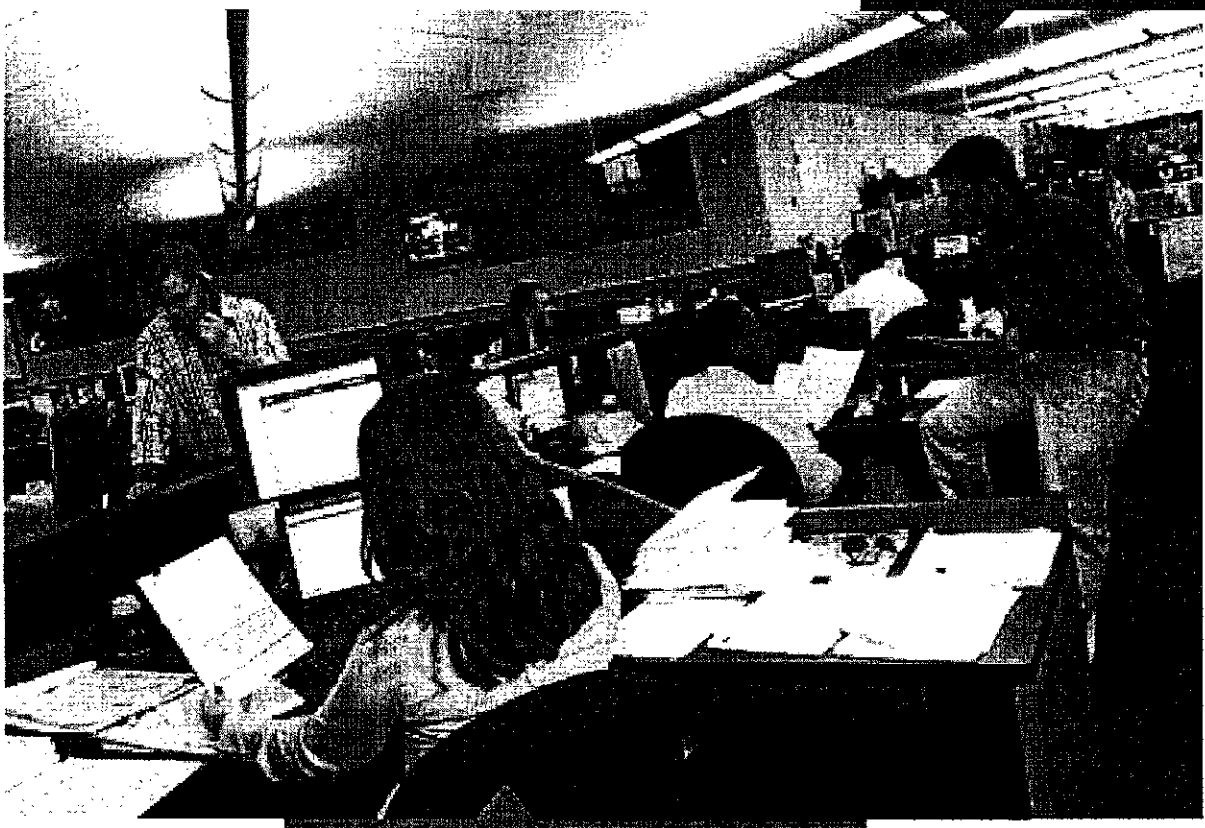
Safe, reliable energy delivery. It starts with the pipes in the ground. The future homeowners in this Clarksville, Ind., subdivision are entrusting the comfort of their homes to Vectren construction crew members. With nearly one million customers relying on our energy and more coming onto the system everyday, Vectren is committed to efficiently and effectively delivering the gas to heat our customers' water, food and homes.

Powered by Vectren natural gas, the $550-million Honda manufacturing plant in Greensburg, Ind., and its 2,000 employees will produce 200,000 vehicles annually by late 2008. Vectren project engineer Jeff Theobald is leading the design efforts for the installation of a 25-mile pipeline to the 1,700-acre site that will fuel Honda's production line and further economic development in the central Indiana region. Vectren has received regulatory approval for a process that provides Miller Pipeline with the opportunity to construct the pipeline.

managing ENERGY

Our utility and nonutility businesses are focused not only on optimizing the efficiency of our internal resources but helping our customers do the same.

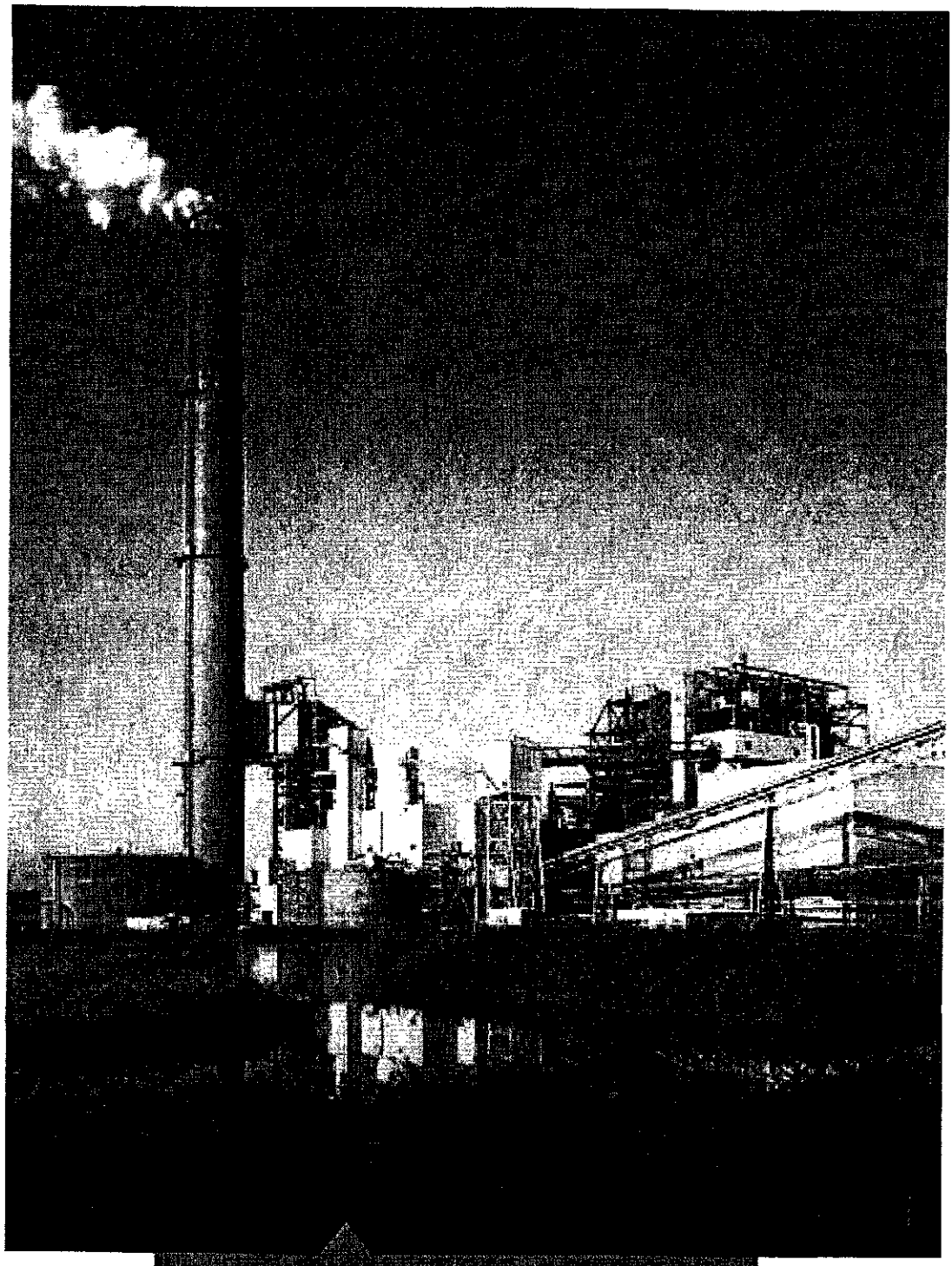
Having recently been named the top-ranked natural gas marketer in the country according to MastioGale's 10th annual Natural Gas Marketer Customer Value Study, ProLiance should be positioned to continue gaining market share in the highly competitive supplier market.



ProLiance Energy provides competitive, reliable natural gas supplies for more than 1,300 price-sensitive commercial and industrial customers throughout the Midwest and Southeast. With more than 100 seasoned veterans, ProLiance constantly monitors the market to optimize transportation and storage capacity.

An energy efficiency makeover by Vectren subsidiary Energy Systems Group (ESG) will help eight Terre Haute-area schools generate millions in energy and operational cost savings over the next several years. ESG's Indianapolis Regional Director Doug Tischbein and Vigo County School Corporation Superintendent Daniel Tanoos discuss planned upgrades, which include new energy-efficient lighting systems; water conservation improvements; and heating, ventilation and air conditioning systems.

The Terre Haute schools project is just one of dozens of contracts signed in 2006 that exemplifies ESG's ability to transform advancements in technology into significant operational savings. Other examples include updating an outdated wastewater treatment facility, converting landfill gas into an energy source and replacing traffic signals with light emitting diode (LED) units. This Evansville-based company has found its way into more than 14 states with leading-edge solutions that pay for themselves through generated budget savings.



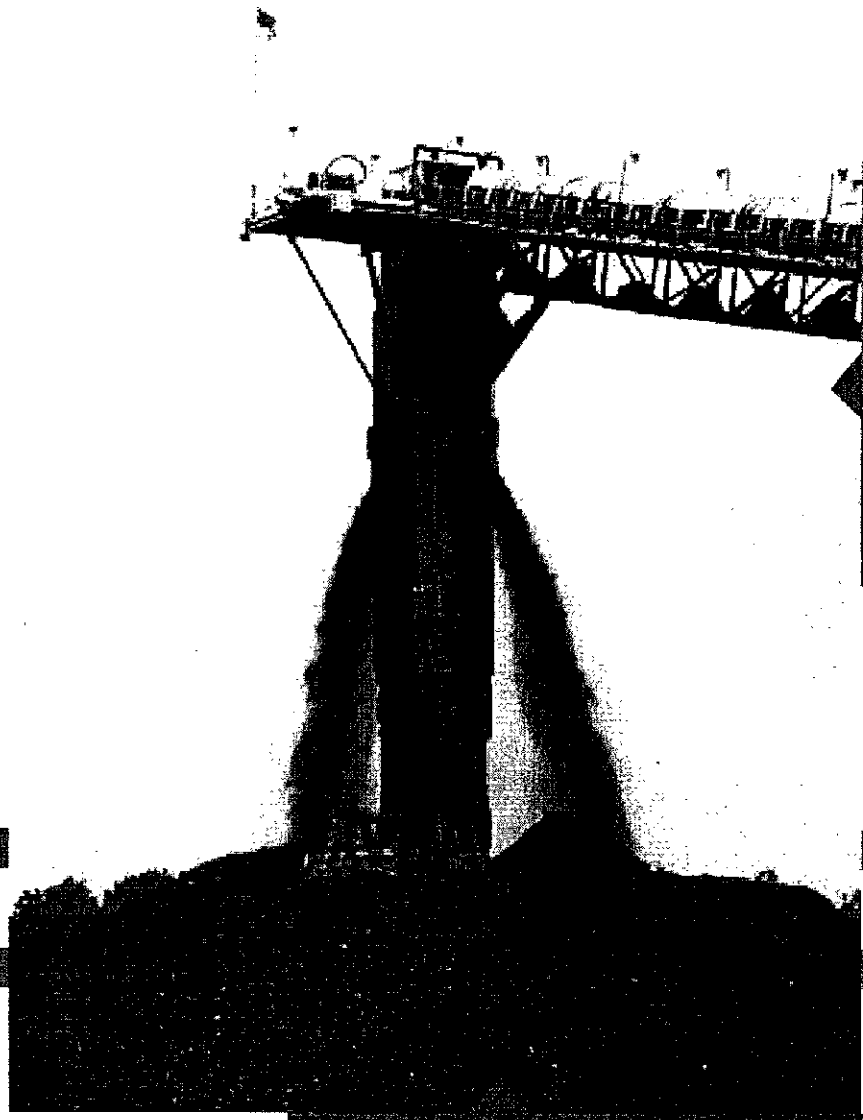
Burning Indiana coal to generate low-cost, environment-friendly power. Our existing generation fleet, including the F.B. Culley Power Plant seen here, remains on target to become one of the cleanest in the Midwest. With more than $295 million of emissions-control equipment already in service and another $70 million project underway, by 2009 our fleet will be 100 percent scrubbed for sulfur dioxide (SO_2), 90 percent controlled for nitrogen oxide (NO_X) and will further reduce mercury emissions to meet new mercury reduction requirements.

providing ENERGY

Our focus on meeting the energy needs of Hoosiers through clean, safe power and using Indiana coal to do it translates to thousands of jobs for southwestern Indiana.

IGCC. Four letters that may represent the key to utilizing Indiana coal and meeting future electric customer demand. With fewer emissions than a conventional coal-fired plant and potentially the ability to sequester greenhouse gases, an Integrated Gasification Combined Cycle (IGCC) generation facility could be built in southwestern Indiana. The 630-megawatt power plant would be built in conjunction with Duke Energy and be one of the first commercial-scale IGCC power plants in the United States.

With a flip of a switch – more than 40,000 switches to be exact – Vectren is able to save 25 megawatts of electricity during times of peak demand. Known as Summer Cycler, this demand side management program installs a small, radio-controlled device on an electric water heater and air conditioner, as shown here, to cycle off key appliances during the hottest days of the summer. This technology proved very beneficial during a 2006 summer in which Vectren's peak demand record was broken three times.



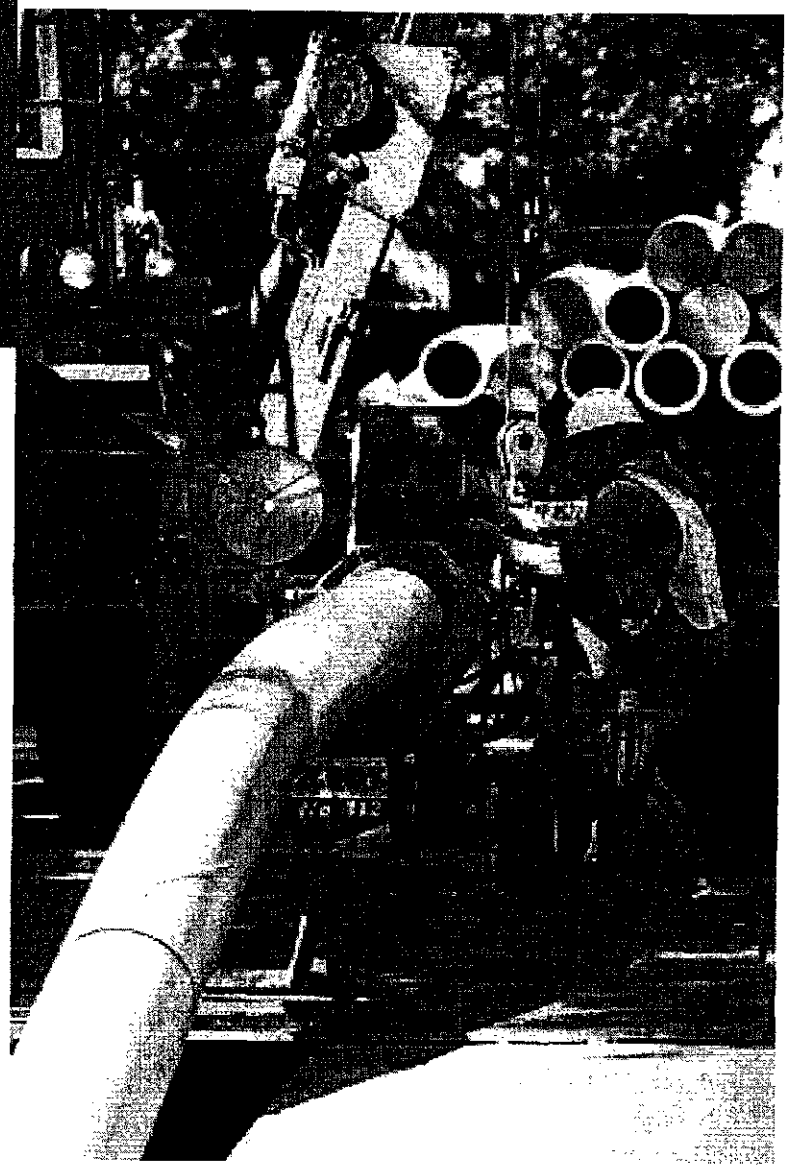
The safety of our miners ranks first and foremost among our operations. Prosperity Mine houses an underground emergency shelter, the only one in the tri-state area, which offers miners a ventilated safe haven with survival supplies should an accident occur. The safe area, which features a fireproof, airtight room, can hold more than 70 miners and similar areas will be installed in the new underground mines.

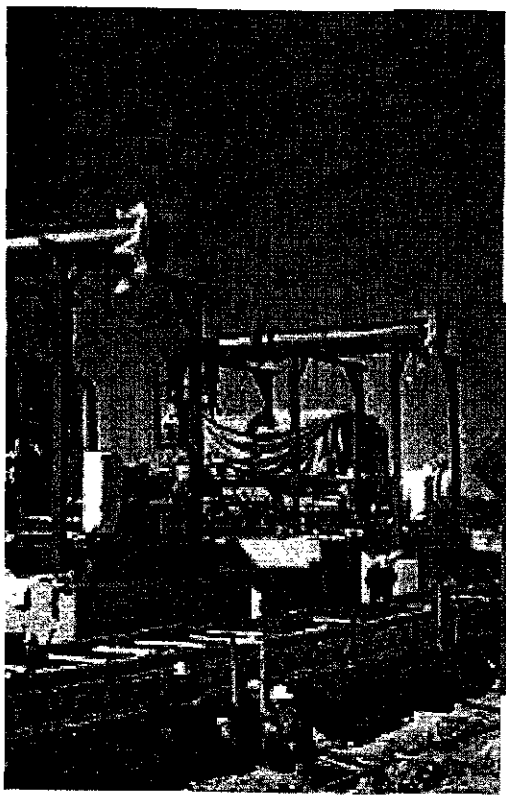
Continuing to tap southern Indiana's more than one billion tons of coal reserves, Vectren Fuels will open two new underground mines in southwestern Indiana's Knox County by 2011 – utilizing local resources and creating local jobs to generate local electricity. The $125 million investment will be located within 50 miles of eight coal-fired power plants. Combined with Fuels' Prosperity Mine, the three mining operations will provide more than 700 jobs to southwestern Hoosiers and yield eight million tons annually.

investing in ENERGY

At Vectren, we're spending money at the right time to maximize rewards. It's about strategic, effectively managed investments that support the core utility business and provide safe, reliable energy.

Repairing and refurbishing aging infrastructure for gas, water and wastewater pipelines. Miller Pipeline is poised to address the infrastructure needs for hundreds of utilities across the nation, including Vectren Energy Delivery. This is just one of many reasons why Miller is now a wholly owned Vectren subsidiary. Jay Trullender is one of 1,300 Miller crew members working throughout the Midwest and Southeast.





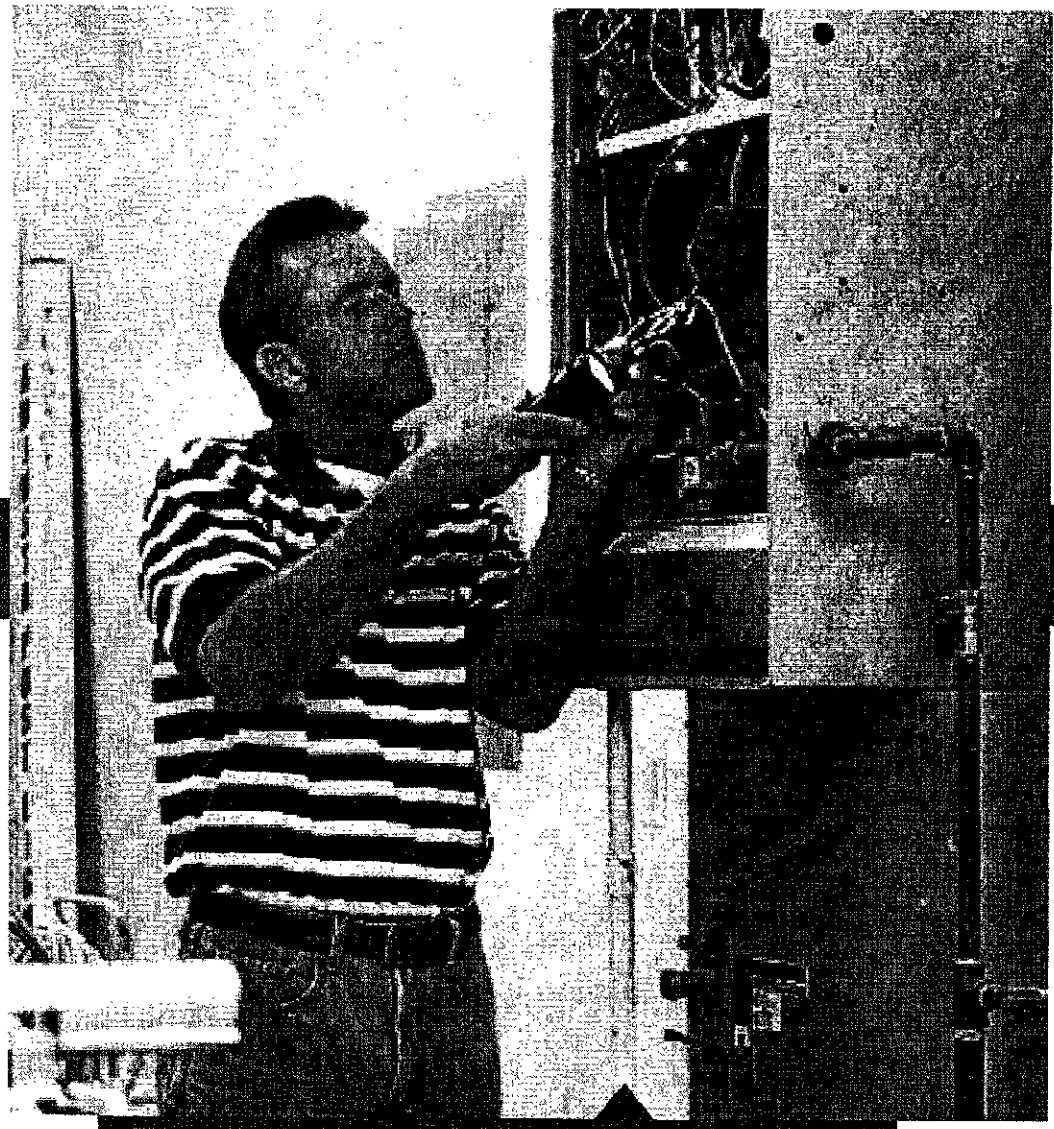
A 17-billion cubic foot (Bcf) high-deliverability, salt-cavern natural gas storage facility. Liberty Gas Storage, a partnership with Sempra Energy and Vectren affiliate ProLiance Energy, is strategically located in the hub of natural gas interstate pipelines in southern Louisiana. These types of facilities have become key components in supporting the commercial functions of power generators, utilities, energy merchants and liquefied natural gas (LNG) receipt terminal operators. With construction expected to be completed in mid-2007, Liberty will allow ProLiance and other customers to quickly inject and withdraw gas from the facility and commercially optimize gas flows to maximize customer value and company investments.

creating ENERGY

This isn't your typical, stodgy utility company. We're not satisfied with the notion that "this is the way we've always done it." We're forward-thinking, innovative, revolutionary. Knowing that today's creative ideas yield tomorrow's success, our utility and nonutility entities are powering change in the energy industry.

A reduction in air emissions, a local renewable energy source and a long-term revenue source for the city – all the result of converting a Johnson City, Tenn., landfill to a viable energy source. The $5-million landfill recovery plant, a concept developed and implemented by Vectren subsidiary Energy Systems Group in partnership with Johnson City leaders, captures methane gas and sells it to local commercial customers. Above, ESG's Scott Hill checks on a well that collects landfill gas and transports it to the recovery plant.

Rewarding customer conservation and earning a fair rate of return. A new conservation-oriented rate design in Indiana, often referred to as decoupling, has broken the link between volume and the ability to recover costs. Regulatory approval of this design has allowed Vectren to become the ultimate customer advocate – promoting rebates for energy efficient gas appliances and in-depth online audit tools to reduce gas usage. It's more than just dialing down the thermostat. It's changing the way our customers use energy and changing the way we do business.



Working through Indiana new home builders like Evansville's Jimmy Kaster, Vectren is making sure future homeowners are using natural gas in the most efficient way possible. Builders are rewarded by constructing ENERGY STAR® certified homes and through rebates when choosing to install high-efficiency gas equipment such as furnaces, water heaters and clothes washers. It's all a part of Vectren's Conservation Connection program in Indiana, which is helping residential and commercial customers lower energy bills by selecting energy efficient appliances and products.

Condensed Consolidated Statements of Income

In millions, except per share amounts — *Year ended December 31,*	**2006**	2005	2004
Operating revenues			
Gas utility	**$1,232.5**	$ 1,359.7	$ 1,126.2
Electric utility	**422.2**	421.4	371.3
Nonutility revenues	**386.9**	246.9	192.3
Total operating revenues	**2,041.6**	2,028.0	1,689.8
Operating expenses			
Cost of gas sold	**841.5**	973.3	778.5
Cost of fuel and purchased power	**151.5**	144.1	116.8
Cost of nonutility revenues	**248.7**	191.0	143.5
Other operating	**341.8**	282.2	252.0
Depreciation and amortization	**172.3**	158.2	140.1
Taxes other than income taxes	**65.3**	66.1	59.4
Total operating expenses	**1,821.1**	1,814.9	1,490.3
Operating income	**220.5**	213.1	199.5
Other income			
Equity in earnings of unconsolidated affiliates	**17.0**	45.6	20.6
Other – net	**(2.7)**	6.2	4.6
Total other income	**14.3**	51.8	25.2
Interest expense	**95.6**	83.9	77.7
Income before income taxes	**139.2**	181.0	147.0
Income taxes	**30.3**	44.1	39.0
Minority interest	**0.1**	0.1	0.1
Net income	**$ 108.8**	$ 136.8	$ 107.9
Average common shares outstanding	**75.7**	75.6	75.6
Diluted common shares outstanding	**76.2**	76.1	75.9
Earnings per share of common stock			
Basic	**$ 1.44**	$ 1.81	$ 1.43
Diluted	**$ 1.43**	$ 1.80	$ 1.42

The Company's consolidated financial statements, including footnotes, are included in Appendix H to the Company's 2007 proxy statement.

Condensed Consolidated Balance Sheets

In millions — *At December 31,*	**2006**	2005
Assets		
Current Assets		
Cash and cash equivalents	**$ 32.8**	$ 20.4
Accounts receivable – less reserves of $3.1 and $2.8, respectively	**198.6**	197.8
Accrued unbilled revenues	**146.5**	240.6
Inventories	**163.5**	144.6
Recoverable fuel and natural gas costs	**1.8**	15.4
Prepayments and other current assets	**172.7**	106.4
Total current assets	**715.9**	725.2
Utility Plant		
Original cost	**3,820.2**	3,632.0
Less: accumulated depreciation and amortization	**1,434.7**	1,380.1
Net utility plant	**2,385.5**	2,251.9
Investments in unconsolidated affiliates	**181.0**	214.7
Other investments	**74.5**	111.6
Nonutility property – net	**294.4**	240.3
Goodwill – net	**237.8**	207.1
Regulatory assets	**163.5**	89.9
Other assets	**39.0**	27.4
Total assets	**$ 4,091.6**	$ 3,868.1
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	**$ 180.0**	$ 159.0
Accounts payable to affiliated companies	**89.9**	162.3
Refundable fuel and natural gas costs	**35.3**	7.6
Accrued liabilities	**147.2**	156.6
Short-term borrowings	**464.8**	299.9
Current maturities of long-term debt	**24.2**	0.4
Long-term debt subject to tender	**20.0**	53.7
Total current liabilities	**961.4**	839.5
Long-term debt – net of current maturities and debt subject to tender	**1,208.0**	1,198.0
Deferred income taxes and other liabilities		
Deferred income taxes	**260.7**	227.3
Regulatory liabilities	**291.1**	272.9
Deferred credits and other liabilities	**195.8**	186.7
Total deferred credits and other liabilities	**747.6**	686.9
Minority interest in subsidiary	**0.4**	0.4
Common shareholders' equity		
Common stock (no par value) – issued and outstanding 76.1 and 76.0 shares, respectively	**525.5**	528.1
Retained earnings	**643.6**	628.8
Accumulated other comprehensive income/(loss)	**5.1**	(13.6)
Total common shareholders' equity	**1,174.2**	1,143.3
Total liabilities and shareholders' equity	**$ 4,091.6**	$ 3,868.1

The Company's consolidated financial statements, including footnotes, are included in Appendix H to the Company's 2007 proxy statement.

Condensed Consolidated Statements of Cash Flows

In millions — *Year ended December 31,*	**2006**	2005	2004
Cash Flows From Operating Activities			
Net income	**$ 108.8**	$ 136.8	$ 107.9
Adjustments to reconcile net income to cash from operating activities:			
Depreciation and amortization	**172.3**	158.2	140.1
Deferred income taxes and investment tax credits	**1.4**	(8.6)	5.9
Equity in earnings of unconsolidated affiliates	**(17.0)**	(45.6)	(20.6)
Provision for uncollectible accounts	**15.3**	15.1	11.9
Expense portion of pension and postretirement benefit cost	**10.7**	10.7	11.8
Other non-cash charges – net	**11.4**	1.9	8.3
Changes in working capital accounts:			
Accounts receivable and accrued unbilled revenue	**108.9**	(102.9)	(84.0)
Inventories	**(17.6)**	(71.9)	0.4
Recoverable/refundable fuel and natural gas costs	**41.3**	3.5	8.9
Prepayments and other current assets	**(21.2)**	36.1	(10.2)
Accounts payable, including to affiliated companies	**(71.6)**	101.2	42.5
Accrued liabilities	**(23.2)**	27.4	11.2
Unconsolidated affiliate dividends	**35.8**	18.8	22.3
Changes in noncurrent assets	**(25.8)**	(6.9)	(3.5)
Changes in noncurrent liabilities	**(19.3)**	(5.4)	(14.9)
Net cash flows from operating activities	**310.2**	268.4	238.0
Cash Flows From Financing Activities			
Proceeds from:			
Long-term debt – net of issuance costs	**92.8**	274.2	32.4
Stock option exercises and other stock plans	**–**	–	4.5
Requirements for:			
Dividends on common stock	**(93.1)**	(90.5)	(87.3)
Retirement of long-term debt	**(124.4)**	(88.5)	(70.7)
Redemption of preferred stock of subsidiary	**–**	(0.1)	(0.1)
Net change in short-term borrowings	**164.9**	(112.5)	139.5
Other activity	**(0.6)**	(0.6)	–
Net cash flows from financing activities	**39.6**	(18.0)	18.3
Cash Flows From Investing Activities			
Proceeds from:			
Unconsolidated affiliate distributions	**2.0**	6.9	3.2
Other collections	**3.4**	4.3	9.3
Requirements for:			
Capital expenditures, excluding AFUDC equity	**(281.4)**	(231.6)	(252.5)
Unconsolidated affiliate investments	**(16.7)**	(19.2)	(18.2)
Other investments	**(44.7)**	–	(3.8)
Net cash flows from investing activities	**(337.4)**	(239.6)	(262.0)
Net increase (decrease) in cash and cash equivalents	**12.4**	10.8	(5.7)
Cash and cash equivalents at beginning of period	**20.4**	9.6	15.3
Cash and cash equivalents at end of period	**$ 32.8**	$ 20.4	$ 9.6

The Company's consolidated financial statements, including footnotes, are included in Appendix H to the Company's 2007 proxy statement.

Management's and Auditor's Report

Management's Responsibility for Financial Statements

Vectren Corporation's management is responsible for establishing and maintaining adequate internal control over financial reporting. Those control procedures underlie the preparation of the condensed consolidated balance sheets, statements of income, statements of cash flows and other financial data contained in this report.

The financial data herein is derived from the Company's consolidated financial statements. Those financial statements, included in Appendix H to the 2007 Proxy Statement and filed with the Securities and Exchange Commission on Form-10K on February 16, 2007, were prepared in conformity with accounting principles generally accepted in the United States and follow accounting policies and principles applicable to regulated public utilities. The integrity and objectivity of those consolidated financial statements as well as the data in this report, including required estimates and judgments, are the responsibility of management.

The financial data herein is also subject to an evaluation of internal control over financial reporting conducted under the supervision of and with the participation of management, including the chief executive officer and chief financial officer. Based on that evaluation, conducted under the framework in *Internal Control - Integrated Framework* issued by The Committee of Sponsoring Organizations of the Treadway Commission, the Company concluded that its internal control over financial reporting was effective as of December 31, 2006. Management certified this fact in its Sarbanes Oxley Section 302 certifications, which were attached as exhibits to its 2006 Form 10-K. Management also has submitted an unqualified chief executive officer certification as required by the New York Stock Exchange.

The consolidated financial statements and management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2006, were audited by Deloitte & Touche LLP, an independent registered public accounting firm. Its report, which expressed an unqualified opinion, also is included in Appendix H to the 2007 Proxy Statement.

Niel C. Ellerbrook
Chairman, President and Chief Executive Officer

Jerome A. Benkert, Jr.
Executive Vice President and Chief Financial Officer
February 16, 2007

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Vectren Corporation

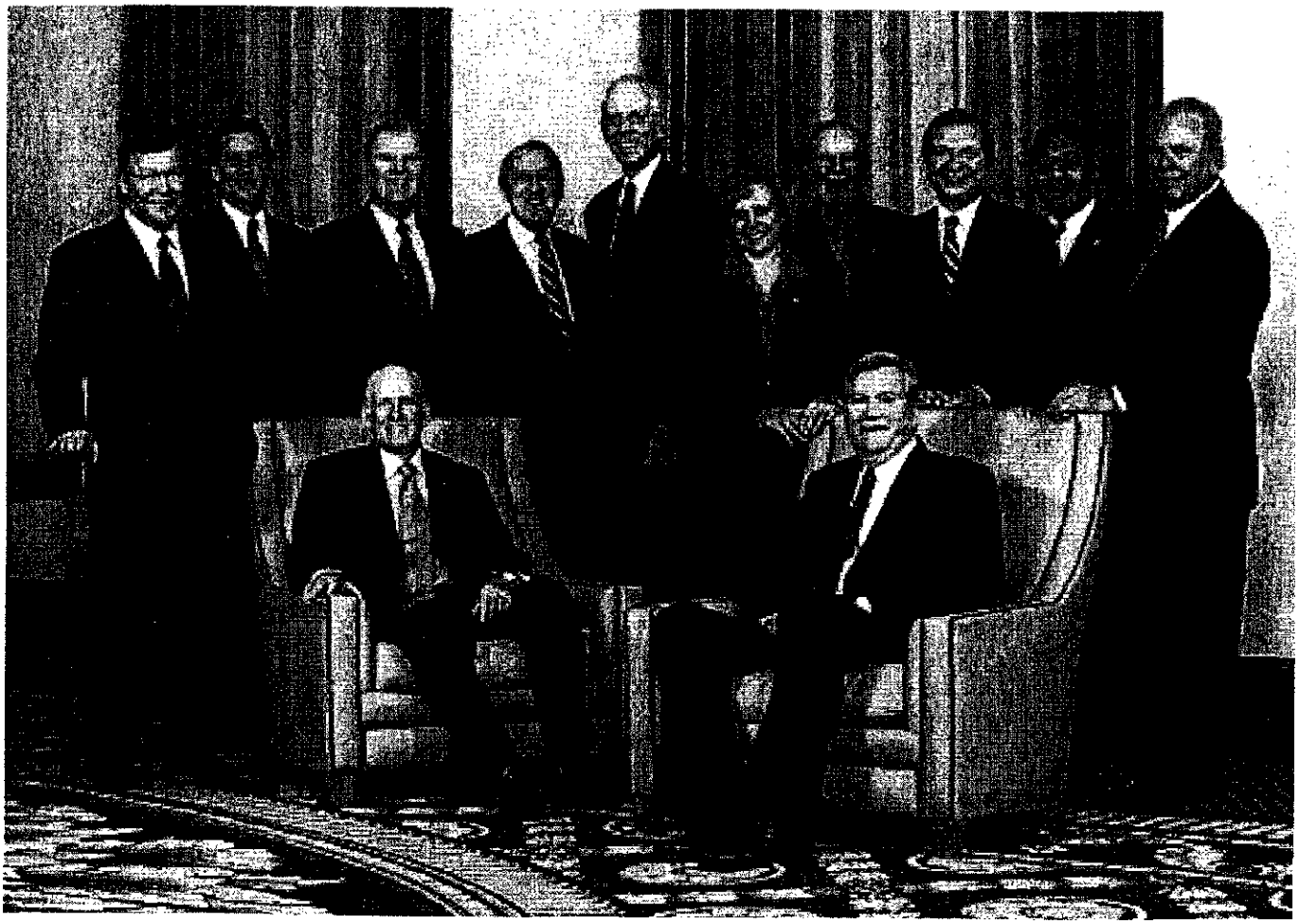
We have audited the consolidated balance sheets of Vectren Corporation and subsidiaries (the "Company") as of December 31, 2006 and 2005, and the related consolidated statements of income, common shareholders' equity and cash flows for each of the three years in the period ended December 31, 2006. We also have audited management's assessment of the effectiveness of the Company's internal control over financial reporting and the effectiveness of the Company's internal control over financial reporting as of December 31, 2006. Such consolidated financial statements, management's assessment of the effectiveness of the Company's internal control over financial reporting and our reports thereon dated February 16, 2007, expressing unqualified opinions and including an explanatory paragraph referring to the adoption of FASB Statement No. 158 (which are not included herein) are included in Appendix H to the proxy statement for the 2007 annual meeting of shareholders. The accompanying condensed consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on such condensed consolidated financial statements in relation to the complete consolidated financial statements.

In our opinion, the information set forth in the accompanying condensed consolidated balance sheets as of December 31, 2006 and 2005, and the related condensed consolidated statements of income and of cash flows for each of the three years in the period ended December 31, 2006, is fairly stated in all material respects in relation to the basic consolidated financial statements from which it has been derived.

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP
Indianapolis, Indiana
February 16, 2007

Board of Directors



Standing: Michael L. Smith, Anton H. George, Richard W. Shymanski, J. Timothy McGinley, R. Daniel Sadlier, Jean L. Wojtowicz, Richard P. Rechter, John D. Engelbrecht, William G. Mays, John M. Dunn. Sitting: Robert L. Koch II, Niel C. Ellerbrook

Committees of the Board

Nominating and Governance:
John M. Dunn
Anton H. George
Robert L. Koch II (Chair and Lead Director)
William G. Mays
J. Timothy McGinley

Audit and Risk Management:
Richard P. Rechter
Richard W. Shymanski (Chair)
Michael L. Smith

Compensation and Benefits:
Anton H. George
Richard W. Shymanski
Michael L. Smith
Jean L. Wojtowicz (Chair)

Corporate Affairs:
John M. Dunn
John D. Englebrecht
Robert L. Koch II
William G. Mays (Chair)
Richard P. Rechter

Finance:
Niel C. Ellerbrook (Chair)
John D. Engelbrecht
J. Timothy McGinley
Jean L. Wojtowicz

Note: Not pictured above is Dr. Martin C. Jischke, elected to the Board on Feb. 1, 2007.

Directors and Officers

Board of Directors

John M. Dunn
Director since 1996
Chairman of the Board and Chief Executive Officer of Dunn Hospitality Group, Ltd.

Niel C. Ellerbrook
Director since 1991
Chairman of the Board, President and Chief Executive Officer of Vectren Corporation

John D. Engelbrecht
Director since 1996
President and Chief Executive Officer of South Central Communications Corporation

Anton H. George
Director since 1990
President and Chief Executive Officer of Indianapolis Motor Speedway Corporation

President and Chief Executive Officer of Hulman & Company

Dr. Martin C. Jischke
Director since 2007
President of Purdue University

Robert L. Koch II
Director since 1986
Lead Director since 2003
President and Chief Executive Officer of Koch Enterprises, Inc.

William G. Mays
Director since 1998
President, Chief Executive Officer and founder of Mays Chemical Company, Inc.

J. Timothy McGinley
Director since 1999
Principal of House Investments, Inc.

Richard P. Rechter
Director since 1984
Chairman of the Board of Rogers Group, Inc.

R. Daniel Sadlier
Director since 2003
Chairman of the Board of Fifth Third Bank (Western Ohio)

Richard W. Shymanski
Director since 1989
Chairman of the Board, President and Chief Executive Officer of Fendrich Industries, Inc.

Michael L. Smith
Director since 2006
Retired Executive Vice President and Chief Financial Officer of Wellpoint, Inc.

Jean L. Wojtowicz
Director since 1996
President and founder of Cambridge Capital Management Corporation

Executive Officers

Niel C. Ellerbrook
Chairman, President and Chief Executive Officer

Jerome A. Benkert, Jr.
Executive Vice President and Chief Financial Officer

Carl L. Chapman
Executive Vice President and Chief Operating Officer

Ronald E. Christian
Executive Vice President, Chief Administrative Officer, General Counsel and Secretary

William S. Doty
Executive Vice President, Utility Operations

Corporate Officers

Daniel C. Bugher
Vice President, Information Technology

Robert L. Goocher
Vice President and Treasurer

M. Susan Hardwick
Vice President and Controller

Richard G. Lynch*
Senior Vice President, Human Resources and Administration

L. Douglas Petitt
Vice President, Government Affairs

Ellis S. Redd**
Vice President, Human Resources

Steven M. Schein
Vice President, Investor Relations

Jeffrey W. Whiteside
Vice President, Corporate Communications and Public Affairs

Other Officers

John M. Bohls
President, Vectren Enterprises

Stephen P. Bramlage*
President, Vectren Energy Delivery of Ohio

Robert E. Heidorn
Vice President, VUHI – General Counsel

Ronald G. Jochum
Vice President, VUHI – Power Supply

Douglas A. Karl
Vice President, VUHI – Marketing and Customer Service

Eric J. Schach
Vice President, VUHI – Energy Delivery

Jerrold L. Ulrey
Vice President, VUHI – Regulatory Affairs and Fuels

* Retired as of Jan. 1, 2007
** Named Feb. 1, 2007

VUHI – Vectren Utility Holdings, Inc.

5-year Financial Review

In millions, except per share amounts	2006	2005	2004	2003	2002
Key Financial Data					
Operating revenues	$ 2,041.6	$ 2,028.0	$ 1,689.8	$ 1,587.7	$ 1,523.8
Operating income	220.5	213.1	199.5	196.0	211.3
Income before income taxes	139.2	181.0	147.0	149.0	153.4
Net income	$ 108.8	$ 136.8	$ 107.9	$ 111.2	$ 114.0
Common Stock Data					
Average shares outstanding – basic	75.7	75.6	75.6	70.6	67.6
Average shares outstanding – diluted	76.2	76.1	75.9	70.8	67.9
Earnings per share – basic	$ 1.44	$ 1.81	$ 1.43	$ 1.58	$ 1.69
Earnings per share – diluted	$ 1.43	$ 1.80	$ 1.42	$ 1.57	$ 1.68
Dividends per share	$ 1.23	$ 1.19	$ 1.15	$ 1.11	$ 1.07
Dividend payout ratio	85%	66%	80%	70%	63%
Book value per share	$ 15.43	$ 15.04	$ 14.42	$ 14.17	$ 12.81
Market price (year-end, closing)	$ 28.28	$ 27.16	$ 26.80	$ 24.65	$ 23.00
Return on average shareholders' equity	9.4%	12.2%	10.0%	11.5%	13.3%
Balance Sheet Data					
Capitalization					
Common shareholders' equity	$ 1,174.2	$ 1,143.3	$ 1,094.8	$ 1,071.7	$ 869.9
Preferred stock of subsidiary	–	–	0.1	0.2	0.3
Long-term debt	1,252.2	1,252.1	1,065.1	1,101.3	1,020.6
Total	$ 2,426.4	$ 2,395.4	$ 2,160.0	$ 2,173.2	$ 1,890.8
Capitalization ratios					
Common shareholders' equity	48.4%	47.7%	50.7%	49.3%	46.0%
Long-term debt	51.6%	52.3%	49.3%	50.7%	54.0%
Capital expenditures					
Utility and others	$ 246.6	$ 214.5	$ 242.2	$ 220.3	$ 190.7
Nonutility	34.8	17.1	10.3	13.2	28.0
Total	$ 281.4	$ 231.6	$ 252.5	$ 233.5	$ 218.7
Total assets	$ 4,091.6	$ 3,868.1	$ 3,586.9	$ 3,353.4	$ 3,136.5
Utility Operating Statistics					
Gas distribution					
Operating revenues	$ 1,232.5	$ 1,359.7	$ 1,126.2	$ 1,112.3	$ 908.0
Margin	$ 391.0	$ 386.4	$ 347.7	$ 349.8	$ 337.2
Customers (year-end in thousands)	995	992	985	972	967
Electric					
Operating revenues	$ 422.2	$ 421.4	$ 371.3	$ 335.7	$ 328.6
Margin	$ 270.7	$ 277.3	$ 254.5	$ 233.0	$ 230.2
Customers (year-end in thousands)	141	140	139	135	134
Weather as a percent of normal					
Heating degree days*	86%	95%	91%	100%	97%
Cooling degree days	95%	109%	90%	80%	123%

** Weather normalization applies to natural gas rates in Indiana beginning October 2005. Heating degree days as a percent of normal in Ohio were 89% in 2006 and 100% in 2005.*

Shareholder Information

Corporate Headquarters
One Vectren Square
Evansville, IN 47708
Tel: 812-491-4000
Web: www.vectren.com

You may call Vectren Shareholder Relations at
812-491-4190 or 800-227-8625.

Transfer Agent and Registrar
National City Bank serves as the transfer agent and registrar for Vectren Corporation and can help with a variety of stock-related matters, including name and address changes, transfer of stockownership, lost certificates, dividend payments and reinvestment, and Form 1099s. Inquiries may be directed to:

Vectren Corporation
c/o National City Bank
Corporate Trust Operations
P.O. Box 92301
Cleveland, OH 44193-0900
Tel: 800-622-6757
E-mail: shareholder.inquiries@nationalcity.com

Shareholders of record also can access records and request information online at: www.vectren.com or www.nationalcitystocktransfer.com.

Dividends
Cash dividends of Vectren Corporation common stock are considered quarterly by the board of directors for payment on the first business day of March, June, September and December of each year. Vectren Corporation and its predecessors have increased dividends annually for 47 consecutive years.

Dividend Reinvestment Plan
Registered shareholders of Vectren Corporation can reinvest dividends and purchase additional Vectren stock without having to pay brokerage commissions or service charges through Vectren's Automatic Dividend Reinvestment and Stock Purchase Plan.

To participate in the plan, investors must make their initial purchase through a brokerage firm, requesting that the shares be registered in the investor's name. New shareholders of record will automatically receive a prospectus and enrollment card from Vectren's Transfer Agent, National City Bank.

Annual Meeting
The annual meeting of shareholders of Vectren Corporation will be held at 10 a.m. (Central Daylight Time), Wednesday, May 9, 2007, at Vectren's corporate headquarters located at One Vectren Square in Evansville, Ind. Shareholders of record as of the close of business on March 9, 2007, will be eligible to vote at the meeting.

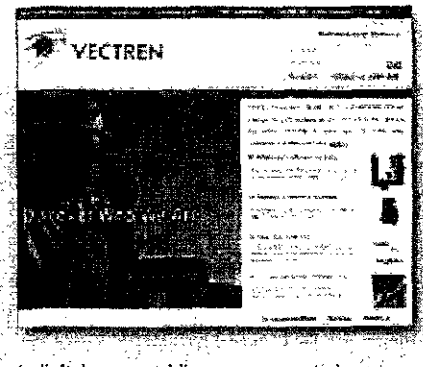
Communications to Non-Employee Directors
Shareholders and other parties interested in communicating directly with the Lead Director, Chair of the Audit Committee or with any of the non-employee directors as a group may do so by writing to:

Lead Director; Chair, Audit Committee;
or Non-Employee Directors
Vectren Corporation
P.O. Box 3144
Evansville, IN 47731-3144

Investor Relations
Institutional investors and securities analysts should direct inquiries to:

Steven M. Schein
Vice President, Investor Relations
Tel: 812-491-4209
E-mail: sschein@vectren.com

Archives and e-mail alerts of Vectren's press releases, annual reports, proxy statements, SEC filings and analyst presentations are made available on the company's Web site: www.vectren.com. Vectren's annual report on Form 10-K to the Securities and Exchange Commission may be obtained by shareholders without charge by writing to Investor Relations at the corporate address, e-mail: vvcir@vectren.com or by calling 800-227-8625.



In today's digital age, providing easy access to investor information has become a mainstream function of corporate Web sites. Vectren.com integrates a number of resources to give investors the ability to satisfy their varied informational needs.

Among other features, Vectren.com offers:

- Access to registered shareholder accounts
- Investor webcasts and transcripts
- A calendar of upcoming events
- Historical documents and investment tools

VECTREN

Vectren Corporation
One Vectren Square
Evansville, Indiana 47708
812-491-4000
www.vectren.com

Contains a minimum of 10% post-consumer fiber

EXHIBIT C-2

SEC FILINGS

Vectren Source does not submit 10-K Filings. Therefore, the 10-K Filing for the period ending December 31, 2007 for Vectren Corp. is attached hereto.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: **1-15467**

VECTREN CORPORATION

(Exact name of registrant as specified in its charter)

INDIANA	**35-2086905**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
One Vectren Square	**47708**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **812-491-4000**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common – Without Par	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: **NONE**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒. No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of June 30, 2007, was $2,040,161,249.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Common Stock - Without Par Value	76,357,138	January 31, 2008
Class	Number of Shares	Date

Documents Incorporated by Reference

Certain information in the Company's definitive Proxy Statement for the 2008 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year, is incorporated by reference in Part III of this Form 10-K.

Definitions

AFUDC: allowance for funds used during construction

APB: Accounting Principles Board

EITF: Emerging Issues Task Force

FASB: Financial Accounting Standards Board

FERC: Federal Energy Regulatory Commission

IDEM: Indiana Department of Environmental Management

IURC: Indiana Utility Regulatory Commission

MCF / BCF: thousands / billions of cubic feet

MDth / MMDth: thousands / millions of dekatherms

MMBTU: millions of British thermal units

MW: megawatts

MWh / GWh: megawatt hours / thousands of megawatt hours (gigawatt hours)

NOx: nitrogen oxide

OUCC: Indiana Office of the Utility Consumer Counselor

PUCO: Public Utilities Commission of Ohio

SFAS: Statement of Financial Accounting Standards

USEPA: United States Environmental Protection Agency

Throughput: combined gas sales and gas transportation volumes

Access to Information

Vectren Corporation makes available all SEC filings and recent annual reports 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 follows:

Mailing Address:
One Vectren Square
Evansville, Indiana 47708

Phone Number:
(812) 491-4000

Investor Relations Contact:
Steven M. Schein
Vice President, Investor Relations
sschein@vectren.com

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PART I

ITEM 1. BUSINESS

Description of the Business

Vectren Corporation (the Company or Vectren), an Indiana corporation, is an energy holding company headquartered in Evansville, Indiana. The Company's wholly owned subsidiary, Vectren Utility Holdings, Inc. (Utility Holdings), serves as the intermediate holding company for three operating public utilities: Indiana Gas Company, Inc. (Indiana Gas or Vectren North), Southern Indiana Gas and Electric Company (SIGECO or Vectren South), and the Ohio operations (VEDO or Vectren Ohio). Utility Holdings also has other assets that provide information technology and other services to the three utilities. Utility Holdings' consolidated operations are collectively referred to as the Utility Group. Both Vectren and Utility Holdings are holding companies as defined by the Energy Policy Act of 2005 (Energy Act). Vectren was incorporated under the laws of Indiana on June 10, 1999.

Indiana Gas provides energy delivery services to over 568,000 natural gas customers located in central and southern Indiana. SIGECO provides energy delivery services to over 141,000 electric customers and approximately 112,000 gas customers located near Evansville in southwestern Indiana. SIGECO also owns and operates electric generation to serve its electric customers and optimizes those assets in the wholesale power market. Indiana Gas and SIGECO generally do business as Vectren Energy Delivery of Indiana. The Ohio operations provide energy delivery services to approximately 318,000 natural gas customers located near Dayton in west central Ohio. The Ohio operations are owned as a tenancy in common by Vectren Energy Delivery of Ohio, Inc. (VEDO), a wholly owned subsidiary of Utility Holdings (53 percent ownership), and Indiana Gas (47 percent ownership). The Ohio operations generally do business as Vectren Energy Delivery of Ohio.

The Company, through Vectren Enterprises, Inc. (Enterprises), is involved in nonutility activities in three primary business areas: Energy Marketing and Services, Coal Mining and Energy Infrastructure Services. Energy Marketing and Services markets and supplies natural gas and provides energy management services. Coal Mining mines and sells coal. Energy Infrastructure Services provides underground construction and repair services and performance contracting and renewable energy services. Enterprises also has other businesses that invest in energy-related opportunities and services, real estate, and leveraged leases, among other investments. In addition the Company has in the past invested in projects that generated synfuel tax credits and processing fees relating to the production of coal-based synthetic fuels. These operations are collectively referred to as the Nonutility Group. Enterprises supports the Company's regulated utilities pursuant to service contracts by providing natural gas supply services, coal, infrastructure services, and other services.

Narrative Description of the Business

The Company segregates its operations into three groups: the Utility Group, the Nonutility Group, and Corporate and Other. At December 31, 2007, the Company had $4.3 billion in total assets, with $3.6 billion (84 percent) attributed to the Utility Group, $0.7 billion (16 percent) attributed to the Nonutility Group, and less than $0.1 billion attributed to Corporate and Other. Net income for the year ended December 31, 2007, was $143.1 million, or $1.89 per share of common stock, with net income of $106.5 million attributed to the Utility Group and $37.0 million attributed to the Nonutility Group, and a net loss of $0.4 million attributed to Corporate and Other. Net income for the year ended December 31, 2006, was $108.8 million, or $1.44 per share of common stock. For further information regarding the activities and assets of operating segments within these Groups, refer to Note 16 in the Company's consolidated financial statements included under "Item 8 Financial Statements and Supplementary Data."

Following is a more detailed description of the Utility Group and Nonutility Group. Corporate and Other operations are not significant.

Utility Group

The Utility Group is comprised of Utility Holdings' operations. The operations of the Utility Group consist of the Company's regulated operations and other operations that provide information technology and other support

services to those regulated operations. The Company segregates its regulated operations into the Gas Utility Services operating segment and the Electric Utility Services operating segment. The Gas Utility Services segment includes the operations of Indiana Gas, the Ohio operations, and SIGECO's natural gas distribution business and provides natural gas distribution and transportation services to nearly two-thirds of Indiana and to west central Ohio. The Electric Utility Services segment includes the operations of SIGECO's electric transmission and distribution services, which provides electric distribution services primarily to southwestern Indiana, and includes the Company's power generating and asset optimization operations. In total, these regulated operations supply natural gas and/or electricity to over one million customers. The Utility Group's other operations are not significant.

Gas Utility Services

At December 31, 2007, the Company supplied natural gas service to approximately 998,000 Indiana and Ohio customers, including 911,000 residential, 85,000 commercial, and 2,000 industrial and other contract customers. This represents customer base growth of 0.3 percent compared to 2006.

The Company's service area contains diversified manufacturing and agriculture-related enterprises. The principal industries served include automotive assembly, parts and accessories, feed, flour and grain processing, metal castings, aluminum products, appliance manufacturing, polycarbonate resin (Lexan®) and plastic products, gypsum products, electrical equipment, metal specialties, glass, steel finishing, pharmaceutical and nutritional products, gasoline and oil products, and coal mining. The largest Indiana communities served are Evansville, Bloomington, Terre Haute, and suburban areas surrounding Indianapolis and Indiana counties near Louisville, Kentucky. The largest community served outside of Indiana is Dayton, Ohio.

Revenues

For the year ended December 31, 2007, gas utility revenues were approximately $1,269.4 million, of which residential customers accounted for 67 percent, commercial 27 percent, and industrial and other contract customers 6 percent.

The Company receives gas revenues by selling gas directly to customers at approved rates or by transporting gas through its pipelines at approved rates to customers that have purchased gas directly from other producers, brokers, or marketers. Total volumes of gas provided to both sales and transportation customers (throughput) were 194.6 MMDth for the year ended December 31, 2007. Gas transported or sold to residential and commercial customers was 108.4 MMDth representing 56 percent of throughput. Gas transported or sold to industrial and other contract customers was 86.2 MMDth representing 44 percent of throughput. Rates for transporting gas generally provide for the same margins earned by selling gas under applicable sales tariffs.

The volume of gas sold is seasonal and affected by variations in weather conditions. To mitigate seasonal demand, the Company has storage capacity at seven active underground gas storage fields and six liquefied petroleum air-gas manufacturing plants. The Company also contracts with its affiliate, ProLiance Holdings, LLC (ProLiance), and with other third party gas service providers to ensure availability of gas. ProLiance is an unconsolidated, nonutility, energy marketing affiliate of Vectren and Citizens Gas and Coke Utility (Citizens Gas). (See the discussion of Energy Marketing & Services below and Note 3 in the Company's Consolidated Financial Statements included in "Item 8 Financial Statements and Supplementary Data" regarding transactions with ProLiance). Periodically, purchased natural gas is injected into storage. The injected gas is then available to supplement contracted and manufactured volumes during periods of peak requirements. The Company also prepays ProLiance for natural gas delivery services during the seven months prior to the peak heating season. The volumes of gas per day that can be delivered during peak demand periods for each utility are located in "Item 2 Properties."

Gas Purchases

In 2007, the Company purchased 101,912 MDth volumes of gas at an average cost of $8.14 per Dth, of which approximately 71 percent was purchased through ProLiance and 29 percent was purchased from third party providers. Vectren received regulatory approval on April 25, 2006 from the IURC for ProLiance to provide natural gas supply services to the Company's Indiana utilities through March 2011. As a result of a June 2005 PUCO order, the Company has established an annual bidding process for VEDO's gas supply and portfolio administration

services. Since November 1, 2005, the Company has used a third party provider for these services. Prior to October 31, 2005, ProLiance supplied natural gas to all of the Company's regulated gas utilities. The average cost of gas per Dth purchased for the previous five years was $8.14 in 2007, $8.64 in 2006, $9.05 in 2005, $6.92 in 2004, and $6.36 in 2003.

Electric Utility Services

At December 31, 2007, the Company supplied electric service to over 141,000 Indiana customers, including approximately 122,000 residential, 18,800 commercial, and 200 industrial and other customers. Customer base growth was approximately 0.5 percent compared to 2006. In addition, the Company has firm power commitments to nearby municipalities and has contingency reserve requirements consistent with Reliability First Corp. standards.

The principal industries served include polycarbonate resin (Lexan®) and plastic products, aluminum smelting and recycling, aluminum sheet products, automotive assembly, steel finishing, appliance manufacturing, pharmaceutical and nutritional products, automotive glass, gasoline and oil products, and coal mining.

Revenues

For the year ended December 31, 2007, retail and firm wholesale electricity sales totaled 6,216.5 GWh, resulting in revenues of approximately $448.1 million. Residential customers accounted for 36 percent of 2007 revenues; commercial 25 percent; industrial 31 percent, and municipal and other 8 percent. In addition, the Company sold 921.3 GWh through optimization activities in 2007, generating revenue, net of purchased power costs, of $39.8 million.

System Load

Total load for each of the years 2003 through 2007 at the time of the system summer peak, and the related reserve margin, is presented below in MW.

Date of summer peak load	8/08/2007	8/10/2006	7/25/2005	7/13/2004	8/27/2003
Total load at peak [1]	1,341	1,325	1,315	1,222	1,272
Generating capability	1,295	1,351	1,351	1,351	1,351
Firm purchase supply	130	107	107	105	32
Interruptible contracts	62	62	76	51	95
Total power supply capacity	1,487	1,520	1,534	1,507	1,478
Reserve margin at peak	11%	15%	17%	23%	16%

[1] The total load at peak is increased 25 MW in 2007, 2006, 2005, and 2003 from the total load actually experienced. The additional 25 MW represents load that would have been incurred if Summer Cycler program had not been activated. The 25 MW is also included in the interruptible contract portion of the Company's total power supply capacity in those years. On the date of peak in 2004, Summer Cycler program was not activated.

The winter peak load for the 2006-2007 season of approximately 961 MW occurred on December 7, 2006. The prior year winter peak load was approximately 935 MW, occurring on December 20, 2005.

Generating Capability

Installed generating capacity as of December 31, 2007, was rated at 1,295 MW. Coal-fired generating units provide 1,000 MW of capacity, and natural gas or oil-fired turbines used for peaking or emergency conditions provide 295 MW. Electric generation for 2007 was fueled by coal (98 percent) and natural gas (2 percent). Oil was used only for testing of gas/oil-fired peaking units. The Company generated approximately 6,873 GWh in 2007. Further information about the Company's owned generation is included in Item 2 Properties.

In January 2008, the Company requested authority from the IURC to build a 100 MW gas-fired turbine peaking unit in Gibson County Indiana. If approved, it would be operational by 2010. The Company discontinued operations of Culley Unit 1 (50 MW) effective December 31, 2006.

There are substantial coal reserves in the southern Indiana area, and coal for coal-fired generating stations has been supplied from operators of nearby Indiana coal mines, including those owned by Vectren Fuels, Inc., a wholly owned subsidiary of the Company. Approximately 3.3 million tons of coal were purchased for generating electricity during 2007, of which approximately 92 percent was supplied by Vectren Fuels, Inc. from its mines and third party purchases. The average cost of coal consumed in generating electric energy for the years 2003 through 2007 follows:

	Year Ended December 31,				
Avg. Cost Per	2007	2006	2005	2004	2003
Ton	$ 40.23	$ 37.51	$ 30.27	$ 27.06	$ 24.91
MWh	19.78	18.44	14.94	13.06	11.93

Firm Purchase Supply

The Company maintains a 1.5 percent interest in the Ohio Valley Electric Corporation (OVEC). The OVEC is comprised of several electric utility companies, including SIGECO, and supplies power requirements to the United States Department of Energy's (DOE) uranium enrichment plant near Portsmouth, Ohio. The participating companies are entitled to receive from OVEC, and are obligated to pay for, any available power in excess of the DOE contract demand. At the present time, the DOE contract demand is essentially zero. Because of this decreased demand, the Company's 1.5 percent interest in the OVEC makes available approximately 30 MW of capacity for use in other operations. The Company purchased approximately 231 GWh from OVEC in 2007.

The Company has a capacity contract with Duke Energy Marketing America, LLC. (Duke) to purchase as much as 100 MW at any time from a power plant located in Vermillion County, Indiana. The contract ends on December 31, 2009. The Company purchased approximately 17 GWh under this contract in 2007.

Other Power Purchases

The Company also purchases power as needed principally from the MISO to supplement its generation and firm purchase supply in periods of peak demand. Volumes purchased principally from the MISO in 2007 totaled 416 GWh.

Interconnections

The Company has interconnections with Louisville Gas and Electric Company, Duke Energy Shared Services, Inc., Indianapolis Power & Light Company, Hoosier Energy Rural Electric Cooperative, Inc., Big Rivers Electric Corporation, and the City of Jasper, Indiana, providing the historic ability to simultaneously interchange approximately 500 MW. However, the ability of the Company to effectively utilize the electric transmission grid in order to achieve its desired import/export capability has been, and may continue to be, impacted as a result of the ongoing changes in the operation of the Midwestern transmission grid. The Company, as a member of the Midwest Independent System Operator (MISO), has turned over operational control of the interchange facilities and its own transmission assets, like many other Midwestern electric utilities, to MISO. See "Item 7 Management's Discussion and Analysis of Results of Operations and Financial Condition" regarding the Company's participation in MISO.

Competition

The utility industry has undergone dramatic structural change for several years, resulting in increasing competitive pressures faced by electric and gas utility companies. Currently, several states have passed legislation allowing electricity customers to choose their electricity supplier in a competitive electricity market and several other states are considering such legislation. At the present time, Indiana has not adopted such legislation. Ohio regulation allows gas customers to choose their commodity supplier. The Company implemented a choice program for its gas customers in Ohio in January 2003. At December 31, 2007, over 77,000 customers in Vectren's Ohio service territory purchase natural gas from a supplier other than the utility. Margin earned for transporting natural gas to those customers, who have purchased natural gas from another supplier, are generally the same as those earned by selling gas under Ohio tariffs. Indiana has not adopted any regulation requiring gas choice; however, the Company operates under approved tariffs permitting large volume customers to choose their commodity supplier.

On February 4, 2008, the Company along with the OCC and other interveners filed a settlement agreement with the PUCO regarding the first two stages of a three stage plan to exit the merchant function in the Company's Ohio service territory. As designed, the terms and conditions of the plan allow in stage one for a regulator-approved auction to select qualified wholesale suppliers that will supply gas commodity to the Company for resale to its customers at auction-determined standard pricing. In stage two, the Company will no longer sell natural gas directly to customers; rather a regulator-approved auction will select state-certified Choice suppliers that will sell gas commodity to customers at auction-determined standard pricing and the Company will transport that gas supply to the customers. In the third stage, which is not part of this application filing, it is contemplated that all of the Company's Ohio customers will choose their commodity supplier from state-certified Choice suppliers in the competitive market. The settlement agreement includes an Exit Transition Cost rider which, if approved, will allow the Company to recover costs associated with the transition to this market structure. As the cost of gas is currently passed through to customers through a regulator approved recovery mechanism, the impact of exiting the merchant function should not have a material impact on Company earnings or financial condition. If the settlement agreement is approved, the Company's transition to this market structure will commence in mid to late 2008.

Regulatory and Environmental Matters

See "Item 7 Management's Discussion and Analysis of Results of Operations and Financial Condition" regarding the Company's regulatory environment and environmental matters.

Nonutility Group

The Company is involved in nonutility activities in three primary business areas: Energy Marketing and Services, Coal Mining, and Energy Infrastructure Services.

Energy Marketing and Services

The Energy Marketing and Services group relies heavily on a customer focused, value added strategy in three areas: gas marketing, energy management, and retail gas supply.

ProLiance

ProLiance Holdings, LLC (ProLiance), a nonutility energy marketing affiliate of Vectren and Citizens Gas and Coke Utility (Citizens Gas), provides services to a broad range of municipalities, utilities, industrial operations, schools, and healthcare institutions located throughout the Midwest and Southeast United States. ProLiance's customers include Vectren's Indiana utilities and nonutility gas supply operations and Citizens Gas. ProLiance's primary businesses include gas marketing, gas portfolio optimization, and other portfolio and energy management services. Consistent with its ownership percentage, Vectren is allocated 61 percent of ProLiance's profits and losses; however, governance and voting rights remain at 50 percent for each member; and therefore, the Company accounts for its investment in ProLiance using the equity method of accounting. The Company, including its retail gas supply operations, contracted for 75 percent of its natural gas purchases through ProLiance in 2007.

For the year ended December 31, 2007, ProLiance's revenues, including sales to Vectren companies, exceeded $2.3 billion.

At December 31, 2007, the pre-tax earnings of ProLiance exceeded 20 percent of Vectren's pre-tax earnings. In accordance with Regulation S-X, paragraph 3-09, ProLiance's audited financial statements as of and for its fiscal years ending September 30, 2007, 2006, and 2005, are included as Exhibit 99.1 to this Form 10-K.

Vectren Source

Vectren Retail, LLC (d/b/a Vectren Source) provides natural gas and other related products and services in the Midwest and Southeast United States to over 161,000 residential and commercial customers opting for choice among energy providers. Vectren Source generated approximately $168.3 million in revenues in 2007, up from $162.5 million in 2006. Gas sold approximated 13,543 MDth in 2007, 12,228 MDth in 2006 and 12,411 MDth in 2005.

Coal Mining

The Coal Mining group mines and sells coal to the Company's utility operations and to third parties through its wholly owned subsidiary Vectren Fuels, Inc (Fuels). The Company's two coal mines produced 4.1 million tons in 2007, compared to 4.0 million tons in 2006 and 4.4 million tons in 2005.

In April 2006, Fuels announced plans to open two new underground mines near Vincennes, Indiana. The first mine is expected to be operational by early 2009, with the second mine opening the following year. Reserves at the two mines are estimated at 80 million tons of recoverable number-five coal at 11,200 BTU (British thermal units) and 6-pound sulfur dioxide. Management estimates a $125 million investment to access the reserves. Once in full production, the two new mines are expected to produce 5 million tons of coal per year.

Energy Infrastructure Services

Energy Infrastructure Services provides energy performance contracting operations through Energy Systems Group, LLC (ESG) and natural gas and water distribution, transmission, construction, repair and rehabilitation as well as the repair and rehabilitation of gas, water, and wastewater facilities through Miller Pipeline Corporation (Miller). Miller's customers include Vectren's utilities.

Miller and Reliant Services, LLC
Effective July 1, 2006, the Company purchased the remaining 50 percent of Miller, making Miller a wholly owned subsidiary. The results of Miller's operations, formerly accounted for using the equity method, have been included in consolidated results since July 1, 2006. Prior to this transaction, Miller was 100 percent owned by Reliant Services, LLC (Reliant). Reliant provided facilities locating and meter reading services to the Company's utilities, as well as other utilities. Reliant exited the meter reading and facilities locating businesses in 2006.

Energy Systems Group
Performance-based energy contracting operations are performed through Energy Systems Group, LLC (ESG). ESG assists schools, hospitals, governmental facilities, and other private institutions to reduce energy and maintenance costs by upgrading their facilities with energy-efficient equipment. ESG is also involved in creating renewable energy projects, including projects to process landfill gas into usable natural gas. ESG's customer base is located throughout the Midwest and Southeast United States. Prior to April 2003, ESG was a consolidated venture between the Company and Citizens Gas with the Company owning two-thirds. In April 2003, the Company purchased the remaining interest in ESG.

Other Businesses

The Other Businesses group includes a variety of wholly owned operations and investments that have invested in broadband communication services, energy-related opportunities and services, real estate, and leveraged leases, among other investments. Major investments at December 31, 2007, include Haddington Energy Partnerships, two partnerships both approximately 40 percent owned; and wholly owned subsidiaries, Southern Indiana Properties, Inc. and Energy Realty, Inc.

The Company had an approximate 2 percent equity interest and a convertible subordinated debt investment in Utilicom Networks, LLC (Utilicom). The Company also had an approximate 19 percent equity interest in SIGECOM Holdings, Inc. (Holdings), which was formed by Utilicom to hold interests in SIGECOM, LLC (SIGECOM). SIGECOM provided broadband services, such as cable television, high-speed internet, and advanced local and long distance phone services, to the greater Evansville, Indiana area. The Company sold its investment in SIGECOM during 2006. See "Item 7 Management's Discussion and Analysis of Results of Operations and Financial Condition" regarding the Company's Other Businesses for additional information related to transactions involving Utilicom.

Synthetic Fuel

The Company has an 8.3 percent ownership interest in Pace Carbon Synfuels, LP (Pace Carbon). Pace Carbon produced and sold coal-based synthetic fuel using Covol technology, and according to US tax law, its members received a tax credit for every ton of coal-based synthetic fuel sold. In addition, Vectren Fuels, Inc., a wholly owned subsidiary involved in coal mining, received processing fees from synfuel producers unrelated to Pace

Carbon for a portion of its coal production. Under current tax laws, these synfuel related credits and fees ended on December 31, 2007. See "Item 7 Management's Discussion and Analysis of Results of Operations and Financial Condition" regarding the Company's Synfuel-Related activities for additional information related to Pace Carbon and Vectren Fuels.

Personnel

As of December 31, 2007, the Company and its consolidated subsidiaries had 3,579 employees, of which 2,123 are subject to collective bargaining arrangements. Of that total, 1,491 employees are Miller employees.

In July 2007, the Company reached a three-year labor agreement with Local 702 of the International Brotherhood of Electrical Workers, ending June 2010.

During 2006, the Company, through its wholly owned subsidiary, Miller, entered into several distributing and operating agreements with a variety of construction unions including Laborers International Union of America, International Union of Operating Engineers, the Teamsters, and the United Association of Journeymen and Apprentices of the Plumbing and Pipe Fitting Industry. The agreement with the International Union of Operating Engineers expires in May 2008. The rest of these agreements expire at various dates in 2009 through 2011. Miller negotiates these agreements through the Distribution and Contractors Association and the Pipeline Contractors Association.

In November 2005, the Company reached a four-year agreement with Local 175 of the Utility Workers Union of America, ending October 2009. In September 2005, the Company reached a four-year agreement with Local 135 of the Teamsters, Chauffeurs, Warehousemen, and Helpers Union, ending September 2009.

In January 2004, the Company reached a five-year labor agreement, ending December 2008, with Local 1393 of the International Brotherhood of Electrical Workers and United Steelworkers of America Locals 12213 and 7441.

ITEM 1A. RISK FACTORS

Investors should consider carefully the following factors that could cause the Company's operating results and financial condition to be materially adversely affected. New risks may emerge at any time, and the Company cannot predict those risks or estimate the extent to which they may affect the Company's businesses or financial performance.

Vectren is a holding company and its assets consist primarily of investments in its subsidiaries.

Dividends on Vectren's common stock depend on the earnings, financial condition, capital requirements and cash flow of its subsidiaries, principally Utility Holdings and Enterprises, and the distribution or other payment of earnings from those entities to Vectren. Should the earnings, financial condition, capital requirements or cash flow of, or legal requirements applicable to, them restrict their ability to pay dividends or make other payments to the Company, its ability to pay dividends on its common stock could be limited and its stock price could be adversely affected. Vectren's results of operations, future growth and earnings and dividend goals also will depend on the performance of its subsidiaries. Additionally, certain of the Company's lending arrangements contain restrictive covenants, including the maintenance of a total debt to total capitalization ratio, which could limit its ability to pay dividends.

Vectren operates in an increasingly competitive industry, which may affect its future earnings.

The utility industry has been undergoing dramatic structural change for several years, resulting in increasing competitive pressure faced by electric and gas utility companies. Increased competition may create greater risks to the stability of Vectren's earnings generally and may in the future reduce its earnings from retail electric and gas sales. Currently, several states, including Ohio, have passed legislation that allows customers to choose their electricity supplier in a competitive market. Indiana has not enacted such legislation. Ohio regulation also provides for choice of commodity providers for all gas customers. In 2003, the Company implemented this choice for its gas customers in Ohio. Indiana has not adopted any regulation requiring gas choice except for large-volume customers. Vectren cannot provide any assurance that increased competition or other changes in legislation, regulation or policies will not have a material adverse effect on its business, financial condition or results of operations.

A significant portion of Vectren's gas and electric utility sales are space heating and cooling. Accordingly, its operating results may fluctuate with variability of weather.

Vectren's gas and electric utility sales are sensitive to variations in weather conditions. The Company forecasts utility sales on the basis of normal weather, which represents a 30-year historical average. Since Vectren does not have a weather-normalization mechanism for its electric operations or its Ohio natural gas operations, significant variations from normal weather could have a material impact on its earnings. However, the impact of weather on the gas operations in the Company's Indiana territories has been significantly mitigated through the implementation on October 15, 2005, of a normal temperature adjustment mechanism.

Vectren's gas and electric utility sales are concentrated in the Midwest.

The operations of the Company's regulated utilities are concentrated in central and southern Indiana and west central Ohio and are therefore impacted by changes in the Midwest economy in general and changes in particular industries concentrated in the Midwest. These industries include automotive assembly, parts and accessories, feed, flour and grain processing, metal castings, aluminum products, appliance manufacturing, polycarbonate resin (Lexan®) and plastic products, gypsum products, electrical equipment, metal specialties, glass, steel finishing, pharmaceutical and nutritional products, gasoline and oil products, and coal mining.

Risks related to the regulation of Vectren's businesses, including environmental regulation, could affect the rates the Company charges its customers, its costs and its profitability.

Vectren's businesses are subject to regulation by federal, state and local regulatory authorities. In particular, Vectren is subject to regulation by the FERC, the NERC (North American Electric Reliability Corporation), the IURC and the PUCO. These authorities regulate many aspects of its transmission and distribution operations, including construction and maintenance of facilities, operations, and safety, and its gas marketing operations involving title passage, reliability standards, and future adequacy. In addition, these regulatory agencies regulate the rates that Vectren's utilities can charge customers, the rate of return that Vectren's utilities are authorized to earn, and its ability to timely recover gas and fuel costs. The Company's ability to obtain rate increases to maintain its current authorized rate of return depends upon regulatory discretion, and there can be no assurance that Vectren will be able to obtain rate increases or rate supplements or earn its current authorized rate of return. As gas costs remain above historical levels, any future disallowance might be material to the Company's operations or financial condition.

Vectren's operations and properties are subject to extensive environmental regulation pursuant to a variety of federal, state and municipal laws and regulations. These environmental regulations impose, among other things, restrictions, liabilities and obligations in connection with storage, transportation, treatment and disposal of hazardous substances and waste and in connection with spills, releases and emissions of various substances in the environment. Such emissions from electric generating facilities include particulate matter, sulfur dioxide (SO_2), nitrogen oxide (NOx), and mercury, among others.

Environmental legislation also requires that facilities, sites and other properties associated with Vectren's operations be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. The Company's current costs to comply with these laws and regulations are significant to its results of operations and financial condition. In addition, claims against the Company under environmental laws and regulations could result in material costs and liabilities. With the trend toward stricter standards, greater regulation, more extensive permit requirements and an increase in the number and types of assets operated by Vectren subject to environmental regulation, its investment in environmentally compliant equipment, and the costs associated with operating that equipment, have increased and are expected to increase in the future.

Further, there are proposals to address global climate change that would regulate carbon dioxide (CO_2) and other greenhouse gases and other proposals that would mandate an investment in renewable energy sources. Any future legislative or regulatory actions taken to address global climate change or mandate renewable energy sources could adversely affect Vectren's business and results of operations by, for example, requiring changes in, and increased costs related to, the Company's fossil fuel generating plants and coal mining operations and increased costs to acquire renewable energy sources.

From time to time, Vectren is subject to material litigation and regulatory proceedings.

From time to time, the Company, as well as its equity investees such as ProLiance, may be subject to material litigation and regulatory proceedings including matters involving compliance with state and federal laws or other matters. There can be no assurance that the outcome of these matters will not have a material adverse effect on Vectren's business, prospects, results of operations or financial condition.

Vectren's electric operations are subject to various risks.

The Company's electric generating facilities are subject to operational risks that could result in unscheduled plant outages, unanticipated operation and maintenance expenses and increased power purchase costs. Such operational risks can arise from circumstances such as facility shutdowns due to equipment failure or operator error; interruption of fuel supply or increased prices of fuel as contracts expire; disruptions in the delivery of electricity; inability to comply with regulatory or permit requirements; labor disputes; and natural disasters.

The impact of MISO participation is uncertain.

Since February 2002 and with the IURC's approval, the Company has been a member of the MISO. The MISO serves the electrical transmission needs of much of the Midwest and maintains operational control over Vectren's electric transmission facilities as well as that of other Midwest utilities.

As a result of MISO's operational control over much of the Midwestern electric transmission grid, including SIGECO's transmission facilities, SIGECO's continued ability to import power, when necessary, and export power to the wholesale market has been, and may continue to be, impacted. Given the nature of MISO's policies regarding use of transmission facilities, as well as ongoing FERC initiatives, and a pending Day 3 market, where MISO plans to provide bid-based regulation and contingency operating reserve markets, it is difficult to predict near term operational impacts. MISO has indicated that the Day 3 ancillary services market would begin in June 2008.

The need to expend capital for improvements to the transmission system, both to Vectren's facilities as well as to those facilities of adjacent utilities, over the next several years is expected to be significant. As part of its recent rate case, SIGECO obtained approval to recover costs for certain transmission projects through its MISO tracker.

Wholesale power marketing activities may add volatility to earnings.

Vectren's regulated electric utility engages in wholesale power marketing activities that primarily involve asset optimization strategies. These optimization strategies primarily involve the offering of utility-owned or contracted generation into the MISO hourly and real time markets. As part of these strategies, the Company may also execute energy contracts that are integrated with portfolio requirements around power supply and delivery. Margin earned from these activities above or below $10.5 million is shared evenly with customers. These earnings from wholesale marketing activities may vary based on fluctuating prices for electricity and the amount of electric generating capacity or purchased power available, beyond that needed to meet firm service requirements.

If Vectren does not accurately forecast future commodities prices or if its hedging procedures do not operate as planned in certain nonutility businesses, the Company's net income could be reduced or the Company may experience losses.

The operations of ProLiance, as well as the Company's nonutility gas retail supply and coal mining businesses, execute forward and option contracts that commit them to purchase and sell natural gas and coal in the future, including forward contracts to purchase commodities to fulfill forecasted sales transactions that may or may not occur. If the value of these contracts changes in a direction or manner that is not anticipated, or if the forecasted sales transactions do not occur, Vectren may experience losses.

To lower the financial exposure related to commodity price fluctuations, these nonutility businesses may execute contracts that hedge the value of commodity price risk. As part of this strategy, Vectren may utilize fixed-price forward physical purchase and sales contracts, and/or financial forwards, futures, swaps and option contracts traded in the over-the-counter markets or on exchanges. However, although almost all natural gas and coal positions are hedged, either with these contracts or with Vectren's owned coal inventory and known reserves, Vectren does not

hedge its entire exposure or its positions to market price volatility. To the extent Vectren's forecasts of future commodities prices are inaccurate, its hedging procedures do not work as planned, its coal reserves cannot be accessed or it has unhedged positions, fluctuating commodity prices are likely to cause the Company's net income to be volatile and may lower its net income.

The performance of Vectren's nonutility businesses are also subject to certain risks.

Execution of gas marketing strategies by ProLiance and the Company's nonutility gas retail supply operations as well as the execution of the Company's coal mining and energy infrastructure services strategies, and the success of efforts to invest in and develop new opportunities in the nonutility business area is subject to a number of risks. These risks include, but are not limited to, the effects of weather; failure of installed performance contracting products to operate as planned; failure to properly estimate the cost to construct projects; storage field and mining property development; increased coal mining industry regulation; potential legislation that may limit CO_2 and other greenhouse gases emissions; creditworthiness of customers and joint venture partners; factors associated with physical energy trading activities, including price, basis, credit, liquidity, volatility, capacity, and interest rate risks; changes in federal, state or local legal requirements, such as changes in tax laws or rates; and changing market conditions.

Vectren's nonutility businesses support its regulated utilities pursuant to service contracts by providing natural gas supply services, coal, and energy infrastructure services. In most instances, Vectren's ability to maintain these service contracts depends upon regulatory discretion and negotiation with interveners, and there can be no assurance that it will be able to obtain future service contracts, or that existing arrangements will not be revisited.

Vectren has significant synfuel tax credits subject to IRS audit

The Company has an 8.3 percent ownership interest in Pace Carbon Synfuels, LP (Pace Carbon). Pace Carbon produced and sold coal-based synthetic fuel using Covol technology and, according to US tax law, its members received a tax credit for every ton of coal-based synthetic fuel sold. Under current tax laws, synfuel related tax credits and fees ended on December 31, 2007. The Internal Revenue Service has issued private letter rulings which concluded that the synthetic fuel produced at the Pace Carbon facilities should qualify for tax credits. The IRS has completed tax audits of Pace Carbon for the years 1998 through 2001 without challenging tax credit calculations. Generally, the statute of limitations for the IRS to audit a tax return is three years from filing. Therefore tax credits utilized in 2004 – 2007 are still subject to IRS examination. However, avenues remain where the IRS could challenge tax credits of pre-2004 years.

As a partner of Pace Carbon, Vectren has reflected synfuel tax credits in its consolidated results from inception through December 31, 2007 of approximately $99 million, of which approximately $60 million have been generated since 2003. To date, Vectren has been in a position to utilize or carryforward substantially all of the credits generated.

Vectren's nonutility group competes with larger, full-service energy providers, which may limit its ability to grow its business.

Competitors for Vectren's nonutility businesses include regional, national and global companies. Many of Vectren's competitors are well-established and have larger and more developed networks and systems, greater name recognition, longer operating histories and significantly greater financial, technical and marketing resources. This competition, and the addition of any new competitors, could negatively impact the financial performance of the nonutility group and the Company's ability to grow its nonutility businesses.

Catastrophic events could adversely affect Vectren's facilities and operations.

Catastrophic events such as fires, earthquakes, explosions, floods, tornados, terrorist acts or other similar occurrences could adversely affect Vectren's facilities, operations, financial condition and results of operations.

Workforce risks could affect Vectren's financial results.

The Company is subject to various workforce risks, including but not limited to, the risk that it will be unable to attract and retain qualified personnel; that it will be unable to effectively transfer the knowledge and expertise of an

aging workforce to new personnel as those workers retire; and that it will be unable to reach collective bargaining arrangements with the unions that represent certain of its workers, which could result in work stoppages.

A downgrade (or negative outlook) in or withdrawal of Vectren's credit ratings, or the credit ratings of bond insurers that insure certain long-term debt of SIGECO, could negatively affect its ability to access capital and its cost.

The following table shows the current ratings assigned to certain outstanding debt by Moody's and Standard & Poor's:

	Current Rating	
	Moody's	Standard & Poor's
Utility Holdings and Indiana Gas senior unsecured debt	Baa1	A-
Utility Holdings commercial paper program	P-2	A-2
SIGECO's senior secured debt	A-3	A

The current outlook of both Standard and Poor's and Moody's is stable and both categorize the ratings of the above securities as investment grade. A security rating is not a recommendation to buy, sell, or hold securities. The rating is subject to revision or withdrawal at any time, and each rating should be evaluated independently of any other rating. Standard and Poor's and Moody's lowest level investment grade rating is BBB- and Baa3, respectively.

Vectren may be required to obtain additional permanent financing (1) to fund its capital expenditures, investments and debt security redemptions and maturities and (2) to further strengthen its capital structure and the capital structures of its subsidiaries. If the rating agencies downgrade the Company's credit ratings, particularly below investment grade, or initiate negative outlooks thereon, or withdraw Vectren's ratings or, in each case, the ratings of its subsidiaries, it may significantly limit Vectren's access to the debt capital markets and the commercial paper market, and the Company's borrowing costs would increase. In addition, Vectren would likely be required to pay a higher interest rate in future financings, and its potential pool of investors and funding sources would likely decrease. Finally, there is no assurance that the Company will have access to the equity capital markets to obtain financing when necessary or desirable.

SIGECO has approximately $103 million of tax-exempt adjustable rate long-term debt where the interest rates on this debt are reset every seven days through an auction process. In February 2008, significant disruptions occurred in the overall auction rate debt markets. As a result, many auctions of tax-exempt debt, including some of those involving SIGECO's auction rate debt, failed as a result of insufficient order interest from potential investors. These failures are largely attributable to a lack of liquidity in the market place arising from downgrades in, and negative watches regarding, credit ratings of monoline insurers that guarantee the timely repayment of bond principal and interest if an issuer defaults, as well as from disruptions in the overall financial markets. Monoline insurer Ambac Assurance Corporation insures the Company's auction rate long-term debt. As a result of these failed auctions, interest rates associated with these instruments reset to the maximum rates permitted under the various debt indentures of 10 percent to 15 percent for the following week. On a weekly basis, interest expense using these maximum rates is approximately $200,000 higher than the average weekly interest expense based on rates experienced during 2007.

Subject to applicable notice provisions, SIGECO may, at its option, redeem this auction rate debt at par value plus the accrued and unpaid interest or elect to utilize other interest rate modes available to it as defined in the various debt indentures. SIGECO is in the process of providing notice to current holders of this debt that it will be converted from the auction rate mode into a daily interest rate mode during March 2008 and the debt will be subject to mandatory tender for purchase on the conversion date at 100 percent of the principal amount plus accrued interest. While the Company completes its conversion from the current auction rate mode to the daily interest rate mode, it may continue to experience increased interest costs. Following conversion to the daily mode, SIGECO maintains its options to again convert the debt to other interest rate modes and remarket it to investors or redeem the debt and reissue new debt, including the possibility of replacing it with taxable debt from Utility Holdings.

Anti-takeover provisions in Vectren's Articles of Incorporation and Bylaws as well as Vectren's shareholders rights plan and certain provisions of the Indiana Business Corporation Law could delay or prevent a change in control that might be beneficial to the interests of the Company's stockholders.

Provisions in Vectren's Articles of Incorporation and Bylaws as well as Vectren's shareholders rights plan and certain provisions of the Indiana Business Corporation Law (the IBCL) may make it more difficult and expensive for a third party to acquire control of the Company even if a change of control would be beneficial to the interests of its shareholders. For example, Vectren's Articles of Incorporation and Bylaws prohibit its shareholders from calling a special meeting, require advance notice for proposals by shareholders and nominations, and prevent the removal of Vectren's directors by its shareholders other than for cause and with the affirmative vote of the holders of at least 80 percent of the voting power of all the shares entitled to vote in the election of directors. In addition, the Vectren board has adopted a shareholder rights agreement designed to deter certain takeover tactics that may discourage potential takeover attempts. The IBCL also limits certain business combination transactions between Vectren and any person who acquires 10 percent or more of the Company's common shares (an "interested shareholder") without its board's approval or, in certain cases, the approval of holders of a majority of Vectren's shares not owned by such interested shareholder. The IBCL may also cause a shareholder acquiring shares of the Company's common stock beyond specified thresholds to lose the right to vote those shares unless a majority of disinterested common shares approves the exercise of such voting rights. The foregoing may adversely affect the market price of Vectren's common stock by discouraging potential takeover attempts that the Company's stockholders may favor.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Gas Utility Services

Indiana Gas owns and operates four active gas storage fields located in Indiana covering 58,130 acres of land with an estimated ready delivery from storage capability of 5.6 BCF of gas with maximum peak day delivery capabilities of 145,000 MCF per day. Indiana Gas also owns and operates three liquefied petroleum (propane) air-gas manufacturing plants located in Indiana with the ability to store 1.5 million gallons of propane and manufacture for delivery 33,000 MCF of manufactured gas per day. In addition to its company owned storage and propane capabilities, Indiana Gas has contracted for 17.9 BCF of storage with a maximum peak day delivery capability of 298,579 MMBTU per day. Indiana Gas' gas delivery system includes 12,699 miles of distribution and transmission mains, all of which are in Indiana except for pipeline facilities extending from points in northern Kentucky to points in southern Indiana so that gas may be transported to Indiana and sold or transported by Indiana Gas to ultimate customers in Indiana.

SIGECO owns and operates three underground gas storage fields located in Indiana covering 6,070 acres of land with an estimated ready delivery from storage capability of 6.3 BCF of gas with maximum peak day delivery capabilities of 108,500 MCF per day. In addition to its company owned storage delivery capabilities, SIGECO has contracted for 0.5 BCF of storage with a maximum peak day delivery capability of 19,166 MMBTU per day. SIGECO's gas delivery system includes 3,192 miles of distribution and transmission mains, all of which are located in Indiana.

The Ohio operations own and operate three liquefied petroleum (propane) air-gas manufacturing plants, all of which are located in Ohio. The plants can store 0.5 million gallons of propane, and the plants can manufacture for delivery 52,187 MCF of manufactured gas per day. In addition to its propane delivery capabilities, the Ohio operations have contracted for 11.8 BCF of storage with a maximum peak day delivery capability of 246,080 MMBTU per day. The Ohio operations' gas delivery system includes 5,468 miles of distribution and transmission mains, all of which are located in Ohio.

Electric Utility Services

SIGECO's installed generating capacity as of December 31, 2007, was rated at 1,295 MW. SIGECO's coal-fired generating facilities are the Brown Station with two units of 490 MW of combined capacity, located in Posey

County approximately eight miles east of Mt. Vernon, Indiana; the Culley Station with two units of 360 MW of combined capacity, and Warrick Unit 4 with 150 MW of capacity. Both the Culley and Warrick Stations are located in Warrick County near Yankeetown, Indiana. SIGECO's gas-fired turbine peaking units are: two 80 MW gas turbines (Brown Unit 3 and Brown Unit 4) located at the Brown Station; two Broadway Avenue Gas Turbines located in Evansville, Indiana with a combined capacity of 115 MW (Broadway Avenue Unit 1, 50 MW and Broadway Avenue Unit 2, 65 MW); and two Northeast Gas Turbines located northeast of Evansville in Vanderburgh County, Indiana with a combined capacity of 20 MW. The Brown Unit 3 and Broadway Avenue Unit 2 turbines are also equipped to burn oil. Total capacity of SIGECO's six gas turbines is 295 MW, and they are generally used only for reserve, peaking, or emergency purposes due to the higher per unit cost of generation.

SIGECO's transmission system consists of 926 circuit miles of 138,000 and 69,000 volt lines. The transmission system also includes 31 substations with an installed capacity of 5,457 megavolt amperes (Mva). The electric distribution system includes 4,211 pole miles of lower voltage overhead lines and 340 trench miles of conduit containing 1,878 miles of underground distribution cable. The distribution system also includes 98 distribution substations with an installed capacity of 3,002 Mva and 53,456 distribution transformers with an installed capacity of 2,497 Mva.

SIGECO owns utility property outside of Indiana approximating nine miles of 138,000 volt electric transmission line which is located in Kentucky and which interconnects with Louisville Gas and Electric Company's transmission system at Cloverport, Kentucky.

Nonutility Properties

Subsidiaries other than the utility operations have no significant properties other than the ownership and operation of coal mining property in Indiana. The assets of the coal mining operations comprise approximately 5 percent of total assets. The assets of Miller comprise approximately 3 percent of total assets.

Property Serving as Collateral

SIGECO's properties are subject to the lien of the First Mortgage Indenture dated as of April 1, 1932, between SIGECO and Bankers Trust Company, as Trustee, and Deutsche Bank, as successor Trustee, as supplemented by various supplemental indentures.

ITEM 3. LEGAL PROCEEDINGS

The Company is party to various legal proceedings arising in the normal course of business. In the opinion of management, there are no legal proceedings pending against the Company that are likely to have a material adverse effect on its financial position, results of operations, or cash flows. See the notes to the consolidated financial statements regarding commitments and contingencies, environmental matters, rate and regulatory matters. The consolidated financial statements are included in "Item 8 Financial Statements and Supplementary Data."

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

No matters were submitted during the fourth quarter to a vote of security holders.

PART II

ITEM 5. MARKET FOR COMPANY'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Data, Dividends Paid, and Holders of Record

The Company's common stock trades on the New York Stock Exchange under the symbol "VVC." For each quarter in 2007 and 2006, the high and low sales prices for the Company's common stock as reported on the New York Stock Exchange and dividends paid are presented below.

	Cash Dividend	Common Stock Price Range	
		High	Low
2007			
First Quarter	$ 0.315	$ 28.80	$ 27.32
Second Quarter	0.315	30.06	26.42
Third Quarter	0.315	28.50	24.85
Fourth Quarter	0.325	30.50	26.51
2006			
First Quarter	$ 0.305	$ 28.00	$ 25.60
Second Quarter	0.305	27.52	25.24
Third Quarter	0.305	28.42	26.00
Fourth Quarter	0.315	29.25	26.67

On January 30, 2008, the board of directors declared a dividend of $0.325 per share, payable on March 3, 2008, to common shareholders of record on February 15, 2008.

As of January 31, 2008, there were 10,234 shareholders of record of the Company's common stock.

Quarterly Share Purchases

Periodically, the Company purchases shares from the open market to satisfy share requirements associated with the Company's share-based compensation plans. The following chart contains information regarding open market purchases made by the Company to satisfy those plans during the quarter ended December 31, 2007.

Period	Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares That May Be Purchased Under These Plans
October 1-31	-	-	-	-
November 1-30	123,706	$ 28.84	-	-
December 1-31	-	-	-	-

Dividend Policy

Common stock dividends are payable at the discretion of the board of directors, out of legally available funds. The Company's policy is to distribute approximately 65 percent of earnings over time. On an annual basis, this percentage has varied and could continue to vary due to short-term earnings volatility. The Company has increased its dividend for 48 consecutive years. While the Company is under no contractual obligation to do so, it intends to continue to pay dividends and increase its annual dividend consistent with historical practice. Nevertheless, should the Company's financial condition, operating results, capital requirements, or other relevant factors change, future payments of dividends, and the amounts of these dividends, will be reassessed.

Certain lending arrangements contain restrictive covenants, including the maintenance of a total debt to total capitalization ratio, which could limit the Company's ability to pay dividends. These restrictive covenants are not expected to affect the Company's ability to pay dividends in the near term.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data is derived from the Company's audited consolidated financial statements and should be read in conjunction with those financial statements and notes thereto contained in this Form 10-K.

	Year Ended December 31,				
(In millions, except per share data)	2007	2006	2005	2004	2003
Operating Data:					
Operating revenues	$ 2,281.9	$ 2,041.6	$ 2,028.0	$ 1,689.8	$ 1,587.7
Operating income	$ 260.5	$ 220.5	$ 213.1	$ 199.5	$ 196.0
Net income	$ 143.1	$ 108.8	$ 136.8	$ 107.9	$ 111.2
Average common shares outstanding	75.9	75.7	75.6	75.6	70.6
Fully diluted common shares outstanding	76.6	76.2	76.1	75.9	70.8
Basic earnings per share on common stock	$ 1.89	$ 1.44	$ 1.81	$ 1.43	$ 1.58
Diluted earnings per share on common stock	$ 1.87	$ 1.43	$ 1.80	$ 1.42	$ 1.57
Dividends per share on common stock	$ 1.27	$ 1.23	$ 1.19	$ 1.15	$ 1.11
Balance Sheet Data:					
Total assets	$ 4,296.4	$ 4,091.6	$ 3,868.1	$ 3,586.9	$ 3,353.4
Long-term debt, net	$ 1,245.4	$ 1,208.0	$ 1,198.0	$ 1,016.6	$ 1,072.8
Redeemable preferred stock	$ -	$ -	$ -	$ 0.1	$ 0.2
Common shareholders' equity	$ 1,233.7	$ 1,174.2	$ 1,143.3	$ 1,094.8	$ 1,071.7

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

In this discussion and analysis, the Company analyzes contributions to consolidated earnings from its Utility Group and Nonutility Group separately since each operate independently requiring distinct competencies and business strategies, offers different energy and energy related products and services, and experiences different opportunities and risks. Nonutility Group operations are discussed below as primary operations, other operations, and synfuel-related results. Primary nonutility operations denote areas of management's forward looking focus. Tax laws authorizing tax credits for the production of certain synthetic fuels expired on December 31, 2007, and should not have a material impact on future results.

Per share earnings contributions of the Utility Group, Nonutility Group, and Corporate and Other are presented. Such per share amounts are based on the earnings contribution of each group included in Vectren's consolidated results divided by Vectren's basic average shares outstanding during the period. The earnings per share of the groups do not represent a direct legal interest in the assets and liabilities allocated to the groups, but rather represent a direct equity interest in Vectren Corporation's assets and liabilities as a whole.

The Utility Group generates revenue primarily from the delivery of natural gas and electric service to its customers. The primary source of cash flow for the Utility Group results from the collection of customer bills and the payment for goods and services procured for the delivery of gas and electric services. The activities of and revenues and cash flows generated by the Nonutility Group are closely linked to the utility industry, and the results of those operations are generally impacted by factors similar to those impacting the overall utility industry. In addition, there are other operations, referred to herein as Corporate and Other, that include unallocated corporate expenses such as advertising and charitable contributions, among other activities.

The Company has in place a disclosure committee that consists of senior management as well as financial management. The committee is actively involved in the preparation and review of the Company's SEC filings.

The following discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto.

Executive Summary of Consolidated Results of Operations

(In millions, except per share data)	Year Ended December 31, 2007	2006	2005
Net income	$ 143.1	$ 108.8	$ 136.8
Attributed to:			
Utility Group	$ 106.5	$ 91.4	$ 95.1
Nonutility Group	37.0	18.1	48.2
Corporate & Other	(0.4)	(0.7)	(6.5)
Basic earnings per share	$ 1.89	$ 1.44	$ 1.81
Attributed to:			
Utility Group	$ 1.40	$ 1.21	$ 1.26
Nonutility Group	0.49	0.24	0.64
Corporate & Other	-	(0.01)	(0.09)

Results

For the year ended December 31, 2007, reported earnings were $143.1 million, or $1.89 per share, compared to $108.8 million, or $1.44 per share in 2006, and $136.8 million, or $1.81 per share, in 2005. The increase in 2007 earnings compared to 2006 is primarily attributable to higher gas and electric utility margins and increased earnings from the sale of wholesale power. Results also reflect increased earnings from the Company's nonutility operations, primarily Energy Infrastructure Services, and increased synfuel-related results. The decline in 2006 results compared to 2005 is primarily attributable to a decline in synfuel-related results, a charge related to the settlement of a lawsuit involving ProLiance Holdings, LLC (ProLiance), and lower wholesale power marketing margins.

Utility Group

In 2007, the Utility Group's earnings were $106.5 million compared to $91.4 million in 2006. The increase resulted from base rate increases in the Vectren South service territory, the combined impact of residential and commercial usage and lost margin recovery, favorable weather, and increased wholesale power marketing margins. The increase was offset somewhat by increased operating costs including depreciation expense and a lower effective tax rate in 2006.

In 2006 compared to 2005, the decline in Utility Group earnings is primarily the result of lower wholesale power marketing margins as well as declines in customer usage, higher depreciation and interest costs. The decline was mitigated somewhat by the implementation of regulatory initiatives noted above, the impact of a lower effective tax rate, and a gain realized on the sale of a storage asset.

In the Company's electric and Ohio natural gas service territories which are not protected by weather normalization mechanisms, management estimates the 2007 margin impact of weather experienced to be $5.5 million favorable compared to 30-year normal temperatures, or $0.04 on a per share basis. In 2006 and 2005 weather across all utilities was unfavorable compared to 30-year normal temperatures. Management estimates the effect of weather compared to normal was unfavorable $0.06 per share in 2006 and unfavorable $0.04 per share in 2005. The 2007 and 2006 weather effect is net of normal temperature adjustment (NTA) mechanism impacts. The NTA was implemented in the Company's Indiana natural gas service territories in the fourth quarter of 2005.

Nonutility Group

The Nonutility Group's 2007 earnings were $37.0 million compared to $18.1 million in 2006 and $48.2 million in 2006. The Company's primary nonutility operations contributed earnings of $33.7 million in 2007 compared to $24.5 million in 2006 and $35.3 million in 2005. Primary nonutility operations are Energy Marketing and Services companies, Coal Mining operations, and Energy Infrastructure Services companies.

Primary nonutility group results increased $9.2 million, or $0.12 per share. The increase was primarily attributable to higher Miller Pipeline (Miller) earnings and the unfavorable impact of the ProLiance litigation settlement recorded in the fourth quarter of 2006. The increased contribution from Miller of $3.8 million is due largely to more large gas construction projects, pricing increases, and Vectren's 100 percent ownership of Miller in 2007. Earnings from Energy Systems Group and retail gas marketing operations were also favorable year over year. Operating earnings from ProLiance were down year over year by $2.0 million as the favorable impact of their increased storage capacity was more than offset by lower volatility in the wholesale natural gas markets. Coal Mining earnings were $2.0 million in 2007 compared to $5.0 million in 2006 primarily due to compliance with new Mine Safety and Health Administration (MSHA) seal and safety guidelines and the associated lost production and higher sulfur content from coal mined under the revised mining plan.

Primary nonutility business earnings decreased $10.8 million in 2006 compared to 2005. Earnings from ProLiance decreased $12.8 million year over year due largely to the $6.6 million legal settlement. In addition, ProLiance achieved record earnings in 2005 due to larger spreads between financial and physical markets, which resulted from market disruptions caused by Gulf Coast hurricanes. Energy Infrastructure Services companies, which include Energy Systems Group and Miller Pipeline contributed additional earnings of $3.4 million and $1.3 million respectively and offset lower earnings from Vectren Source and Coal Mining operations.

Results from other nonutility businesses, which were earnings of $0.3 million in 2007, losses of $1.1 million in 2006, and income of $1.2 million in 2005, were primarily impacted by the Company's broadband investments and its investment in Haddington Energy Partners. In 2006, the Company sold its investment in SIGECOM, LLC at a loss of approximately $1.3 million after tax. In 2005, Haddington's results include a $3.9 million after tax gain on the sale of an investment.

In 2007, the last year of synfuel operations, synfuel-related results generated earnings of $6.8 million. Of those earnings, which do not continue in 2008 and beyond, $3.8 million ($5.8 million on a pre tax basis) was contributed to the Vectren Foundation. Net of that contribution, synfuel-related results were $3.0 million, or $0.04 per share, in 2007, compared to a loss of $5.3 million, or $0.07 per share, in 2006 and earnings of $11.7 million or $0.15 per share in 2005. In 2006, synfuel-related activity includes a $5.7 million after tax impairment charge related to the Company's investment in Pace Carbon Synfuels LP. The Foundation contribution is included in *Other operating expenses* in the Consolidated Statements of Income.

Other Operations

Corporate and Other reported a loss of $0.09 per share in 2005 due principally to a $6.5 million, or $4.2 million after tax, contribution to the Vectren Foundation, which is also recorded in *Other operating expenses*.

Dividends

Dividends declared for the year ended December 31, 2007 were $1.27 per share compared to $1.23 in 2006 and $1.19 per share in 2005. In October 2007, the Company's board of directors increased its quarterly dividend to $0.325 per share from $0.315 per share. The increase marks the 48th consecutive year Vectren and predecessor companies' have increased annual dividends paid.

Detailed Discussion of Results of Operations

Following is a more detailed discussion of the results of operations of the Company's Utility and Nonutility operations. The detailed results of operations for these operations are presented and analyzed before the reclassification and elimination of certain intersegment transactions necessary to consolidate those results into the Company's Consolidated Statements of Income.

Results of Operations of the Utility Group

The Utility Group is comprised of Utility Holdings' operations. The operations of the Utility Group consist of the Company's regulated operations and other operations that provide information technology and other support services to those regulated operations. The Company segregates its regulated operations into a Gas Utility Services operating segment and an Electric Utility Services operating segment. The Gas Utility Services segment includes the operations of Indiana Gas, the Ohio operations, and SIGECO's natural gas distribution business and provides natural gas distribution and transportation services to nearly two-thirds of Indiana and to west central Ohio. The Electric Utility Services segment includes the operations of SIGECO's electric transmission and distribution services, which provides electric distribution services primarily to southwestern Indiana, and the Company's power generating and asset optimization operations. In total, these regulated operations supply natural gas and/or electricity to over one million customers. Utility operating results before certain intersegment eliminations and reclassifications for the years ended December 31, 2007, 2006, and 2005, follow:

	Year Ended December 31,		
(In millions, except per share data)	2007	2006	2005
OPERATING REVENUES			
Gas utility	$ 1,269.4	$ 1,232.5	$ 1,359.7
Electric utility	487.9	422.2	$ 421.4
Other	1.7	1.8	$ 0.7
Total operating revenues	**1,759.0**	**1,656.5**	**1,781.8**
OPERATING EXPENSES			
Cost of gas sold	847.2	841.5	973.3
Cost of fuel & purchased power	174.8	151.5	144.1
Other operating	266.1	239.0	241.3
Depreciation & amortization	158.4	151.3	141.3
Taxes other than income taxes	68.1	64.2	65.2
Total operating expenses	1,514.6	1,447.5	1,565.2
OPERATING INCOME	**244.4**	**209.0**	**216.6**
Other income - net	9.4	7.6	5.9
Interest expense	80.6	77.5	69.9
INCOME BEFORE INCOME TAXES	**173.2**	**139.1**	**152.6**
Income taxes	66.7	47.7	57.5
NET INCOME	**$ 106.5**	**$ 91.4**	**$ 95.1**
CONTRIBUTION TO VECTREN BASIC EPS	**$1.40**	**$1.21**	**$ 1.26**

Significant Fluctuations

Utility Group Margin

Throughout this discussion, the terms Gas Utility margin and Electric Utility margin are used. Gas Utility margin is calculated as *Gas Utility revenues* less the *Cost of gas*. Electric Utility margin is calculated as *Electric Utility revenues* less *Cost of fuel & purchased power*. These measures exclude *Other operating expenses, Depreciation and amortization,* and *Taxes other than income taxes*, which are included in the calculation of operating income. The Company believes Gas Utility and Electric Utility margins are better indicators of relative contribution than revenues since gas prices and fuel costs can be volatile and are generally collected on a dollar-for-dollar basis from customers.

Sales of natural gas and electricity to residential and commercial customers are seasonal and are impacted by weather. Trends in average use among natural gas residential and commercial customers have tended to decline in recent years as more efficient appliances and furnaces are installed and the price of natural gas has increased. Normal temperature adjustment (NTA) and lost margin recovery mechanisms largely mitigate the effect on Gas

Utility margin that would otherwise be caused by variations in volumes sold due to weather and changing consumption patterns. Indiana Gas' territory has both an NTA since 2005 and lost margin recovery since December 2006. SIGECO's natural gas territory has an NTA since 2005, and lost margin recovery began when new base rates went into effect August 1, 2007. The Ohio service territory has lost margin recovery since October 2006, but does not have an NTA mechanism. SIGECO's electric service territory does not have an NTA mechanism but has recovery of past demand side management costs.

Gas and electric margin generated from sales to large customers (generally industrial and other contract customers) is primarily impacted by overall economic conditions. Margin is also impacted by the collection of state mandated taxes, which fluctuate with gas and fuel costs, as well as other tracked expenses. Expenses subject to tracking mechanisms include Ohio bad debts and percent of income payment plan expenses, Indiana gas pipeline integrity management costs, and costs to fund Indiana energy efficiency programs. Certain operating costs associated with operating environmental compliance equipment were also tracked prior to their recovery in base rates that went into effect on August 15, 2007. The August SIGECO rate orders also provide for the tracking of MISO revenues and costs, as well as the gas cost component of bad debt expense and unaccounted for gas. Electric generating asset optimization activities are primarily affected by market conditions, the level of excess generating capacity, and electric transmission availability. Following is a discussion and analysis of margin generated from regulated utility operations.

Gas Utility margin (Gas Utility revenues less Cost of gas sold)
Gas Utility margin and throughput by customer type follows:

	Year Ended December 31,		
(In millions)	2007	2006	2005
Gas utility revenues	$ 1,269.4	$ 1,232.5	$ 1,359.7
Cost of gas sold	847.2	841.5	973.3
Total gas utility margin	$ 422.2	$ 391.0	$ 386.4
Margin attributed to:			
Residential & commercial customers	$ 357.1	$ 330.2	$ 333.2
Industrial customers	48.3	48.0	48.3
Other customers	16.8	12.8	4.9
Sold & transported volumes in MMDth attributed to:			
Residential & commercial customers	108.4	97.7	112.9
Industrial customers	86.2	84.9	87.2
Total sold & transported volumes	**194.6**	**182.6**	**200.1**

Gas Utility margins were $422.2 million for the year ended December 31, 2007, an increase of $31.2 million compared to 2006. Residential and commercial customer usage, including lost margin recovery, increased margin $13.3 million year over year. For all of 2007, Ohio weather was 6 percent warmer than normal, but approximately 6 percent colder than the prior year and resulted in an estimated increase in margin of approximately $2.0 million compared to 2006. Margin increases associated with the Vectren South base rate increase, effective August 1, 2007, were $3.3 million. Recovery of gas storage carrying costs in Ohio was $2.3 million. Lastly, operating costs, including revenue and usage taxes recovered dollar-for-dollar in margin, increased gas margin $10.3 million year over year. During 2007, the company resolved all remaining issues related to a 2005 disallowance by the PUCO of gas costs incurred by the Ohio utility operations, resulting in an additional charge of $1.1 million. The average cost per dekatherm of gas purchased for the year ended December 31, 2007, was $8.14 compared to $8.64 in 2006 and $9.05 in 2005.

Gas Utility margins were $391.0 million for the year ended December 31, 2006, an increase of $4.6 million compared to 2005. A full year of base rate increases implemented in the Company's Ohio service territory which increased margin $4.2 million, a $4.1 million disallowance of Ohio gas costs in 2005, the effects of the NTA implemented in 2005 in the Company's Indiana service territories, and the lost margin recovery authorizations

implemented in the fourth quarter of 2006, more than offset the effects of warm weather, lower usage, and decreased tracked expenses recovered dollar for dollar in margin.

For the year ended December 31, 2006, compared to 2005, management estimates that weather 14 percent warmer than normal and 9 percent warmer than prior year would have decreased margins $13.1 million compared to the prior year, had the NTA not been in effect. Weather, net of the NTA, resulted in an approximate $2.0 million year over year increase in *Gas Utility margin*. Incremental revenue associated with the lost margin recovery totaled $2.0 million in 2006. Further, for the year ended December 31, 2006, margin associated with tracked expenses and revenue taxes decreased $3.4 million.

Electric Utility Margin (Electric Utility revenues less Cost of fuel and purchased power)
Electric Utility margin and volumes sold by customer type follows:

	Year Ended December 31,		
(In millions)	2007	2006	2005
Electric utility revenues	$ 487.9	$ 422.2	$ 421.4
Cost of fuel & purchased power	174.8	151.5	144.1
Total electric utility margin	**$ 313.1**	**$ 270.7**	**$ 277.3**
Margin attributed to:			
Residential & commercial customers	$ 194.7	$ 162.9	$ 170.8
Industrial customers	75.0	70.2	66.9
Municipal & other customers	21.8	24.0	19.8
Subtotal: Retail & firm wholesale	**$ 291.5**	**$ 257.1**	**$ 257.5**
Asset optimization	$ 21.6	$ 13.6	$ 19.8
Electric volumes sold in GWh attributed to:			
Residential & commercial customers	3,042.9	2,789.7	2,933.2
Industrial customers	2,538.5	2,570.4	2,575.9
Municipal & other customers	635.1	644.4	689.9
Total retail & firm wholesale volumes sold	**6,216.5**	**6,004.5**	**6,199.0**

Retail & Firm Wholesale Margin
Electric retail and firm wholesale utility margins was $291.5 million for the year ended December 31, 2007. This represents an increase over the prior year of $34.4 million, respectively. Management estimates the year over year increases in usage by residential and commercial customers due to weather to be $11.8 million. The base rate increase that went into effect on August 15, 2007, produced incremental margin of $17.9 million. During 2007, cooling degree days were 33 percent above normal compared to 5 percent below normal in 2005. Recovery of pollution control investments and expenses increased margin $5.5 million year over year.

Electric retail and firm wholesale utility margin was $257.1 million for the year ended December 31, 2006 and was generally flat compared to 2005. The recovery of pollution control related investments and associated operating expenses and related depreciation increased margins $2.6 million year over year. Higher demand charges and other items increased industrial customer margin approximately $3.2 million year over year. These increases were offset by decreased residential and commercial usage. The decreased usage was due primarily to mild weather during the peak cooling season. For 2006 compared to 2005, the estimated decrease in margin due to unfavorable weather was $4.6 million ($4.0 million for below normal cooling weather and $0.6 million for below normal heating weather). In 2005, cooling degree days were 9 percent above normal.

Margin from Asset Optimization Activities
Periodically, generation capacity is in excess of that needed to serve native load and firm wholesale customers. The Company markets and sells this unutilized generating and transmission capacity to optimize the return on its owned assets. A majority of the margin generated from these activities is associated with wholesale off-system sales, and substantially all off-system sales occur into the MISO Day Ahead market.

Asset optimization activity is comprised of the following:

	Year Ended December 31,		
(In millions)	2007	2006	2005
Off-system sales	$ 16.9	$ 14.2	$ 15.3
Transmission system sales	4.7	3.5	4.5
Other	-	(4.1)	-
Total asset optimization	**$ 21.6**	**$ 13.6**	**$ 19.8**

For the year ended December 31, 2007, net asset optimization margins were $21.6 million, which represents an increase of $8.0 million, compared to 2006. The increase is primarily due to losses on financial contracts experienced in 2006 and higher fourth quarter wholesale prices. Margins in 2006 decreased $6.2 million when compared to 2005 primarily due to the financial contract losses experienced in 2006 and lower volumes sold off system. In 2006, the availability of excess capacity was reduced by scheduled outages associated with the installation of environmental compliance equipment. Off-system sales totaled 948.9 GWh in 2007, compared to 889.4 GWh in 2006 and 1,208.1 GWh in 2005.

Utility Group Operating Expenses

Other Operating
For the year ended December 31, 2007, *Other operating expenses* were $266.1 million, which represents an increase of $27.1 million, compared to 2006. Operating costs recovered dollar for dollar in margin, including costs funding new Indiana energy efficiency programs, increased $9.5 million year over year. Increases in operating costs associated with lost margin recovery and conservation initiatives that are not directly recovered in margin were $1.3 million year over year. Costs directly attributable to the Vectren South rate cases, including amortization of prior deferred costs, totaled $3.6 million in 2007. Expenses in 2006 are offset by the gain on the sale of a storage asset of approximately $4.4 million. The remaining increases are primarily due to increased wage and benefit costs.

The 2006 $4.4 million gain on sale of a storage asset, partially offset by higher electric generation chemical costs and bad debt expense in the Company's Indiana service territories were the primary factors decreasing operating expense in 2006 compared to 2005.

Depreciation & Amortization
Depreciation expense increased $7.1 million in 2007 compared to 2006 and $10.0 million in 2006 compared to 2005. The increases were primarily due to increased utility plant in service. Expense in 2007 also includes $1.8 million of amortization associated with prior electric demand side management costs pursuant to the August 15, 2007, electric base rate order.

Taxes Other Than Income Taxes
Taxes other than income taxes increased $3.9 million in 2007 compared to 2006 and decreased $1.0 million in 2006 compared 2005. The fluctuations are primarily attributable to variations in utility receipts, excise, and usage taxes. These variations resulted primarily from volatility in revenues and gas volumes sold. In 2007 and 2006, property taxes also increased due to increased plant in service.

Other Income-Net

Other-net reflects income of $9.4 million in 2007 compared to $7.6 million in 2006 and $5.9 million in 2005. The increases relate primarily to the capitalization of funds used during construction due to increased capital spending and higher interest income.

Utility Group Interest Expense

In 2007, interest expense increased $3.1 million compared to 2006 and increased $7.6 million in 2006 compared to 2005. The increases are primarily driven by rising interest rates during the period and are also impacted by higher levels of short-term borrowings.

The 2007 increase was mitigated somewhat by the full impact of financing transactions completed in October 2006 in which approximately $93 million in debt related proceeds were raised and used to retire debt with a higher interest rate. Interest costs in 2006 reflect permanent financing transactions completed in the fourth quarter of 2005 in which $150 million in debt-related proceeds were received and used to retire short-term borrowings and other long-term debt.

Utility Group Income Taxes

Federal and state *income taxes* increased $19.0 million in 2007 compared to 2006 and decreased $9.8 million in 2006 compared to 2005. The changes are impacted primarily by fluctuations in pre-tax income and a lower effective tax rate in 2006.

The lower effective tax rate in 2006 primarily relates to a $3.1 million favorable impact for an Indiana tax law change that resulted in the recalculation of certain state deferred income tax liabilities. Income taxes in 2006 also include other adjustments, including adjustments to reflect income taxes reported on 2005 state and federal income tax returns. Income taxes recorded in 2005 reflect favorable adjustments to accruals resulting from the conclusion of state tax audits and other adjustments.

Environmental Matters

The Company is subject to federal, state, and local regulations with respect to environmental matters, principally air, solid waste, and water quality. Pursuant to environmental regulations, the Company is required to obtain operating permits for the electric generating plants that it owns or operates and construction permits for any new plants it might propose to build. Regulations concerning air quality establish standards with respect to both ambient air quality and emissions from electric generating facilities, including particulate matter, sulfur dioxide (SO_2), nitrogen oxide (NOx), and mercury. Regulations concerning water quality establish standards relating to intake and discharge of water from electric generating facilities, including water used for cooling purposes in electric generating facilities. Because of the scope and complexity of these regulations, the Company is unable to predict the ultimate effect of such regulations on its future operations.

Clean Air/Climate Change

In March of 2005 USEPA finalized two new air emission reduction regulations. The Clean Air Interstate Rule (CAIR) is an allowance cap and trade program requiring further reductions in Nitrogen Oxides (NOx) and Sulfur Dioxide (SO_2) emissions from coal-burning power plants. The Clean Air Mercury Rule (CAMR) is an allowance cap and trade program requiring further reductions in mercury emissions from coal-burning power plants. Both sets of regulations require emission reductions in two phases. The first phase deadline for both rules is 2010 (2009 for NOx under CAIR), and the second phase deadline for compliance with the emission reductions required under CAIR is 2015, while the second phase deadline for compliance with the emission reduction requirements of CAMR is 2018. However, on February 8, 2008, the US Court of Appeals for the District of Columbia vacated the federal CAMR regulations. At this time it is uncertain how this decision will affect Indiana's recently finalized CAMR implementation program.

To comply with Indiana's implementation plan of the Clean Air Act of 1990 and to further comply with CAIR and CAMR of 2005, SIGECO has received authority from the IURC to invest in clean coal technology. Using this authorization, SIGECO invested approximately $258 million in Selective Catalytic Reduction (SCR) systems at its coal fired generating stations. SCR technology is the most effective method of reducing NOx emissions where high removal efficiencies are required. To further reduce particulate matter emissions, the Company invested approximately $49 million in a fabric filter at its largest generating unit (287 MW). These investments were included in rate base for purposes of determining new base rates that went into effect on August 15, 2007, (See Rate and Regulatory Matter Section). Prior to being included in base rates, return on investments made and recovery of related operating expenses were recovered through a rider mechanism.

Further, the IURC granted SIGECO authority to invest in an SO_2 scrubber at its generating facility that is jointly owned with ALCOA (the Company's portion is 150 MW). The order, as updated with an increased spending level,

allows SIGECO to recover an approximate 8 percent return on up to $92 million, excluding AFUDC, in capital investments through a rider mechanism which is updated every six months for actual costs incurred. The Company may file periodic updates with the IURC requesting modification to the spending authority. As of December 31, 2007, the Company has invested approximately $53 million in this project. The Company expects the SO_2 scrubber will be operational in 2009. At that time, operating expenses including depreciation expense associated with the scrubber will also be recovered through a rider mechanism.

Once the SO_2 scrubber is operational, SIGECO's coal fired generating fleet will be 100 percent scrubbed for SO_2 and 90 percent controlled for NOx. The use of SCR technology positions the Company to be in compliance with the CAIR deadlines specifying reductions in NOx emissions by 2009 and further reductions by 2015. Not only does SIGECO's investments in scrubber, SCR and fabric filter technology position it to comply with reductions described in the original 2005 mercury emission regulations and Indiana's current CAMR implementation plans, it will also likely comply with more stringent mercury reductions that might follow from revised regulations.

If legislation requiring reductions in carbon dioxide and other greenhouse gases or mandating energy from renewable sources is adopted, such regulation could substantially affect both the costs and operating characteristics of the Company's fossil fuel generating plants and nonutility coal mining operations. At this time and in the absence of final legislation, compliance costs and other effects associated with reductions in greenhouse gas emissions or obtaining renewable energy sources remain uncertain.

SIGECO is studying renewable energy alternatives, and on April 9, 2007, filed a green power rider in order to allow customers to purchase green power and to obtain approval of a contract to purchase 30 MW of power generated by wind energy. The wind contract has been approved. Future filings with the IURC with regard to new generation and/or further environmental compliance plans will include evaluation of potential carbon requirements.

Environmental Remediation Efforts

In the past, Indiana Gas, SIGECO, and others operated facilities for the manufacture of gas. Given the availability of natural gas transported by pipelines, these facilities have not been operated for many years. Under currently applicable environmental laws and regulations, those that operated these facilities may now be required to take remedial action if certain contaminants are found above the regulatory thresholds at these sites.

Indiana Gas identified the existence, location, and certain general characteristics of 26 gas manufacturing and storage sites for which it may have some remedial responsibility. Indiana Gas completed a remedial investigation/feasibility study (RI/FS) at one of the sites under an agreed order between Indiana Gas and the IDEM, and a Record of Decision was issued by the IDEM in January 2000. Indiana Gas submitted the remainder of the sites to the IDEM's Voluntary Remediation Program (VRP) and is currently conducting some level of remedial activities, including groundwater monitoring at certain sites, where deemed appropriate, and will continue remedial activities at the sites as appropriate and necessary.

Indiana Gas accrued the estimated costs for further investigation, remediation, groundwater monitoring, and related costs for the sites. While the total costs that may be incurred in connection with addressing these sites cannot be determined at this time, Indiana Gas has recorded costs that it reasonably expects to incur totaling approximately $21 million.

The estimated accrued costs are limited to Indiana Gas' share of the remediation efforts. Indiana Gas has arrangements in place for 19 of the 26 sites with other potentially responsible parties (PRP), which serve to limit Indiana Gas' share of response costs at these 19 sites to between 20 percent and 50 percent. With respect to insurance coverage, Indiana Gas has received and recorded settlements from all known insurance carriers under insurance policies in effect when these plants were in operation in an aggregate amount approximating $20 million.

In October 2002, SIGECO received a formal information request letter from the IDEM regarding five manufactured gas plants that it owned and/or operated and were not enrolled in the IDEM's VRP. In October 2003, SIGECO filed applications to enter four of the manufactured gas plant sites in IDEM's VRP. The remaining site is currently being addressed in the VRP by another Indiana utility. SIGECO added those four sites into the renewal of the global Voluntary Remediation Agreement that Indiana Gas has in place with IDEM for its manufactured gas plant

sites. That renewal was approved by the IDEM in February 2004. SIGECO is also named in a lawsuit filed in federal district court in May 2007, involving another site subject to potential environmental remediation efforts.

SIGECO has filed a declaratory judgment action against its insurance carriers seeking a judgment finding its carriers liable under the policies for coverage of further investigation and any necessary remediation costs that SIGECO may accrue under the VRP program and/or related to the site subject to the May 2007 lawsuit. While the total costs that may be incurred in connection with addressing these sites cannot be determined at this time, SIGECO has recorded costs that it reasonably expects to incur totaling approximately $8 million. With respect to insurance coverage, SIGECO has received and recorded settlements from insurance carriers under insurance policies in effect when these sites were in operation in an aggregate amount approximating the costs it expects to incur.

Environmental remediation costs related to Indiana Gas' and SIGECO's manufactured gas plants and other sites have had no material impact on results of operations or financial condition since costs recorded to date approximate PRP and insurance settlement recoveries. While the Company's utilities have recorded all costs which they presently expect to incur in connection with activities at these sites, it is possible that future events may require some level of additional remedial activities which are not presently foreseen and those costs may not be subject to PRP or insurance recovery.

Jacobsville Superfund Site

On July 22, 2004, the USEPA listed the Jacobsville Neighborhood Soil Contamination site in Evansville, Indiana, on the National Priorities List under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA). The USEPA has identified four sources of historic lead contamination. These four sources shut down manufacturing operations years ago. When drawing up the boundaries for the listing, the USEPA included a 250 acre block of properties surrounding the Jacobsville neighborhood, including Vectren's Wagner Operations Center. Vectren's property has not been named as a source of the lead contamination, nor does the USEPA's soil testing to date indicate that the Vectren property contains lead contaminated soils. Vectren's own soil testing, completed during the construction of the Operations Center, did not indicate that the Vectren property contains lead contaminated soils. At this time, Vectren anticipates only additional soil testing could be requested by the USEPA at some future date.

Rate and Regulatory Matters

Gas and electric operations with regard to retail rates and charges, terms of service, accounting matters, issuance of securities, and certain other operational matters specific to its Indiana customers are regulated by the IURC. The retail gas operations of the Ohio operations are subject to regulation by the PUCO.

Gas rates in Indiana contain a gas cost adjustment (GCA) clause, and rates in Ohio contain a gas cost recovery (GCR) clause. GCA and GCR clauses allow the Company to charge for changes in the cost of purchased gas. Electric rates contain a fuel adjustment clause (FAC) that allows for adjustment in charges for electric energy to reflect changes in the cost of fuel. The net energy cost of purchased power, subject to an agreed upon benchmark, is also recovered through regulatory proceedings. The current benchmark expires in March 2008. A settlement agreement between the Company and the OUCC to modify and extend the benchmark is awaiting IURC action. An order is expected during the first quarter of 2008.

GCA, GCR, and FAC procedures involve periodic filings and IURC and PUCO hearings to establish the amount of price adjustments for a designated future period. The procedures also provide for inclusion in later periods of any variances between the estimated cost of gas, cost of fuel, and net energy cost of purchased power and actual costs incurred. The Company records any under-or-over-recovery resulting from gas and fuel adjustment clauses each month in margin. A corresponding asset or liability is recorded until the under-or-over-recovery is billed or refunded to utility customers.

The IURC has also applied the statute authorizing GCA and FAC procedures to reduce rates when necessary to limit net operating income to a level authorized in its last general rate order through the application of an earnings test. The Company has not surpassed the limits of the earnings test in the recent past.

Vectren North (Indiana Gas Company, Inc.) Gas Base Rate Order Received

On February 13, 2008, the Company received an order from the IURC which approved its Vectren North gas rate case. The order provided for a base rate increase of $16.3 million and an ROE of 10.2 percent, with an overall rate of return of 7.8 percent on rate base of approximately $793 million. The settlement also provides for the recovery of $10.6 million of costs through separate cost recovery mechanisms rather than base rates.

Further, additional expenditures for a multi-year bare steel and cast iron capital replacement program will be afforded certain accounting treatment that mitigates earnings attrition from the investment between rate cases. The accounting treatment allows for the continuation of the accrual for allowance for funds used during construction (AFUDC) and the deferral of depreciation expense after the projects go in service but before they are included in base rates. To qualify for this treatment, the annual expenditures are limited to $20 million and the treatment cannot extend beyond four years on each project.

With this order, the Company has in place for its North gas territory weather normalization, a conservation and lost margin recovery tariff, tracking of gas cost expense related to bad debts and unaccounted for gas through the existing gas cost adjustment mechanism, and tracking of pipeline integrity expense.

Vectren South (SIGECO) Electric Base Rate Order Received

On August 15, 2007, the Company received an order from the IURC which approved its Vectren South electric rate case. The settlement agreement provides for an approximate $60.8 million electric rate increase to cover the Company's cost of system growth, maintenance, safety and reliability. The settlement provides for, among other things: recovery of ongoing costs and deferred costs associated with the MISO; operations and maintenance (O&M) expense increases related to managing the aging workforce, including the development of expanded apprenticeship programs and the creation of defined training programs to ensure proper knowledge transfer, safety and system stability; increased O&M expense necessary to maintain and improve system reliability; benefit to customers from the sale of wholesale power by Vectren's sharing equally with customers any profit earned above or below $10.5 million of wholesale power margin; recovery of and return on the investment in past demand side management programs to help encourage conservation during peak load periods; timely recovery of the Company's investment in certain new electric transmission projects that benefit the MISO infrastructure; an overall rate of return of 7.32 percent on rate base of approximately $1,044 million and an allowed return on equity (ROE) of 10.4 percent. The increase in *Electric Utility margin* as a result of this order totaled $17.9 million in 2007.

Vectren South (SIGECO) Gas Base Rate Order Received

On August 1, 2007, the Company received an order from the IURC which approved its Vectren South gas rate case. The order provided for a base rate increase of $5.1 million and an ROE of 10.15 percent, with an overall rate of return of 7.20 percent on rate base of approximately $122 million. The settlement also provides for the recovery of $2.6 million of costs through separate cost recovery mechanisms rather than base rates.

Further, additional expenditures for a multi-year bare steel and cast iron capital replacement program will be afforded certain accounting treatment that mitigates earnings attrition from the investment between rate cases. The accounting treatment allows for the continuation of the accrual for allowance for funds used during construction (AFUDC) and the deferral of depreciation expense after the projects go in service but before they are included in base rates. To qualify for this treatment, the annual expenditures are limited to $3 million and the treatment cannot extend beyond three years on each project.

With this order, the company now has in place for its South gas territory weather normalization, a conservation and lost margin recovery tariff, tracking of gas cost expense related to bad debts and unaccounted for gas through the existing gas cost adjustment mechanism, and tracking of pipeline integrity expense. The increase in *Gas Utility margin* as a result of this order totaled $3.3 million in 2007.

Vectren Energy Delivery of Ohio, Inc. (VEDO) Gas Base Rate Case Filing

In November 2007, the Company filed with the PUCO a request for an increase in its base rates and charges for VEDO's distribution business in its 17-county service area in west central Ohio. The filing indicates that an

increase in base rates of approximately $27 million is necessary to cover the ongoing cost of operating, maintaining and expanding the approximately 5,200-mile distribution system used to serve 318,000 customers.

In addition, the Company is seeking to increase the level of the monthly service charge as well as extending the lost margin recovery mechanism currently in place to be able to encourage customer conservation and is also seeking approval of expanded conservation-oriented programs, such as rebate offerings on high-efficiency natural gas appliances for existing and new home construction, to help customers lower their natural gas bills. The Company is also seeking approval of a multi-year bare steel and cast iron capital replacement program.

The Company anticipates an order from the PUCO in late 2008.

Ohio and Indiana Lost Margin Recovery/Conservation Filings

In 2005, the Company filed conservation programs and conservation adjustment trackers in Indiana and Ohio designed to help customers conserve energy and reduce their annual gas bills. The proposed programs would allow the Company to recover costs of promoting the conservation of natural gas through conservation trackers that work in tandem with a lost margin recovery mechanism. These mechanisms are designed to allow the Company to recover the distribution portion of its rates from residential and commercial customers based on the level of customer revenues established in each utility's last general rate case.

Indiana

In December 2006, the IURC approved a settlement agreement that provides for a five-year energy efficiency program. It allows the Company's Indiana utilities to recover a majority of the costs of promoting the conservation of natural gas through conservation trackers that work in tandem with a lost margin recovery mechanism. The order was implemented in the North service territory in December 2006, and provides for recovery of 85 percent of the difference between weather normalized revenues actually collected by the Company and the revenues approved in the Company's most recent rate case. Energy efficiency programs began in the North gas territory in December 2006. A similar approach regarding lost margin recovery commenced in the South gas territory on August 1, 2007, as the new base rates went into effect, allowing for recovery of 100 percent of the difference between weather normalized revenues collected and the revenues approved in that rate case. The recent Vectren North base rate order also allows for full recovery of the difference between weather normalized revenues collected by the Company and the revenues provided for in that settlement, superseding the original December 2006 order. While most expenses associated with these programs are recoverable, in the first program year the Company incurred $0.9 million in program costs without recovery, of which $0.8 million was expensed in 2007 and, in addition contributed $0.2 million in assets that are being depreciated over the term of the program without recovery.

Ohio

In June 2007, the Public Utilities Commission of Ohio (PUCO) approved a settlement that provides for the implementation of a lost margin recovery mechanism and a related conservation program for the Company's Ohio operations. This order confirms the guidance the PUCO previously provided in a September 2006 decision. The conservation program, as outlined in the September 2006 PUCO order and as affirmed in this order, provides for a two year, $2 million total conservation program to be paid by the Company, as well as a sales reconciliation rider intended to be a recovery mechanism for the difference between the weather normalized revenues actually collected by the Company and the revenues approved by the PUCO in the Company's most recent rate case. Approximately 60 percent of the Company's Ohio customers are eligible for the conservation programs. The Ohio Consumer Counselor (OCC) and another intervener requested a rehearing of the June 2007 order and the PUCO granted that request in order to have additional time to consider the merits of the request. In accordance with accounting authorization previously provided by the PUCO, the Company began recognizing the impact of the September 2006 order on October 1, 2006, and has recognized cumulative revenues of $4.6 million, of which $3.3 million was recorded in 2007. The OCC appealed the PUCO's accounting authorization to the Ohio Supreme Court, but that appeal has been dismissed as premature pending the PUCO's consideration of issues raised in the OCC's request for rehearing. Since October 1, 2006, the Company has been ratably accruing its $2 million commitment.

MISO

Since February 2002 and with the IURC's approval, the Company has been a member of the Midwest Independent System Operator, Inc. (MISO), a FERC approved regional transmission organization. The MISO serves the electrical transmission needs of much of the Midwest and maintains operational control over the Company's electric transmission facilities as well as that of other Midwest utilities.

On April 1, 2005, the MISO energy market commenced operation (the Day 2 energy market). As a result of being a market participant, the Company now bids its owned generation into the Day Ahead and Real Time markets and procures power for its retail customers at Locational Marginal Pricing (LMP) as determined by the MISO market. The Company is typically in a net sales position with MISO and is only occasionally in a net purchase position. Net positions are determined on an hourly basis. When the Company is a net seller such net revenues are included in *Electric Utility revenues* and when the Company is a net purchaser such net purchases are included in *Cost of fuel and purchased power*. The Company also receives transmission revenue that results from other members' use of the Company's transmission system. These revenues are also included in *Electric Utility revenues*.

Pursuant to an order from the IURC received in December 2001, certain MISO startup costs (referred to as Day 1 costs) were deferred, and those deferred costs are now being recovered through base rates that went into effect on August 15, 2007. On June 1, 2005, Vectren, together with three other Indiana electric utilities, received regulatory authority from the IURC to recover fuel related costs and to defer other costs associated with the Day 2 energy market. The order allows fuel related costs to be passed through to customers in Vectren's existing fuel cost recovery proceedings. During 2006, the IURC reaffirmed the definition of certain costs as fuel related; the Company is following those guidelines. Other MISO fuel related and non-fuel related administrative costs were deferred, and those deferred costs are now being recovered through base rates that went into effect on August 15, 2007. The IURC order authorizing new base rates also provides for a tracking mechanism associated with ongoing MISO-related costs and transmission revenues.

As a result of MISO's operational control over much of the Midwestern electric transmission grid, including SIGECO's transmission facilities, SIGECO's continued ability to import power, when necessary, and export power to the wholesale market has been, and may continue to be, impacted. Given the nature of MISO's policies regarding use of transmission facilities, as well as ongoing FERC initiatives, and a pending Day 3 market, where MISO plans to provide bid-based regulation and contingency operating reserve markets, it is difficult to predict near term operational impacts. MISO has indicated that the Day 3 ancillary services market would begin in June 2008.

The need to expend capital for improvements to the transmission system, both to SIGECO's facilities as well as to those facilities of adjacent utilities, over the next several years is expected to be significant. The Company will timely recover its investment in certain new electric transmission projects that benefit the MISO infrastructure at a FERC approved rate of return.

Weather Normalization

On October 5, 2005, the IURC approved the establishment of a normal temperature adjustment (NTA) mechanism for Vectren Energy Delivery of Indiana. The OUCC had previously entered into a settlement agreement with Vectren Energy Delivery of Indiana providing for the NTA. The NTA affects the Company's Indiana regulated residential and commercial natural gas customers and should mitigate weather risk in those customer classes during the October to April heating season. These Indiana customer classes represent approximately 60-65 percent of the Company's total natural gas heating load.

The NTA mechanism will mitigate volatility in distribution charges created by fluctuations in weather by lowering customer bills when weather is colder than normal and increasing customer bills when weather is warmer than normal. The NTA has been applied to meters read and bills rendered after October 15, 2005. Each subsequent monthly bill for the seven-month heating season is adjusted using the NTA. Revenues attributable to this order were $4.5 million in 2007 and $13.6 million in 2006 while a downward adjustment to revenues of $1.6 million resulted in 2005.

The order provides that the Company will make, on a monthly basis, a commitment of $125,000 to a universal service fund program or other low-income assistance program for the duration of the NTA or until a general rate case. SIGECO's portion of its commitment ceased in August 2007, and Indiana Gas' portion of the commitment ceased on February 14, 2008.

Rate structures in the Company's Indiana electric territory and Ohio gas territory do not include weather normalization-type clauses.

VEDO Base Rate Increase in 2005

On April 13, 2005, the PUCO approved a $15.7 million base rate increase for VEDO's gas distribution business. The base rate change was implemented on April 14, 2005 and provide for the recovery of some level of on-going costs to comply with the Pipeline Safety Improvement Act of 2002.

Gas Cost Recovery (GCR) Audit Proceedings

In 2005, the PUCO issued an order disallowing the recovery of approximately $9.6 million of gas costs relating to the two-year audit period ended October 2002 and in 2006, an additional $0.8 million was disallowed related to the audit period ending October 2005. The initial audit period provided the PUCO staff its initial review of the portfolio administration arrangement between VEDO and ProLiance. Since November 1, 2005, the Company has used a provider other than ProLiance for these services.

Through a series of rehearings and appeals, including action by the Ohio Supreme Court in the first quarter of 2007, the Company was required to refund $8.6 million to customers. In total, the Company has reflected $6.2 million in *Cost of gas sold* related to this matter, of which $1.1 million, $4.1 million and $1.0 million were recorded in 2007, 2005, and 2003, respectively. The impact of the disallowance includes a sharing of the ordered refund by Vectren's partner in ProLiance. As of December 31, 2007, all amounts have been refunded to customers.

Results of Operations of the Nonutility Group

The Nonutility Group operates in three primary business areas: Energy Marketing and Services, Coal Mining, and Energy Infrastructure Services. Energy Marketing and Services markets and supplies natural gas and provides energy management services. Coal Mining mines and sells coal. Energy Infrastructure Services provides underground construction and repair and provides performance contracting and renewable energy services. There are also other businesses that invest in energy-related opportunities and services, real estate, and leveraged leases, among other investments. In addition, the Company has in the past invested in projects that generated synfuel tax credits and processing fees relating to the production of coal-based synthetic fuels. The Nonutility Group supports the Company's regulated utilities pursuant to service contracts by providing natural gas supply services, coal, infrastructure services, and other services. Nonutility Group earnings for the years ended December 31, 2007, 2006, and 2005, follow:

	Year Ended December 31,		
(In millions, except per share amounts)	2007	2006	2005
NET INCOME	**$ 37.0**	**$ 18.1**	**$ 48.2**
CONTRIBUTION TO VECTREN BASIC EPS	**$ 0.49**	**$ 0.24**	**$ 0.64**
NET INCOME ATTRIBUTED TO:			
Energy Marketing & Services	$ 22.3	$ 14.9	$ 29.7
Mining Operations	2.0	5.0	5.3
Energy Infrastructure Services	9.4	4.6	0.3
Other Businesses	0.3	(1.1)	1.2
Synfuels-related	3.0	(5.3)	11.7

Energy Marketing & Services

Energy Marketing and Services is comprised of the Company's wholesale and retail gas marketing and energy management businesses. For the year ended December 31, 2007, Energy Marketing and Services, inclusive of holding company costs, earned $22.3 million compared to $14.9 million in 2006 and $29.7 million in 2005.

ProLiance

ProLiance Energy LLC (ProLiance), a nonutility energy marketing affiliate of Vectren and Citizens Gas and Coke Utility (Citizens Gas), provides services to a broad range of municipalities, utilities, industrial operations, schools, and healthcare institutions located throughout the Midwest and Southeast United States. ProLiance's customers include Vectren's Indiana utilities and nonutility gas supply operations and Citizens Gas. ProLiance's primary businesses include gas marketing, gas portfolio optimization, and other portfolio and energy management services. Consistent with its ownership percentage, Vectren is allocated 61 percent of ProLiance's profits and losses; however, governance and voting rights remain at 50 percent for each member; and therefore the Company accounts for its investment in ProLiance using the equity method of accounting. Vectren received regulatory approval on April 25, 2006, from the IURC for ProLiance to continue to provide natural gas supply services to the Company's Indiana utilities through March 2011.

ProLiance provided the primary earnings contribution, which totaled $22.9 million in 2007 compared to $18.3 million in 2006 and $29.7 million in 2005. Results in 2006 contain a $6.6 million after tax charge associated with the settlement of a lawsuit which originated from a dispute over a contractual relationship with Huntsville Utilities during 2000 – 2002. In 2007, increased earnings from greater storage capacity were offset by lower volatility in the wholesale natural gas markets. Earnings in 2005 increased significantly due to larger spreads between financial and physical markets, which resulted from market disruptions caused by Gulf Coast hurricanes. ProLiance's storage capacity was 40 Bcf at December 31, 2007 compared to 35 Bcf at the end of 2006 and 33 Bcf at the end of 2005. Firm storage capacity will increase to 45 Bcf in early 2008 and to 49 Bcf by the end of 2008. The expected increase in storage capacity coupled with an assumed return to market volatility should favorably impact ProLiance's results in 2008.

Regulatory Matter

ProLiance self reported to the Federal Energy Regulatory Commission (FERC or the Commission) in October 2007 possible non-compliance with the Commission's capacity release policies. ProLiance has taken corrective actions to assure that current and future transactions are compliant. ProLiance is committed to full regulatory compliance and is cooperating fully with the FERC regarding these issues. ProLiance is unable to predict the outcome of any FERC action.

Vectren Source

Vectren Retail, LLC (d/b/a Vectren Source), a wholly owned subsidiary, provides natural gas and other related products and services to customers opting for choice among energy providers. Vectren Source earned approximately $1.2 million in 2007, compared to a loss of $0.4 million in 2006 and earnings of $0.9 million in 2005. The increase in earnings is primarily due to lower marketing costs in 2007 and extremely mild weather in 2006. Vectren Source's customer count at December 31, 2007 was approximately 161,000 as compared to the prior year end count of nearly 150,000.

Coal Mining

Coal Mining Operations mine and sell coal to the Company's utility operations and to third parties through its wholly owned subsidiary Vectren Fuels, Inc. (Fuels).

Coal Mining operations, inclusive of holding company costs, earned approximately $2.0 million in 2007 compared to $5.0 million in 2006 and $5.3 million in 2005. The decline in earnings in 2007 is primarily due to the effects of compliance with revised Mine Safety and Health Administration (MSHA) seal guidelines and the associated lost production and higher sulfur content from coal mined under a revised mining plan. These decreases are offset somewhat by reduced operating costs from highwall mining at the Cypress Creek surface mine. Mining

Operations' 2006 earnings were generally flat compared to 2005. Higher revenue and tax benefits from depletion were offset by unfavorable geologic conditions, the rising costs of commodities used in operations, and high sulfur content. The Company produced 4.1 million tons of coal in 2007, compared to 4.0 million tons in 2006 and 4.4 million tons in 2005. Earnings in 2008 from Coal Mining operations are expected to increase due to price increases of 4 to 5 percent, the return to full production at Prosperity mine, and process improvements that mitigate impacts from increased MSHA inspections.

In April 2006, Fuels announced plans to open two new underground mines near Vincennes, Indiana. Construction is progressing as planned and, the first mine is expected to be operational by early 2009, with the second mine opening the following year. Reserves at the two mines are estimated at 80 million tons of recoverable number-five coal at 11,200 BTU (British thermal units) and 6-pound sulfur dioxide. Management estimates a $125 million investment to access the reserves. Once in production, the two new mines are expected to produce 5 million tons of coal per year. Through December 31, 2007, the Company has made investments totaling $21.9 million in the new mines.

Energy Infrastructure Services

Energy Infrastructure Services provides underground construction and repair to utility infrastructure through Miller Pipeline Corporation (Miller) and performance contracting and renewable energy services through Energy Systems Group, LLC (ESG). Inclusive of holding company costs, Energy Infrastructure's operations contributed earnings of $9.4 million in 2007 compared to $4.6 million in 2006 and $0.3 million in 2005.

Miller Pipeline

Miller's 2007 earnings were $6.1 million in 2007 compared to $2.3 million in 2006 and $0.9 in 2005. The increase in Miller's earnings contribution is primarily due to more large gas construction projects and pricing increases. Vectren's 100 percent ownership of Miller effective July 1, 2006 has also contributed to the increase. Earnings in 2008 are likely to be impacted by expected growth in Miller's large customers' aging infrastructure programs, including pipeline integrity, bare steel/cast iron replacement, and riser replacement work.

Effective July 1, 2006, the Company purchased the remaining 50 percent ownership in Miller, making Miller a wholly owned subsidiary. Prior to this transaction, Miller was a 50 percent owned joint venture accounted for using the equity method. The results of Miller's operations have been included in consolidated results since July 1, 2006. While the acquisition of Miller has not been material to the overall financial statements, consolidating Miller resulted in, among other impacts, increases in *Nonutility revenue* totaling $105.7 million in 2007 compared to 2006 and $77.6 million in 2006 compared to 2005; and increases in *Other operating expense* totaling $90.9 million in 2007 compared to 2006 and $60.8 million in 2006 compared to 2005.

During 2006, the Company exited the meter reading and line locating businesses, which it had previously provided through Reliant Services, LLC.

Energy Systems Group

ESG's 2007 earnings were $4.0 million in 2007 compared to $3.1 million in 2006 and a loss of $0.4 million in 2005. The increases are primarily due to higher revenues. At December 31, 2007, ESG's backlog was $52 million, compared to $68 million at December 31, 2006. The national focus on a comprehensive energy strategy as evidenced by the new Energy Independence and Security Act of 2007 is likely to favorably impact ESG's earnings in 2008 and beyond.

Other Businesses

The Other Businesses Group includes a variety of operations and investments including investments in the Haddington Energy Partnerships (Haddington) which are accounted for using the equity method. The earnings impact of exiting the broadband business is also included in Other Businesses.

Other Businesses reported earnings of $0.3 million compared to a net loss of $1.1 million in 2006 and net income of $1.2 million in 2005. Results for 2006 reflect a loss on the sale of SIGECOM, LLC (SIGECOM). In 2005,

Haddington sold their investments in Lodi Gas Storage, LLC for cash. The Company recognized its portion of the gain resulting from that sale which totaled $3.9 million after tax. The 2005 Haddington gain was partially offset by a $1.5 million after tax charge associated with the Company's broadband consulting business, which has since ceased operations.

Sale of Interest in SIGECOM

SIGECOM provided broadband services, such as cable television, high-speed internet, and advanced local and long distance phone services, to the greater Evansville, Indiana area. In August 2006, SIGECOM's majority owner and the Company sold their interests in SIGECOM to WideOpenWest, LLC. Resulting from the sale, the Company recorded an after tax loss of $1.3 million in 2006. Proceeds to the Company, which includes the settlement of notes receivable, approximated $45 million and were received in 2007.

Synfuel-Related Activity

Pace Carbon Synfuels, LP (Pace Carbon) is a Delaware limited partnership formed to develop, own, and operate four projects to produce and sell coal-based synthetic fuel (synfuel) utilizing Covol technology. The Company has an 8.3 percent interest in Pace Carbon which is accounted for using the equity method of accounting. The Internal Revenue Code provides for manufacturers, such as Pace Carbon, to receive a tax credit for every ton of synthetic fuel sold. In addition, Vectren Fuels, Inc., a wholly owned subsidiary involved in coal mining, received processing fees from synfuel producers unrelated to Pace Carbon for a portion of its coal production. The tax law authorizing synfuel related credits and fees expired on December 31, 2007.

The Internal Revenue Service issued private letter rulings, which concluded the synthetic fuel produced at the Pace Carbon facilities should qualify for tax credits. The IRS has completed tax audits of Pace Carbon for the years 1998 through 2001 without challenging tax credit calculations. Generally, the statute of limitations for the IRS to audit a tax return is three years from filing. Therefore tax credits utilized in 2004 – 2007 are still subject to IRS examination. However, avenues remain where the IRS could challenge tax credits of pre-2004 years.

As a partner of Pace Carbon, Vectren has reflected synfuel tax credits in its consolidated results from inception through December 31, 2007 of approximately $99 million, of which approximately $60 million have been generated since 2003. To date, Vectren has been in a position to utilize or carryforward substantially all of the credits generated. Primarily from the use of these credits, the Company has an Alternative Minimum Tax (AMT) credit carryforward of approximately $35.7 million at December 31, 2007.

Synfuel tax credits were only available when the price of oil was less than a base price specified by the Internal Revenue Code, as adjusted for inflation. The Company estimates that high oil prices caused a 74 percent phase out in 2007. Therefore, of the $23.1 million tax credits generated in 2007, only $6.0 million are reflected as a reduction to the Company's income tax expense. In 2006 high oil prices resulted in a 35 percent phase out of synfuel tax credits. Of the $21.5 million tax credits generated in 2006, only $14.0 million were reflected as a reduction to the Company's income tax expense.

Since 2005, the Company executed several financial contracts to hedge oil price risk. Income statement activity associated with these contracts was a gain of $13.4 million in 2007, a loss of $4.7 million in 2006 and a loss of $1.9 million in 2005. This activity is primarily reflected in *Other-net*. Impairment charges related to the investment in Pace Carbon approximating $9.5 million were recorded in *Other-net* in 2006.

The investment in Pace Carbon resulted in losses reflected in *Equity in earnings of unconsolidated affiliates* totaling $20.0 million in 2007, $17.8 million in 2006, and $15.7 million in 2005. Synfuel-related results, inclusive of those losses and their related tax benefits as well as the tax credits and other related activity, were earnings of $6.8 million in 2007, compared to a loss of $5.3 million in 2006 and earnings of $11.7 million in 2005. Of those earnings, which do not continue beyond 2007, $3.8 million ($5.8 million pre tax) was contributed to the Vectren Foundation in 2007. Net of that contribution, synfuel-related results were $3.0 million in 2007.

Impact of Recently Issued Accounting Guidance

FIN 48

On January 1, 2007, the Company adopted FASB Interpretation No. 48 (FIN 48) "Accounting for Uncertainty in Income Taxes" an interpretation of SFAS 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of tax positions taken or expected to be taken in an income tax return. FIN 48 also provides guidance related to reversal of tax positions, balance sheet classification, interest and penalties, interim period accounting, disclosure and transition.

At adoption, the total amount of gross unrecognized tax benefits for uncertain tax positions was $11.6 million. The accumulation of this amount resulted in an adjustment to beginning *Retained earnings* of $0.1 million and to *Goodwill* of $0.2 million.

SFAS No. 157

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This statement does not require any new fair value measurements; however, the standard will impact how other fair value based GAAP is applied. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. However, in December 2007, the FASB issued proposed FSP FAS 157-b which would delay the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). This proposed FSP partially defers the effective date of Statement 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. The Company will adopt SFAS 157 on January 1, 2008, except as it applies to those nonfinancial assets and nonfinancial liabilities as noted in proposed FSP FAS 157-b. The partial adoption of SFAS 157 will not have a material impact on our financial position, results of operations or cash flows.

SFAS No. 159

In February 2007, the FASB issued Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115 (SFAS 159). SFAS 159 permits entities to measure many financial instruments and certain other items at fair value. Items eligible for the fair value measurement option include: financial assets and financial liabilities with certain exceptions; firm commitments that would otherwise not be recognized at inception and that involve only financial instruments; nonfinancial insurance contracts and warranties that the insurer can settle by paying a third party to provide those goods or services; and host financial instruments resulting from separation of an embedded financial derivative instrument from a nonfinancial hybrid instrument. The fair value option may be applied instrument by instrument, with few exceptions, is an irrevocable election and is applied only to entire instruments. The Company will adopt SFAS 159 on January 1, 2008, and does not expect that adoption will have a material impact on its financial statements and results of operations.

SFAS 141 (Revised 2007)

In December 2007, the FASB issued SFAS 141, Business Combinations (SFAS 141). SFAS 141 establishes principles and requirements for how the acquirer of an entity (1) recognizes and measures the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree (2) recognizes and measures acquired goodwill or a bargain purchase gain and (3) determines what information to disclose in its financial statements in order to enable users to assess the nature and financial effects of the business combination. SFAS 141 applies to all transactions or other events in which one entity acquires control of one or more businesses and applies to all business entities. SFAS 141 applies prospectively to business combinations with an acquisition date on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early adoption is not permitted. The Company will adopt SFAS 141 on January 1, 2009, and because the provisions of this standard are applied prospectively, the impact to the Company cannot be determined until the transactions occur.

SFAS 160

In December 2007, the FASB issued SFAS 160, Noncontrolling Interests in Consolidated Financial Statements-an Amendment of ARB No. 51 (SFAS 160). SFAS 160 establishes accounting and reporting standards that require that the ownership percentages in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented separately from the parent's equity in the equity section of the consolidated balance sheet; the amount of consolidated net income attributable to the parent and the noncontrolling interest to be clearly identified and presented on the face of the consolidated income statement; that changes in the parent's ownership interest while it retains control over its subsidiary be accounted for consistently; that when a subsidiary is deconsolidated, any retained noncontrolling equity investment be initially measured at fair value; and that sufficient disclosure is made to clearly identify and distinguish between the interests of the parent and the noncontrolling owners. SFAS 160 applies to all entities that prepare consolidated financial statements, except for non-profit entities. SFAS 160 is effective for fiscal years beginning after December 31, 2008. Early adoption is not permitted. The Company will adopt SFAS 160 on January 1, 2009, and is currently assessing the impact this statement will have on its financial statements and results of operations.

Critical Accounting Policies

Management is required to make judgments, assumptions, and estimates that affect the amounts reported in the consolidated financial statements and the related disclosures that conform to accounting principles generally accepted in the United States. Note 2 to the consolidated financial statements describes the significant accounting policies and methods used in the preparation of the consolidated financial statements. Certain estimates used in the financial statements are subjective and use variables that require judgment. These include the estimates to perform goodwill and other asset impairments tests and to determine pension and postretirement benefit obligations. The Company makes other estimates, in the course of accounting for unbilled revenue and the effects of regulation that are critical to the Company's financial results but that are less likely to be impacted by near term changes. Other estimates that significantly affect the Company's results, but are not necessarily critical to operations, include depreciating utility and nonutility plant, valuing reclamation liabilities, valuing derivative contracts, and estimating uncollectible accounts and coal reserves, among others. Actual results could differ from these estimates.

Impairment Review of Investments

The Company has investments in notes receivable, entities accounted for using the cost method of accounting, and entities accounted for using the equity method of accounting. When events occur that may cause one of these investments to be impaired, the Company performs both a qualitative and quantitative review of that investment and when necessary performs an impairment analysis. An impairment analysis of notes receivable usually involves the comparison of the investment's estimated free cash flows to the stated terms of the note, or for notes that are collateral dependent, a comparison of the collateral's fair value to the carrying amount of the note. An impairment analysis of cost method and equity method investments involves comparison of the investment's estimated fair value to its carrying amount. Fair value is estimated using market comparisons, appraisals, and/or discounted cash flow analyses. Calculating free cash flows and fair value using the above methods is subjective and requires judgment concerning growth assumptions, longevity of cash flows, and discount rates (for fair value calculations).

In 2007, the Company examined the recoverability of several investments, including a leveraged lease and a note receivable. The Company determined the carrying values of the investments tested were not impaired. For the lease, this assessment was based on a recent nonbinding offer from an unrelated party to purchase the underlying property. However, a sale price 10 percent below that received would have resulted in a small charge to earnings. For the note, a qualitative assessment was made regarding collection using the note agreement's breach of contract provisions. Based on that review, the Company believes collection is probable.

In 2006, the Company fully impaired its investment in Pace Carbon. The Company took this action because of the effect high oil prices had on Pace Carbon's future operations. The write off of the investment and expensing of future funding requirements totaled $9.5 million, or $5.7 million after tax in 2006.

Goodwill and Intangible Assets

Pursuant to SFAS 142, the Company performs an annual impairment analysis of its goodwill, most of which resides in the Gas Utility Services operating segment, at the beginning of each year, and more frequently if events or circumstances indicate that an impairment loss may have been incurred. Impairment tests are performed at the reporting unit level. The Company has determined its Gas Utility Services operating segment as identified in Note 16 to the consolidated financial statements to be the reporting unit. Nonutility Group reporting units are generally defined as the operating companies that aggregate that operating segment. An impairment test performed in accordance with SFAS 142 requires that a reporting unit's fair value be estimated. The Company used a discounted cash flow model to estimate the fair value of its Gas Utility Services operating segment, and that estimated fair value was compared to its carrying amount, including goodwill. The estimated fair value was in excess of the carrying amount in 2007, 2006, and 2005 and therefore resulted in no impairment. Goodwill related to the Nonutility Group was generally tested during the year using market comparable data or a discounted cash flow model.

Estimating fair value using a discounted cash flow model is subjective and requires significant judgment in applying a discount rate, growth assumptions, company expense allocations, and longevity of cash flows. A 100 basis point increase in the discount rate utilized to calculate the Gas Utility Services segment's fair value also would have resulted in no impairment charge.

The Company also annually tests non-amortizing intangible assets for impairment and amortizing intangible assets are tested on an event and circumstance basis. During 2007, 2006, and 2005, these tests yielded no impairment charges.

Pension and Other Postretirement Obligations

The Company estimates the expected return on plan assets, discount rate, rate of compensation increase, and future health care costs, among other inputs, and relies on actuarial estimates to assess the future potential liability and funding requirements of the Company's pension and postretirement plans. The Company currently measures its obligations annually on September 30. However, the Company is in the process of moving is measurement date to December 31. The Company used the following weighted average assumptions to develop 2007 periodic benefit cost: a discount rate of 5.85 percent percent, an expected return on plan assets of 8.25 percent percent, a rate of compensation increase of 3.75 percent percent, and an inflation assumption of 3.5 percent percent. During 2007, the Company increased the discount rate by 40 basis points to value 2007 ending pension and postretirement obligations and 2008 benefit cost due to an increase in benchmark interest rates. Future changes in health care costs, work force demographics, interest rates, or plan changes could significantly affect the estimated cost of these future benefits.

Management estimates that a 50 basis point decrease in the discount rate would generally increase periodic benefit cost by approximately $1 million.

Unbilled Revenues

To more closely match revenues and expenses, the Company records revenues for all gas and electricity delivered to customers but not billed at the end of the accounting period. The Company uses actual units billed during the month to allocate unbilled units by customer class. Those allocated units are multiplied by rates in effect during the month to calculate unbilled revenue at balance sheet dates. While certain estimates are used in the calculation of unbilled revenue, the method from which these estimates are derived is not subject to near-term changes.

Regulation

At each reporting date, the Company reviews current regulatory trends in the markets in which it operates. This review involves judgment and is critical in assessing the recoverability of regulatory assets as well as the ability to continue to account for its activities based on the criteria set forth in SFAS No. 71 "Accounting for the Effects of Certain Types of Regulation" (SFAS 71). Based on the Company's current review, it believes its regulatory assets are probable of recovery. If all or part of the Company's operations cease to meet the criteria of SFAS 71, a write off of related regulatory assets and liabilities could be required. In addition, the Company would be required to

determine any impairment to the carrying value of its utility plant and other regulated assets and liabilities. In the unlikely event of a change in the current regulatory environment, such write-offs and impairment charges could be significant.

Financial Condition

Within Vectren's consolidated group, Utility Holdings funds the short-term and long-term financing needs of the Utility Group operations, and Vectren Capital Corp (Vectren Capital) funds short-term and long-term financing needs of the Nonutility Group and corporate operations. Vectren Corporation guarantees Vectren Capital's debt, but does not guarantee Utility Holdings' debt. Vectren Capital's long-term and short-term obligations outstanding at December 31, 2007, totaled $183 million and $171 million, respectively. Utility Holdings' outstanding long-term and short-term borrowing arrangements are jointly and severally guaranteed by Indiana Gas, SIGECO, and VEDO. Utility Holdings' long-term and short-term obligations outstanding at December 31, 2007, totaled $700 million and $386 million, respectively. Additionally, prior to Utility Holdings' formation, Indiana Gas and SIGECO funded their operations separately, and therefore, have long-term debt outstanding funded solely by their operations.

The Company's common stock dividends are primarily funded by utility operations. Nonutility operations have demonstrated profitability and the ability to generate cash flows. These cash flows are primarily reinvested in other nonutility ventures, but are also used to fund a portion of the Company's dividends, and from time to time may be reinvested in utility operations or used for corporate expenses.

The credit ratings of the senior unsecured debt of Utility Holdings and Indiana Gas, at December 31, 2007, are A-/Baa1 as rated by Standard and Poor's Ratings Services (Standard and Poor's) and Moody's Investors Service (Moody's), respectively. The credit ratings on SIGECO's secured debt are A/A3. Utility Holdings' commercial paper has a credit rating of A-2/P-2. The current outlook of both Moody's and Standard and Poor's is stable. A security rating is not a recommendation to buy, sell, or hold securities. The rating is subject to revision or withdrawal at any time, and each rating should be evaluated independently of any other rating. Standard and Poor's and Moody's lowest level investment grade rating is BBB- and Baa3, respectively.

The Company's consolidated equity capitalization objective is 45-55 percent of long-term capitalization. This objective may have varied, and will vary, depending on particular business opportunities, capital spending requirements, execution of long-term financing plans and seasonal factors that affect the Company's operations. The Company's equity component was 50 percent and 48 percent of long-term capitalization at December 31, 2007, and December 31, 2006, respectively. Long-term capitalization includes long-term debt, including current maturities and debt subject to tender, as well as common shareholders' equity.

The Company expects the majority of its capital expenditures, investments, and debt security redemptions to be provided by internally generated funds. However, due to increased levels of forecasted capital expenditures and expected growth in nonutility operations, the Company may require additional permanent financing. The Company expects to settle an equity forward contract and plans to issue long-term debt within the next twelve months as more fully described below. As of December 31, 2007, the Company was in compliance with all financial covenants.

Sources & Uses of Liquidity

Operating Cash Flow

The Company's primary source of liquidity to fund working capital requirements has been cash generated from operations, which totaled $298.1 million in 2007, compared to $310.2 million in 2006 and $268.4 million in 2005.

While net income increased substantially in 2007 compared to 2006, cash flow from operating activities decreased $12.1 million. The decrease was primarily a result of changes in working capital accounts and lower distributions from equity method investments compared to the prior year. Net income before non-cash charges of $363.2 million increased $60.3 million, compared to $302.9 million in 2006. Working capital changes used cash of $27.0 million in 2007 compared to cash generated of $16.6 million in 2006. Distributions from equity method investments, which principally consist of dividends from ProLiance, were $20.8 million in 2007 compared to $35.8 million in

2006. Distributions in 2006 include a $10.4 million special dividend from ProLiance. The remaining decrease is primarily attributable to increased contributions to pension plans.

The $41.8 million increase in cash flow in 2006 compared to 2005 is primarily attributable to earnings before noncash charges increasing $34.4 million year over year and the special ProLiance dividend. Earnings before non-cash charges were impacted by $15.5 million in alternative minimum taxes in 2005.

Financing Cash Flow

Although working capital requirements are generally funded by cash flow from operations, the Company uses short-term borrowings to supplement working capital needs when accounts receivable balances are at their highest and gas storage is refilled. Additionally, short-term borrowings are required for capital projects and investments until they are financed on a long-term basis.

Cash flow required for financing activities reflects the impact of recently executed long-term financing, increases in common stock dividends over the periods presented, and changes in short term borrowings. In 2007 financing activities were generally flat, with short-term and long-term debt proceeds and stock option proceeds offsetting debt payments and dividends. In 2006, Utility Holdings issued $100 million of senior unsecured securities and used those proceeds to retire higher coupon long-term debt. In 2005, Utility Holdings issued $150 million of senior unsecured securities and used those proceeds to retire higher coupon long-term debt and refinance certain capital projects originally financed with short-term borrowings. In addition, Vectren Capital issued $125 million in senior unsecured securities and used those proceeds to fund $38 million of maturing debt and refinance certain capital projects originally financed with short-term borrowings. These transactions are more fully described below.

SIGECO Pollution Control Bonds
On December 6, 2007, SIGECO closed on $17 million of auction rate tax-exempt long-term debt. The debt has a life of 33 years, maturing on January 1, 2041. The initial interest rate was set at 4.50 percent but the rate will be reset every 7 days through an auction process that began December 13, 2007. This new debt was collateralized through the issuance of first mortgage bonds and the payment of interest and principal was insured through Ambac.

Utility Holdings 2006 Debt Issuance
In October 2006, Utility Holdings issued $100 million in 5.95 percent senior unsecured notes due October 1, 2036 (2036 Notes). The 30-year notes were priced at par. The 2036 Notes are guaranteed by Utility Holdings' three public utilities: SIGECO, Indiana Gas, and VEDO. These guarantees are full and unconditional and joint and several. These notes, as well as the timely payment of principal and interest, are insured by a financial guaranty insurance policy by Financial Guaranty Insurance Company (FGIC).

The 2036 Notes have no sinking fund requirements, and interest payments are due quarterly. The notes may be called by Utility Holdings, in whole or in part, at any time on or after October 1, 2011, at 100 percent of principal amount plus accrued interest. During the first and second quarters of 2006, Utility Holdings entered into several interest rate hedges with a $100 million notional amount. Upon issuance of the notes, these instruments were settled resulting in the payment of approximately $3.3 million, which was recorded as a *Regulatory asset* pursuant to existing regulatory orders. The value paid is being amortized as an increase to interest expense over the life of the issue maturing October 2036.

The net proceeds from the sale of the 2036 Notes and settlement of the hedging arrangements totaled approximately $92.8 million. These proceeds were used to repay most of the $100 million outstanding balance of Utility Holdings' 7.25 percent Senior Notes originally due October 15, 2031. These notes were redeemed on October 19, 2006 at par plus accrued interest.

Utility Holdings 2005 Debt Issuance
In November 2005, Utility Holdings issued senior unsecured notes with an aggregate principal amount of $150 million in two $75 million tranches. The first tranche was 10-year notes due December 2015, with an interest rate of 5.45 percent priced at 99.799 percent to yield 5.47 percent to maturity (2015 Notes). The second tranche was 30-year notes due December 2035 with an interest rate of 6.10 percent priced at 99.779 percent to yield 6.11 percent to maturity (2035 Notes).

The notes are guaranteed by Utility Holdings' three public utilities: SIGECO, Indiana Gas, and VEDO. These guarantees are full and unconditional and joint and several. The notes have no sinking fund requirements, and interest payments are due semi-annually. The notes may be called by Utility Holdings, in whole or in part, at any time for an amount equal to accrued and unpaid interest, plus the greater of 100 percent of the principal amount or the sum of the present values of the remaining scheduled payments of principal and interest, discounted to the redemption date on a semi-annual basis at the Treasury Rate, as defined in the indenture, plus 20 basis points for the 2015 Notes and 25 basis points for the 2035 Notes.

In January and June 2005, Utility Holdings entered into forward starting interest rate swaps with a notional value of $75 million. Upon issuance of the debt, the interest rate swaps were settled resulting in the receipt of approximately $1.9 million in cash, which was recorded as a *Regulatory liability* pursuant to existing regulatory orders. The value received is being amortized as a reduction of interest expense over the life of the issue maturing December 2035.

The net proceeds from the sale of the senior notes and settlement of related hedging arrangements approximated $150 million and were used to repay short-term borrowings and to retire approximately $50 million of long-term debt with higher interest rates.

Vectren Capital Corp. 2005 Debt Issuance
On October 11, 2005, Vectren and Vectren Capital, entered into a private placement Note Purchase Agreement (2005 Note Purchase Agreement) pursuant to which various institutional investors purchased the following tranches of notes from Vectren Capital: (i) $25 million 4.99 percent Guaranteed Senior Notes, Series A due 2010, (ii) $25 million 5.13 percent Guaranteed Senior Notes, Series B due 2012 and (iii) $75 million 5.31 percent Guaranteed Senior Notes, Series C due 2015. These Guaranteed Senior Notes are unconditionally guaranteed by Vectren. The proceeds from this financing were received on December 15, 2005. This Note Purchase Agreement contains customary representations, warranties and covenants, including a covenant to the effect that the ratio of consolidated total debt to consolidated total capitalization will not exceed 75 percent.

On October 11, 2005, Vectren and Vectren Capital entered into First Amendments with respect to a Note Purchase Agreement dated as of December 31, 2000 pursuant to which Vectren Capital issued to institutional investors the following tranches of notes: (i) $38 million 7.67 percent Senior Notes due 2005, (ii) $17.5 million 7.83 percent Senior Notes due 2007, (iii) $22.5 million 7.98 percent Senior Notes due 2010 and (iv) a Note Purchase Agreement, dated April 25, 1997, pursuant to which Vectren Capital issued to an institutional investor a $35 million 7.43 percent Senior Note due 2012. The First Amendments (i) conform the covenants to those contained in the 2005 Note Purchase Agreement, (ii) eliminate a credit ratings trigger which would have afforded noteholders the option to require prepayment if the ratings of Indiana Gas or SIGECO fell below a certain level, (iii) replace a more limited support agreement with an unconditional guarantee by Vectren and (iv) provide for a 100 basis point increase in interest rates if the ratio of consolidated total debt to total capitalization exceeds 65 percent.

Long-Term Debt Put & Call Provisions
Certain long-term debt issues contain put and call provisions that can be exercised on various dates before maturity. The put or call provisions are not triggered by specific events, but are based upon dates stated in the note agreements, such as when notes are remarketed. During 2007, 2006 and 2005, no debt was put to the Company. Debt that may be put to the Company within one year is classified as *Long-term debt subject to tender* in current liabilities.

Utility Holdings and Indiana Gas Debt Calls
In 2006, the Company called at par approximately $100 million of Utility Holdings senior unsecured notes originally due in 2031. In 2005, the Company called at par $49.9 million of Indiana Gas insured senior unsecured notes originally due in 2030. The notes called in 2006 and 2005 had stated interest rates of 7.25 percent and 7.45 percent, respectively.

Other Financing Transactions
At December 31, 2005, $53.7 million of SIGECO notes could be put to the Company in March of 2006, the date of their next remarketing. In March of 2006, the notes were successfully remarketed, and are now classified in *Long-*

term debt. Prior to the remarketing, the notes had tax-exempt interest rates ranging from 4.75 percent to 5.00 percent. After the remarketing, interest rates are reset every seven days using an auction process.

As part of the integration of Miller into the Company's consolidated financing model, $24 million of Miller's outstanding long-term debt was retired in the fourth quarter of 2006.

Other debt approximating $24 million in 2007 and $38 million in 2005 was retired as scheduled.

Investing Cash Flow

Cash flow required for investing activities was $303.0 million in 2007, $337.4 million in 2006, and $239.6 million in 2005. Capital expenditures are the primary component of investing activities and totaled $334.5 million in 2007, compared to $281.4 million in 2006 and $231.6 million in 2005. The years ended December 31, 2007 and 2006 include higher levels of expenditures for environmental compliance equipment, and 2007 was also impacted by increased spending for electric transmission, a new gas line serving a Honda plant under construction in the Vectren North service territory, and coal mine development.

Other investments in 2006 were principally impacted by the acquisition of Miller and advance coal mine royalty payments. Investing cash flow in 2007 includes the receipt of $44.9 million in proceeds from the sale of SIGECOM.

Available Sources of Liquidity

Short-term Borrowing Arrangements

At December 31, 2007, the Company has $780 million of short-term borrowing capacity, including $520 million for the Utility Group and $260 million for the wholly owned Nonutility Group and corporate operations, of which approximately $134 million is available for the Utility Group operations and approximately $89 million is available for the wholly owned Nonutility Group and corporate operations.

Common Stock Offering

In February 2007, the Company sold 4.6 million authorized but previously unissued shares of its common stock to a group of underwriters in an SEC-registered primary offering at a price of $28.33 per share. The transaction generated proceeds, net of underwriting discounts and commissions, of approximately $125.7 million. The Company executed an equity forward sale agreement (equity forward) in connection with the offering, and therefore, did not receive proceeds at the time of the equity offering. The equity forward allows the Company to price an offering under market conditions existing at that time, and to better match the receipt of the offering proceeds and the associated share dilution with the implementation of regulatory initiatives, providing a return on the new equity employed. The offering proceeds, when and if received, will be used to permanently finance primarily electric utility capital expenditures.

In connection with the equity forward, an affiliate of one of the underwriters (the forward seller), at the Company's request, borrowed an equal number of shares of the Company's common stock from institutional stock lenders and sold those borrowed shares to the public in the primary offering. The Company will receive an amount equal to the net proceeds from that sale, subject to certain adjustments defined in the equity forward, upon full share settlement of the equity forward. Those adjustments defined in the equity forward include 1) daily increases in the forward sale price based on a floating interest factor equal to the federal funds rate, less a 35 basis point fixed spread, and 2) structured quarterly decreases to the forward sale price that align with expected Company dividend payments.

The Company may elect to settle the equity forward in shares or in cash, except in specified circumstances or events where the counterparty to the equity forward could force a share settlement. Examples of such events include, but are not limited to, the Company making dividend payments greater than the structured quarterly decreases identified in the equity forward or the Company repurchasing a number of its outstanding common shares over a specified threshold. If the Company elects to settle in shares, the maximum number of shares deliverable by the Company is 4.6 million shares. If the Company elects to settle in cash, an affiliate of one of the underwriters (the forward purchaser) would purchase shares in the market and return those shares to the stock lenders. The

Company will either owe or be owed funds depending upon the Company's average share price during the "unwind period" defined in the equity forward in relation to the equity forward's contracted price. Generally, if the equity forward's contracted price is lower than the average share price during the "unwind period", then the Company would owe cash; and if the average share price during the "unwind period" is less than the equity forward's contracted price, the Company would receive cash. Proceeds received or paid when the equity forward is settled will be recorded in *Common Shareholders' Equity*, even if settled in cash. The equity forward must be settled prior to February 28, 2009.

The equity forward had an initial forward price of $27.34 per share, representing the public offering price of $28.33 per share, net of underwriting discounts and commissions. Management therefore estimated the contract had no initial fair value. If the equity forward had been settled by delivery of shares at December 31, 2007, the Company would have received approximately $126.4 million based on a forward price of $27.47 for the 4.6 million shares. If the Company had elected to settle the equity forward in cash at December 31, 2007, the Company estimates it would have paid approximately $3 million, assuming the price in the "unwind period" approximates the trailing three month average of Vectren's stock price. The federal funds rate was 4.50 percent at December 31, 2007. The Company currently anticipates settling the equity forward by delivering shares.

New Share Issues

The Company may periodically issue new common shares to satisfy the dividend reinvestment plan, stock option plan and other employee benefit plan requirements. New issuances added additional liquidity of $5.2 million in 2007.

Utility Holdings Debt Shelf Registration

Utility Holdings filed a shelf registration statement with the Securities and Exchange Commission for $300 million aggregate principal amount of unsecured senior notes in September 2007, which is anticipated to meet Utility Holdings' estimated debt financing requirements over the next 3 years. In October 2007 the SEC declared the registration statement to be effective. When issued, the unsecured notes will be guaranteed by Utility Holdings' three operating utility companies: SIGECO, Indiana Gas, and VEDO. These guarantees of Utility Holdings' debt will be full and unconditional and joint and several. In contemplation of a 2008 issuance, the Company executed forward starting interest rate swaps with a total notional amount of $80 million that expire in 2008.

Known & Potential Future Uses of Liquidity

Pension and Postretirement Funding Obligations

The Company believes making contributions to its qualified pension plans in the coming years will be necessary. Management currently estimates that the qualified pension plans will require minimum Company contributions of approximately $10 and $8 million in 2008 and 2009. During 2007, approximately $17 million in contributions were made.

Planned Capital Expenditures & Investments

Planned capital expenditures and investments in nonutility unconsolidated affiliates, including contractual purchase and investment commitments discussed below, for the five-year period 2008 - 2012 are estimated as follows:

(In millions)	2008	2009	2010	2011	2012
Utility Group	$ 312.7	$ 282.2	$ 295.9	$ 228.8	$ 207.7
Nonutility Group	122.2	55.0	36.3	34.7	35.2
Total capital expenditures & investments	$ 434.9	$ 337.2	$ 332.2	$ 263.5	$ 242.9

Contractual Obligations

The following is a summary of contractual obligations at December 31, 2007:

(In millions)	Total	2008	2009	2010	2011	2012	Thereafter
Long-term debt [1]	$ 1,248.7	$ -	$ -	$ 47.5	$ 250.0	$ 60.0	$ 891.2
Short-term debt	557.0	557.0	-	-	-	-	-
Long term debt interest commitments	406.5	75.1	75.1	75.0	70.7	53.7	56.9
Firm commodity purchase commitments	75.7	59.9	7.1	2.9	2.9	2.9	-
Plant purchase commitments [2]	40.6	36.6	4.0	-	-	-	-
Operating leases	15.1	5.6	4.0	3.0	1.2	0.6	0.7
Total [3]	$ 2,343.6	$734.2	$ 90.2	$ 128.4	$ 324.8	$117.2	$ 948.8

[1] Certain long-term debt issues contain put and call provisions that can be exercised on various dates before maturity. These provisions allow holders to put debt back to the Company at face value or the Company to call debt at face value or at a premium. Long-term debt subject to tender during the years following 2007 (in millions) is zero in 2008, $80.0 in 2009, $10.0 in 2010, $30.0 in 2011, zero in 2012 and thereafter.

[2] The settlement period of these utility & nonutility plant obligations is estimated.

[3] The Company has $6.2 million in unrecognized tax benefits for which the expected settlement date cannot be estimated.

The Company's regulated utilities have both firm and non-firm commitments to purchase natural gas and electricity as well as certain transportation and storage rights. Costs arising from these commitments, while significant, are pass-through costs, generally collected dollar-for-dollar from retail customers through regulator-approved cost recovery mechanisms. Because of the pass through nature of these costs and their insignificant impact to earnings, they have not been included in the listing of contractual obligations.

In February 2008, SIGECO began the process of providing notice to the current holders of approximately $103 million of tax exempt auction rate mode long term debt that the Company will convert that debt from its current auction rate mode into a daily interest rate mode during March 2008. The debt will be subject to mandatory tender for purchase on the conversion date at 100 percent of the principal amount plus accrued interest.

Off Balance Sheet Arrangements

Other Guarantees and Letters of Credit

In the normal course of business, Vectren issues guarantees to third parties on behalf of its unconsolidated affiliates. Such guarantees allow those affiliates to execute transactions on more favorable terms than the affiliate could obtain without such a guarantee. Guarantees may include posted letters of credit, leasing guarantees, and performance guarantees. As of December 31, 2007, guarantees issued and outstanding on behalf of unconsolidated affiliates approximated $3 million. The Company has accrued no liabilities for these guarantees as they relate to guarantees issued among related parties.

In 2006, the Company issued a guarantee with an approximate $5.0 million maximum risk related to the residual value of an operating lease that expires in 2011. As of December 31, 2007, Vectren Corporation has a liability representing the fair value of that guarantee of less than $0.1 million. Liabilities accrued for, and activity related to, product warranties are not significant. Through December 31, 2007, the Company has not been called upon to satisfy any obligations pursuant to its guarantees.

Ratings Triggers

None of Vectren's currently outstanding debt arrangements contain ratings triggers.

Forward-Looking Information

A "safe harbor" for forward-looking statements is provided by the Private Securities Litigation Reform Act of 1995 (Reform Act of 1995). The Reform Act of 1995 was adopted to encourage such forward-looking statements without the threat of litigation, provided those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause the actual results to differ materially from those projected in the statement. Certain matters described in Management's Discussion and Analysis of Results of Operations and Financial Condition are forward-looking statements. Such statements are based on management's beliefs, as well as assumptions made by and information currently available to management. When used in this filing, the words "believe", "anticipate", "endeavor", "estimate", "expect", "objective", "projection", "forecast", "goal" and similar expressions are intended to identify forward-looking statements. In addition to any assumptions and other factors referred to specifically in connection with such forward-looking statements, factors that could cause the Company's actual results to differ materially from those contemplated in any forward-looking statements include, among others, the following:

- *Factors affecting utility operations such as unusual weather conditions; catastrophic weather-related damage; unusual maintenance or repairs; unanticipated changes to fossil fuel costs; unanticipated changes to gas transportation and storage costs, or availability due to higher demand, shortages, transportation problems or other developments; environmental or pipeline incidents; transmission or distribution incidents; unanticipated changes to electric energy supply costs, or availability due to demand, shortages, transmission problems or other developments; or electric transmission or gas pipeline system constraints.*
- *Increased competition in the energy industry, including the effects of industry restructuring and unbundling.*
- *Regulatory factors such as unanticipated changes in rate-setting policies or procedures, recovery of investments and costs made under traditional regulation, and the frequency and timing of rate increases.*
- *Financial, regulatory or accounting principles or policies imposed by the Financial Accounting Standards Board; the Securities and Exchange Commission; the Federal Energy Regulatory Commission; state public utility commissions; state entities which regulate electric and natural gas transmission and distribution, natural gas gathering and processing, electric power supply; and similar entities with regulatory oversight.*
- *Economic conditions including the effects of an economic downturn, inflation rates, commodity prices, and monetary fluctuations.*
- *Increased natural gas commodity prices and the potential impact on customer consumption, uncollectible accounts expense, unaccounted for gas and interest expense.*
- *Changing market conditions and a variety of other factors associated with physical energy and financial trading activities including, but not limited to, price, basis, credit, liquidity, volatility, capacity, interest rate, and warranty risks.*
- *The performance of projects undertaken by the Company's nonutility businesses and the success of efforts to invest in and develop new opportunities, including but not limited to, the realization of synfuel income tax credits and the Company's coal mining, gas marketing, and energy infrastructure strategies.*
- *Direct or indirect effects on the Company's business, financial condition, liquidity and results of operations resulting from changes in credit ratings, changes in interest rates, and/or changes in market perceptions of the utility industry and other energy-related industries.*
- *Employee or contractor workforce factors including changes in key executives, collective bargaining agreements with union employees, aging workforce issues, or work stoppages.*
- *Legal and regulatory delays and other obstacles associated with mergers, acquisitions and investments in joint ventures.*
- *Costs, fines, penalties and other effects of legal and administrative proceedings, settlements, investigations, claims, including, but not limited to, such matters involving compliance with state and federal laws and interpretations of these laws.*
- *Changes in federal, state or local legislative requirements, such as changes in tax laws or rates, environmental laws, including laws governing greenhouse gases, mandates of sources of renewable energy, and other regulations.*

The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of changes in actual results, changes in assumptions, or other factors affecting such statements.

ITEM 7A. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to various business risks associated with commodity prices, interest rates, and counter-party credit. These financial exposures are monitored and managed by the Company as an integral part of its overall risk management program. The Company's risk management program includes, among other things, the use of derivatives. The Company may also execute derivative contracts in the normal course of operations while buying and selling commodities to be used in operations and optimizing its generation assets.

The Company has in place a risk management committee that consists of senior management as well as financial and operational management. The committee is actively involved in identifying risks as well as reviewing and authorizing risk mitigation strategies.

Commodity Price Risk

Regulated Operations

The Company's regulated operations have limited exposure to commodity price risk for transactions involving purchases and sales of natural gas and electricity for the benefit of retail customers due to current Indiana and Ohio regulations, which subject to compliance with those regulations, allow for recovery of the cost of such purchases through natural gas and fuel cost adjustment mechanisms. Constructive regulatory orders, such as that authorizing lost margin recovery and recovery of unaccounted for gas and other gas related expenses, also mitigate the effect volatile gas costs may have on the Company's financial condition.

Although Vectren's regulated operations are exposed to limited commodity price risk, volatile natural gas prices have other effects such as higher working capital requirements, higher interest costs, and some level of price-sensitivity in volumes sold or delivered. The Company will manage these risks by executing derivative contracts that hedge the price of forecasted natural gas purchases. These contracts are subject to regulation which allows for reasonable and prudent hedging costs to be recovered through rates. Therefore, SFAS 71 controls when the offset to mark-to-market accounting is recognized in earnings.

Wholesale Power Marketing

The Company's wholesale power marketing activities include asset optimization strategies that manage the utilization of available electric generating capacity. These optimization strategies involve the sale of excess generation into the MISO Day Ahead and Real-time markets. As part of these strategies, the Company may also execute energy contracts that commit the Company to purchase and sell electricity in the future. Commodity price risk results from forward positions that commit the Company to deliver electricity. The Company mitigates price risk exposure with planned unutilized generation capability and offsetting forward purchase contracts. The Company accounts for asset optimization contracts that are derivatives at fair value with the offset marked to market through earnings. No market sensitive derivative positions were outstanding on December 31, 2007 and 2006.

Other Operations

Other commodity-related operations are exposed to commodity price risk associated with fluctuating commodity prices including electricity, natural gas, and coal. Other commodity-related operations include regulated sales of electricity to certain municipalities, nonutility retail gas marketing, and coal mining operations. Open positions in terms of price, volume, and specified delivery points may occur and are managed using methods described below with frequent management reporting.

The Company purchases and sells commodities, including electricity, natural gas, and coal to meet customer demands and operational needs. The Company executes forward contracts and occasionally option contracts that commit the Company to purchase and sell commodities in the future. Price risk from forward positions obligating the Company to deliver commodities is mitigated using stored inventory, generating capability, and offsetting forward purchase contracts. Price risk also results from forward contracts obligating the Company to purchase commodities to fulfill forecasted nonregulated sales of natural gas and coal that may or may not occur. With the exception of a small portion of contracts that are derivatives that qualify as hedges of forecasted transactions under SFAS 133, these contracts are expected to be settled by physical receipt or delivery of the commodity.

Unconsolidated Affiliate

ProLiance, a nonregulated energy marketing affiliate, engages in energy hedging activities to manage pricing decisions, minimize the risk of price volatility, and minimize price risk exposure in the energy markets. ProLiance's market exposure arises from storage inventory, imbalances, and fixed-price forward purchase and sale contracts, which are entered into to support its operating activities. Currently, ProLiance buys and sells physical commodities and utilizes financial instruments to hedge its market exposure. However, net open positions in terms of price, volume and specified delivery point do occur. ProLiance manages open positions with policies which limit its exposure to market risk and require reporting potential financial exposure to its management and its members.

Interest Rate Risk

The Company is exposed to interest rate risk associated with its borrowing arrangements. Its risk management program seeks to reduce the potentially adverse effects that market volatility may have on interest expense. The Company manages this risk by allowing an annual average of 20 percent and 30 percent of its total debt to be exposed to variable rate volatility. However, this targeted range may be exceeded during the seasonal increases in short-term borrowing. To manage this exposure, the Company may use derivative financial instruments.

Market risk is estimated as the potential impact resulting from fluctuations in interest rates on adjustable rate borrowing arrangements exposed to short-term interest rate volatility. During 2007 and 2006, the weighted average combined borrowings under these arrangements approximated $495 million and $342 million, respectively. At December 31, 2007 and 2006, combined borrowings under these arrangements were $660.1 million and $550.9 million, respectively. Based upon average borrowing rates under these facilities during the years ended December 31, 2007 and 2006, an increase of 100 basis points (one percentage point) in the rates would have increased interest expense by $4.9 million and $3.4 million, respectively.

At December 31, 2007, SIGECO has approximately $103 million of tax-exempt adjustable rate long-term debt where the interest rates on this debt are reset every seven days through an auction process. Throughout 2007, the weighted average interest rate associated with this debt was 4.15 percent. If these auctions were to fail, interest rates would reset to the maximum rates permitted under the various debt indentures of 10 percent to 15 percent for the following week. On a weekly basis, interest expense using these maximum rates would be approximately $200,000 higher than the average weekly interest expense based on rates experienced during 2007. No SIGECO auctions failed during 2007 nor have they during the period since Vectren was formed in 2000.

However, in February 2008, significant disruptions occurred in the overall auction rate debt markets. As a result, many auctions of tax exempt debt, including some of those involving SIGECO's auction rate debt, failed as a result of insufficient order interest from potential investors. These failures are largely attributable to a lack of liquidity in the market place arising from downgrades in, and negative watches regarding, credit ratings of monoline insurers that guarantee the timely repayment of bond principal and interest if an issuer defaults as well as from disruptions in the overall financial markets. Monoline insurer Ambac Assurance Corporation insures the Company's auction rate long-term debt. As a result of these failed auctions, the Company has experienced, and may continue to experience, increased interest costs.

Subject to applicable notice provisions, SIGECO may, at its option, redeem this auction rate debt at par value plus the accrued and unpaid interest or elect to utilize other interest rate modes available to it as defined in the various debt indentures. SIGECO is in the process of providing notice to current holders of this debt that it will be converted from the auction rate mode into a daily interest rate mode during March 2008 and the debt will be subject to mandatory tender for purchase on the conversion date at 100 percent of the principal amount plus accrued interest. Following conversion to the daily mode, SIGECO maintains its options to again convert the debt to other interest rate modes and remarket it to investors or redeem the debt and reissue new debt, including the possibility of replacing it with taxable debt from Utility Holdings.

Other Risks

By using forward purchase contracts and derivative financial instruments to manage risk, the Company, as well as ProLiance, exposes itself to counter-party credit risk and market risk. The Company manages exposure to counter-party credit risk by entering into contracts with companies that can be reasonably expected to fully perform under

the terms of the contract. Counter-party credit risk is monitored regularly and positions are adjusted appropriately to manage risk. Further, tools such as netting arrangements and requests for collateral are also used to manage credit risk. Market risk is the adverse effect on the value of a financial instrument that results from a change in commodity prices or interest rates. The Company attempts to manage exposure to market risk associated with commodity contracts and interest rates by establishing parameters and monitoring those parameters that limit the types and degree of market risk that may be undertaken.

The Company's customer receivables from gas and electric sales and gas transportation services are primarily derived from a diversified base of residential, commercial, and industrial customers located in Indiana and west central Ohio. The Company manages credit risk associated with its receivables by continually reviewing creditworthiness and requests cash deposits or refunds cash deposits based on that review. Credit risk associated with certain investments is also managed by a review of creditworthiness and receipt of collateral. In addition, credit risk is mitigated by regulatory orders that allow recovery of all bad debt expense in Ohio and the gas cost portion of bad debt expense in Indiana.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Vectren Corporation's management is responsible for establishing and maintaining adequate internal controls over financial reporting. Those control procedures underlie the preparation of the consolidated balance sheets, statements of income, cash flows, and common shareholders' equity, and related footnotes contained herein.

These consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States and follow accounting policies and principles applicable to regulated public utilities. The integrity and objectivity of these consolidated financial statements, including required estimates and judgments, is the responsibility of management.

These consolidated financial statements are also subject to an evaluation of internal control over financial reporting conducted under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer. Based on that evaluation, conducted under the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, the Company concluded that its internal control over financial reporting was effective as of December 31, 2007. Management certified this fact in its Sarbanes Oxley Section 302 certifications, which are attached as exhibits to this 2007 Form 10-K.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Vectren Corporation:

We have audited the accompanying consolidated balance sheets of Vectren Corporation and subsidiaries (the "Company") as of December 31, 2007 and 2006, and the related consolidated statements of income, common shareholders' equity and cash flows for each of the three years in the period ended December 31, 2007. Our audits also included the financial statement schedule included in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Vectren Corporation and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 7 to the consolidated financial statements, in 2006 the Company adopted the provisions of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106 and 132(R).*

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2007, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 19, 2008 expressed an unqualified opinion on the Company's internal control over financial reporting.

DELOITTE & TOUCHE LLP
Indianapolis, Indiana
February 19, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Vectren Corporation:

We have audited the internal control over financial reporting of Vectren Corporation and subsidiaries (the "Company") as of December 31, 2007, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2007 of the Company and our report dated February 19, 2008 expressed an unqualified opinion on those financial statements and financial statement schedule and included an explanatory paragraph regarding their 2006 change in method of accounting for defined benefit pension and other postretirement plans.

DELOITTE & TOUCHE LLP
Indianapolis, Indiana
February 19, 2008

VECTREN CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
(In millions)

	At December 31,	
	2007	2006
ASSETS		
Current Assets		
Cash & cash equivalents	$ 20.6	$ 32.8
Accounts receivable - less reserves of $3.7 & $3.3, respectively	189.4	198.6
Accrued unbilled revenues	168.2	146.5
Inventories	160.9	163.5
Recoverable fuel & natural gas costs	-	1.8
Prepayments & other current assets	160.5	172.7
Total current assets	**699.6**	**715.9**
Utility Plant		
Original cost	4,062.9	3,820.2
Less: accumulated depreciation & amortization	1,523.2	1,434.7
Net utility plant	**2,539.7**	**2,385.5**
Investments in unconsolidated affiliates	208.8	181.0
Other investments	77.0	74.5
Nonutility property - net	320.3	294.4
Goodwill - net	238.0	237.8
Regulatory assets	175.3	163.5
Other assets	37.7	39.0
TOTAL ASSETS	**$ 4,296.4**	**$ 4,091.6**

The accompanying notes are an integral part of these consolidated financial statements.

VECTREN CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
(In millions)

	At December 31,	
	2007	2006
LIABILITIES & SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 187.4	$ 180.0
Accounts payable to affiliated companies	83.7	89.9
Refundable fuel & natural gas costs	27.2	35.3
Accrued liabilities	171.8	147.2
Short-term borrowings	557.0	464.8
Current maturities of long-term debt	0.3	24.2
Long-term debt subject to tender	-	20.0
Total current liabilities	**1,027.4**	**961.4**
Long-term Debt - Net of Current Maturities & Debt Subject to Tender	1,245.4	1,208.0
Deferred Income Taxes & Other Liabilities		
Deferred income taxes	318.1	260.7
Regulatory liabilities	307.2	291.1
Deferred credits & other liabilities	164.2	195.8
Total deferred credits & other liabilities	**789.5**	**747.6**
Minority Interest in Subsidiary	0.4	0.4
Commitments & Contingencies (Notes 3, 12-14)		
Common Shareholders' Equity		
Common stock (no par value) – issued & outstanding 76.3 and 76.1, respectively	532.7	525.5
Retained earnings	688.5	643.6
Accumulated other comprehensive income	12.5	5.1
Total common shareholders' equity	**1,233.7**	**1,174.2**
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	**$ 4,296.4**	**$ 4,091.6**

The accompanying notes are an integral part of these consolidated financial statements.

VECTREN CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF INCOME
(In millions, except per share amounts)

	Year Ended December 31,		
	2007	2006	2005
OPERATING REVENUES			
Gas utility	$ 1,269.4	$ 1,232.5	$ 1,359.7
Electric utility	487.9	422.2	421.4
Nonutility revenues	524.6	386.9	246.9
Total operating revenues	**2,281.9**	**2,041.6**	**2,028.0**
OPERATING EXPENSES			
Cost of gas sold	847.2	841.5	973.3
Cost of fuel & purchased power	174.8	151.5	144.1
Cost of nonutility revenues	287.7	248.7	191.0
Other operating	456.9	341.8	282.2
Depreciation & amortization	184.8	172.3	158.2
Taxes other than income taxes	70.0	65.3	66.1
Total operating expenses	2,021.4	1,821.1	1,814.9
OPERATING INCOME	**260.5**	**220.5**	**213.1**
OTHER INCOME			
Equity in earnings of unconsolidated affiliates	22.9	17.0	45.6
Other – net	36.8	(2.7)	6.2
Total other income	59.7	14.3	51.8
Interest expense	101.0	95.6	83.9
INCOME BEFORE INCOME TAXES	**219.2**	**139.2**	**181.0**
Income taxes	76.0	30.3	44.1
Minority interest	0.1	0.1	0.1
NET INCOME	**$ 143.1**	**$ 108.8**	**$ 136.8**
AVERAGE COMMON SHARES OUTSTANDING	75.9	75.7	75.6
DILUTED COMMON SHARES OUTSTANDING	76.6	76.2	76.1
EARNINGS PER SHARE OF COMMON STOCK:			
BASIC	**$ 1.89**	**$ 1.44**	**$ 1.81**
DILUTED	**$ 1.87**	**$ 1.43**	**$ 1.80**

The accompanying notes are an integral part of these consolidated financial statements.

VECTREN CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Year Ended December 31,		
	2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 143.1	$ 108.8	$ 136.8
Adjustments to reconcile net income to cash from operating activities:			
Depreciation & amortization	184.8	172.3	158.2
Deferred income taxes & investment tax credits	27.0	1.4	(8.6)
Equity in earnings of unconsolidated affiliates	(22.9)	(17.0)	(45.6)
Provision for uncollectible accounts	16.6	15.3	15.1
Expense portion of pension & postretirement benefit cost	9.8	10.7	10.7
Other non-cash charges - net	4.8	11.4	1.9
Changes in working capital accounts:			
Accounts receivable & accrued unbilled revenue	(29.1)	108.9	(102.9)
Inventories	2.6	(17.6)	(71.9)
Recoverable/refundable fuel & natural gas costs	(6.3)	41.3	3.5
Prepayments & other current assets	(3.7)	(21.2)	36.1
Accounts payable, including to affiliated companies	4.9	(71.6)	101.2
Accrued liabilities	4.6	(23.2)	27.4
Unconsolidated affiliate dividends	20.8	35.8	18.8
Changes in noncurrent assets	(21.4)	(25.8)	(6.9)
Changes in noncurrent liabilities	(37.5)	(19.3)	(5.4)
Net cash flows from operating activities	**298.1**	**310.2**	**268.4**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Long-term debt - net of issuance costs	16.4	92.8	274.2
Stock option exercises & other stock plans	5.2	-	-
Requirements for:			
Dividends on common stock	(96.4)	(93.1)	(90.5)
Retirement of long-term debt	(23.9)	(124.4)	(88.5)
Redemption of preferred stock of subsidiary	-	-	(0.1)
Net change in short-term borrowings	92.2	164.9	(112.5)
Other activity	(0.8)	(0.6)	(0.6)
Net cash flows from financing activities	**(7.3)**	**39.6**	**(18.0)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from:			
Unconsolidated affiliate distributions	12.7	2.0	6.9
Other collections	38.0	3.4	4.3
Requirements for:			
Capital expenditures, excluding AFUDC equity	(334.5)	(281.4)	(231.6)
Unconsolidated affiliate investments	(17.5)	(16.7)	(19.2)
Other investments	(1.7)	(44.7)	-
Net cash flows from investing activities	**(303.0)**	**(337.4)**	**(239.6)**
Net change in cash & cash equivalents	(12.2)	12.4	10.8
Cash & cash equivalents at beginning of period	32.8	20.4	9.6
Cash & cash equivalents at end of period	$ 20.6	$ 32.8	$ 20.4
Cash paid during the year for:			
Interest	$ 97.3	$ 92.9	$ 79.6
Income taxes	43.7	36.3	48.1

The accompanying notes are an integral part of these consolidated financial statements.

VECTREN CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDERS' EQUITY
(In millions, except per share amounts)

	Common Stock			Accumulated Other	
	Shares	Amount	Retained Earnings	Comprehensive Income (Loss)	Total
Balance at January 1, 2005	75.9	$ 526.8	$ 583.0	$ (15.0)	$ 1,094.8
Comprehensive income:					
Net income			136.8		136.8
Minimum pension liability adjustments & other - net of $0.1 million in tax				0.2	0.2
Cash flow hedges					
unrealized gains(losses) - net of $2.9 million in tax				4.2	4.2
reclassifications to net income- net of $0.2 million in tax				(0.2)	(0.2)
Comprehensive income of unconsolidated affiliates - net of $1.8 million in tax				(2.8)	(2.8)
Total comprehensive income					138.2
Common stock:					
Dividends ($1.19 per share)			(90.5)		(90.5)
Other	0.1	1.3	(0.5)		0.8
Balance at December 31, 2005	**76.0**	**528.1**	**628.8**	**(13.6)**	**1,143.3**
Comprehensive income:					
Net income			108.8		108.8
Minimum pension liability adjustments & other - net of $5.4 million in tax				7.9	7.9
Cash flow hedge					
unrealized gains(losses) - net of $1.7 million in tax				(2.6)	(2.6)
reclassifications to net income- net of $0.7 million in tax				(1.0)	(1.0)
Comprehensive income of unconsolidated affiliates - net of $4.3 million in tax				6.4	6.4
Total comprehensive income					119.5
Adoption of SFAS 158 - net of $5.2 million in tax				8.0	8.0
Common stock:					
Dividends ($1.23 per share)			(93.1)		(93.1)
Adoption of SFAS 123R		(4.1)			(4.1)
Other	0.1	1.5	(0.9)		0.6
Balance at December 31, 2006	**76.1**	**525.5**	**643.6**	**5.1**	**1,174.2**
Comprehensive income:					
Net income			143.1		143.1
SFAS 158 funded status adjustment - net of $0.5 million in tax				0.7	0.7
Cash flow hedges					
unrealized gains(losses) - net of $0.3 million in tax				0.9	0.9
reclassifications to net income- net of $0.3 million in tax				(1.0)	(1.0)
Comprehensive income of unconsolidated affiliates - net of $4.2 in tax				6.8	6.8
Total comprehensive income					150.5
Adoption of FIN 48			(0.1)		(0.1)
Common stock:					
Stock option exercises & other stock plans	0.2	5.2			5.2
Dividends ($1.27 per share)			(96.4)		(96.4)
Other		2.0	(1.8)		0.2
Balance at December 31, 2007	**76.3**	**$ 532.7**	**$ 688.5**	**$ 12.5**	**$ 1,233.7**

The accompanying notes are an integral part of these consolidated financial statements.

VECTREN CORPORATION AND SUBSIDIARY COMPANIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Nature of Operations

Vectren Corporation (the Company or Vectren), an Indiana corporation, is an energy holding company headquartered in Evansville, Indiana. The Company's wholly owned subsidiary, Vectren Utility Holdings, Inc. (Utility Holdings), serves as the intermediate holding company for three operating public utilities: Indiana Gas Company, Inc. (Indiana Gas or Vectren North), Southern Indiana Gas and Electric Company (SIGECO or Vectren South), and the Ohio operations (VEDO or Vectren Ohio). Utility Holdings also has other assets that provide information technology and other services to the three utilities. Utility Holdings' consolidated operations are collectively referred to as the Utility Group. Both Vectren and Utility Holdings are holding companies as defined by the Energy Policy Act of 2005 (Energy Act). Vectren was incorporated under the laws of Indiana on June 10, 1999.

Indiana Gas provides energy delivery services to over 568,000 natural gas customers located in central and southern Indiana. SIGECO provides energy delivery services to over 141,000 electric customers and approximately 112,000 gas customers located near Evansville in southwestern Indiana. SIGECO also owns and operates electric generation to serve its electric customers and optimizes those assets in the wholesale power market. Indiana Gas and SIGECO generally do business as Vectren Energy Delivery of Indiana. The Ohio operations provide energy delivery services to approximately 318,000 natural gas customers located near Dayton in west central Ohio. The Ohio operations are owned as a tenancy in common by Vectren Energy Delivery of Ohio, Inc. (VEDO), a wholly owned subsidiary of Utility Holdings (53 percent ownership), and Indiana Gas (47 percent ownership). The Ohio operations generally do business as Vectren Energy Delivery of Ohio.

The Company, through Vectren Enterprises, Inc. (Enterprises), is involved in nonutility activities in three primary business areas: Energy Marketing and Services, Coal Mining and Energy Infrastructure Services. Energy Marketing and Services markets and supplies natural gas and provides energy management services. Coal Mining mines and sells coal. Energy Infrastructure Services provides underground construction and repair services and performance contracting and renewable energy services. Enterprises also has other businesses that invest in energy-related opportunities and services, real estate, and leveraged leases, among other investments. In addition, the Company has in the past invested in projects that generated synfuel tax credits and processing fees relating to the production of coal-based synthetic fuels. These operations are collectively referred to as the Nonutility Group. Enterprises supports the Company's regulated utilities pursuant to service contracts by providing natural gas supply services, coal, infrastructure services, and other services.

2. Summary of Significant Accounting Policies

A. Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned and majority owned subsidiaries, after elimination of significant intercompany transactions.

The Company has investments in partnership-like structures that are variable interest entities as defined by FASB Interpretation 46(R), "Consolidation of Variable Interest Entities" as a limited partner or as a subordinated lender. These entities are involved in activities surrounding multifamily housing and office properties. The Company's exposure to loss is limited to its investment which as of December 31, 2007, and 2006, totaled $11.4 million and $13.4 million, respectively, recorded in *Investments in unconsolidated affiliates*, and $11.5 million in both years recorded in *Other investments*. The Company is also the equity owner in three leveraged leases, which as of December 31, 2007, and 2006, totaled $11.0 million and $10.2 million, respectively. The Company does not consolidate any of these entities.

B. Cash & Cash Equivalents

All highly liquid investments with an original maturity of three months or less at the date of purchase are considered cash equivalents.

C. Inventories

Inventories consist of the following:

	At December 31,	
(In millions)	2007	2006
Gas in storage – at average cost	$ 76.8	$ 73.0
Materials & supplies	33.0	29.5
Fuel (coal & oil) for electric generation	30.6	31.2
Gas in storage – at LIFO cost	16.7	26.5
Other	3.8	3.3
Total inventories	**$ 160.9**	**$ 163.5**

Based on the average cost of gas purchased during December, the cost of replacing gas in storage carried at LIFO cost exceeded LIFO cost at December 31, 2007, and 2006, by approximately $73.0 million and $79.0 million, respectively. Gas in storage of the Indiana regulated operations is stated at LIFO. All other inventories are carried at average cost.

D. Utility Plant & Depreciation

Utility plant is stated at historical cost, including AFUDC. Depreciation rates are established through regulatory proceedings and are applied to all in-service utility plant. The original cost of utility plant, together with depreciation rates expressed as a percentage of original cost, follows:

	At December 31,			
(In millions)	2007		2006	
	Original Cost	Depreciation Rates as a Percent of Original Cost	Original Cost	Depreciation Rates as a Percent of Original Cost
Gas utility plant	$ 2,077.5	3.6%	$ 1,956.1	3.6%
Electric utility plant	1,815.8	3.3%	1,685.5	3.4%
Common utility plant	45.5	2.8%	45.2	3.0%
Construction work in progress	124.1	-	133.4	-
Total original cost	**$ 4,062.9**		**$ 3,820.2**	

AFUDC represents the cost of borrowed and equity funds which are used for construction purposes, and charged to construction work in progress during the construction period. AFUDC is included in *Other - net* in the Consolidated Statements of Income. The total AFUDC capitalized into utility plant and the portion of which was computed on borrowed and equity funds for all periods reported follows:

	Year Ended December 31,		
(In millions)	2007	2006	2005
AFUDC – borrowed funds	$ 3.5	$ 2.6	$ 1.6
AFUDC – equity funds	0.5	1.5	0.3
Total AFUDC	**$ 4.0**	**$ 4.1**	**$ 1.9**

Maintenance and repairs, including the cost of removal of minor items of property and planned major maintenance projects, are charged to expense as incurred. When property that represents a retirement unit is replaced or removed, the remaining historical value of such property is charged to *Utility plant*, with an offsetting charge to *Accumulated depreciation*. Costs to dismantle and remove retired property are recovered through the depreciation rates identified above.

Jointly Owned Plant

SIGECO and Alcoa Generating Corporation (AGC), a subsidiary of ALCOA, own the 300 MW Unit 4 at the

Warrick Power Plant as tenants in common. SIGECO's share of the cost of this unit at December 31, 2007 is $63.5 million with accumulated depreciation totaling $46.6 million. The construction work-in-progress balance associated with SIGECO's ownership interest totaled $56.4 million at December 31, 2007. AGC and SIGECO also share equally in the cost of operation and output of the unit. SIGECO's share of operating costs is included in *Other operating expenses* in the Consolidated Statements of Income.

E. Nonutility Property

Nonutility property, net of accumulated depreciation and amortization follows:

	At December 31,	
(In millions)	2007	2006
Computer hardware & software	$ 117.0	$ 107.7
Land & buildings	76.2	73.4
Coal mine development costs & equipment	71.3	59.7
Vehicles & equipment	35.0	33.0
All other	20.8	20.6
Nonutility property - net	**$ 320.3**	**$ 294.4**

The depreciation of nonutility property is charged against income over its estimated useful life (ranging from 3.5 to 40 years), using the straight-line method of depreciation or units-of-production method of amortization. Repairs and maintenance, which are not considered improvements and do not extend the useful life of the nonutility property, are charged to expense as incurred. When nonutility property is retired, or otherwise disposed of, the asset and accumulated depreciation are removed, and the resulting gain or loss is reflected in income. Nonutility property is presented net of accumulated depreciation and amortization totaling $258.7 million and $217.0 million as of December 31, 2007, and 2006, respectively. For the years ended December 31, 2007, 2006, and 2005, the Company capitalized interest totaling $2.3 million, $1.2 million, and $0.4 million, respectively, on nonutility plant construction projects.

F. Goodwill

Goodwill arising from business combinations is accounted for in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). SFAS 142 requires a portion of goodwill be charged to expense only when it is impaired. The Company tests its goodwill for impairment at a reporting unit level at least annually and that test is performed at the beginning of each year. Impairment reviews consist of a comparison of the fair value of a reporting unit to its carrying amount. If the fair value of a reporting unit is less than its carrying amount, an impairment loss is recognized in operations. Through December 31, 2007, no goodwill impairments have been recorded. Approximately $205.0 million of the Company's goodwill is included in the Gas Utility Services operating segment. The remaining $33.0 million is attributable to the Nonutility Group.

G. Intangible Assets

Intangible assets consist of the following:

(In millions)	At December 31,			
	2007		2006	
	Amortizing	Non-amortizing	Amortizing	Non-amortizing
Customer-related assets	$ 8.9	$ -	$ 9.6	$ -
Market-related assets	0.1	7.0	0.1	7.0
Intangible assets, net	**$ 9.0**	**$ 7.0**	**$ 9.7**	**$ 7.0**

For amortizing intangible assets, the weighted average remaining life for customer-related assets is 24.3 years and for market-related assets is 2.5 years. The total weighted average life is 23.8 years. These amortizing intangible assets have no significant residual values. Intangible assets are presented net of accumulated amortization totaling $2.0 million for customer-related assets and $0.2 million for market-related assets at December 31, 2007 and $0.2 million for customer-related assets and $0.2 million for market-related assets at December 31, 2006. In 2007, 2006 and 2005, amortization associated with intangible assets was $0.7 million, $0.5 million and $0.5 million,

respectively, and should approximate that amount in each of the next five years. Intangible assets are primarily in the Nonutility Group.

The Company also has emission allowances relating to its wholesale power marketing operations totaling $2.6 million and $4.2 million at December 31, 2007 and 2006, respectively. The value of the emission allowances are recognized as they are consumed or sold on the open market.

H. Regulation

Retail public utility operations affecting Indiana customers are subject to regulation by the IURC, and retail public utility operations affecting Ohio customers are subject to regulation by the PUCO. The Company's accounting policies give recognition to the rate-making and accounting practices of these agencies and to accounting principles generally accepted in the United States, including the provisions of SFAS No. 71 "Accounting for the Effects of Certain Types of Regulation" (SFAS 71).

Regulatory Assets and Liabilities

Regulatory assets represent probable future revenues associated with certain incurred costs, which will be recovered from customers through the ratemaking process. Regulatory liabilities represent probable expenditures by the Company for removal costs or future reductions in revenues associated with amounts that are to be credited to customers through the ratemaking process. The Company assesses the recoverability of costs recognized as regulatory assets and liabilities and the ability to continue to account for its activities based on the criteria set forth in SFAS 71. Based on current regulation, the Company believes such accounting is appropriate. If all or part of the Company's operations cease to meet the criteria of SFAS 71, a write-off of related regulatory assets and liabilities could be required. In addition, the Company would be required to determine any impairment to the carrying value of its utility plant and other regulated assets.

Regulatory Assets consist of the following:

	At December 31,	
(In millions)	2007	2006
Future amounts recoverable from ratepayers related to:		
Benefit obligations	$ 23.6	$ 46.7
Income taxes	14.0	13.3
Interest rate derivatives	8.9	-
Asset retirement obligations & other	10.9	1.9
	57.4	61.9
Amounts deferred for future recovery related to:		
Demand side management programs	-	27.7
MISO-related costs	-	17.1
Cost recovery riders & other	1.9	4.7
	1.9	49.5
Amounts currently recovered in customer rates related to:		
Demand side management programs	27.6	1.5
Unamortized debt issue costs & hedging proceeds	25.0	26.4
Indiana authorized trackers	21.5	6.1
MISO-related costs	20.8	-
Ohio authorized trackers	10.4	10.4
Premiums paid to reacquire debt & other	10.7	7.7
	116.0	52.1
Total regulatory assets	**$ 175.3**	**$ 163.5**

Of the $116.0 million currently being recovered in customer rates charged to customers, $27.6 million is earning a return. The weighted average recovery period of regulatory assets currently being recovered is 8 years. The Company has rate orders for all deferred costs not yet in rates and therefore believes that future recovery is probable.

Regulatory Liabilities
At December 31, 2007 and 2006, the Company has approximately $307.2 million and $291.1 million, respectively, in regulatory liabilities. Of these amounts, $288.3 million and $270.6 million relate to cost of removal obligations.

The Company collects an estimated cost of removal of its utility plant through depreciation rates established in regulatory proceedings. The Company records amounts expensed in advance of payments as a *Regulatory liability* because the liability does not meet the threshold of an asset retirement obligation as defined by SFAS No. 143, "Accounting for Asset Retirement Obligations" and its related interpretations (SFAS 143).

Refundable or Recoverable Gas Costs and Cost of Fuel & Purchased Power
All metered gas rates contain a gas cost adjustment clause that allows the Company to charge for changes in the cost of purchased gas. Metered electric rates contain a fuel adjustment clause that allows for adjustment in charges for electric energy to reflect changes in the cost of fuel. The net energy cost of purchased power, subject to an agreed upon benchmark, is also recovered through regulatory proceedings. The Company records any under-or-over-recovery resulting from gas and fuel adjustment clauses each month in revenues. A corresponding asset or liability is recorded until the under or over-recovery is billed or refunded to utility customers. The cost of gas sold is charged to operating expense as delivered to customers, and the cost of fuel for electric generation is charged to operating expense when consumed.

I. Asset Retirement Obligations
A portion of removal costs related to interim retirements of gas utility pipeline and utility poles, certain asbestos-related issues, and reclamation activities meet the definition of an asset retirement obligation (ARO). SFAS 143 requires entities to record the fair value of a liability for a legal ARO in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. The liability is accreted, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss. To the extent regulation is involved, such gain or loss may be deferred.

ARO's included in *Other liabilities* total $18.8 million and $20.8 million at December 31, 2007 and 2006, respectively. At December 31, 2007, a $9.5 million ARO is included in *Accrued liabilities*. During 2007, the Company recorded accretion of $1.2 million and increases in estimates of $6.3 million. During 2006, the Company recorded accretion of $1.2 million and reductions in estimates of totaling $1.2 million.

J. Impairment Review of Long-Lived Assets
Long-lived assets are reviewed as facts and circumstances indicate that the carrying amount may be impaired. This review is performed in accordance with SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144). SFAS 144 establishes one accounting model for all impaired long-lived assets and long-lived assets to be disposed of by sale or otherwise. SFAS 144 requires that the evaluation for impairment involve the comparison of an asset's carrying value to the estimated future cash flows that the asset is expected to generate over its remaining life. If this evaluation were to conclude that the carrying value of the asset is impaired, an impairment charge would be recorded based on the difference between the asset's carrying amount and its fair value (less costs to sell for assets to be disposed of by sale) as a charge to operations or discontinued operations.

K. Comprehensive Income
Comprehensive income is a measure of all changes in equity that result from the non-shareholder transactions. This information is reported in the Consolidated Statements of Common Shareholders' Equity. A summary of the

components of and changes in *Accumulated other comprehensive income* for the past three years follows:

	2005			2006		2007	
(In millions)	Beginning of Year Balance	Changes During Year	End of Year Balance	Changes During Year	End of Year Balance	Changes During Year	End of Year Balance
Unconsolidated affiliates	$ 4.1	$ (4.6)	$ (0.5)	$ 10.7	$ 10.2	$ 11.0	$ 21.2
Pension & other benefit costs	(29.3)	0.3	(29.0)	26.5	(2.5)	1.2	(1.3)
Cash flow hedges	-	6.7	6.7	(6.0)	0.7	(0.1)	0.6
Deferred income taxes	10.2	(1.0)	9.2	(12.5)	(3.3)	(4.7)	(8.0)
Accumulated other comprehensive income (loss)	**$ (15.0)**	**$ 1.4**	**$ (13.6)**	**$ 18.7**	**$ 5.1**	**$ 7.4**	**$ 12.5**

Accumulated other comprehensive income arising from unconsolidated affiliates is primarily the Company's portion of ProLiance Holdings, LLC's accumulated comprehensive income related to use of cash flow hedges, including commodity contracts, and the Company's portion of Haddington Energy Partners, LP's accumulated comprehensive income related to unrealized gains and losses on marketable securities. (See Note 3 for more information on unconsolidated affiliates.)

L. Revenues

Revenues are recorded as products and services are delivered to customers. To more closely match revenues and expenses, the Company records revenues for all gas and electricity delivered to customers but not billed at the end of the accounting period.

M. Excise and Utility Receipts Taxes

Excise taxes and a portion of utility receipts taxes are included in rates charged to customers. Accordingly, the Company records these taxes received as a component of operating revenues, which totaled $41.8 million in 2007, $39.7 million in 2006, and $42.6 million in 2005. Expense associated with excise and utility receipts taxes are recorded as a component of *Taxes other than income taxes*.

N. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

O. Other Significant Policies

Included elsewhere in these Notes are significant accounting policies related to investments in unconsolidated affiliates (Note 3), income taxes (Note 6), earnings per share (Note 11), and derivatives (Note 15).

As more fully described in Note 9, the Company applied the intrinsic method prescribed in APB Opinion 25, "Accounting for Stock Issued to Employees" (APB 25) and related interpretations when measuring compensation expense for its share-based compensation plans in the years prior to 2006. The exercise price of stock options awarded under the Company's stock option plans equaled the fair market value of the underlying common stock on the date of grant. Accordingly, no compensation expense was recognized related to stock option plans prior to 2006. For the year ended December 31, 2005 the effect on net income and earnings per share as if the fair value based method prescribed in SFAS 123 had been applied to stock option grants follows:

(In millions, except per share amounts)	Year Ended December 31, 2005
Net Income as reported:	$ 136.8
Share-based employee compensation included in reported net income-net of tax	2.1
Total share-based employee compensation expense determined under fair value based method for all awards-net of tax	(2.8)
Pro forma net income	**$ 136.1**
Basic earnings per share as reported:	$ 1.81
Basic earnings per share pro forma:	1.80
Diluted earnings per share as reported:	$ 1.80
Diluted earnings per share pro forma:	1.79

3. Investments in Unconsolidated Affiliates

Investments in unconsolidated affiliates where the Company has significant influence are accounted for using the equity method of accounting. The Company's share of net income or loss from these investments is recorded in *Equity in earnings of unconsolidated affiliates* (See Note 17). Dividends are recorded as a reduction of the carrying value of the investment when received. Investments in unconsolidated affiliates where the Company does not have significant influence are accounted for using the cost method of accounting and include adjustments for declines in value judged to be other than temporary. Dividends are recorded as *Other - net* when received. *Investments in unconsolidated affiliates* consist of the following:

(In millions)	At December 31, 2007	2006
ProLiance Energy, LLC	$ 178.6	$ 146.7
Haddington Energy Partnerships	13.8	13.8
Other partnerships & corporations	16.4	20.5
Total investments in unconsolidated affiliates	**$ 208.8**	**$ 181.0**

ProLiance Holdings, LLC

ProLiance Holdings, LLC (ProLiance), a nonutility energy marketing affiliate of Vectren and Citizens Gas and Coke Utility (Citizens Gas), provides services to a broad range of municipalities, utilities, industrial operations, schools, and healthcare institutions located throughout the Midwest and Southeast United States. ProLiance's customers include Vectren's Indiana utilities and nonutility gas supply operations as well as Citizens Gas. ProLiance's primary businesses include gas marketing, gas portfolio optimization, and other portfolio and energy management services. Consistent with its ownership percentage, Vectren is allocated 61 percent of ProLiance's profits and losses; however, governance and voting rights remain at 50 percent for each member; and therefore, the Company accounts for its investment in ProLiance using the equity method of accounting. The Company, including its retail gas supply operations, contracted for 75 percent of its natural gas purchases through ProLiance in 2007 and 2006.

Summarized Financial Information

(in millions)	Year Ended December 31, 2007	2006	2005
Summarized Statement of Income information:			
Revenues	$ 2,267.1	$ 2,505.5	$ 3,237.0
Margin	97.4	105.9	116.0
Operating income	61.5	55.0	87.1
ProLiance's earnings	67.2	57.9	86.0

	As of December 31,	
(In millions)	2007	2006
Summarized balance sheet information:		
Current assets	$ 684.3	$ 652.4
Noncurrent assets	45.2	41.5
Current liabilities	436.9	453.7
Noncurrent liabilities	4.3	4.2
Equity	288.3	236.1

Vectren's share of ProLiance's earnings, after income taxes, allocated interest expense, and other income was $22.9 million, $18.3 million, and $31.1 million for the years ended December 31, 2007, 2006, and 2005, respectively.

Transactions with ProLiance
Purchases from ProLiance for resale and for injections into storage for the years ended December 31, 2007, 2006, and 2005, totaled $792.4 million, $777.0 million, and $1,049.3 million, respectively. Amounts owed to ProLiance at December 31, 2007, and 2006, for those purchases were $81.5 million and $84.8 million, respectively, and are included in *Accounts payable to affiliated companies* in the Consolidated Balance Sheets. Amounts charged by ProLiance for gas supply services are established by supply agreements with each utility.

Vectren received regulatory approval on April 25, 2006, from the IURC for ProLiance to provide natural gas supply services to the Company's Indiana utilities through March 2011. ProLiance has not provided gas supply/portfolio administration services to VEDO since October 31, 2005.

Regulatory Matter

ProLiance self reported to the Federal Energy Regulatory Commission (FERC or the Commission) in October 2007 possible non-compliance with the Commission's capacity release policies. ProLiance has taken corrective actions to assure that current and future transactions are compliant. ProLiance is committed to full regulatory compliance and is cooperating fully with the FERC regarding these issues. ProLiance is unable to predict the outcome of any FERC action.

ProLiance Lawsuit Settlement
On November 22, 2006, ProLiance settled a 2002 civil lawsuit between the City of Huntsville, Alabama and ProLiance. The $21.6 million settlement related to a dispute over a contractual relationship with Huntsville Utilities during 2000-2002.

During 2006, ProLiance recorded an $18.3 million charge recognizing the settlement. During 2004, ProLiance recorded $3.9 million as a reserve for loss contingency recognizing the initial unfavorable judgment and the uncertainties related to ultimate outcome. During 2006 and 2005, $0.1 million and $0.5 million of legal fees were charged against the reserve.

As an equity investor in ProLiance, Vectren recorded its share of these charges which totaled $6.6 million after tax in 2006 and $1.4 million after tax in 2004.

Haddington Energy Partnerships
The Company has an approximate 40 percent ownership interest in Haddington Energy Partners, LP (Haddington I) and Haddington Energy Partners II, LP (Haddington II). On a combined basis, these partnerships raised a total of $67 million to invest in energy related ventures. As of December 31, 2007, the Company has no further commitments to invest in either Haddington I or II. As of December 31, 2007, these Haddington ventures have two remaining investments related to compressed air storage and liquefied natural gas storage. Both Haddington ventures are investment companies accounted for using the equity method of accounting.

The following is summarized financial information as to the assets, liabilities, and results of operations of Haddington. For the year ended December 31, 2007, revenues, operating loss, and net loss were (in millions) zero, $(0.4), and $(0.3), respectively. For the year ended December 31, 2006, revenues, operating loss, and net loss were

(in millions) zero, $(0.3), and $(0.3), respectively. For the year ended December 31, 2005, revenues, operating income, and net income were (in millions) $13.2, $12.4, and $22.2, respectively. As of December 31, 2007, investments, other assets, and liabilities were (in millions) $31.3, $1.1, and zero, respectively. As of December 31, 2006, investments, other assets, and liabilities were (in millions) $31.3, $1.0, and zero, respectively.

Pace Carbon Synfuels, LP

Pace Carbon Synfuels, LP (Pace Carbon) is a Delaware limited partnership formed to develop, own, and operate four projects to produce and sell coal-based synthetic fuel (synfuel) utilizing Covol technology. The Company has an 8.3 percent interest in Pace Carbon which is accounted for using the equity method of accounting. The Internal Revenue Code provided for manufacturers, such as Pace Carbon, to receive a tax credit for every ton of synthetic fuel sold. In addition, Vectren Fuels, Inc., a wholly owned subsidiary involved in coal mining, received processing fees from synfuel producers unrelated to Pace Carbon for a portion of its coal production. The tax law authorizing synfuel related credits and fees expired on December 31, 2007.

The Internal Revenue Service issued private letter rulings, which concluded the synthetic fuel produced at the Pace Carbon facilities should qualify for tax credits. The IRS has completed tax audits of Pace Carbon for the years 1998 through 2001 without challenging tax credit calculations. Generally, the statute of limitations for the IRS to audit a tax return is three years from filing. Therefore tax credits utilized in 2004 – 2007 are still subject to IRS examination. However, avenues remain where the IRS could challenge tax credits of pre-2004 years.

As a partner of Pace Carbon, Vectren has reflected synfuel tax credits in its consolidated results from inception through December 31, 2007 of approximately $99 million, of which approximately $60 million have been generated since 2003. To date, Vectren has been in a position to utilize or carryforward substantially all of the credits generated. Primarily from the use of these credits, the Company has an Alternative Minimum Tax (AMT) credit carryforward of approximately $35.7 million at December 31, 2007.

Synfuel tax credits are only available when the price of oil is less than a base price specified by the Internal Revenue Code, as adjusted for inflation. The Company estimates that high oil prices caused a 74 percent phase out in 2007. Therefore, of the $23.1 million tax credits generated in 2007, only $6.0 million are reflected as a reduction to the Company's income tax expense. In 2006 high oil prices resulted in a 35 percent phase out of synfuel tax credits. Of the $21.5 million tax credits generated in 2006, only $14.0 million are reflected as a reduction to the Company's income tax expense.

Since 2005, the Company executed several financial contracts to hedge oil price risk. Income statement activity associated with these contracts was gain of $13.4 million in 2007, a loss of $4.7 million in 2006 and a loss of $1.9 million in 2005. This activity is reflected in *Other-net*. Impairment charges related to the investment in Pace Carbon approximating $9.5 million were recorded in *Other-net* in 2006.

Synfuel-related results, inclusive of equity method losses and their related tax benefits as well as the tax credits and other related activity, were earnings of $6.8 million in 2007, compared to a loss of $5.3 million in 2006 and earnings of $11.7 million in 2005.

The following is summarized financial information as to the assets, liabilities, and results of operations of Pace Carbon. For the year ended December 31, 2007, revenues, margin, operating loss, and net loss were (in millions) $471.1, ($139.7), ($158.8), and ($240.2), respectively. For the year ended December 31, 2006, revenues, margin, operating loss, and net loss were (in millions) $389.7, ($116.4), ($175.5), and ($176.8), respectively. For the year ended December 31, 2005, revenues, margin, operating loss, and net loss were (in millions) $333.4, ($135.3), ($170.3), and ($175.7), respectively. As of December 31, 2007, current assets, noncurrent assets, current liabilities, and noncurrent liabilities were (in millions) $65.3, $67.3, $50.8, and $48.6, respectively. As of December 31, 2006, current assets, noncurrent assets, current liabilities, and noncurrent liabilities were (in millions) $61.3, $54.4, $46.6, and $36.5, respectively.

Utilicom Networks, LLC & Related Entities

The Company had an approximate 2 percent equity interest and a convertible subordinated debt investment in Utilicom Networks, LLC (Utilicom). The Company also had an approximate 19 percent equity interest in SIGECOM Holdings, Inc. (Holdings), which was formed by Utilicom to hold interests in SIGECOM, LLC (SIGECOM). SIGECOM provided broadband services, such as cable television, high-speed internet, and advanced

local and long distance phone services, to the greater Evansville, Indiana area. The Company accounted for its investments in Utilicom and Holdings using the cost method of accounting.

In August 2006, SIGECOM's majority owner and the Company sold their interests in SIGECOM to WideOpenWest, LLC. Resulting from the sale, the Company recorded a loss of $1.3 million after tax in 2006. Proceeds to the Company, which includes the settlement of notes receivable, approximated $45 million and were received in 2007.

Undistributed Earnings of Unconsolidated Affiliates
As of December 31, 2007, undistributed earnings of unconsolidated affiliates approximated $158 million and are primarily comprised of the undistributed earnings of ProLiance.

4. Miller Pipeline Corporation Acquisition in 2006

Effective July 1, 2006, the Company purchased the remaining 50 percent ownership in Miller Pipeline Corporation (Miller), making Miller a wholly owned subsidiary. The results of Miller's operations, formerly accounted for using the equity method, have been included in consolidated results since July 1, 2006. Based on current accounting rules, Miller is consolidated on a prospective basis only. Prior periods were not restated.

Miller, originally founded in 1953, performs natural gas and water distribution, transmission, and construction repair and rehabilitation primarily in the Midwest and the repair and rehabilitation of gas, water, and wastewater facilities nationwide. Miller's customers include Vectren's utilities.

While the acquisition of Miller has not been material to the overall financial statements, consolidating Miller resulted in, among other impacts, increases in *Nonutility revenue* totaling $105.7 million in 2007 compared to 2006 and $77.6 million in 2006 compared to 2005; and increases in *Other operating expense* totaling $90.9 million in 2007 compared to 2006 and $60.8 million in 2006 compared to 2005. The transaction also increased consolidated *Goodwill* by approximately $31 million, intangible assets, which are included in *Other assets*, by $14 million, and $24 million in *Long-term debt*. Of the $31 million of goodwill, approximately $0.9 million is not deductible for tax purposes.

Prior to this transaction, Miller was 100 percent owned by Reliant Services, LLC (Reliant). Reliant, a 50 percent owned strategic alliance with an affiliate of Duke Energy Corporation, is accounted for using the equity method of accounting, and previously provided facilities locating and meter reading services to the Company's utilities. In 2007, fees paid to Reliant were less than $0.1 million. For the years ended December 31, 2006, and 2005, fees paid to Reliant for locating and meter reading services as well as for Miller's construction-related services totaled $20.6 million, and $21.3 million, respectively. Amounts charged are market based. Amounts owed to Reliant totaled less than $0.1 million at both December 31, 2007 and 2006 and are included in *Accounts payable to affiliated companies* in the Consolidated Balance Sheets. Reliant exited the meter reading and facilities locating businesses in 2006.

5. Other Investments

Other investments consist of the following:

	At December 31,	
(In millions)	2007	2006
Leveraged leases	$ 30.3	$ 31.0
Cash surrender value of life insurance policies (See Note 7)	18.2	16.6
Other investments	28.5	26.9
Total other investments	**$ 77.0**	**$ 74.5**

Leveraged Leases
The Company is a lessor in three leveraged lease agreements under which real estate or equipment is leased to third parties. The total equipment and facilities cost was approximately $76.2 million at both December 31, 2007, and 2006, respectively. The cost of the equipment and facilities was partially financed by non-recourse debt provided by lenders who have been granted an assignment of rentals due under the leases and a security interest in the leased

property, which they accepted as their sole remedy in the event of default by the lessee. Such debt amounted to approximately $46.7 million and $47.4 million at December 31, 2007, and 2006, respectively. At December 31, 2007 and 2006, the Company's leveraged lease investment, net of related deferred tax liabilities, was $11.0 million and $10.2 million, respectively.

Other Investments

Other investments include notes receivable, restricted cash, and a municipal bond, among other items.

6. Income Taxes

The components of income tax expense and utilization of investment tax credits follow:

	Year Ended December 31,		
(In millions)	2007	2006	2005
Current:			
Federal	$ 35.9	$ 18.2	$ 37.9
State	13.1	10.7	14.8
Total current taxes	**49.0**	**28.9**	**52.7**
Deferred:			
Federal	24.6	7.0	(6.0)
State	4.1	(3.6)	(0.2)
Total deferred taxes	**28.7**	**3.4**	**(6.2)**
Amortization of investment tax credits	(1.7)	(2.0)	(2.4)
Total income tax expense	**$ 76.0**	**$ 30.3**	**$ 44.1**

The liability method of accounting is used for income taxes under which deferred income taxes are recognized to reflect the tax effect of temporary differences between the book and tax bases of assets and liabilities at currently enacted income tax rates. Significant components of the net deferred tax liability follow:

	At December 31,	
(In millions)	2007	2006
Noncurrent deferred tax liabilities (assets):		
Depreciation & cost recovery timing differences	$ 310.2	$ 297.0
Leveraged leases	19.3	20.8
Regulatory assets recoverable through future rates	20.3	21.0
Demand side management programs	7.9	8.4
Other comprehensive income	7.2	2.5
Alternative minimum tax carryforward	(3.4)	(42.1)
Employee benefit obligations	(34.5)	(39.2)
Net operating loss & other carryforwards	(4.1)	(10.1)
Regulatory liabilities to be settled through future rates	(6.3)	(7.7)
Other – net	1.5	10.1
Net noncurrent deferred tax liability	318.1	260.7
Current deferred tax (assets)/liabilities:		
Deferred fuel costs-net	(1.2)	(1.8)
Alternative minimum tax carryforward	(29.6)	-
Other – net	0.9	(1.8)
Net current deferred tax (asset)/liability	(29.9)	(3.6)
Net deferred tax liability	**$ 288.2**	**$ 257.1**

At December 31, 2007, and 2006, investment tax credits totaling $8.2 million and $9.9 million, respectively, are included in *Deferred credits and other liabilities*. These investment tax credits are amortized over the lives of the related investments. At December 31, 2007, the Company has alternative minimum tax carryforwards of $33.0 million, which do not expire. In addition, the Company has $4.0 million in net operating loss carryforwards that relate to the acquisition of Miller, which will expire in 5 to 20 years.

A reconciliation of the federal statutory rate to the effective income tax rate follows:

	Year Ended December 31,		
	2007	2006	2005
Statutory rate:	35.0 %	35.0 %	35.0 %
State and local taxes-net of federal benefit	4.3	5.7	5.5
Synfuel tax credits	(3.0)	(9.6)	(12.3)
Adjustment of income tax accruals	(0.7)	(2.0)	(1.9)
Tax law change	0.2	(2.5)	-
Amortization of investment tax credit	(0.8)	(1.4)	(1.3)
Depletion	(0.7)	(1.6)	(1.0)
Other tax credits	(0.2)	(0.5)	(0.4)
All other-net	0.6	(1.3)	0.8
Effective tax rate	**34.7 %**	**21.8 %**	**24.4 %**

Accounting for Uncertainty in Income Taxes

On January 1, 2007, the Company adopted FASB Interpretation No. 48 (FIN 48) "Accounting for Uncertainty in Income Taxes" an interpretation of SFAS 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of tax positions taken or expected to be taken in an income tax return. FIN 48 also provides guidance related to reversal of tax positions, balance sheet classification, interest and penalties, interim period accounting, disclosure and transition.

As a result of the implementation of FIN 48, the Company recognized an approximate $0.3 million increase in the liability for unrecognized tax benefits, of which $0.1 million was accounted for as a reduction to the January 1, 2007, balance of *Retained earnings* and $0.2 million was recorded as an increase to *Goodwill*. At adoption, the total amount of gross unrecognized tax benefits was $11.6 million.

Following is a reconciliation of the total amount of unrecognized tax benefits as of December 31, 2007:

(in millions)		
Unrecognized tax benefits at 1/1/2007	$	11.6
Gross Increases - tax positions in prior periods		0.3
Gross Decreases - tax positions in prior periods		(7.4)
Gross Increases - current period tax positions		1.9
Gross Decreases - current period tax positions		(0.2)
Unrecognized tax benefits at December 31, 2007	**$**	**6.2**

Of the change in unrecognized tax benefits during 2007 of $5.4 million, $3.1 million impacted the effective tax rate. The amount of unrecognized tax benefits, which, if recognized, that would impact the effective tax rate as of December 31, 2007, was $0.1 million. The remaining unrecognized tax benefit relates to tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority.

The Company accrues interest and penalties associated with unrecognized tax benefits in *Income taxes*. During the year ended December 31, 2007, the Company recognized expense related to interest and penalties totaling

approximately $0.5 million. During the years ended December 31, 2006 and 2005, the Company recognized expense related to interest and penalties of less than $1 million in both years. The Company had approximately $0.8 million and $1.9 million for the payment of interest and penalties accrued as of December 31, 2007 and December 31, 2006, respectively.

The liability included in *Other liabilities* on the Consolidated Balance Sheet for unrecognized tax benefits inclusive of interest, penalties and net of secondary impacts, which are benefits, totaled $2.5 million at December 31, 2007.

From time to time, the Company may consider changes to filed positions that could impact its unrecognized tax benefits. However, it is not expected that such changes would have a significant impact on earnings and would only affect the timing of payments to taxing authorities.

The Company and/or certain of its subsidiaries file income tax returns in the U.S. federal jurisdiction and various states. The Internal Revenue Service (IRS) has conducted examinations of the Company's U.S. federal income tax returns for tax years through December 31, 2004. The State of Indiana, the Company's primary state tax jurisdiction, has conducted examinations of state income tax returns for tax years through December 31, 2002. On February 15, 2008, the Company was notified by the IRS of their intent to perform a limited scope examination of the Company's 2005 consolidated tax return.

7. Retirement Plans & Other Postretirement Benefits

At December 31, 2007, the Company maintains three qualified defined benefit pension plans, a nonqualified supplemental executive retirement plan (SERP), and three other postretirement benefit plans. The defined benefit pension and other postretirement benefit plans, which cover eligible full-time regular employees, are primarily noncontributory. The postretirement health care and life insurance plans are a combination of self-insured and fully insured plans. The Company has Voluntary Employee Beneficiary Association (VEBA) Trust Agreements for the partial funding of postretirement health benefits for retirees and their eligible dependents and beneficiaries. Annual VEBA funding is discretionary. The detailed disclosures of benefit components that follow are based on an actuarial valuation using a measurement date as of September 30. The qualified pension plans and the SERP are aggregated under the heading "Pension Benefits." Other postretirement benefit plans are aggregated under the heading "Other Benefits."

Adoption of SFAS 158

On December 31, 2006, the Company adopted SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans-an amendment of FASB Statements No. 87, 88, 106, and 132(R)" (SFAS 158). SFAS 158 required the Company to recognize the funded status of its pension plans and postretirement plans. SFAS 158 defines the funded status of a defined benefit plan as its assets less its projected benefit obligation, which includes projected salary increases, and defines the funded status of a postretirement plan as its assets less its accumulated postretirement benefit obligation. To the extent this obligation exceeded amounts previously recognized, the Company recorded a *Regulatory asset* for that portion related to its cost-based and rate regulated utilities. To the extent that excess liability did not relate to a cost-based rate-regulated utility, the offset was recorded as a reduction to equity in *Accumulated other comprehensive income*. As a result of adopting this standard, the Company's assets increased $30.0 million, its liabilities increased $22.0 million and its equity increased $8.0 million.

SFAS 158 also requires an employer to measure the funded status of a plan as of the date of its year-end balance sheet and requires disclosure in the notes to financial statements certain additional information related to net periodic benefit cost for the next fiscal year. The measurement date provisions are not required to be adopted until 2008. On January 1, 2008, the Company recorded a $2.7 million reduction to retained earnings to move the measurement date from September 30 to December 31.

Benefit Obligations

A reconciliation of the Company's benefit obligations at December 31, 2007 and 2006, follows:

	Pension Benefits		Other Benefits	
(In millions)	2007	2006	2007	2006
Benefit obligation, beginning of period	$ 255.4	$ 255.4	$ 69.5	$ 72.0
Service cost - benefits earned during the period	5.6	6.0	0.5	0.6
Interest cost on projected benefit obligation	14.9	14.1	3.9	3.9
Plan participants' contributions	-	-	1.3	1.7
Plan amendments	-	2.1	-	-
Actuarial loss (gain)	(13.9)	(10.2)	1.5	(0.4)
Medicare subsidy receipts	-	-	0.2	0.3
Benefits paid	(12.4)	(12.0)	(6.7)	(8.6)
Benefit obligation, end of period	**$ 249.6**	**$ 255.4**	**$ 70.2**	**$ 69.5**

The accumulated benefit obligation for all defined benefit pension plans was $231.9 million and $234.8 million at December 31, 2007 and 2006, respectively.

The benefit obligation as of December 31, 2007 and 2006 was calculated using the following assumptions:

	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
Discount rate	6.25%	5.85%	6.25%	5.85%
Rate of compensation increase	3.75%	3.75%	N/A	N/A
Expected increase in Consumer Price Index	N/A	N/A	3.50%	3.50%

To calculate the 2007 ending postretirement benefit obligation, medical claims costs in 2008 were assumed to be 8 percent higher than those incurred in 2007. That trend was assumed to gradually decline to 5 percent over a three year period and remain level thereafter. A one-percentage point change in assumed health care cost trend rates would have changed the benefit obligation by approximately $1.3 million. To calculate the 2006 ending postretirement benefit obligation, medical claims costs in 2007 were assumed to be 9 percent higher than those incurred in 2006. That trend was assumed to gradually decline to 5 percent over a four year period and to remain level thereafter.

Plan Assets

A reconciliation of the Company's plan assets at December 31, 2007 and 2006 follows:

	Pension Benefits		Other Benefits	
(In millions)	2007	2006	2007	2006
Plan assets at fair value, beginning of period	$ 185.0	$ 173.6	$ 6.8	$ 7.4
Actual return on plan assets	22.3	14.8	0.9	0.3
Employer contributions	16.9	8.6	4.5	6.0
Plan participants' contributions	-	-	1.3	1.7
Benefits paid	(12.4)	(12.0)	(6.7)	(8.6)
Fair value of plan assets, end of period	**$ 211.8**	**$ 185.0**	**$ 6.8**	**$ 6.8**

The asset allocation for the Company's pension and postretirement plans at the measurement date for 2007 and 2006 by asset category follows:

	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
Equity securities	64%	62%	74%	65%
Debt securities	31%	33%	26%	31%
Real estate and other	5%	5%	-	4%
Total	100%	100%	100%	100%

The Company invests in trusts that benefit its qualified defined benefit plans. The general investment objectives are to invest in a diversified portfolio, comprised of both equity and fixed income investments, which are further diversified among various asset classes. The diversification is designed to minimize the risk of large losses while maximizing total return within reasonable and prudent levels of risk. The investment objectives specify a targeted investment allocation for the pension plans of 60 percent equities, 35 percent debt, and 5 percent for other asset classes, including real estate for 2007, and for postretirement plans of 65 percent equities, 30 percent debt, and 5 percent short-term investments for 2007. Objectives do not target a specific return by asset class. The portfolio's return is monitored in total and investment objectives are long-term in nature.

Funded Status

The funded status of the plans as of December 31, 2007 and 2006 follows:

	Pension Benefits		Other Benefits	
(In millions)	2007	2006	2007	2006
Benefit obligation, end of period	$ 249.6	$ 255.4	$ 70.2	$ 69.5
Fair value of plan assets, end of period	(211.8)	(185.0)	(6.8)	(6.8)
Post measurement date adjustments	(2.4)	(1.2)	(1.1)	(1.1)
Funded status, end of period:	**$ 35.4**	**$ 69.2**	**$ 62.3**	**$ 61.6**
Accrued liabilities	$ 0.7	$ 0.7	$ 3.9	$ 5.5
Other liabilities	$ 34.7	$ 68.5	$ 58.4	$ 58.4

As of December 31, 2007 and 2006, the funded status of the SERP, which is included in Pension Benefits in the chart above, was an unfunded amount of $13.1 million and $13.4 million, respectively.

Net Periodic Benefit Costs

A summary of the components of net periodic benefit cost for the three years ended December 31, 2007, follows:

	Pension Benefits			Other Benefits		
(In millions)	2007	2006	2005	2007	2006	2005
Service cost	$ 5.6	$ 6.0	$ 5.6	$ 0.5	$ 0.6	$ 0.7
Interest cost	14.9	14.1	13.8	4.0	3.9	4.5
Expected return on plan assets	(14.3)	(13.5)	(13.2)	(0.5)	(0.6)	(0.6)
Amortization of prior service cost	1.7	1.8	1.6	(0.8)	(0.8)	(0.6)
Amortization of actuarial loss (gain)	1.5	2.4	1.8	(0.1)	-	(0.2)
Amortization of transitional obligation	-	-	-	1.1	1.1	1.5
Net periodic benefit cost	**$ 9.4**	**$ 10.8**	**$ 9.6**	**$ 4.2**	**$ 4.2**	**$ 5.3**

A portion of benefit costs are capitalized as *Utility plant*. Costs capitalized in 2007, 2006, and 2005 approximated $3.9 million, $4.3 million, and $4.2 million, respectively.

To calculate the expected return on plan assets, the Company uses the plan assets' market-related value and an expected long-term rate of return. The fair market value of the assets at the measurement date is adjusted to a

market-related value by recognizing the change in fair value experienced in a given year ratably over a five-year period.

Based on a targeted 60 percent equity, 35 percent debt, and 5 percent alternative investments allocation for the pension plans, the Company has used a long-term expected rate of return of 8.25 percent to calculate 2007 periodic benefit cost. For fiscal 2008, the expected long-term rate of return will also be 8.25 percent.

The Company has increased the discount rate used to measure its benefit obligations and periodic cost due to increases in benchmark interest rates that approximate the expected duration of the Company's benefit obligations. For fiscal 2008, the discount rate will be 6.25 percent.

The weighted averages of significant assumptions used to determine net periodic benefit costs follow:

	Pension Benefits			Other Benefits		
(In millions)	2007	2006	2005	2007	2006	2005
Discount rate	5.85%	5.50%	5.75%	5.85%	5.50%	5.75%
Rate of compensation increase	3.75%	3.25%	3.50%	N/A	N/A	N/A
Expected return on plan assets	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%
Expected increase in Consumer Price Index	N/A	N/A	N/A	3.50%	3.50%	3.50%

Health care cost trend rate assumptions do not have a material effect on the service and interest cost components of benefit costs. The Company's benefit plans limit Vectren's exposure to increases in health care costs to annual changes in the Consumer Price Index (CPI). Any increase in health care costs in excess of the CPI increase is the responsibility of the plan participants.

Prior Service Cost, Actuarial Gains and Losses, and Transition Obligation Effects

Following is a reconciliation of the amounts in accumulated other comprehensive income (AOCI) and regulatory assets related to retirement plan obligations at December 31, 2007 and 2006:

(In millions)	**2007**		**2006**	
	Pensions	Other Benefits	Pensions	Other Benefits
Prior service cost	$ 11.2	$ (4.7)	$ 12.9	$ (5.5)
Unamortized actuarial gain/(loss)	11.9	(1.1)	35.3	(2.2)
Transition obligation	-	7.6	-	8.7
	23.1	1.8	48.2	1.0
Less: *Regualtory asset* deferral	(21.9)	(1.7)	(45.8)	(0.9)
***AOCI* before taxes**	**$ 1.2**	**$ 0.1**	**$ 2.4**	**$ 0.1**

A roll forward of these amounts identifying those components reclassified to periodic cost and those components arising during the year since adoption of SFAS 158 follows:

(In millions)	**Pensions**		**Other Benefits**		
	Prior Service Cost	Net Gain or Loss	Prior Service Cost	Net Gain or Loss	Transition Obligation
Balance at adoption of SFAS 158	$ 12.9	$ 35.3	$ (5.5)	$ (2.2)	$ 8.7
Amounts arising during the period		(21.9)	-	1.2	-
Reclassification to benefit costs	(1.7)	(1.5)	0.8	(0.1)	(1.1)
Balance December 31, 2007	**$ 11.2**	**$ 11.9**	**$ (4.7)**	**$ (1.1)**	**$ 7.6**

Related to pension plans, $1.7 million of prior service cost and $0.1 million of actuarial gain/loss is expected to be amortized to periodic cost in 2008. Related to other benefits, $1.1 million of the transition obligation is expected to be amortized to periodic cost in 2008, and $0.8 million of prior service cost is expected to reduce periodic cost in 2008.

Expected Cash Flows
In 2008, the Company expects to make contributions of approximately $10 million to its pension plan trusts. In addition, the Company expects to make payments totaling approximately $1 million directly to SERP participants and approximately $5 million directly to those participating in other postretirement plans.

Estimated retiree pension benefit payments, including the SERP, projected to be required during the years following 2007 (in millions) are $13.6 in 2008, $14.4 in 2009 $14.6 in 2010, $16.0 in 2011, $16.4 in 2012 and $95.1 in years 2013-2017. Expected benefit payments projected to be required for postretirement benefits during the years following 2007 (in millions) are $6.4 in 2008, $7.1 in 2009, $7.5 in 2010, $7.8 in 2011, and $8.0 in 2012 and $44.0 in years 2013-2017.

Defined Contribution Plan
The Company also has defined contribution retirement savings plans that are qualified under sections 401(a) and 401(k) of the Internal Revenue Code. During 2007, 2006 and 2005, the Company made contributions to these plans of $4.0 million, $3.9 million, and $3.5 million, respectively.

Deferred Compensation Plans
The Company has nonqualified deferred compensation plans, which permit eligible executives and non-employee directors to defer portions of their compensation and vested restricted stock. A record keeping account is established for each participant, and the participant chooses from a variety of measurement funds for the deemed investment of their accounts. The measurement funds are similar to the funds in the Company's defined contribution plan and include an investment in phantom stock units of the Company. The account balance fluctuates with the investment returns on those funds. At December 31, 2007 and 2006, the liability associated with these plans totaled $29.0 million and $27.6 million, respectively, and is included in *Deferred credits and other liabilities*. Deferred compensation expense was $2.2 million, $0.7 million and $2.6 million in 2007, 2006, and 2005, respectively.

The Company has established certain investments to fund its deferred compensation liabilities that are currently funded primarily through corporate-owned life insurance policies. These investments, which are consolidated, are available to pay plan benefits and are subject to the claims of the Company's creditors. The cash surrender value of these policies included in *Other investments* on the Consolidated Balance Sheets were $18.2 million and $16.6 million at December 31, 2007 and 2006, respectively. Earnings from those investments totaled $0.6 million in 2007, $0.8 million in 2006, and $1.8 million in 2005.

8. Borrowing Arrangements

Short-Term Borrowings
At December 31, 2007, the Company has $780.0 million of short-term borrowing capacity, including $520.0 million for the Utility Group operations and $260.0 million for the wholly owned Nonutility Group and corporate operations, of which approximately $134 million is available for the Utility Group operations and approximately $89 million is available for wholly owned Nonutility Group and corporate operations. These borrowing arrangements expire in 2010. Utility Group credit facilities are primarily used to support the Company's access to the commercial paper market. Interest rates and outstanding balances associated with short-term borrowing arrangements follows.

	Year Ended December 31,		
(In millions)	2007	2006	2005
Weighted average commercial paper and bank loans outstanding during the year	$ 391.3	$ 256.1	$ 304.5
Weighted average interest rates during the year			
Commercial paper	5.54%	5.16%	3.42%
Bank loans	5.61%	5.51%	3.82%