



Ohio Gas Association Annual Meeting

Niel C. Ellerbrook, Chairman & CEO

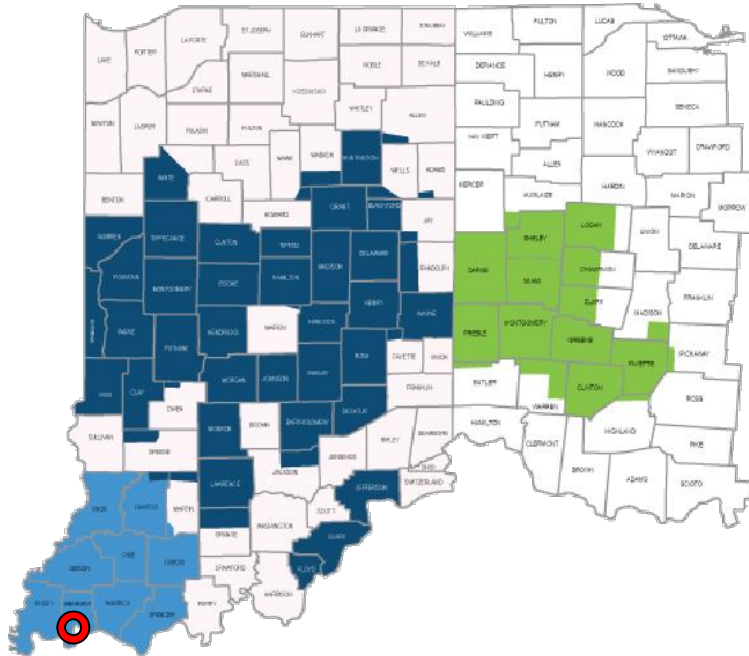
September 17, 2009

Agenda

- Vectren Corporation
- Industry challenges
- Climate change
- Customer conservation
- Customer assistance

Vectren's footprint – regulated business

Utility Service Territories



- Vectren Energy Delivery of Indiana - North
- Vectren Energy Delivery of Indiana - South
- Vectren Energy Delivery of Ohio
- Vectren Corporate HQ – Evansville, Indiana

NYSE Symbol: VVC

Stable utility platform supported by appropriate rate design and rates

Over 1.1 million utility customers

\$4.6 billion in assets

\$2.5 billion in revenues

\$1.7 billion market cap

Vectren's footprint – nonregulated

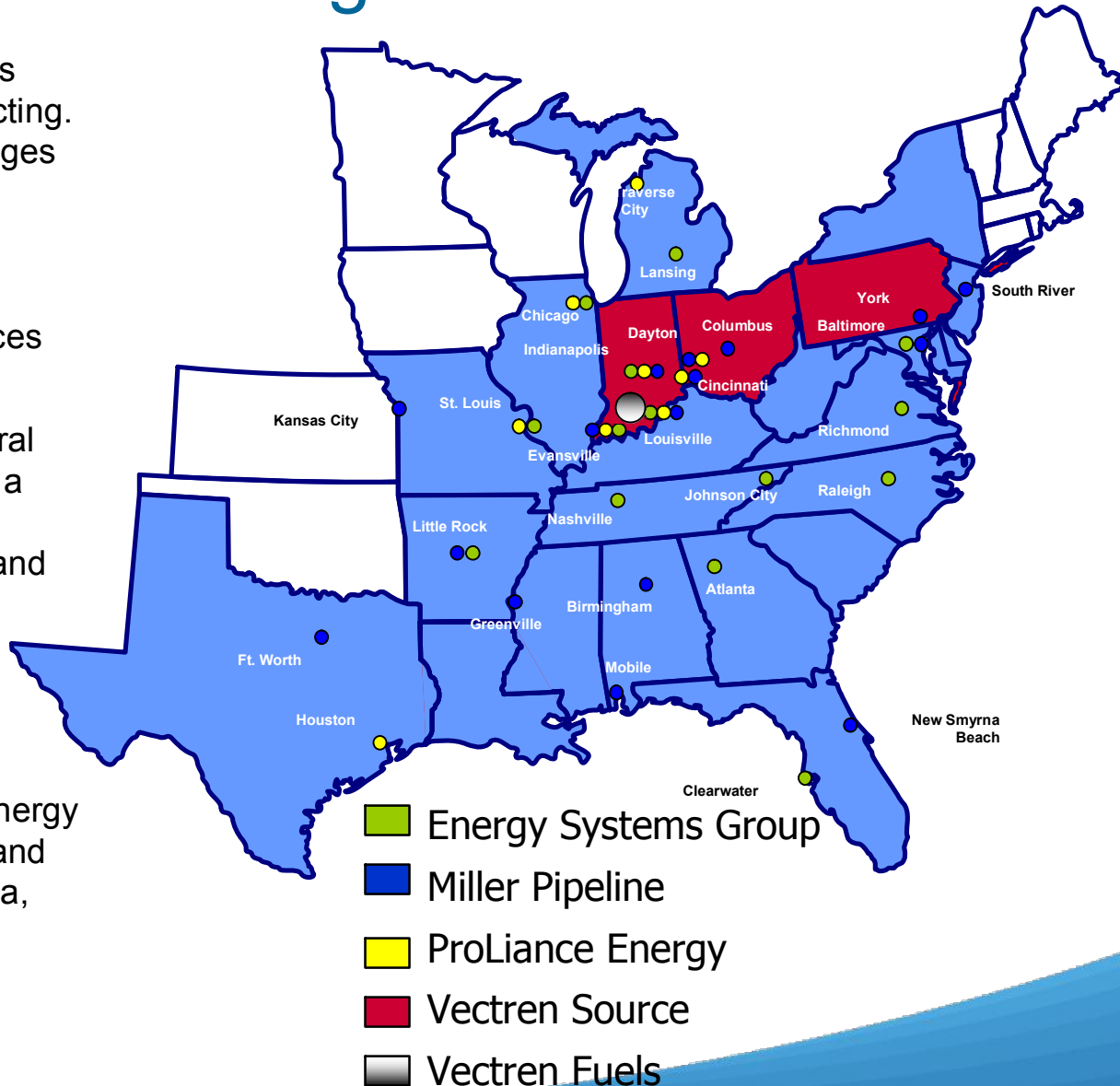
Energy Systems Group – provides energy-saving performance contracting. Also designs, constructs and manages renewable energy projects

Miller Pipeline Corp. - provides a comprehensive range of pipeline contracting and rehabilitation services for gas, water and sewer pipelines

ProLiance Energy - provides natural gas and energy-related services to a variety of large-scale end-users including major industries, utilities and municipalities

Vectren Fuels - mines and sells Indiana coal to Vectren's utility operations and other third parties

Vectren Source - provides retail energy and related services to residential and small business customers in Indiana, Ohio and New York





Natural Gas Industry Snapshot

Industry challenges – supply side

- Shortage to glut

- The 2008 natural gas “shortage”, causing the price spike, turned into an oversupply in a matter of months
- More than 70% of the 2,000 rigs drilling in the U.S. in the summer of 2008 were successful finding ample amounts of natural gas. A year later excess supply shut down half of the wells. This action portends future volatility

- Liquefied natural gas

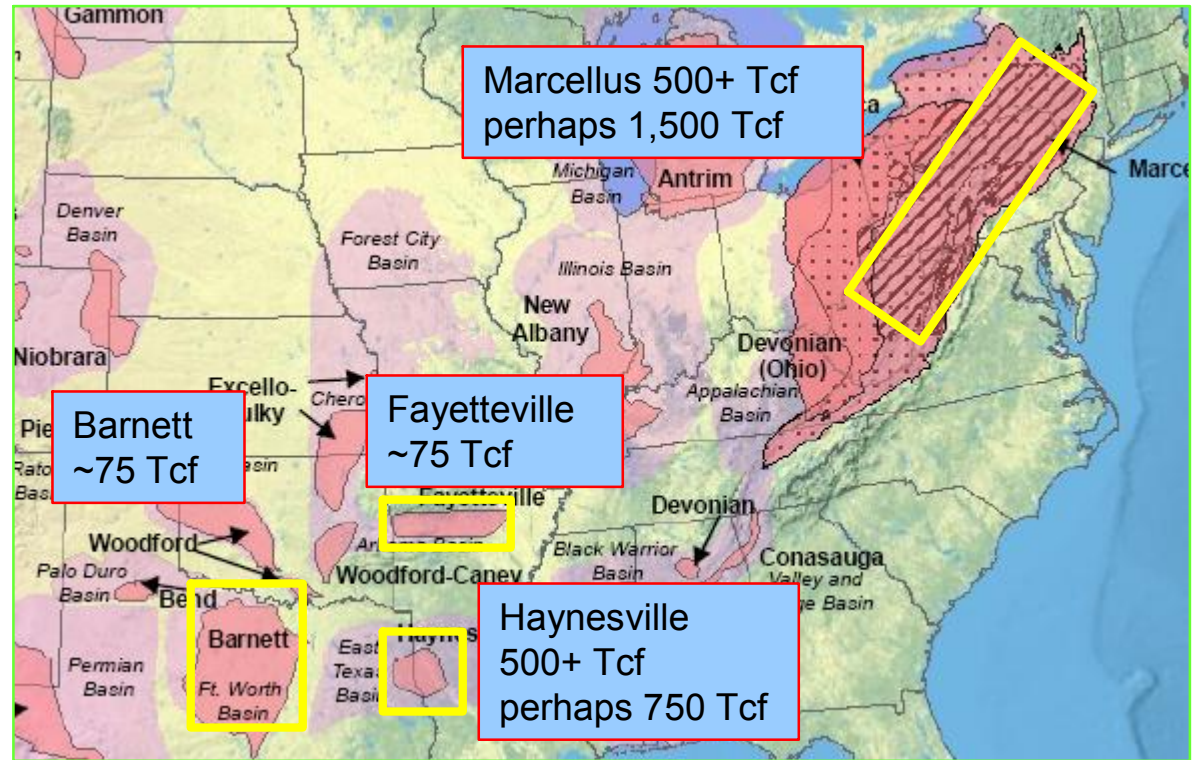
- U.S. imports are volatile and driven, in part, by pricing opportunities. Imports peaked in 2007 at 770 Bcf, retreated to 350 Bcf in 2008, projected at 460 Bcf in 2009 and 660 Bcf in 2010

- Shale gas

- Shale gas could be a “game changer”

Shale gas opens up North America

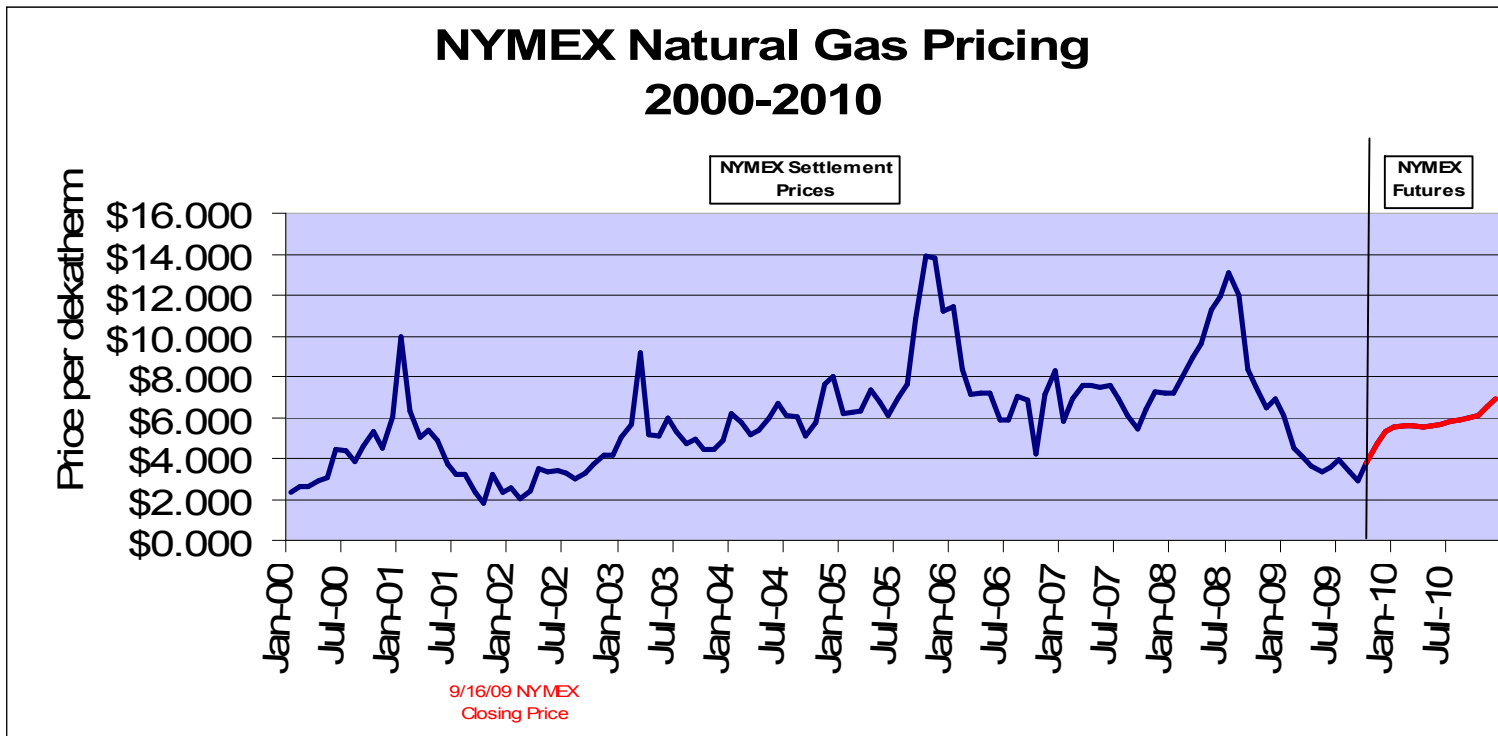
- Factors driving production:
 1. Advances in drilling
 2. Advances in hydraulic fracturing
 3. Natural gas prices
- Barnett formation already contributes 6% of supply in lower 48 states



The breakeven NYMEX gas price for a core area horizontal well is \$5.50 - \$6.00+/- in the Barnett formation

Pricing reflects adequate supply and slipping demand

- Henry Hub Prices hit \$1.84 on 9/4/09 – the lowest since December 2001
- NYMEX Pricing reflects similar price declines



Pressures on demand

Economic downturn – Natural Gas

- Total natural gas consumption likely to decline by about 2.4% in 2009 and remain relatively flat for 2010
- Despite low relative prices for much of the year, industrial natural gas consumption declined by 12% in the first 6 months of 2009
 - Decline should moderate during the second half of 2009
 - Modest increase predicted for 2010 in industrial and commercial segments due to anticipated improved economic conditions and low prices

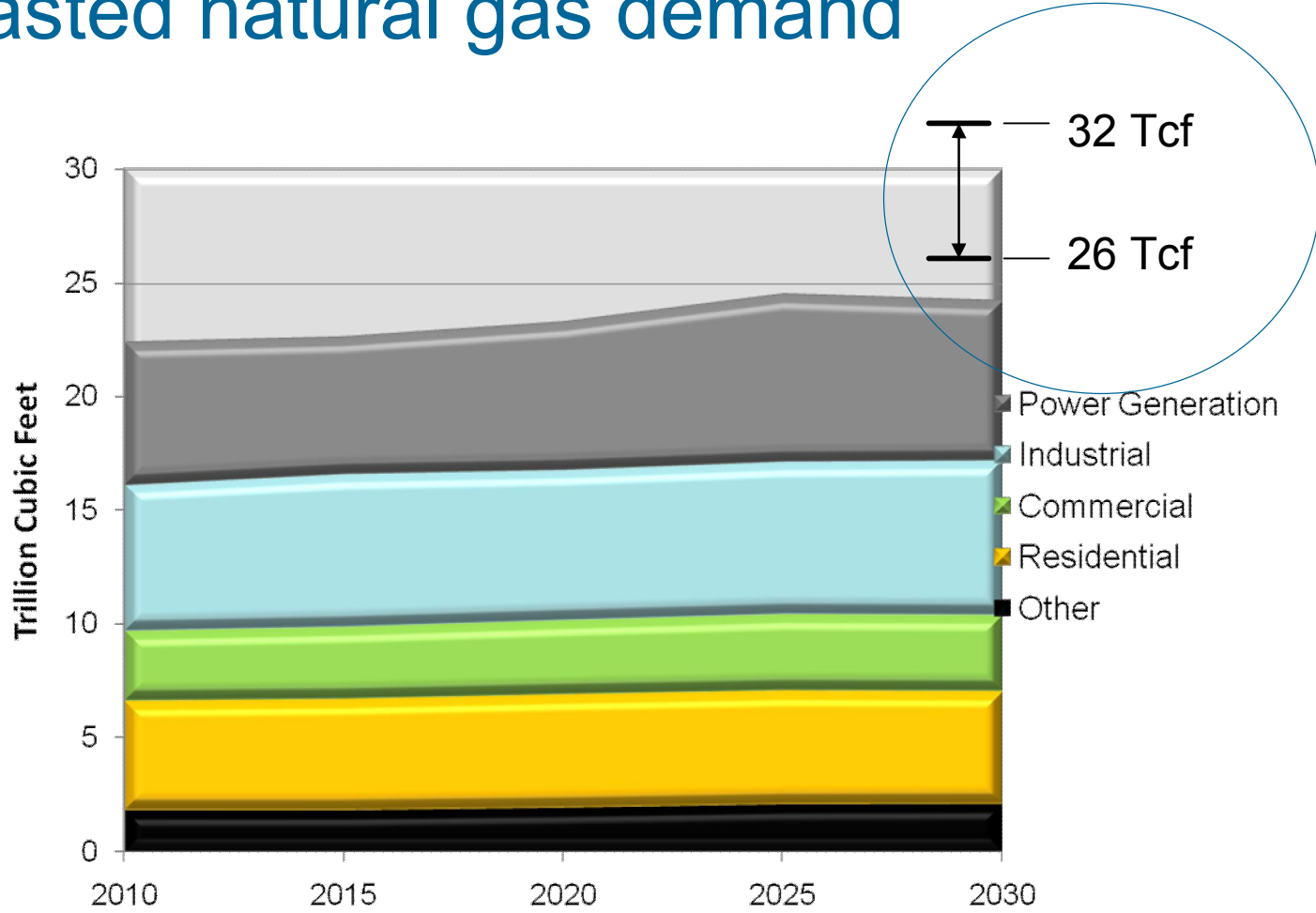
Pressures on demand

Economic downturn - Electric

- Net generation dropped by 6.8% June 2008 –June 2009
- 2009 ytd generation down by 5%
- Fuel source:
 - Coal-fired down 12.8%
 - Petroleum liquids down 5%
 - Nuclear up 1.4%
 - **Natural gas-fired up 1.9%**
 - Wind up 24.4%



Forecasted natural gas demand



- If climate change is enacted, demand for power generation may increase by 7% – 32% by 2030

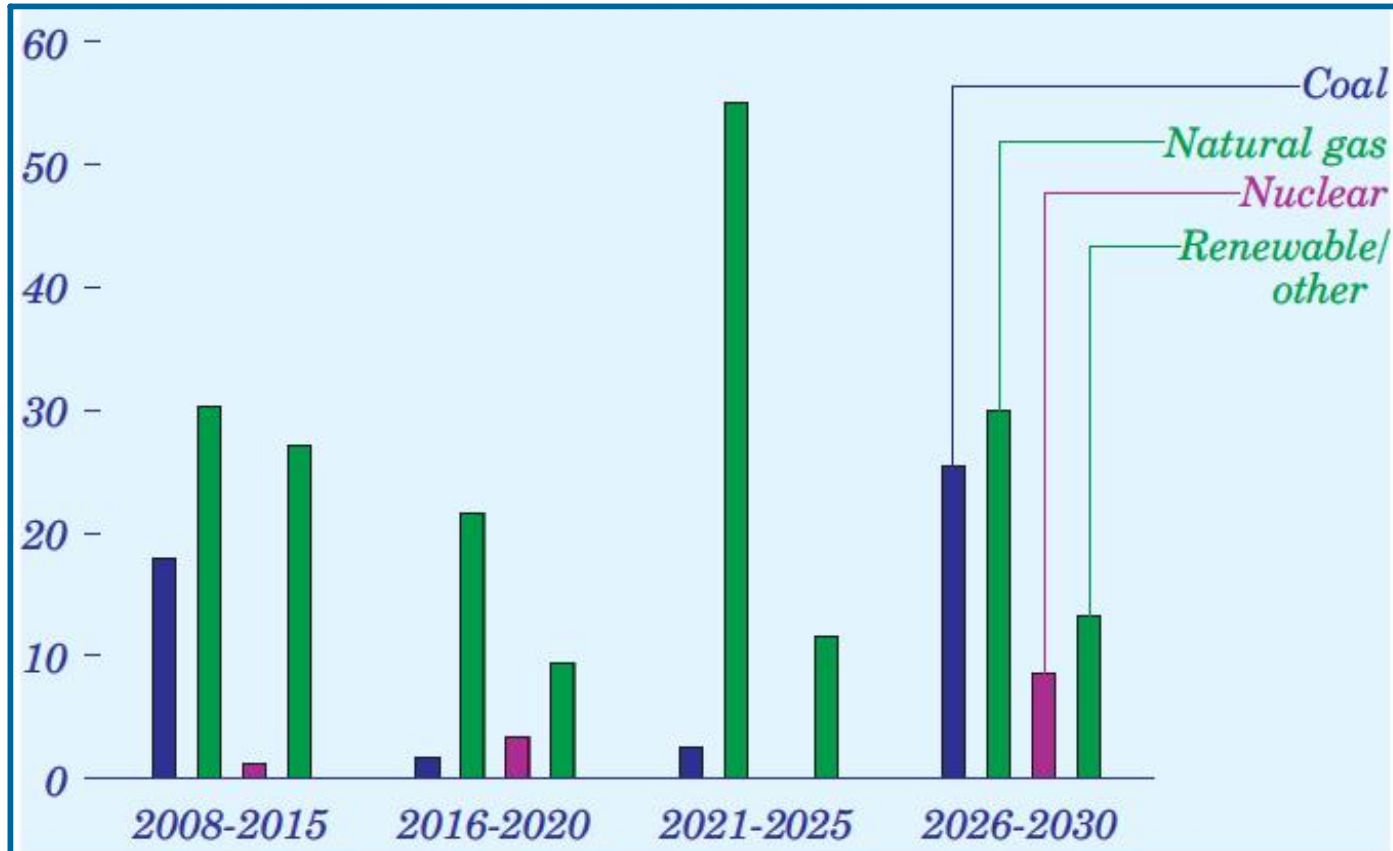
The looming demand driver

Climate Change Legislation

- Since May 2007: 213 coal-fired plants proposed
 - As of Aug. 2009 -
 - »Cancelled, abandoned, or on hold: 129 projects;
 - »Early stages of development: 23 projects;
 - »Advanced stages of development: 28 projects;
 - »In construction or operating: 33 projects.
- Turning to natural gas (Sept. 4 news)
 - Tenaska Inc., an independent power company based in Omaha, Neb., wants to build a \$500-million natural gas power plant
 - Portland General Electric Co. issues an RFP for 300 MW to 500 MW of gas-fired baseload resources and 100 MW to 200 MW of gas-fired peaking capacity

Future perspective

Electricity generation capacity additions by fuel type, 2008-2030(gigawatts)

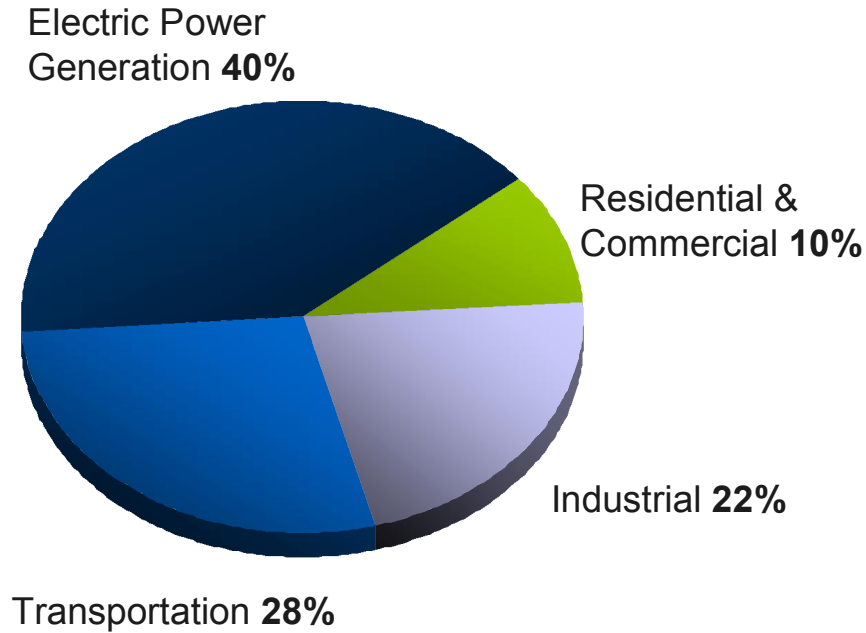




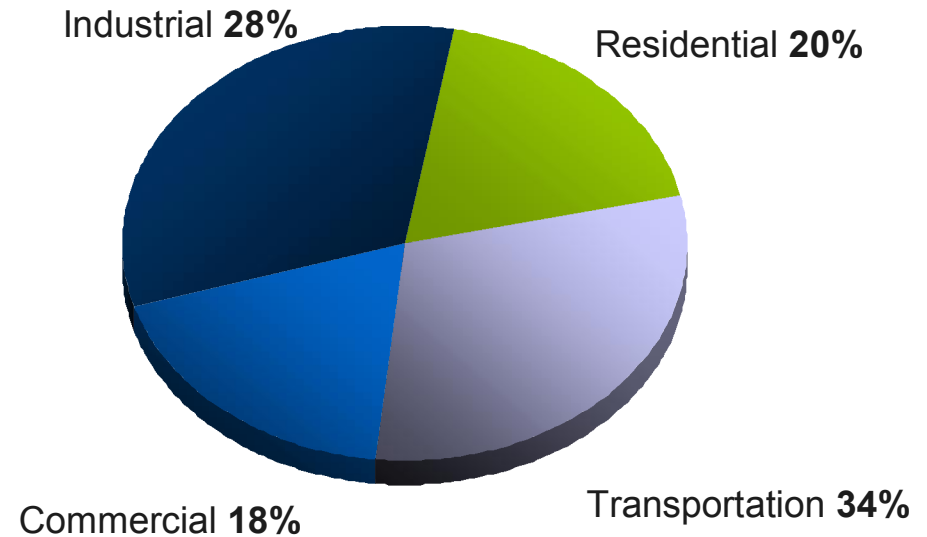
Climate Change Legislation

Sources of greenhouse gas emissions

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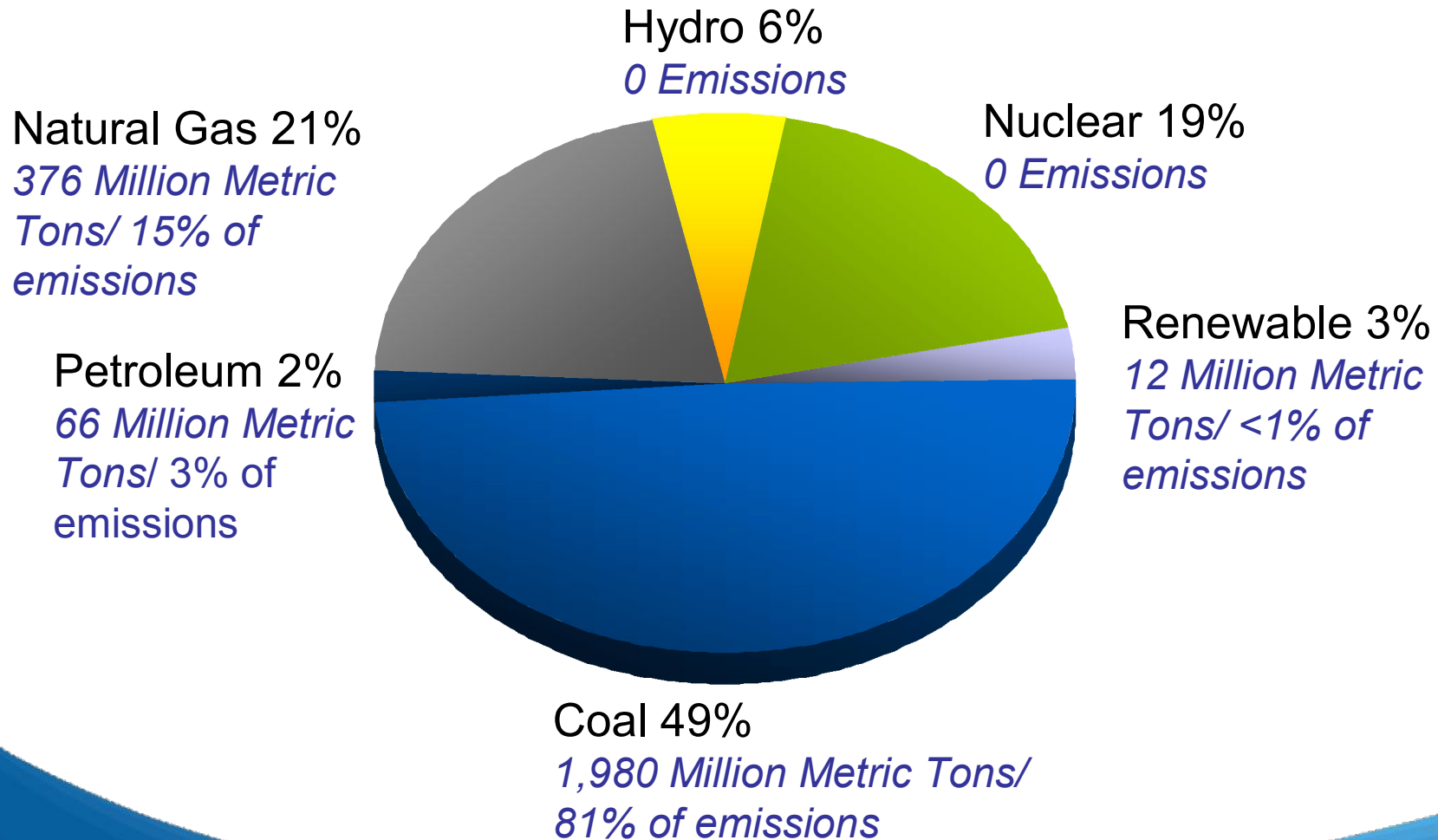


Greenhouse gas emissions by sector with electric consumption tied to end user



Source: Energy Information Administration, 2006

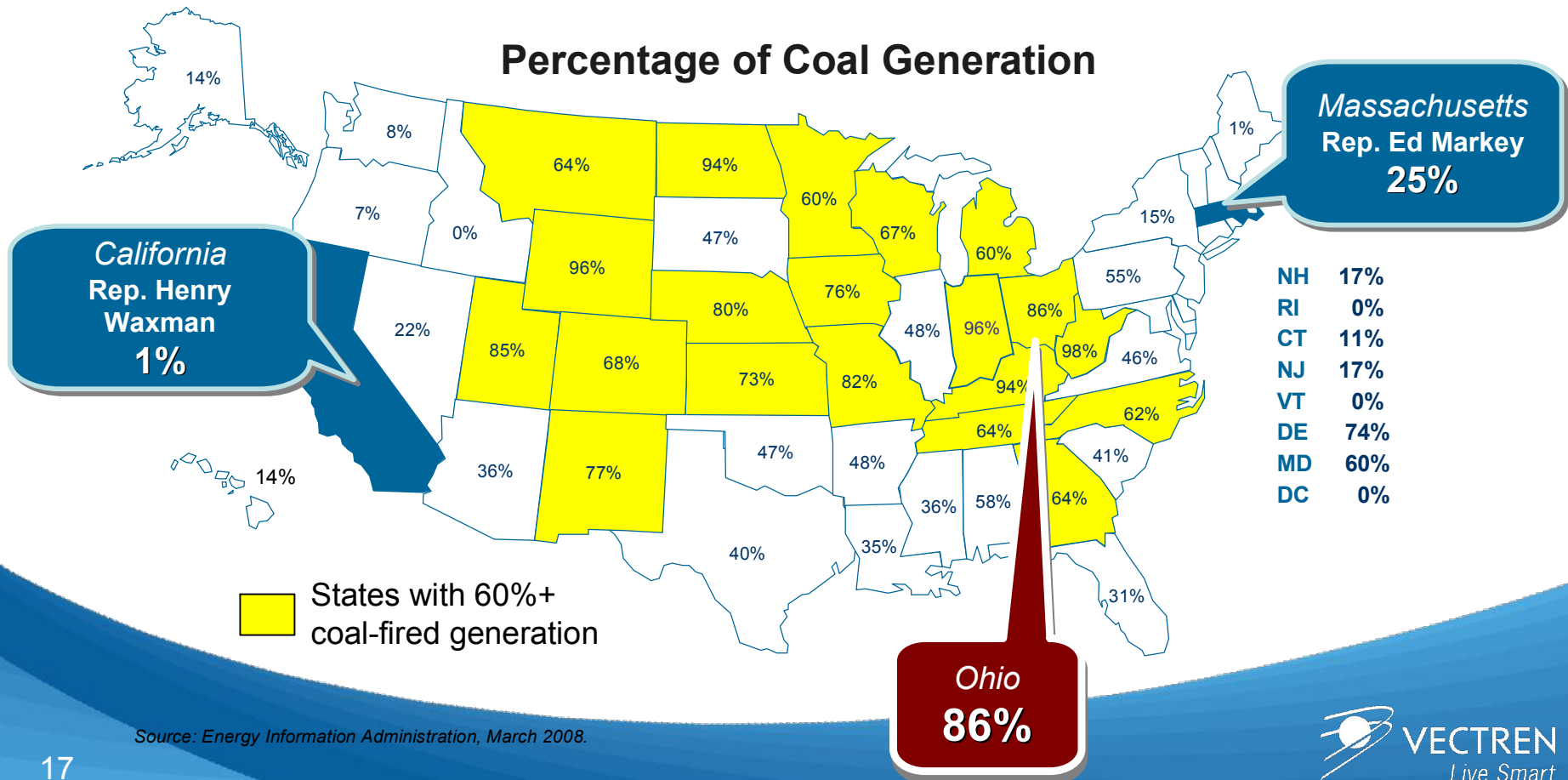
U.S. energy sources for electric generation and carbon emissions



Targeting the coal-fired states

Electricity

- Coal dominates as our nation's energy source
- Meets 50% of America's, 86% of Ohio's electric generation needs
- The nation's heartland will have the toughest transition to a carbon-free America



Source: Energy Information Administration, March 2008.

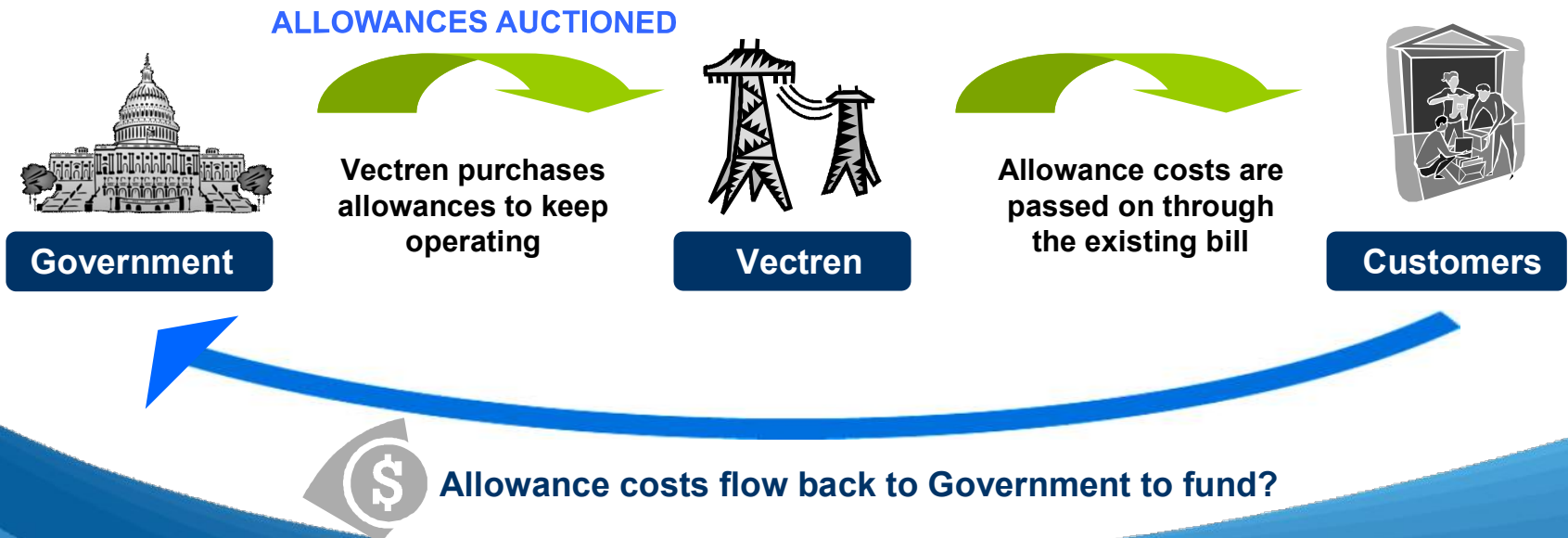
Cap and trade - Allocating allowances

Key debate: Free allowances vs. auctioned allowances

- *No-cost allowances based on actual emissions are critical to keeping bills lower*
- *Must allow time for technology to enable a low-carbon environment*

Midwest customers cannot overpay for a carbon-constrained world

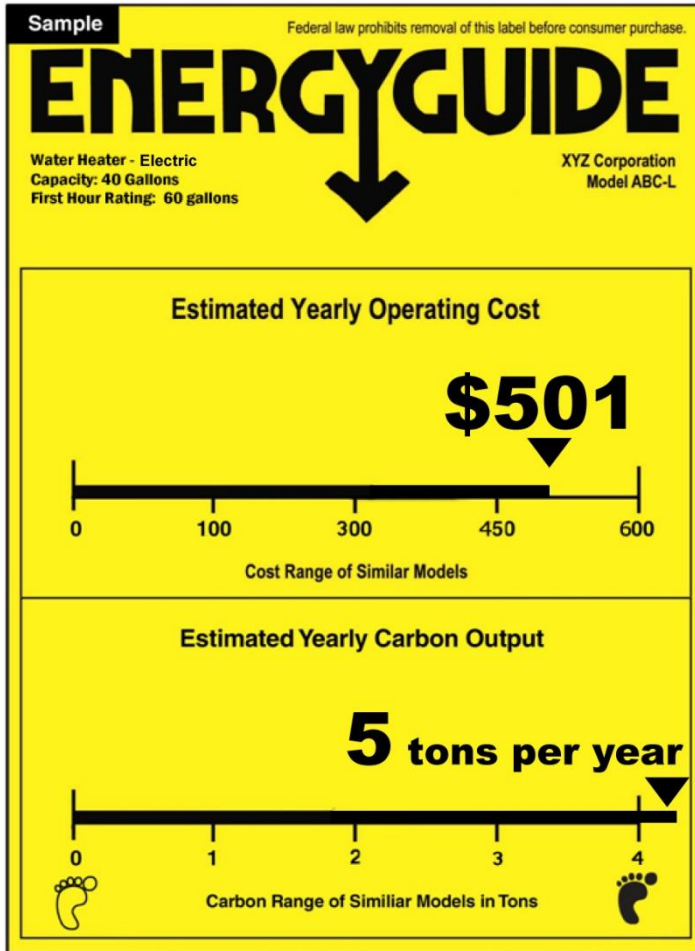
- *Pay for auctioned allowances, which would not reduce emissions*
- *Pay for carbon capture technology once it is available*



Key natural gas provisions

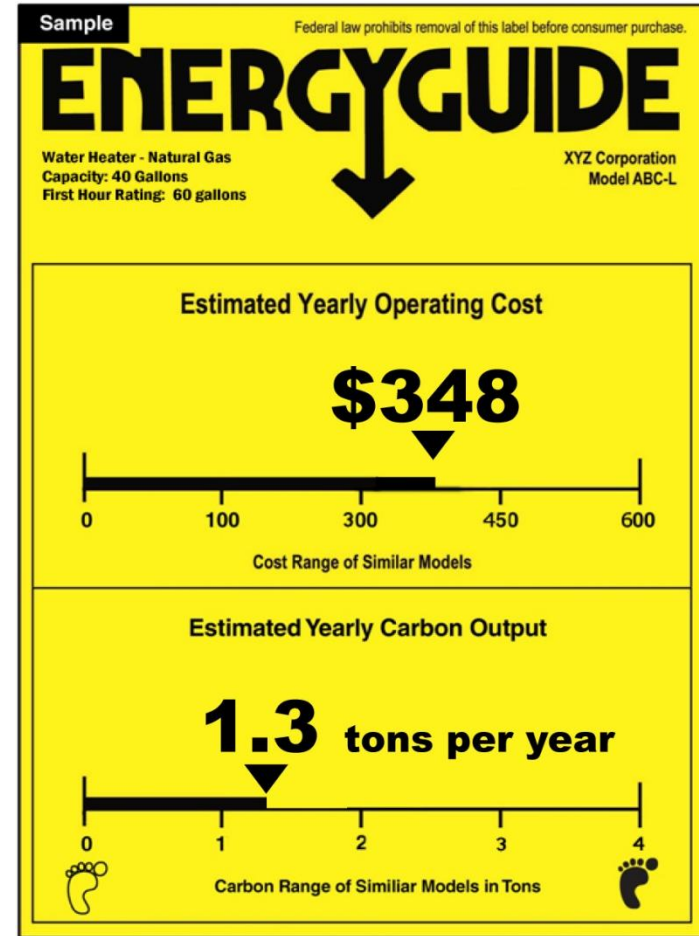
- Requires LDCs spend one-third of the allowance value on efficiency
 - Equates to significant additional industry costs
- Cap and trade provision on a 4-year delay
 - Natural gas utilities receive 9% of all emission allowances at no cost through 2025
 - » Allowances ramp down to zero between 2025 and 2030
 - » Large industrial and electricity generators not included, required to obtain allowances separately
- Allowance allocation process
 - 1.9% annual consumption reduction per year would mean NO bill impacts at 2025
- Expanding EnergyGuide labels to include carbon footprint

Carbon footprint labeling



Electric water heater

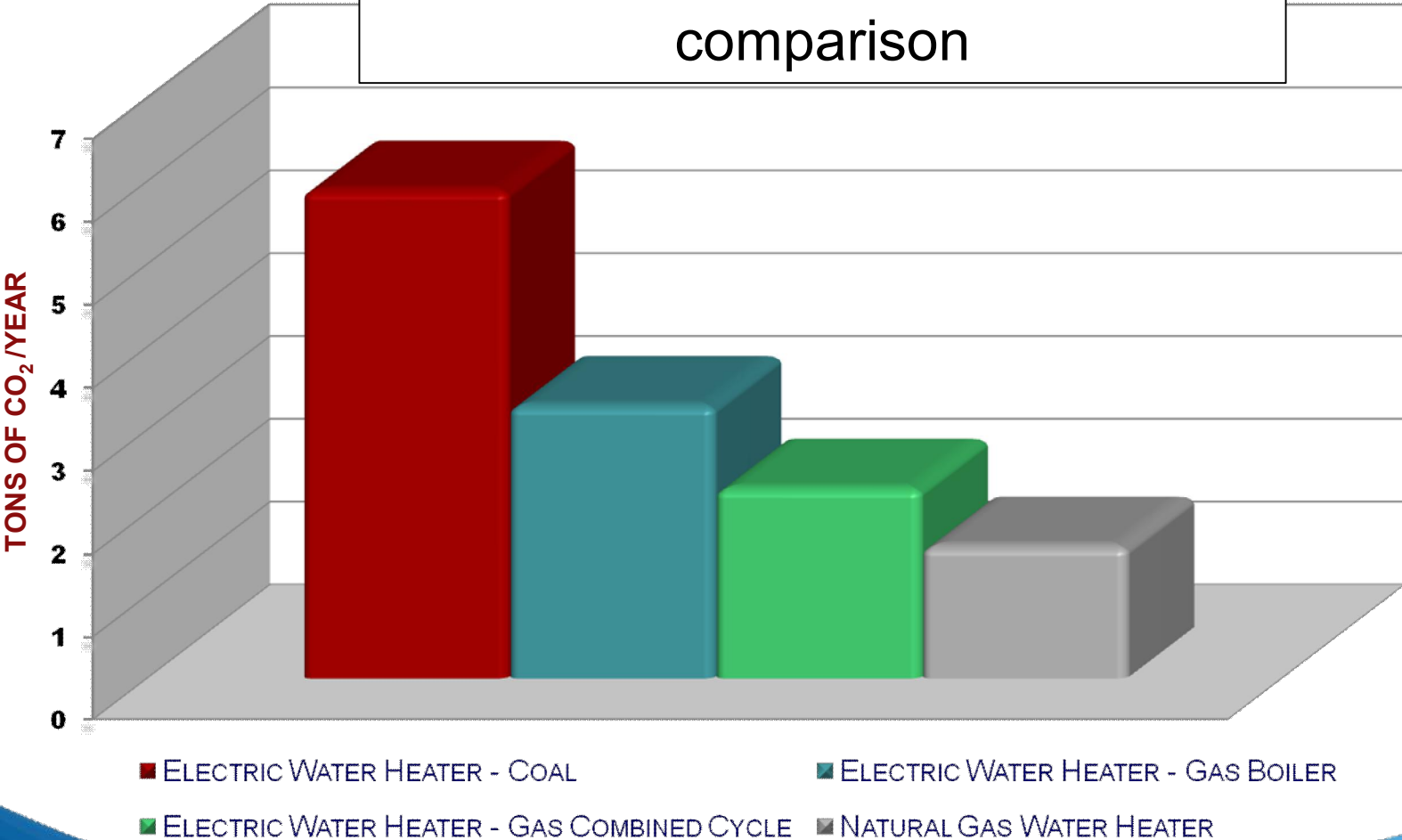
vs.



Natural gas water heater

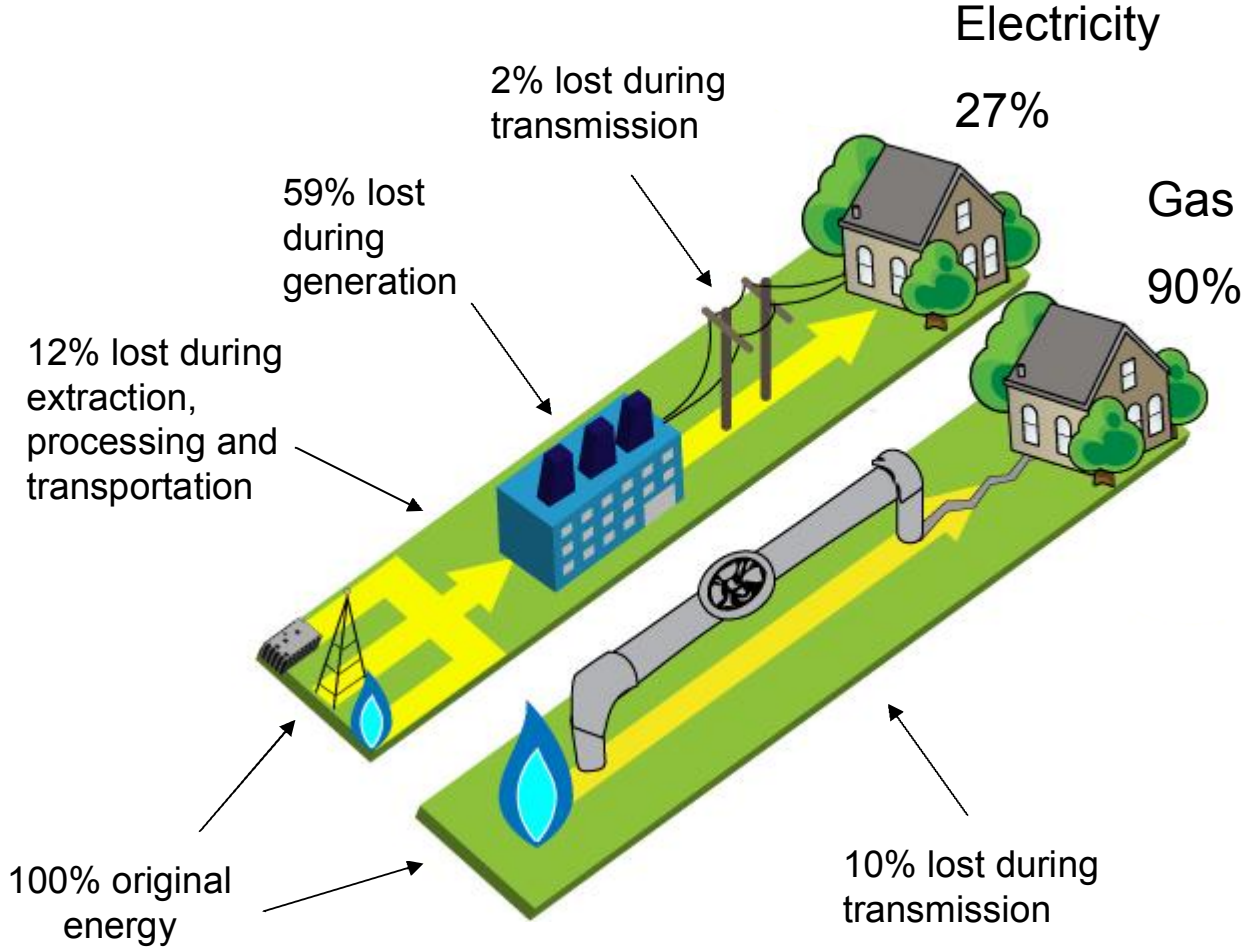
Direct use reduces greenhouse gas emissions

Water heater fuel source comparison



Using natural gas to produce electricity

Why use a more efficient form of energy to produce a less efficient form of energy?



Climate change and the Midwest

Trying to level the playing field

- Bill passed the House by narrow margin, focus now in Senate
- Fight for zero-cost (free) allowance allocations to coal-based electric generators based on emissions
 - Those who don't emit, should NOT be granted allowances
- Allow for a greater technology grace period
 - Prevents payment for the technology and allowances
- Ensure dollars follow R&D
 - Keeps coal as feed source; continues to promote direct use of natural gas
- Final outcome uncertain
- EPA regulation?



VECTREN
Live Smart

The Buckeye State

Vectren adapting to changing energy industry

Alignment between the utility and the customer

- Both the utility and the customer have the responsibility to control cost
 - Utility: through aggressive cost control and customer education
 - Customer: personal efficiency efforts

Rate structure is critical to success

- Decoupling
 - Breaks link between volume and recovery of fixed costs
 - Most weather risk eliminated
- Straight fixed variable rate design
 - Moves some volumetric charges into a fixed service charge
 - Further enhances conservation

Vectren adapting to changing energy industry

New rate structure fosters conservation programs

- Conservation Connection program underway
 - Rebates, on-line audit tool, commercial partnerships
 - Project TEEM, low-income home weatherization
 - » Serves up to 200% of poverty; weatherized more than 1,500 homes since 2005
 - » Expanded program serves 200-300% of poverty, essentially the working poor
 - » Proven to lower energy bills by 25 to 30%.

The capital conundrum

The ability to attract capital is paramount

- The natural gas industry will need to invest roughly \$150 billion during the next 20 years.
- Interstate pipeline companies will need to add 38,000 miles of pipe to the 270,000 miles currently in the ground.
 - » Distribution companies will need to add 255,000 more miles of distribution pipelines (up from the current 952,000 miles).
- Vectren has current bare steel and cast iron and riser replacement programs under way

We must be able to attract capital to operate safely and reliably.

Economic pulse of greater Dayton

Since Vectren entered into Ohio in 2000:

- Unemployment has increased from 17,000 to 41,000 (141%)
 - Unemployment rate is 9.72%
- Number of households has declined by 4,300 (-1.26%)
- Real personal Income decreased by \$370 million (-1.53%)
- Single-family housing permits down dramatically 2,100 to 280 (-86%)
- Manufacturing employment has decreased by 35,500 jobs (-45%)

Source: Moody's Economy.com; Jan. 2000 versus Jan. 2009 data

Ability to pay

State and federal programs can help

- PIPP

- Qualifying customers up nearly 50% in past 5 years

- HEAP & E-HEAP

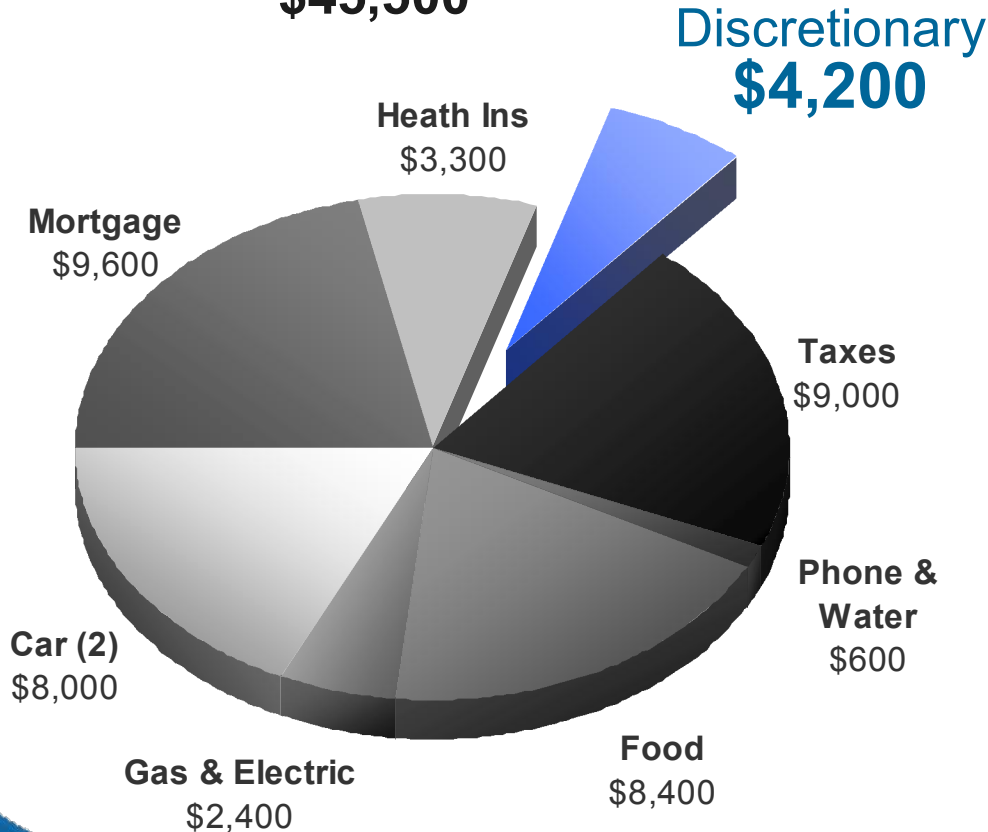
- Federal government awarded a record \$5.1 billion, up from \$2.6 billion in 2008

- »Ohio granted \$220 million, up from \$132 million in 2008

- Qualifying customers up nearly 50% in past 5 years

Our customer's cost of living

Median household income,
Vectren Ohio customer:
\$45,500



- Tuition - \$4K to \$30K
- Daycare - \$5K per child
- Cable, internet and/or cell - \$1,000 to \$2,500
- Clothing - \$360 to \$1,000 per household member
- Vacations or entertainment
- Medical co-pays, deductibles
- **Savings???**

Economic pulse of greater Dayton

Looking to turn the corner:

- 3,000 government and contractor positions by Sept. 15, 2011 supporting BRAC in bound missions and jobs
- *Site Selection*, Dayton ranked No. 1 among all second-tier metros with 41 construction projects in 2008
- Dayton designated as Ohio's Aerospace Hub - near and long-term regional growth by building on its historic strengths in aerospace and technology innovation
- Honda announced the company's East Liberty plant will begin assembling the Accord Crosstour crossover entrenching its community position
- Dayton has its best and brightest working diligently to attract and retain jobs and talent while providing multiple incentives to build a strong "future state"

Challenging times call for innovative leadership

The need for capital-intensive infrastructure improvements and the economy continue to present challenges – for the utility AND the customer

- Economic rebound is imperative
- Cost control and conservation are the solutions

What does climate change mean to the natural gas industry?

- The short-term fuel of choice for new generation means increased price pressures
- Direct use is the responsible answer
- Would programmatic policies result in a better solution?

Is natural gas just a bridge fuel to the future?

Natural gas; efficient, affordable, abundant and American

Strengthening our communities

United Way campaigns underway

- 1 in 4 of us will be touched by a United Way agency
- Please consider a donation





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