

VECTREN CORP
Form 11-K
June 29, 2007

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 11-K

(Mark One)

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

For the fiscal year ended **December 31, 2006**

OR

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

For the transition period from _____ to _____

Commission file number: **1-15467**

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

Vectren Corporation Retirement Savings Plan

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive officer:

**Vectren Corporation
One Vectren Square
Evansville, Indiana 47708**

Table of Contents

TABLE OF CONTENTS

| | <u>Page</u> | |
|--|-------------|------|
| <u>Report of Independent Registered Public Accounting Firm</u> | 1 | |
| <u>Statements of Net Assets Available for Benefits</u> | | 2 |
| Statements of Changes in Net Assets Available for Benefits | 3 | |
| <u>Notes to Financial Statements</u> | | 4-10 |
| <u>Schedule H – Schedule of Assets Held at End of Year</u> | 11 | |
| <u>Signatures</u> | | 12 |
| <u>Index of Exhibits</u> | 13 | |

Note: The accompanying financial statements have been prepared for the purpose of filing with Form 5500. Supplemental schedules required by the Department of Labor's rules and regulations for reporting and disclosure under the Employee Retirement Income Security Act of 1974, other than the schedule listed above, are omitted because of the absence of the conditions under which they are required.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Investment Committee of the
Vectren Corporation Retirement Savings Plan:

We have audited the accompanying statements of net assets available for benefits of the Vectren Corporation Retirement Savings Plan as of December 31, 2006 and 2005 and the related statements of changes in net assets available for benefits for each of the three years ended December 31, 2006. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Vectren Corporation Retirement Savings Plan as of December 31, 2006 and 2005, and the changes in net assets available for benefits for each of the three years ended in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets held at end of year as of December 31, 2006, is presented for the purpose of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by the United States Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic 2006 financial statements taken as a whole.

As discussed in Note 2, the Plan adopted Financial Accounting Standards Board Staff Position AAGINV-1 and SOP 94-4-1, "Reporting of Fully Benefit Responsive Investment Contracts Held by Certain Investment Companies Subject to AICPA Investment Company Guide and Defined Contribution Health and Welfare and Pension Plans," as of December 31, 2006, and retrospectively to December 31, 2005.

/s/ McGladrey & Pullen LLP
McGLADREY & PULLEN LLP

Peoria, Illinois,
June 28, 2007

Table of Contents**VECTREN CORPORATION****RETIREMENT SAVINGS PLAN****STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS****(In Thousands)**

| (in thousands) | At December 31, | |
|---|-------------------|-------------------|
| | 2006 | 2005 |
| <u>ASSETS</u> | | |
| Cash and cash equivalents | \$ 24 | \$ 7 |
| Investments, at fair value | | |
| Mutual funds | 96,420 | 76,303 |
| Vectren Corporation Common Stock Fund | 27,413 | 30,451 |
| Common trust fund - fully benefit responsive investment contracts | 17,448 | 19,476 |
| Participants' loans | 3,084 | 2,912 |
| Total investments | 144,365 | 129,142 |
| Net assets available for benefits, at fair value | 144,389 | 129,149 |
| Adjustment from fair value to contract value for investments in common trust fund, related to fully benefit responsive investment contracts | 150 | 164 |
| NET ASSETS AVAILABLE FOR BENEFITS | \$ 144,539 | \$ 129,313 |

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

Table of Contents**VECTREN CORPORATION****RETIREMENT SAVINGS PLAN****STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS****(In Thousands)**

| (in thousands) | Year Ended December 31, | | |
|--|-------------------------|-------------------|-------------------|
| | 2006 | 2005 | 2004 |
| ADDITIONS TO NET ASSETS ATTRIBUTED TO: | | | |
| Investment income: | | | |
| Dividend, interest, and other income | \$ 6,499 | \$ 5,240 | \$ 4,178 |
| Net appreciation of investments | 8,810 | 981 | 6,907 |
| Total investment income | 15,309 | 6,221 | 11,085 |
| Contributions: | | | |
| Employee | 8,260 | 7,413 | 6,962 |
| Employer | 3,693 | 3,420 | 3,523 |
| Total contributions | 11,953 | 10,833 | 10,485 |
| DEDUCTIONS FROM NET ASSETS ATTRIBUTED TO: | | | |
| Distribution of benefits to participants | (12,029) | (7,020) | (8,713) |
| Fees paid to trustee | (7) | (4) | (5) |
| Total deductions | (12,036) | (7,024) | (8,718) |
| Net increase | 15,226 | 10,030 | 12,852 |
| NET ASSETS AVAILABLE FOR PLAN BENEFITS | | | |
| Beginning of year | 129,313 | 119,283 | 106,431 |
| End of year | \$ 144,539 | \$ 129,313 | \$ 119,283 |

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

Table of Contents

VECTREN CORPORATION
RETIREMENT SAVINGS PLAN
NOTES TO FINANCIAL STATEMENTS

1. DESCRIPTION OF THE PLAN

a. General

The Vectren Corporation Retirement Savings Plan (the Plan) is a defined contribution plan subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA) as amended. The Plan's sponsor, Vectren Corporation (Vectren or the Company), serves as the plan administrator. Vectren, an Indiana corporation, is an energy holding company headquartered in Evansville, Indiana. An Investment Committee has been appointed by the Company's Board of Directors to administer the Plan. The following description of the Plan provides only general information. Further details of the Plan are provided in the Summary Plan Description which has been distributed to all plan participants.

With the exception of Miller Pipeline Corporation (Miller) and Energy Systems Group (ESG), all of Vectren's wholly owned subsidiaries participate in the Plan.

b. Participation

Non-bargaining unit employees who have completed at least one hour of service and who are expected to complete 1,000 hours of service during their first year of employment are eligible to participate in the Plan. Non-bargaining unit employees who are not expected to meet the 1,000 hours of service threshold are eligible to participate after completing one year of Period Service, as defined in the Plan document.

Bargaining unit employees must have either completed 1,000 hours of service or completed one year of service to participate in the Plan.

Each participant's account is adjusted daily for contributions, withdrawals, distributions, income earned, changes in the value of trust fund assets, and expenses directly related to investment transactions. Adjustments are based on participant earnings or account balances, as defined.

c. Contributions and Vesting

Contributions are subject to limitations as defined in the Internal Revenue Code and are invested in 5 percent increments in the Vectren Corporation Common Stock Fund, a common trust fund, and seventeen mutual funds. Plan participants may elect to contribute from 1 percent to 50 percent in whole percentages, of their eligible compensation, as defined in the amended and restated plan document. Employees who become eligible to participate in the Plan subsequent to December 1, 2004 automatically have 3 percent of their eligible compensation contributed to the Plan. Such contributions are invested in fund options that consider the participants' estimated retirement date. The participant can elect any other contribution percentage, including zero percent, and any other investment option.

Additionally, bargaining unit participants may contribute 100 percent of any pay out under their performance incentive plan and any guaranteed annual payment earned by the employee. Participants may also contribute amounts

representing distributions from other qualified defined benefit and defined contribution plans. All participant contributions are fully vested.

Table of Contents

Non-Bargaining Employees

Generally, the Company matches 50 percent of the first 6 percent of eligible compensation contributed by all non-bargaining unit employees. Most participants also receive an additional 3 percent contribution on eligible compensation; however, certain participants in the Plan prior to March 30, 2000 declined the additional 3 percent contribution in lieu of rights available under other qualified retirement plans. Certain employees of Vectren's nonregulated operations also do not receive the additional 3 percent contribution. Participants vest ratably in 20 percent increments over five years in employer contributions.

Bargaining Unit Employees

The Company's matching contribution depends on the negotiated collective bargaining arrangement, but is generally 50 percent of the first 4 percent or 5 percent of eligible compensation. The Company's matching contribution for bargaining unit employees covered under the Utility Workers Union of America, Local 175 (UWUA) agreement is limited to \$1,000 per year. Additionally, the Company will contribute an annual contribution for employees covered under the UWUA according to an agreed upon schedule as defined in the Plan document. Participants vest ratably in 20 percent increments over five years.

d. Distributions

Upon termination, retirement, or disability, participants have the option to receive either a lump sum distribution equal to the value of their vested account balance, or periodic installments over a period not to exceed 10 years, unless benefits are less than \$5,000. If benefits are less than \$5,000, participants can either receive a lump sum distribution or roll funds over into an Individual Retirement Account or other qualified plan. Also, if a lump sum distribution is received, the participant or beneficiary may elect to receive their existing investments in the Vectren Corporation Common Stock Fund in whole shares with fractional shares paid in cash.

Upon death of a participant, the beneficiary will continue to receive benefits if the participant was already receiving benefit payments. If the participant had not begun receiving benefit payments, the beneficiary will receive a lump sum distribution of the participant's account balance within 5 years of the participant's death unless an election was made to distribute the participant's account balance in equal installments over a period not greater than 10 years to the beneficiary. If the beneficiary is the participant's spouse, an election can be made not to begin distributions before the participant would have reached age 70-1/2.

e. Forfeited Accounts

Forfeited non-vested accounts are used to reduce future employer contributions. At December 31, 2006, 2005 and 2004, the amount of forfeited non-vested accounts was not significant.

f. Withdrawals While Employed

Once an employee reaches age 59-1/2 and has completed 5 years of service, the employee can withdraw the partial or full value of his/her account at any time without penalty.

Prior to age 59-1/2, an employee can withdraw employee contributions and employer matching and discretionary contributions if the employee satisfies certain hardship requirements as defined in the Plan. The distribution can be the amount necessary to satisfy the immediate financial need of the participant and is only available after the participant has obtained all other distributions and loans available under the Plan.

Table of Contents

g. Participant Loans

The Plan allows eligible participants to borrow up to 50 percent of the vested amount of their account balance up to \$50,000 with a minimum borrowing of \$1,000. Each loan shall bear interest at the Prime rate plus 1 percent as determined by the Plan and is collateralized by the participant's remaining balance in his/her account. The loan repayment period shall not be less than 1 year or greater than 5 years, except in instances where the loan proceeds were used to acquire the principal residence of the participant. Each participant for whom a loan is approved is charged a \$50 fee which is deducted from the participant's account and is paid to the Plan Trustee.

A participant may have no more than one active loan outstanding. Loan payments, both principal and interest, shall be reapplied to the participant's account and reinvested in the applicable fund based on the participant's current election.

h. Party-in-Interest Transactions

The Plan invests in shares of mutual funds managed by T. Rowe Price (the Trustee) and invests in shares of common stock of the Plan's sponsor, Vectren. Loan origination fees paid by participants of the Plan to T. Rowe Price amounted to \$5,650, \$4,400 and \$5,200 for the years ended December 31, 2006, 2005 and 2004, respectively. Additionally, Vectren performs certain services at no cost to the Plan and pays certain trustee fees and record keeping costs for the benefit of the Plan.

i. Plan Termination

While it has not expressed any intention to do so, the Company has the right to terminate the Plan subject to the provisions of ERISA. Upon partial or total termination of the Plan, the participants' accounts shall become fully vested and non-forfeitable.

j. Voting Rights of Vectren Corporation Common Stock Fund Participants

Each participant who has an account balance in the Vectren Corporation Common Stock Fund is entitled to direct the Trustee as to the manner of voting at each meeting of shareholders for all shares of Vectren Corporation common stock (including fractional shares), represented by the value of the participant's interest in the Vectren Corporation Common Stock Fund.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Accounting

The accompanying financial statements of the Plan have been prepared under the accrual method of accounting.

b. Investments

Investments are stated at fair value using quoted market prices or other forms of third party support. Shares of mutual funds are valued at quoted market prices which represent the net asset value of shares held by the plan at year end. Participant loans are valued at cost which approximates fair value. Fully benefit-responsive contracts are reported at fair value in the Plan's Statement of Net Assets Available for Benefits with a corresponding adjustment to reflect these investments at contract value. Contract value is cost plus accrued income minus redemptions. Fair value is determined by discounting the scheduled future payments under the contract using a market rate for contracts with maturities comparable to the average remaining life of the contract being valued. Investment transactions are reported on the trade date and are participant directed.

The Plan provides for various investment options in investment securities. Investment securities are exposed to various risks, such as interest rate and market volatility risks. Due to the level of risk associated with investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such a change could materially affect the amounts reported in the Statement of Net Assets Available for Benefits.

Table of Contents

c. Distributions

Distributions to withdrawing participants are recorded when paid.

d. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes therein and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

e. Impact of New Financial Accounting Standards

FASB Staff Position (FSP) AAG INV-1 and AICPA Statement of Position (SOP) 94-4-1

SOP 94-4, *Reporting of Investment Contracts Held by Health and Welfare Plans and Defined-Contribution Pension Plans (SOP 94-4)*, is amended by FAS AAG INV-1 and SOP 94-4-1, *Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans (FSP AAG INV-1 and SOP 94-4-1)*. FSP AAG INV-1 and SOP 94-4-1 revised the definition of a fully benefit responsive contract and provided disclosure guidance regarding benefit responsive contracts carried at contract value in financial statements. The requirements of the FSP were adopted as of December 31, 2006 and have been applied retroactively to the Statement of Net Assets Available for Benefits as of December 31, 2005 presented for comparative purposes. The adoption had no impact on the total amount of Net Assets Available for Benefits or on the Statement of Changes in Net Assets Available for Benefits, but did require the Plan to separately disclose the fair value of its common trust fund investment and the adjustment of that fair value to contract value. The additional disclosure required by the FSP is included in Note 5.

SFAS 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, and interim periods within those fiscal years with early adoption encouraged. The Plan is currently assessing the impact this statement will have on its financial statements and results of operations.

Table of Contents**3. INVESTMENTS**

The following table presents the fair value of investments at December 31, 2006 and 2005, respectively. Investments that represent 5% or more of the Plan's net assets are separately identified.

| (in thousands) | | 2006 | 2005 |
|----------------|--|-------------------|-------------------|
| 1) | Vectren Corporation Common Stock Fund | \$ 27,413 | \$ 30,451 |
| 1) | T. Rowe Price Stable Value Common Trust Fund | 17,448 | 19,476 |
| | Equity Income Fund | 18,204 | 16,739 |
| | Balanced Fund | 12,451 | 11,153 |
| | Growth Stock Fund | 13,104 | 11,161 |
| | Trendstar Invt Tr Small Cap Fund | - | 6,561 |
| 2) | Other investments less than 5% of net assets | 52,661 | 30,689 |
| | Participants' loans | 3,084 | 2,912 |
| | Total investments | \$ 144,365 | \$ 129,142 |

1) A party-in-interest to the Plan

2) T. Rowe Price (TRP) is a party-in-interest to the Plan. The Plan held (in thousands) \$4,805 and \$3,406 in TRP's International Stock Fund; \$255 and \$213 in TRP's Retirement 2005 Fund; \$3,572 and \$2,594 in TRP's Retirement 2010 Fund; \$3,755 and \$2,491 in TRP's Retirement 2015 Fund; \$4,902 and \$2,225 in TRP's Retirement 2020 Fund \$2,970, and \$1,770 in TRP's Retirement 2025 Fund; \$2,358 and \$611 in TRP's Retirement 2030 Fund; \$742 and \$276 in TRP's Retirement 2035 Fund; \$1,587 and \$528 in TRP's Retirement 2040 Fund; \$317 and \$30 in TRP's Retirement 2045 Fund; \$509 and \$580 in TRP's Retirement Income Fund; and \$6,565 and \$6,048 in TRP's Equity Index 500 Fund, as of December 31, 2006, and 2005, respectively.

During the years ended December 31, 2006, 2005 and 2004, the Plan's investments (including realized and unrealized gains and losses on investments) appreciated in value as follows:

| (in thousands) | 2006 | 2005 | 2004 |
|---------------------------------------|-----------------|---------------|-----------------|
| Mutual Funds and Common Trust Fund | \$ 7,723 | \$ 569 | \$ 4,460 |
| Vectren Corporation Common Stock Fund | 1,087 | 412 | 2,447 |
| Total appreciation | \$ 8,810 | \$ 981 | \$ 6,907 |

Table of Contents

4. TAX STATUS

The Company received its last determination letter on December 3, 2003, in which the Internal Revenue Service (IRS) stated that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code. The Plan has been amended since receiving the determination letter, and the Company has requested that the IRS issue a new determination letter based upon the Plan's current design. In the opinion of the Investment Committee, the Plan is currently designed, and continues to operate, in a manner that qualifies it under Internal Revenue Code Section 401(a) and, therefore, is exempt from income taxes under the provisions of Internal Revenue Code Section 501(a). Accordingly, no provision for Federal income taxes has been made.

5. BENEFIT RESPONSIVE INVESTMENT CONTRACT

The Plan has a benefit responsive investment contract with T Rowe Price in relation to the T Rowe Price Stable Value Common Trust Fund (the Common Trust Fund). The Common Trust Fund maintains participant directed contributions that are credited with earnings and charged for participant withdrawals and expenses. The Common Trust Fund is contractually obligated to repay principal and a specified interest rate that is guaranteed to Plan participants.

The fair value of the Common Trust Fund investment is different than the value at which Plan participants purchase and sell Common Trust Fund units or engage in other permitted transactions. The value at which Plan participants initiate Common Trust Fund transactions is called "contract value." Contract value, rather than fair value, is therefore the relevant financial statement measure for the Common Trust Fund, and the fair value of the Common Trust Fund has been adjusted to its contract value in these financial statements. Certain events, however, could limit the Common Trust Fund's ability to transact at contract value with Plan participants; however, those events are not considered probable by the Plan Sponsor.

Because the Common Trust Fund initiates transactions at fair value and values its ending assets at fair value, but transacts with Plan participants at contract value, it is possible for the return credited to Plan participants to differ from the Common Trust Fund's actual return. However, as of December 31, 2006, the Plan's average yield credited to participants was 4.68% and was consistent with the Common Trust Fund's yield based on actual earnings.

Table of Contents**6. RECONCILIATION BETWEEN FINANCIAL STATEMENTS AND FORM 5500**

A reconciliation of net assets available for benefits per the financial statements at December 31, 2006 to Form 5500 follows:

| (in thousands) | At December 31, 2006 |
|---|-------------------------|
| Net assets available for benefits per the financial statements | \$ 144,539 |
| Adjustment between fair value and contract value related to fully benefit-responsive investment contracts held by common trust fund | (150) |
| Net assets available for benefits per the Form 5500 | \$ 144,389 |

A reconciliation of net investment income per the financial statements for the year ended December 31, 2006 to Form 5500 follows:

| (in thousands) | At December 31, 2006 |
|---|-------------------------|
| Net investment income per the financial statements | \$ 15,309 |
| Adjustment between fair value and contract value related to fully benefit-responsive investment contracts held by common trust fund | (150) |
| Net investment income per the Form 5500 | \$ 15,159 |

Table of Contents**SCHEDULE H****VECTREN CORPORATION****RETIREMENT SAVINGS PLAN****SCHEDULE H, PART IV, LINE 4i - SCHEDULE OF ASSETS HELD AT END OF YEAR****AS OF DECEMBER 31, 2006****EIN (35-2086905)**

(in thousands)

| Identity of Issuer, Borrower, Lessor, or Similar Party | Current Value |
|---|-------------------|
| 1) Vectren Corporation Common Stock Fund | \$ 27,413 |
| 1) T. Rowe Price Stable Value Common Trust Fund | 17,448 |
| <u>Mutual Funds</u> | |
| 1) T. Rowe Price | |
| Equity Income Fund | 18,204 |
| Growth Fund | 13,104 |
| Balanced Fund | 12,451 |
| Equity Index 500 Fund | 6,565 |
| Retirement 2020 Fund | 4,902 |
| International Stock Fund | 4,805 |
| Retirement 2015 Fund | 3,755 |
| Retirement 2010 Fund | 3,572 |
| Retirement 2025 Fund | 2,970 |
| Retirement 2030 Fund | 2,358 |
| Retirement 2040 Fund | 1,587 |
| Retirement 2035 Fund | 742 |
| Retirement Income Fund | 509 |
| Retirement 2045 Fund | 317 |
| Retirement 2005 Fund | 255 |
| Trendstar Investment Trust Small Cap Fund | 6,899 |
| PIMCO Total Return Fund | 5,785 |
| Boston Co Small Cap Value | 4,673 |
| Morgan Stanley Institutional Equity Fund | 2,967 |
| 1) Participants' loans, interest rates from 5.0% to 10.0% | 3,084 |
| Total assets held at end of year | \$ 144,365 |

1) Party-in-interest to the Plan.

11

Table of Contents

Pursuant to the requirements of the Securities Exchange Act of 1934, the Vectren Corporation Investment Committee has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

**VECTREN CORPORATION
RETIREMENT SAVINGS PLAN**

Dated June 28, 2007

/s/ Robert L. Goocher

Robert L. Goocher, Vice President and
Treasurer of Vectren Corporation and
Chairman of the Vectren Corporation
Investment Committee

Table of Contents

**Vectren Corporation Retirement Savings Plan
2006 Form 11-K
Attached Exhibits**

The following Exhibits were filed electronically with the SEC with this filing.

| <u>Exhibit Number</u> | <u>Document</u> |
|----------------------------------|--|
| 23.1 | Consent of Independent Registered Public Accounting Firm |