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Staff Recommendations
regarding the
Report of Vectren Energy Delivery of Ohio, Inc.
on the
Transportation Program Cost Rider

Case No. 02-1566-GA-ATA

February 4, 2004

In Case No. 02-1566-GA-ATA, the Public Utilities Commission of Ohio (Commission) issued a Finding and Order on August 22, 2002 which approved the establishment of a residential and small commercial customer natural gas choice program in the service area of the Vectren Energy Delivery of Ohio, Inc. (VEDO or Company).

Among other decisions in the Finding and Order, the Commission approved the establishment of a Transportation Program Cost Rider (TPC Rider). This Rider was "designed to recover all information technology and business system development expenses; information and educational advertising expenses; program roll out expenses; incremental regulatory and administrative expenses; and ongoing program costs, including labor cost required for development, promotion, operation, and maintenance of the choice program". VEDO was directed to file annual reports of the costs and revenues collected under the TPC Rider. The TPC Rider rate is subject to annual adjustment, but can never exceed the current rate of $0.05 per Mcf.

The Finding and Order also ordered the Staff to review the Company's annual TPC Rider report and "make a recommendation on any changes in the Transportation Program Cost Rider to the Commission within 30 days". On December 5, 2003, VEDO filed its first TPC Rider report. On January 13, 2004, the Staff was granted an extension of thirty days (until February 4, 2004) to file its recommendations.

VEDO reports that the $0.05 per Mcf, TCP Rider generated revenues of $1,630,029.43 from December 2002 through October 2003. Certain credits and fees that the parties agreed to contribute to the Rider totaled $1,286,142.97. The entire amount of revenue raised to offset program expense was $2,916,172.40.

The Company states that natural gas choice program costs amounted to $3,756,898.06 through October 2003. Thus program costs have exceeded the revenues by $840,725.66. VEDO did not file an application to adjust the TPC Rider, since the Rider is currently set at the maximum allowable limit. Staff supports the Company's position that the TPC Rider remain set at $0.05 per Mcf.

On December 15, 2003, Staff filed its initial set of data requests. In response to Question # 1 the Company observed that some costs were "improperly classified as a capital expenditure on our ledger, thus erroneously increasing our asset base for our depreciation calculations". VEDO intends to adjust its booked depreciation and believes there will be little effect on the final outcome of the report. On January 26, 2004, Staff filed its second data request, asking for additional documentation as to the reasonableness of certain choice program expenditures. VEDO provided further justification for the expenditures in question and agreed to voluntarily forego recovery of certain expenditures. As these costs currently do not affect the TPC Rider, no Staff or Commission action is necessary at this time.

Staff will continue monitoring VEDO's natural gas choice program expenses and respond to the annual TPC Rider report. In the event of any future rate case where the costs for information technology and business system development or any other related TPC Rider costs are to be recovered, Staff intends to investigate and determine whether these costs are reasonable for inclusion in the base rate of the Company.

Staff recommends that the Company continue to work with the Staff to produce an updated and more precise TPC Rider annual report.