**COMPANIES EX NO.________**

**BEFORE**
**THE PUBLIC UTILITIES COMMISSION OF OHIO**

| | | |
|---|---|---|
| In the Matter of the Application of<br>Columbus Southern Power Company and<br>Ohio Power Company, Individually and, if<br>Their Proposed Merger is approved, as a<br>Merged Company (collectively, AEP Ohio)<br>for an Increase in Electric Distribution Rates | )<br>)<br>)<br>)<br>)<br>) | Case No. 11-351-EL-AIR<br>Case No. 11-352-EL-AIR |
| In the Matter of the Application of<br>Columbus Southern Power Company and<br>Ohio Power Company, Individually and, if<br>Their Proposed Merger is Approved, as a<br>Merged Company (collectively AEP Ohio)<br>for Tariff Approval | )<br>)<br>)<br>)<br>)<br>) | Case No. 11-353-EL-ATA<br>Case No. 11-354-EL-ATA |
| In the Matter of the Application of<br>Columbus Southern Power Company and<br>Ohio Power Company, Individually and, if<br>Their Proposed Merger is Approved, as a<br>Merged Company (collectively AEP Ohio)<br>for Approval to Change Accounting<br>Methods | )<br>)<br>)<br>)<br>)<br>)<br>) | Case No. 11-356-EL-AAM<br>Case No. 11-358-EL-AAM |

# TESTIMONY OF SELWYN J. DIAS
# IN SUPPORT OF THE JOINT STIPULATION AND RECOMMENDATION
# ON BEHALF OF
# COLUMBUS SOUTHERN POWER COMPANY
# AND
# OHIO POWER COMPANY

Filed November 29, 2011

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## I. INTRODUCTION

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is Selwyn J. Dias and my business address is 850 Tech Center Drive, Gahanna, Ohio 43230.

**Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

A. I am employed by American Electric Power Service Corporation (AEPSC), a subsidiary of American Electric Power Company, Inc. (AEP), as Vice President, Regulatory and Finance – Ohio. I am responsible for regulatory affairs, regulated electric pricing, and financial performance related to Columbus Southern Power Company (CSP) and Ohio Power Company (OPCo) (collectively referred to as "AEP Ohio" or the "Companies").

**Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.**

A. I graduated from the University of Central Oklahoma with a bachelor's degree in Business Administration (Accounting Major) in 1981. I have also completed the Executive Management Program at the University of Virginia Darden School of Business. I hold the professional designations of certified internal auditor and certified fraud examiner administered by the Institute of Internal Auditors and the National Association of Certified Fraud Examiners.

I began my career in 1981 as an international internal auditor with Kerr-McGee Corporation, an oil and gas drilling and exploration conglomerate. In 1985, I joined Central and South West Corporation (CSW) as an internal auditor and progressed to a management level position within the internal auditing organization. During my tenure with CSW I held several other leadership positions within the Companies including Manager of Corporate Services, Director of Pricing Development and Director of Regulatory Administration.

After the merger of CSW and AEP in 2000, I continued as Director of Regulatory Administration with responsibilities expanded to include the remainder of AEP's regulated jurisdictions. In June 2003 I was appointed Director, Regulatory Affairs and in September 2008 I was promoted to my current position Vice President, Regulatory and Finance. In this capacity I am responsible for providing organizational leadership on AEP Ohio's regulatory and financial strategic plans, including financial investments. I provide technical direction on regulatory policy, state filing requirements, retail electric tariffs and represent AEP Ohio on all matters before the Public Utilities Commission of Ohio (PUCO or Commission).

**Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY COMMISSIONS?**

A. Yes. I have presented testimony and testified on behalf of CSP and OPCo before the Commission in the following cases:

- Case No. 05-765-EL-UNC;
- Case No. 06-890-EL-CSS;
- Case No. 07-63-EL-UNC; and
- CSP in Case No. 08-846-EL-UNC.

## II. PURPOSE OF TESTIMONY

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN SUPPORT OF THE JOINT STIPULATION AND RECOMMENDATIONS IN THIS PROCEEDING?**

A. The purpose of my testimony is to sponsor and summarize the provisions of the Joint Stipulation and Recommendation (Stipulation) submitted on November 23, 2011, for the Commission's consideration. The Stipulation provides the basis for resolving the pending proceeding in the distribution rate cases of CSP and OPCo, including: its request for an Increase in Electric Distribution Rates (Case Nos. 11-0351-EL-AIR & 11-0352-EL-AIR for CSP and OPCo, respectively); its application for Tariff Approval (Case Nos. 11-0353-EL-ATA & 11-0354-EL-ATA for CSP and OPCo, respectively); and its request for Approval to Change Accounting Methods (Case Nos. 11-356-EL-AAM & 11-358-EL-AAM for CSP and OPCo, respectively).

My testimony discusses the criteria that the Commission uses when considering settlement agreements and explains how the Stipulation in this proceeding meets those criteria. Specifically, my testimony supports the conclusion that the Stipulation: (1) Is the product of serious bargaining among capable, knowledgeable parties; (2) Does not violate any important regulatory principle or practice; and (3) As a package, benefits ratepayers and the public interest.

## III. SIGNATORY PARTIES

**Q. WHO ARE THE SIGNATORY PARTIES TO THE STIPULATION?**

A. In addition to the Companies, numerous parties representing a variety of diverse interests have signed the Stipulation, including:

- Governmental agencies, the Office of the Ohio Consumers' Council and the Ohio Department of Development;
- Consumer advocacy groups, the Ohio Partners for Affordable Energy, and The Appalachian Peace and Justice Network;
- Industrial customers, the OMA Energy Group and the Ohio Energy Group;
- Commercial customers, The Kroger Co., and the Ohio Hospital Association;;
- Telecommunications customers, the Ohio Cable Telecommunications Association;
- Environmental advocacy groups, the Natural Resources Defense Council and the Sierra Club;
- The Commission's Staff (Staff).

Additionally, it is my understanding that the other two parties to the case not signing the Stipulation indicated their intention not to oppose the Stipulation.

## IV. OVERVIEW OF THE STIPULATION

**Q. PLEASE DESCRIBE THE STIPULATION.**

A. The Companies had not filed a base rate case for recovery of distribution investment and costs since the 1990's. In the ensuing years the Companies have incurred additional investments and costs to meet regulatory requirements and customer needs and expectations that did not exist at the time of the last filings. This Stipulation was reached to define the agreed outcome of the cases in these dockets in the event that the Distribution Investment Rider (DIR) requested in Case Nos. 11-0346-EL-SSO et. al. (ESP II) is approved and implemented as part of the stipulation in those ESP II dockets. That proposed DIR may produce up to $86 million in distribution related revenue in the first year (2012). To address concerns regarding potential double recovery in base rates and the annual revenues to be recovered via the proposed DIR, this Stipulation provides a total annual credit to distribution revenue of $62.344 million. It awards the Companies an annual increase on base distribution revenues of $46.656 million, and a revenue offset of the same amount that results in a net zero increase to base distribution rates.

In addition, this Stipulation proposes a further $14.688 million prospective annual revenue credit to benefit residential customers via a rider. The remaining one million dollars of the annual credit to distribution revenue will be used to fund a contribution to the Partnership with Ohio initiative. The zero base distribution rate increase and further revenue credits will run concurrent with and expire on the same date as the proposed DIR, May 31, 2015. Because of the relationship between the proposed DIR in the ESP II proceeding and the revenue requirement requested in this case, approval of the Stipulation in this case is dependent on the approval of the Stipulation in ESP II. This quantification is summarized in the following table:

| | (000s) |
|---|---|
| Total Revenue from Proposed DIR in 2012 | $86,000 |
| Less: DIR Revenue for Post Date Certain Net Investment | $23,656 |
| DIR Revenue for Net Investment Through Date Certain | $62,344 |
| Less: Annual Offset Credit to Distribution Revenue Requirement in this Case | $46,656 |
| Less: Annual Distribution Revenue Credit Rider | $14,688 |
| Remainder: Annual Funding for Partnership with Ohio | $ 1,000 |

**Q. IS THE STIPULATION SUPPORTED BY CORRESPONDING SCHEDULES?**

A. Yes. Attachment A to the Stipulation outlines the stipulated Schedules A-1, B and C for the Companies. These schedules were prepared by Staff and agreed to by the Stipulating Parties as part of the Stipulation to support section IV of the Stipulation. The return on equity was a matter in dispute in the proceeding. As indicated in the Stipulation, the Signatory Parties agree that for purposes of this Stipulation reached in these cases the return on equity used for CSP is 10.0% and for OPCo is 10.3%. The Stipulating parties also agreed that if the Companies are merged that for purposes of this agreement that an ROE of 10.2% should be used for the combined company. These are reasonable terms for purposes of settlement in these cases.

**Q. HOW DOES THE STIPULATION TREAT DEPRECIATION?**

A. The revenue requirement reflects new depreciation rates based on a whole-life calculation method, and the amortization of the theoretical reserve in accumulated depreciation. The whole-life calculation for depreciation rates proposed by the Commission Staff was accepted by the Stipulating Parties. It was also agreed that if the merger of CSP and OPCo is approved, the combined Company will utilize the combined rates detailed in Attachment D.

The Parties agreed that the Stipulated A-1 schedules in Attachment A reflected a 10 year amortization of the theoretical accumulated depreciation reserve overaccrual. However, in recognition of the overall compromises in this settlement agreement, and in particular the decrease in carrying charges on the deferred asset recovery rider regulatory assets, the Companies will amortize the depreciation reserve overaccrual over a 7 year period. This represents a balancing of the interests of the Stipulating Parties as part of the overall settlement.

**Q. HOW DOES THE STIPULATION RESOLVE THE COMPANIES' REQUESTED DEFERRED ASSET RECOVERY RIDER?**

A. The Stipulation provides the Companies with a reasonable mechanism to recover the balance of deferred regulatory assets identified in the Companies' applications. The Companies will implement the rider effective with the later of (1) the first billing cycle upon Commission approval of the Stipulation or (2) the first billing cycle of 2012, the Deferred Asset Recovery Rider (DARR). The balance as of December 31, 2011, will be recovered over a seven year period as a uniform percentage of base distribution revenues. During the recovery period the Companies will record a combined carrying charge of 5.34% upon the merger of CSP and OPCo. Companies witness Roush provides the individual CSP and OPCo rates. The Commission Staff will have the ability to audit the accuracy of the carrying charge incurred on the DARR from the date certain through December 31, 2011. To ensure the proper recovery of these amounts, the Companies will utilize deferral accounting to true-up, on an annual basis, the collection of these balances. In recognition of the Companies' willingness to accept a lower carrying charge on the DARR, as compared to the original filing, for book purposes the Companies will use seven years for the amortization of the theoretical reserve overaccrual on accumulated depreciation.

**Q. DID THE STIPULATION INCLUDE RATE DESIGN ELEMENTS INCLUDING A PILOT DECOUPLING PROGRAM AND ADDRESS A COMMITMENT ON NET LOST REVENUES?**

A. Yes, these matters are described in more detail in the testimony of Companies' witness Roush, but the Companies have agreed in this Stipulation to initiate a pilot decoupling program with actual over-/under-recoveries being recorded in regulatory balancing accounts. The pilot program will have a duration of three years, and be limited to the energy charge portion of non-demand metered (residential and small commercial) customer bills. Companies witness Roush describes the pilot program in more detail. Additionally, the Companies agreed to not seek net lost revenues in its 2012 through 2014 energy efficiency/peak demand reduction (EE-PDR) plan for these same classes of customers. In addition, the Companies will adopt a revenue-neutral rate design for demand-metered customers. Finally, the Stipulation in this case also provides for revised tariffs to update miscellaneous service charges, terms and conditions of service, and improve consistency between Standard and OAD Service tariffs.

**Q. DID THE STIPULATION ADDRESS THE ISSUES RELATED TO THE REQUEST TO CONSOLIDATE THE COMMISSION DOCKETS 11-148-EL-RDR AND 11-149-EL-RDR INTO THE DOCKETS IN THIS PROCEEDING?**

A. Yes, the Stipulation includes an agreement to withdraw the Companies' requests to establish an independent rider in those Commission dockets to recover the portion of Percentage of Income Payment Plan installment payments billed to customers but not paid by the customers, in recognition that recovery of these amounts will be included in the distribution base rate revenue requirement outlined in the Stipulation.

**Q. ARE THERE OTHER MATTERS IN THE STIPULATION THAT YOU HAVE NOT ADDRESSED IN YOUR TESTIMONY?**

A. Yes, there are commitments made by the Companies and rights provided to the Companies throughout the agreement. For example, the Stipulation includes a commitment by the Companies to discuss the issues discussed in the Management and Operations portions of the Staff Reports. Those areas not specifically mentioned in this testimony are all reasonable and should be approved by the Commission. Likewise, Companies witness Roush also discusses certain elements of the Stipulation.

**Q. WHAT HAPPENS IF THE DIR IS NOT APPROVED IN THE ESP II PROCEEDING OR NOT IMPLEMENTED AS A RESULT OF THAT PROCEEDING?**

A. As indicated in the Stipulation, the approval and implementation of the DIR from the ESP II proceeding is a prerequisite to the terms reached in the present Stipulation. This Stipulation has provisions that allow the different Stipulating Parties to terminate this Stipulation based upon the Commission's treatment of the DIR in the ESP II proceeding. My counsel advised me that termination of the Stipulation would return these proceedings to the point in time prior to the Stipulation being filed.

## V. CRITERIA FOR CONSIDERING APPROVAL OF A STIPULATION

**Q. WHAT IS THE STANDARD THAT THE COMMISSION HAS USED WHEN CONSIDERING APPROVAL OF A STIPULATION AMONG PARTIES TO PROCEEDINGS?**

A. Based on advice of counsel, my understanding is that a stipulation must satisfy a three-part test. The questions that the Commission considers, as I understand it, are: (1) Is the stipulation the product of serious bargaining among capable, knowledgeable parties? (2) Does the stipulation violate any important regulatory principle or practice? and (3) As a package, does the stipulation benefit ratepayers and the public interest?

***The Stipulation Is The Result Of Serious Bargaining Among Capable, Knowledgeable Parties***

**Q. IS THE STIPULATION SUBMITTED IN THIS CASE THE PRODUCT OF SERIOUS BARGAINING AMONG CAPABLE AND KNOWLEDGEABLE PARTIES?**

A. Yes. The Stipulation that has been proposed in this case is the result of a lengthy process of negotiation involving experienced counsel representing members of every affected stakeholder group. In addition, the Stipulating Parties were represented by counsel with many years of experience in proceedings before the Commission.

The Staff released their Reports on September 15, 2011. AEP Ohio and the intervening parties filed their objections to the Reports on October 17, 2011, and their supporting testimony on October 24, 2011. The settlement discussions started prior to the filing of objections to the Staff Reports and culminated in the filing of the Stipulation on November 23, 2011. The Stipulating Parties, and those not signing, had numerous discussions to address specific concerns of the parties and to resolve differences in their positions and to craft a settlement in this case. Throughout the process all parties on the service list were invited, through their counsel, to participate in all settlement discussions and provided access to the ongoing terms of the negotiations upon request.

On November 10, 2011, AEP Ohio, Staff, and numerous intervening parties filed a joint motion to delay the evidentiary portion of the hearing from November 14, 2011, to November 16, 2011, so as to allow for further settlement negotiations.

During settlement talks on November 14, 2011, the parties reached a framework most parties agreed they could support, or at least not oppose. The term sheet was circulated on November 16, 2011, after a meeting was held to clarify final issues in the settlement.

Throughout this process, the parties, which included AEP Ohio, the Commission, Commission Staff and other intervening parties, debated the proposals of each customer class and interest group representing a broad cross-section of interests, and ultimately reached this unopposed settlement agreement.

***The Stipulation Does Not Violate Any Important Regulatory Principle Or Practice***

**Q. DOES THE STIPULATION VIOLATE ANY IMPORTANT REGULATORY PRINCIPLE OR PRACTICE?**

A. No. The Stipulation is a settlement balancing the interests of all of the Stipulating Parties. The agreed terms as a package do not violate any important regulatory principles or practices. As I explained above, the Stipulation resolves the various issues in this proceeding, such as recovery of regulatory assets, establishing a revenue requirement, and rate design, including the Throughput Balancing Adjustment Rider, (TBAR) in a manner that is reasonable.

***As A Package, The Stipulation Benefits Ratepayers And The Public Interest***

**Q. DOES THE STIPULATION AS A PACKAGE BENEFIT CUSTOMERS AND THE PUBLIC INTEREST?**

A. Yes. The Stipulation provides numerous benefits for customers and the public interest. AEP Ohio customers will benefit from a zero base distribution rate increase.

The pilot decoupling program will enable the Companies, the Commission, the Commission Staff, and other parties to develop a history to prepare a valid evaluation of the concept. The updates in miscellaneous charges will ensure that expenses incurred due to the requirements of specific customers will not be subsidized by all customers. Acceptance of the average rate on long term debt for the carrying charge in the DARR, as opposed to a weighted average cost of capital-based rate, will decrease the overall cost to customers through the life of the DARR. Starting the collection of the DARR in 2012 instead of 2013 will decrease the overall cost to customers due to lower accumulated carrying costs.

**Q. WHAT ARE SOME OF THE SIGNIFICANT QUANTIFIABLE BENEFITS THAT THE STIPULATION PROVIDES TO CUSTOMERS AND STAKEHOLDERS?**

A. The Stipulation provides specific benefits to residential customers in the form of the annual revenue credit of $14.688 million through a residential revenue credit rider, and an additional annual benefit to lower income customers through the one million dollar contribution to the Partnership with Ohio initiative.

**Q. ARE OTHER WITNESSES PROVIDING TESTIMONY IN SUPPORT OF THE STIPULATION?**

A. Yes. David Roush, Director - Regulated Pricing and Analysis, will provide testimony describing the details of the various sections of this Stipulation.

**Q. DOES THE STIPULATION COMPLY WITH COMMISSION'S TEST FOR STIPULATIONS?**

A. Yes, the terms and conditions are the result of negotiations among knowledgeable, capable parties and reflect a reasonable resolution to issues raised in this proceeding. Further, the Stipulation is in the public interest and does not violate any significant regulatory practices or principles.

**Q. DOES THIS CONCLUDE YOUR TESTIMONY IN SUPPORT OF THE STIPULATION?**

A. Yes, it does.

## CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the foregoing **Testimony of Selwyn Dias in Support of the Joint Stipulation and Recommendation** has been served upon the below-named counsel via email, this 29th day of November, 2011.

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