

BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of	)	
Columbus Southern Power Company and	)	
Ohio Power Company for Authority to	)	Case No. 11-346-EL-SSO
Establish a Standard Service Offer	)	Case No. 11-348-EL-SSO
Pursuant to §4928.143, Ohio Rev. Code,	)	
in the Form of an Electric Security Plan.	)	

In the Matter of the Application of	)	
Columbus Southern Power Company and	)	Case No. 11-349-EL-AAM
Ohio Power Company for Approval of	)	Case No. 11-350-EL-AAM
Certain Accounting Authority	)	

**SUPPLEMENTAL DIRECT  
TESTIMONY OF  
SELWYN J. DIAS  
IN SUPPORT OF AEP OHIO'S  
MODIFIED ELECTRIC SECURITY PLAN**

INDEX TO DIRECT TESTIMONY OF  
SELWYN J. DIAS

	<u>Page No.</u>
1. Personal Data.....	1
2. Purpose of Testimony.....	1
3. Modified ESP II Promotes State Policies .....	2
4. Benefits of the RSR in the Modified ESP II.....	3
5. Conclusion.....	8

BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO  
DIRECT TESTIMONY OF  
SELWYN J. DIAS  
ON BEHALF OF  
OHIO POWER COMPANY

1    **PERSONAL DATA**

2    **Q.     WHAT IS YOUR NAME AND BUSINESS ADDRESS?**

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

5    **Q.     DID YOU PREVIOUSLY FILE DIRECT TESTIMONY IN THIS CASE?**

6    A.     Yes, I did.

7

8    **PURPOSE OF TESTIMONY**

9    **Q.     WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

10   A.     The purpose of my supplemental testimony is to provide additional detail on how the  
11           Retail Stability Rider (RSR) allows AEP Ohio to meet a number of Ohio policy  
12           objectives while protecting the financial integrity of the Company during the transition  
13           period to market-based SSO pricing. The RSR creates the ability (1) to freeze non-fuel  
14           generation rates, (2) to provide highly discounted capacity pricing to CRES providers to  
15           encourage Ohio shopping, (3) to meet its PJM FRR and Interconnection Agreement  
16           (Pool) obligations, and (4) to move to auction based SSO pricing faster than the law can  
17           require - all while balancing Ohio's expedited transition to a fully competitive auction bid  
18           process by June 1, 2015. Without the RSR non-bypassable rider mechanism, AEP Ohio  
19           will be financially harmed by being forced to adhere to obligations entered into prior to  
20           the Commission's renewed vigor and expedited focus towards full competition in the

1 near term. Approving the modified ESP II integrated package allows for mitigation of  
2 Ohio electricity investment uncertainty, decreased Ohio energy investment turmoil, and a  
3 continuing partnership with state and local agencies to attract new investment and  
4 associated job growth within the state.

5  
6 **MODIFIED ESP II PROMOTES STATE POLICIES**

7 **Q. DOES THE ESP II PROMOTE STATE POLICIES?**

8 A. Yes. As I stated in my direct testimony, the modified ESP II promotes state policies in  
9 4928.02 Ohio Rev. Code and is a reasonable rate plan for AEP Ohio to provide customers  
10 and stakeholders, in the aggregate. As a whole the proposed ESP II enhances the states  
11 effectiveness in the global economy, in accordance with R.C. 4928.02(F), by providing  
12 the stability needed for businesses and residential customers to plan, research facilities to  
13 focus, and entities outside of the state to rely on the security of the regulatory structure in  
14 the AEP Ohio territory and Ohio as a whole.

15 **Q. PLEASE DESCRIBE HOW THE RSR AS PROPOSED IN THIS ESP II**  
16 **ADVANCES STATE OF OHIO POLICIES IN 4928.02 O.R.C.**

17 A. The RSR is designed to enable the Commission to ensure the different elements of the  
18 state policy are met. The RSR offers the Commission the opportunity to accelerate its  
19 customer choice objectives by mitigating the financial harm to AEP Ohio during the  
20 transition period to full auction-based SSO pricing. The impact of having an auction-  
21 based SSO at a more expedited pace than Ohio law could require, and the other ESP II  
22 integrated package terms and conditions, are mitigated through the adoption of the

1 proposed RSR mechanism.<sup>1</sup> Also, the RSR mechanism in conjunction with the proposed  
2 ESP II package provides customers with price-to-compare data that is transparent, stable  
3 and predictable, and provides for pricing that is moderate in nature for certain at-risk  
4 populations<sup>2</sup>. The RSR also allows AEP Ohio to manage a variety of circumstances to  
5 maintain financial health of the Company over the term of the modified ESP II.  
6

7 **BENEFITS OF THE RSR IN THE PROPOSED ESP II**

8 **Q. WHAT ARE THE CUSTOMER BENEFITS OF THE RSR, INCLUDING RATE**  
9 **IMPACTS, BEING PROPOSED IN ESP II?**

10 A. AEP Ohio is proposing to provide generation capacity to CRES providers at a significant  
11 discount from what it would otherwise be willing to charge. The benefits of this deeply  
12 discounted capacity provision, as explained by Company witness Allen, will continue to  
13 promote robust shopping alternatives for customers. Amongst other items, the RSR  
14 mitigates the financial harm that will be caused to the Company by discounting capacity  
15 charges to CRES providers to foster Ohio's policy of expedited competition and to  
16 promote shopping. Additionally, in order to minimize customer rate impacts, the  
17 Company is proposing a delay in the implementation of unified Fuel Adjustment Clause  
18 (FAC) rate zones, along with a delay in the collection of its previously approved costs  
19 through the Phase-In Recovery Rider (PIRR). An acceptable resolution of these issues  
20 would also resolve pending litigation at the FERC and provide continuing certainty for  
21 the State of Ohio.

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<sup>1</sup> See witness Dias direct testimony, pg 4 lines 13-25

<sup>2</sup> See witness Dias direct testimony, pg. 5 lines 12-34, and pg. 7 lines 11-26

1 **Q. WHAT ARE THE ADDITIONAL CUSTOMER BENEFITS OF APPROVING**  
2 **THE RSR IN THIS PROPOSAL?**

3 A. I have summarized some of the key benefits as follows:

- 4 • **Frozen non-fuel generation rates:** These non-fuel generation rates are proposed  
5 to be frozen at levels equivalent to those that were in effect at the end of the 2009-  
6 2011 ESP. This action will result in AEP Ohio bearing the risk of making any  
7 generation related investments, including but not limited to, the environmental  
8 retrofit investments and expenses required by EPA rules.
- 9 • **Tempered rate increases:** The proposed rate increases to individual customers in  
10 every class, will be modest during the term of the ESP II – see Company witness  
11 Roush direct testimony;
- 12 • **Discounted Capacity:** Higher percentages of Tier 1 priced capacity are achieved  
13 for governmental aggregation initiatives, non-mercantile customers, in 2012 even  
14 if the level of Tier 1 Set-Aside has been exceeded – see Company witness Allen’s  
15 direct testimony;
- 16 • **Certainty and Stability:** Stability is provided by the approval of the generation  
17 RSR mechanism which is coupled with a delay in the implementation of the  
18 Phase-In Recovery Rider and unification of the FAC, in order to minimize  
19 customer rate impacts – see Company witness Roush’s direct testimony.

20 **Q. WHAT HAPPENS IF THE COMMISSION APPROVES THE RSR AS**  
21 **PROPOSED?**

22 A. As supported in the testimony of Company witnesses Allen and Roush, approval of the  
23 RSR allows AEP Ohio to mitigate financial harm, which would otherwise result from the

1 modified package, over the ESP II transition period. The RSR provides the appropriate  
2 balancing mechanism related to the financial impact on the Company with respect to  
3 generation rates, capacity rates, timing of auctions and the Company's FRR and other  
4 contractual obligations like the Pool, throughout the period of the ESP II. The RSR  
5 mechanism allows the Commission to avoid financially harming the Company while  
6 recognizing AEP Ohio's contractual commitments, and while advancing the  
7 Commission's objective to encourage customer shopping and transitioning to an auction-  
8 based SSO faster than the law can require. If the Company is not financially harmed,  
9 AEP Ohio will be able to attract capital and thereby invest in the state to promote the  
10 state's effectiveness in the global economy.

11 The RSR allows for the Company's provider of last resort obligations to be met  
12 while an expedited plan to an Ohio competitive electric environment is implemented for  
13 AEP Ohio. I have been advised by counsel that S.B. 221 requires the incumbent utility to  
14 be the provider of last resort for generation service should shopping customers return to  
15 AEP Ohio service from a CRES provider. Under Ohio law, the incumbent electric utility  
16 is required to stand ready to serve any customers who do not choose a CRES supplier or  
17 who return to AEP Ohio during the transition period. Therefore, the RSR ensures the  
18 Company is financially strong enough to stand ready to fulfill its provider of last resort  
19 duty, while the Company transitions to full auction-based supply.

20 **Q. WHAT HAPPENS IF THE COMMISSION DOESN'T APPROVE THE RSR AS**  
21 **PROPOSED?**

22 **A.** A modification to the proposed ESP II, without an RSR to account for the change, could  
23 create financial duress for AEP Ohio that impacts the Company and the customers and

1 communities it serves, as well as the state as whole. Without the regulatory certainty and  
2 stability provided by AEP Ohio's request within the state of Ohio, it would be  
3 irresponsible of AEP Ohio management to promote new investment beyond required  
4 spending to meet AEP Ohio's obligation to serve. Future cash flows for AEP Ohio  
5 impact investment and spending decisions that can impact its assets and community  
6 partnerships. A decrease in value of the Company could lead to lower property taxes.  
7 Property tax decreases are an important link in the chain funding communities and other  
8 local organizations. Unless mitigated, the ripple effect across AEP Ohio's distribution  
9 territory will continue to decrease area jobs across the entire supply chain. Without  
10 approval of the RSR and the corresponding reduction of regulatory risk within Ohio,  
11 modifications to the proposed ESP could cause AEP Ohio to minimize spending in the  
12 state which could lead to broader financial harm.

13 The Company urges the Commission to adopt the modified ESP II plan as  
14 approved. The Commission may approve the RSR as proposed irrespective of whether it  
15 approves other aspects of the Company's ESP as filed. AEP Ohio is not advocating any  
16 amendments to the package proposed in the modified ESP II filing. However, should the  
17 Commission adjust certain components of the integrated ESP II package, then approval  
18 of the RSR, as proposed, is imperative to ensure a result that can be accepted and provide  
19 the certainty needed for customers and the Company in Ohio. The mechanics of how the  
20 RSR functions can be found in the testimony of Company witnesses Roush and Allen and  
21 DMR-3 and WAA-6 respectively. Of course any modification would have to be  
22 reviewed by the Company to weigh the impact but approval of the filed RSR mechanism  
23 could help alleviate the potential for withdrawal from the plan.



1           However, another alternative to approving the RSR as a component of the  
2 integrated ESP II package was outlined by witness Allen in his direct testimony<sup>3</sup>. The  
3 alternative option is to provide shopping credits to customers along with charging a  
4 single price of \$355.72/MW-day for all capacity utilized by CRES providers purchased  
5 over the remaining term of the FRR obligation.  
6

7 **Q.   IS THE COMPANY PROPOSING TO CONTINUE AND ENHANCE THE**  
8 **AVAILABILITY OF INTERRUPTIBLE SERVICE TO SUPPORT ECONOMIC**  
9 **DEVELOPMENT IN ITS SERVICE TERRITORY?**

10 A.   Yes. As I previously explained in my direct testimony, the modified ESP II plan  
11 proposes to continue the availability of its interruptible service under Schedule/Rider  
12 IRP-D as discussed by Company witness Roush. Service under IRP-D is available to a)  
13 current interruptible customers; b) current firm customers that wish to take interruptible  
14 service, up to a specified total MW limit; and c) to loads of new customers located within  
15 the Company's service area as part of an economic development incentive. In addition,  
16 subject to approval of the RSR, the Company is willing to increase the IRP-D credit.  
17 This will benefit existing interruptible customers which are major employers in the state  
18 as well as enhance AEP Ohio's economic development efforts. Additional details of the  
19 IRP-D rider are discussed by Company witness Roush.

20 **Q.   WOULD PROVIDING AN INCREASED IRP-D CREDIT PROVIDE OTHER**  
21 **BENEFITS FOR ALL CUSTOMERS?**

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<sup>3</sup> Case No. 11-346-EL-SSO and 11-348-EL-SSO, March 30, 2012, pg 15-16, Alternative Option, beginning line 14.

1 A. Yes. An increase in the interruptible credit is likely to attract more customers and load to  
2 be served under interruptible service. Such customers provide a low cost capacity  
3 resource used to meet the Company's EE/PDR and other requirements.

4 **Q. PLEASE EXPLAIN THE BENEFITS OF THE ECONOMIC DEVELOPMENT**  
5 **COST RECOVERY RIDER ASSOCIATED WITH REASONABLE**  
6 **ARRANGEMENTS.**

7 A. Continuation of the Economic Development Cost Recovery Rider (EDR) for reasonable  
8 arrangements with mercantile customers, approved by the Commission, facilitates the  
9 state's effectiveness in a global economy. The EDR supports mercantile customers that  
10 retain and increase Ohio jobs. The proposed ESP II supports ongoing investment in  
11 Ohio, not only in the delivery infrastructure previously discussed, but also the potential  
12 for generating assets described above. Taken together, the supply and delivery business  
13 segments form the foundation of AEP Ohio's substantial economic impact in the state.  
14 These activities include payroll taxes associated with thousands of Ohio jobs; purchases  
15 of Ohio goods and services; taxes that provide critical funding for Ohio schools,  
16 infrastructure, and public services; and substantial philanthropic support for Ohio.

17  
18 **CONCLUSION**

19 **Q. WHAT ARE YOUR OVERALL CONCLUSIONS ABOUT THE PROPOSED RSR**  
20 **IN THE MODIFIED ESP II?**

21 A. The proposed RSR serves as a financial safety net for the three-year transition period to  
22 the state goals of market based SSO pricing. The Company has recognized the desire of  
23 many stakeholders, including the Commission, to move to the market more rapidly than

1 the law can require. While the Company separates its generation assets, modifies the  
2 Pool, and satisfies its FRR obligations in PJM, the modified ESP II as a package  
3 simultaneously promotes customer choice and advances the end state objective of  
4 auction-based SSO pricing. To the extent any one or more of the proposed ESP II  
5 package provisions are altered, and additional financial impacts to the Company are  
6 created, the proposed RSR would engage to provide revenue stability to AEP Ohio.  
7 Therefore, the RSR should be approved as proposed by the Company.

8 **Q. DOES THAT CONCLUDE YOUR SUPPLEMENTAL DIRECT TESTIMONY?**

9 **A. Yes.**

## **CERTIFICATE OF SERVICE**

The undersigned hereby certifies that a true and correct copy of the foregoing Ohio Power Company's Supplemental Direct Testimony of Selwyn J. Dias has been served upon the below-named counsel and Attorney Examiners by electronic mail to all Parties this 27<sup>th</sup> day of April, 2012.

//ss// Matthew J. Satterwhite  
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Summary: Testimony Supplemental Direct Testimony of Selwyn J. Dias electronically filed by Mr. Matthew J Satterwhite on behalf of American Electric Power Service Corporation