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**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Duke)
Energy Ohio for Approval of a Market Rate)
Offer to Conduct a Competitive Bidding)
Process for Standard Service Offer Electric)
Generation Supply, Accounting Modifications,)
and Tariffs for Generation Service.)

Case No. 10-2586-EL-SSO

DIRECT TESTIMONY OF

Kevin Helmich

on behalf of

Ohio Advanced Energy

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1 **BACKGROUND, EXPERIENCE AND PURPOSE**

2
3 1. Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

4
5 A. My name is Kevin Helmich. My business address is 3430 Vintage Valley Road,
6 Ann Arbor, MI 48105.
7

8 2. Q. BY WHOM ARE YOU EMPLOYED?
9

10 A. I am employed by Iberdrola Renewables, Inc.
11

12 3. Q. CAN YOU BRIEFLY DESCRIBE IBERDROLA RENEWABLES, INC.?
13

14 A. Iberdrola Renewables, Inc. ("IRI") is an energy company with its North American
15 headquarters in Portland, OR. It is the subsidiary of Iberdrola Renovables, which
16 is eighty (80) percent owned by Iberdrola S.A., headquartered in Bilbao, Spain.
17 IRI owns gas storage, gas thermal generation, and renewable energy projects. IRI
18 owns and operates more than forty (40) wind farms totaling more than 4,000
19 MWs of capacity. We are currently constructing the 304 MW Blue Creek wind
20 farm in Van Wert and Paulding counties, in Ohio.
21

22 4. Q. WHAT IS YOUR POSITION WITH IBERDROLA RENEWBLES, INC.?
23

24 A. I am Director of Origination.
25

26 5. Q. HOW LONG HAVE YOU HELD THIS POSITION?
27

28 A. I have held this position for approximately five (5) years.
29

30 6. Q. WHAT IS THE NATURE OF YOUR DUTIES WITH IBERDROLA
31 RENEWABLES, INC.?
32

33 A. I am responsible for marketing and selling the energy from our projects in the
34 Midwest, Mid-Atlantic, and Northeastern regions of the United States.
35

36 7. Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.
37

38 A. I have a bachelor's degree in Science and Mechanical Engineering from the
39 University of Illinois at Urbana-Champaign and a master's of business
40 administration from the University of Chicago.
41

42 8. Q. ARE YOU FAMILIAR WITH DUKE ENERGY OHIO'S APPLICATION
43 FOR APPROVAL OF A MARKET RATE OFFER IN THIS CASE?
44

1 A. Generally, yes. I have reviewed the Duke application. But I am not an Ohio
2 utility law expert. I am focused on the economics of wind farm development.
3

4 **9. Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?**
5

6 A. The purpose of my testimony is to address the need for Load Serving Entities,
7 such as Duke Energy Ohio, to enter into long-term contracts with wind energy
8 providers to ensure that the obligations of Ohio's renewable portfolio standard
9 ("RPS"), set forth in Ohio Senate Bill 221, are met.¹
10

11 **LONG-TERM RENEWABLE ENERGY CONTRACTS**
12

13 **10. Q. WHY ARE LONG-TERM CONTRACTS NEEDED TO SUPPORT**
14 **RENEWABLE ENERGY DEVELOPMENT IN OHIO?**
15

16 A. A commercial-scale wind farm, like any other large-scale power plant, is a
17 significant capital investment. Financing such projects depends on investor
18 confidence in the availability of a long-term revenue stream, lasting at least ten
19 (10) years, to cover the substantial upfront costs.
20

21 Historically, power-generation investments had assured capital recovery through
22 an approved regulatory rate of return. This changed when electricity markets
23 were restructured. Today, wind energy investments that cannot demonstrate an
24 assurance of capital recovery to their investors are becoming increasingly difficult
25 to finance. This difficulty applies to developers who finance from their own
26 balance sheets, as well as those who rely on third-party project financing.
27

28 **11. Q. SHOULD LONG-TERM RENEWABLE ENERGY CONTRACTS BE FOR**
29 **BOTH ENERGY AND RENEWABLE ENERGY CREDITS (RECS)?**
30

31 A. Yes. It is essential that long-term contracts include both energy and RECs, which
32 we refer to as a "bundled contract." Energy accounts for a significant portion of a
33 wind farm's revenue. As such, it is imperative to demonstrate to wind farm
34 investors that a long-term buyer is in place to provide this meaningful portion of a
35 project's revenue.
36

¹ More generally, SB 221 created an alternative energy portfolio standard for the State of Ohio, which included separate benchmarks for renewable energy (e.g., wind, solar, biomass) and advanced energy (e.g., clean coal, nuclear). For purposes of this testimony, I focus on the renewable energy benchmarks, which I refer to as the renewable portfolio standard, or RPS.

1 **12. Q. WOULD TOTAL RELIANCE ON SHORT-TERM, UNBUNDLED, REC-**
2 **ONLY CONTRACTS FACILITATE THE DEVELOPMENT OF**
3 **RENEWABLE ENERGY SUFFICIENT TO MEET OHIO'S RPS?**
4

5 **A.** No. Short-term, unbundled, REC-only contracts would not sufficiently encourage
6 wind energy development in Ohio. RECs represent only a portion of the full
7 revenue stream of wind energy projects. Failure to lock-in long-term purchase of
8 electricity significantly reduces the chance that a project will be financed.
9 Without a functioning market for wind power purchase agreements in Ohio, new
10 projects will not be built, and the renewable energy market as a whole will suffer.
11

12 Importantly, short-term REC markets have proven to be highly volatile, which
13 ultimately harms both rate-payers and developers, and makes it harder for the
14 state to meet its renewable-energy objectives. This is, in part, because REC
15 markets are very thin and illiquid. Generally, if a market is even marginally
16 short, REC prices rise sharply, leading to higher costs for rate-payers.
17 Conversely, if there is even a little too much supply, REC prices fall dramatically
18 to a level insufficient to support wind farm development economics. In the end,
19 whether REC prices are up or down, this volatility creates additional uncertainty,
20 raises costs to consumers, and inhibits development of new renewable generation.
21

22 **13. Q. HOW LONG IS SUFFICIENT FOR THESE CONTRACTS?**
23

24 **A.** The most efficient contract length is twenty (20) years. This enables developers to
25 get the most favorable rate on the debt needed to finance a wind farm. This
26 favorable rate can ultimately be passed on to rate-payers through a lower project
27 cost.
28

29 **14. Q. HAS THERE BEEN ANY RELUCTANCE IN OHIO TO ENTER INTO**
30 **LONG-TERM RENEWABLE ENERGY CONTRACTS? IF SO, WHY?**
31

32 **A.** Yes. While some counterparties have shown an interest in engaging in long-term
33 contracts, this has not been true of all potential counterparties under an RPS
34 requirement.
35

36 **15. Q. HAVE ANY WIND FARMS BEEN BUILT WITHOUT LONG-TERM**
37 **CONTRACTS?**
38

39 **A.** Yes. However, those projects generally benefitted from more liquid markets for
40 various hedge products either for energy or RECs. Such hedge products enabled
41 wind project developers to work with other parties to lock in a certain revenue
42 stream against the volatility of merchant energy and REC markets. As a result of
43 the recession, non-utility counterparties which may have provided hedging
44 opportunities, such as investment banks, are no longer providing hedge products.
45 In today's market, it has become increasingly difficult, if not impossible, to

1 obtain financing for projects that do not have long-term off-take agreements for
2 energy and RECs.
3

4 16. Q. DO YOU HAVE ANY RECOMMENDATIONS FOR ADDRESSING THE
5 LACK OF CERTAINTY CONCERNING COST RECOVERY FOR LONG-
6 TERM RENEWABLE ENERGY CONTRACTS IN OHIO?
7

8 A. Yes.
9

10 17. Q. WHAT ARE THOSE RECOMMENDATIONS?
11

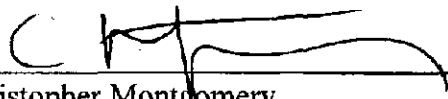
12 A. I recommend the Public Utilities Commission provide that Duke Energy is able to
13 recover the costs associated with long-term contracts coterminous with the
14 contracts themselves. For example, if Duke Energy engaged in a twenty (20)-
15 year contract to purchase energy and RECs, the recovery period should be twenty
16 (20) years. Given the likely lower overall costs associated with long-term
17 contracts, I believe such recovery could be performed under the RPS three (3)
18 percent cost cap and would ultimately be cheaper for rate-payers. I recommend
19 the Public Utilities Commission use all tools available to it to remove regulatory
20 risk associated with long-term cost recovery in Ohio for Duke, as well as the
21 advanced energy market generally.
22

23 18. Q. DOES THIS CONCLUDE YOUR TESTIMONY?
24

25 A. Yes.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing was served upon the parties of record listed below this 21st day of December 2010 *via* electronic mail.



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