

FILE

**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 Establish a Standard)	Case No. 11-346-EL-SSO
Service Offer Pursuant to §4928.143, Ohio)	Case No. 11-348-EL-SSO
Rev. Code, in the form of an Electric Security)	
Plan.)	

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

DIRECT TESTIMONY OF

Steve Irvin

on behalf of

Paulding Wind Farm II LLC

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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 Steve Irvin. My business address is 808 Travis Street, Suite 700,
6 Houston, TX 77002.

7
8 2. Q. BY WHOM ARE YOU EMPLOYED?

9
10 A. I am employed by EDP Renewables North America LLC (formerly known as
11 Horizon Wind Energy LLC) ("EDPR NA").

12
13 3. Q. CAN YOU BRIEFLY DESCRIBE EDPR NA?

14
15 A. Based in Houston, EDPR NA, through its subsidiaries, develops, constructs, owns
16 and operates wind farms throughout North America. It is a subsidiary of EDP
17 Renovaveis, S.A., which is owned by Energias de Portugal, S.A., headquartered in
18 Lisbon, Portugal. EDPR NA owns and operates twenty-seven (27) wind farms
19 across the United States totaling more than 3,400 megawatts ("MW") of capacity,
20 ranking EDPR NA third in the country in terms of net installed capacity. EDPR
21 NA subsidiary Paulding Wind Farm II LLC ("Paulding II") owns and operates the
22 99 MW Timber Road II Wind Farm ("Timber Road II") in Northwest Ohio.

23
24 4. Q. WHAT IS YOUR POSITION WITH HORIZON?

25
26 A. I am Chief Commercial Officer.

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

29
30 A. I have held this position since August 2010. Prior to that time I was Director of
31 Power Marketing from June 1, 2005 – August 2010.

32
33 6. Q. WHAT IS THE NATURE OF YOUR DUTIES WITH HORIZON?

34
35 A. As Chief Commercial Officer, I lead both the Power Marketing and Origination
36 and Market Operations departments at EDPR NA. My responsibilities include
37 expanding and maintaining EDPR NA's customer relationships, overseeing the
38 marketing and negotiation of renewable energy purchase agreements and
39 managing the scheduling and hedging of EDPR NA's merchant assets. In my prior
40 role as Director of Power Marketing, I was also responsible for overseeing the
41 marketing and negotiation of renewable energy purchase agreements and
42 managing customer relationships.

1 7. Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.
2

3 A. I have a Bachelor of Science degree in Mathematics from Vanderbilt University
4 and a Master of Business Administration degree from Thunderbird School of
5 Global Management.
6

7 8. Q. ARE YOU FAMILIAR WITH THE APPLICATIONS OF COLUMBUS
8 SOUTHERN POWER COMPANY AND OHIO POWER COMPANY FOR
9 APPROVAL OF AN ELECTRIC SECURITY PLAN IN THIS CASE?
10

11 A. Generally, yes. I have reviewed the applications of Columbus Southern Power
12 Company and Ohio Power Company (collectively "AEP Ohio" or the "Company")
13 for approval of an electric security plan ("ESP"). I am not an Ohio utility law
14 expert. I am focused on the economics of wind farm development.
15

16 9. Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?
17

18 A. The purpose of my testimony is twofold. First, I will generally address the need
19 for Load Serving Entities ("LSEs"), such as AEP Ohio, to enter into long-term
20 contracts with wind energy providers to ensure that the obligations of Ohio's
21 renewable portfolio standard ("RPS"), set forth in Ohio Senate Bill 221, are met.¹
22 Second, I will support AEP's request for the Commission to establish prudence
23 and allow for the cost recovery of a twenty (20)-year Renewable Energy Power
24 Purchase Agreement ("REPA") entered into between AEP Ohio and Paulding
25 Wind Farm for the electrical output of the Timber Road II project
26

27 **IMPORTANCE OF LONG-TERM RENEWABLE ENERGY CONTRACTS**
28

29 10. Q. WHY ARE LONG-TERM CONTRACTS NEEDED TO SUPPORT
30 RENEWABLE ENERGY DEVELOPMENT IN OHIO AND HELP LSES
31 MEET THE SB 221 RPS BENCHMARKS?
32

33 A. A commercial-scale wind farm is a significant capital investment like any other
34 large-scale power plant. To obtain lowest-cost financing for such projects,
35 developers must demonstrate to investors and lenders the availability of a long-
36 term revenue stream to repay the substantial upfront costs. This requires
37 regulatory certainty regarding recovery of the costs for the duration of the long-
38 term power purchase agreements.
39

¹ 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 Without regulatory certainty on the question of cost recovery, wind energy
2 investments today are becoming increasingly difficult, if not impossible, to
3 finance. As the renewable energy requirements under Ohio's RPS escalate,
4 Commission-sanctioned cost recovery for long-term contracts will play a critical
5 role in the utilities' ability to cost-effectively satisfy those requirements and fulfill
6 the promise of SB 221.

7
8 **11. Q. HOW LONG IS SUFFICIENT FOR THESE CONTRACTS?**

9
10 **A.** The most efficient contract length is twenty (20) years. This enables developers to
11 get the most favorable rates on the financing. This favorable financing is passed
12 on to ratepayers through a lower project cost and lower electricity prices.

13
14 **12. Q. SHOULD THE COMMISSION APPROVE COST RECOVERY FOR THE**
15 **FULL 20-YEAR TERM OF THE REPA?**

16
17 **A.** Yes. The Commission can and should make clear that its approval of the REPA is
18 for its entire twenty (20)-year duration. While the ESP in this case is for a three
19 (3)-year period, the Commission has the ability to evaluate the present, one-time
20 question involving the prudence of a utility's investment and approve cost
21 recovery for the duration of the REPA. The Commission recently approved,
22 subject to several modifications and clarifications, the application of Ohio Edison
23 Company, the Cleveland Electric Illuminating Company, and the Toledo Edison
24 Company, which included a provision to conduct a request for proposal ("RFP")
25 to purchase RECs through ten (10)-year contracts.²

26
27 In this case, a clear statement in support of cost recovery for the Timber Road II
28 project will provide certainty to utilities, renewable project developers, and
29 ratepayers and serve as a template for future regulatory approval of renewable
30 energy projects financed for compliance with SB 221. Importantly, if the
31 Commission decides to approve cost recovery for the Timber Road II project, it
32 should expressly state that cost recovery is approved for the length of the REPA.
33 Remaining silent on the issue of the duration of cost recovery could cause
34 additional uncertainty and potentially threaten the viability of the REPA.

35
36 Notably, if the Commission were to deny cost recovery of the Timber Road II
37 REPA, a provision in the agreement would allow AEP Ohio to terminate the
38 REPA with no further obligations to Paulding II. If that were to occur, Paulding
39 II would be left without a buyer for the output of the Timber Road II, which is
40 already in operation. Such a precedent would introduce tremendous additional

² See *In the Matter of the Application of Ohio Edison Company, the Cleveland Electric Illuminating Company, and the Toledo Edison Company for Approval of Request for Proposal to Purchase Renewable Energy Credits through Ten-Year Contracts*, Case No. 10-2891-EL-ACP, Finding and Order (June 8, 2011)

1 risk to the marketplace, driving up costs and pushing capital to states with
2 friendlier investment environments.

3
4 **BENEFITS OF THE TIMBER ROAD II REPA**

5
6 **13. Q. HOW WILL THE TIMBER ROAD II REPA BENEFIT AEP OHIO**
7 **CUSTOMERS?**

8
9 **A.** The twenty (20)-year length of the agreement facilitates long-term financing,
10 which amortizes the cost of the project over a longer period, lowers interest rates
11 and the cost of equity, and reduces upfront costs. The REPA will ultimately
12 benefit customers by creating the kind of price certainty and lower rates that
13 would be much less likely under short-term or spot-market REC purchases.
14 Additionally, the Paulding II project will have the benefit of existing federal
15 incentives, which help to buy-down the cost of energy to AEP Ohio and its
16 customers. Such federal incentives, which are currently set to expire on
17 December 31, 2012, may not be available in the future.

18
19 **14. Q. HOW WILL THE TIMBER ROAD II REPA BENEFIT OHIO?**

20
21 **A.** While some utilities have suggested a reluctance to enter into long-term
22 renewable energy contracts because of regulatory uncertainty, AEP Ohio has
23 shown leadership and a commitment to RPS compliance by entering into the
24 Timber Road II REPA. For AEP Ohio, the REPA will provide a more definite,
25 cost-effective means than short-term or spot-market REC purchases to satisfy the
26 in-state portion of its non-solar renewable energy requirements. It has also led
27 directly to the creation of hundreds of construction jobs, training an Ohio labor
28 force in wind installation, and providing Ohio suppliers an opportunity to sell into
29 a new market.

30
31 For the renewable energy market in Ohio more broadly, the Timber Road II
32 REPA serves as an example of the type of long-term contract that can spur
33 development of additional projects, ultimately increasing the likelihood of utility
34 compliance, and the realization of the market's full potential. Significant, new
35 renewable energy generation resources are unlikely to be built in Ohio without
36 assured cost recovery for costs associated with long-term contracts. The
37 Commission has an opportunity in this case to provide regulatory certainty to the
38 issue of long-term cost recovery by making a definitive statement in support of
39 the Timber Road REPA.

1 **CONCLUSION**

2
3 **15. Q. DO YOU HAVE RECOMMENDATIONS REGARDING APPROVAL OF**
4 **COST RECOVERY FOR THE TIMBER ROAD II REPA?**

5
6 **A.** Yes.

7
8 **16. Q. WHAT ARE THOSE RECOMMENDATIONS?**

9
10 **A.** I recommend the Public Utilities Commission make a finding of prudence for the
11 Timber Road II REPA and approve cost recovery for AEP Ohio over the entire,
12 twenty (20)-year length of the agreement. Given the lower overall costs
13 associated with long-term contracts, I believe such recovery would be performed
14 under the RPS three (3) percent cost cap and would ultimately be cheaper for
15 ratepayers. Approval of cost recovery for the Timber Road II REPA would also
16 provide an important measure of support for the state's renewable energy market
17 and help ensure the success of SB 221. I recommend the Public Utilities
18 Commission use all tools available to it to remove regulatory risk associated with
19 long-term cost recovery in Ohio for AEP Ohio, as well as the renewable energy
20 market generally.

21
22 **17. Q. DOES LONG-TERM COST RECOVERY PRESENT UNDUE RISK TO**
23 **RATEPAYERS?**

24
25 **A.** No. Long-term cost recovery will protect ratepayers through reduced costs of
26 financing and stable pricing. Wind farms are capital-intensive but have the
27 advantage of no fuel costs. Therefore, there are no significant cost variables that
28 present long-term risk to ratepayers.

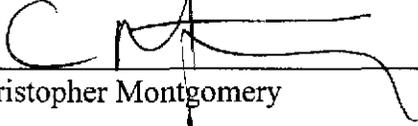
29
30 Additionally, long-term cost recovery for the Timber Road II REPA poses no risk
31 to customers who switch to another electric supplier. The costs of the REPA are
32 fully bypassable, and will be included in AEP Ohio's amended Fuel Adjustment
33 Clause rider (the energy and capacity components of the REPA) and the proposed
34 Alternative Energy Rider (the REC component of the REPA).

35
36
37 **18. Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

38
39 **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 25th day of July 2011 *via* electronic mail.



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