

**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 Service Offer	)	Case No. 11-346-EL-SSO
Pursuant to §4928.143, Ohio Rev. Code, in the Form	)	Case No. 11-348-EL-SSO
of an Electric Security Plan.	)	
In the Matter of the Application of Columbus	)	
Southern Power Company and Ohio Power Company	)	Case No. 11-349-EL-AAM
for Approval of Certain Accounting Authority.	)	Case No. 11-350-EL-AAM

**DIRECT TESTIMONY IN SUPPORT OF  
THE JOINT STIPULATION AND RECOMMENDATION OF**

**Steve Irvin**

**on behalf of**

**Paulding Wind Farm II LLC**

**September 13, 2011**

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-eight (28) wind farms  
19 across the United States totaling more than 3,500 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 Wind") owns and operates  
22 the 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  
40 prior role as Director of Power Marketing, I was also responsible for overseeing  
41 the marketing and negotiation of renewable energy purchase agreements and  
42 managing customer relationships.  
43

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 Case”). I am not an Ohio utility  
14            law expert. I specialize in the economics of wind farm development.  
15

16    9.    **Q.    ARE YOU FAMILIAR WITH THE JOINT STIPULATION AND**  
17            **RECOMMENDATION (THE “STIPULATION”) FILED SEPTEMBER 7,**  
18            **2011, WITH THE PUBLIC UTILITIES COMMISSION OF OHIO**  
19            **(“PUCO” OR THE “COMMISSION”) THAT WOULD SETTLE THE ESP**  
20            **CASE AND A NUMBER OF OTHER CASES?**

21  
22        A.    Generally, yes. I have reviewed the Stipulation. However, Paulding Wind is not a  
23            party to the other cases and its involvement in the ESP Case is limited to  
24            protecting its interests in its twenty (20)-year Renewable Energy Power Purchase  
25            Agreement with AEP Ohio for the electrical output of Paulding Wind’s Timber  
26            Road II wind project (the “Timber Road REPA”). I have not evaluated the merits  
27            of the other provisions in the Stipulation and do not take a position on issues  
28            outside the scope of the Timber Road REPA.  
29

30    10.   **Q.    WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?**

31  
32        A.    The purpose of my testimony is twofold. First, I will discuss how the  
33            Stipulation’s treatment of the Timber Road REPA addresses AEP Ohio’s need to  
34            enter into long-term contracts with wind energy providers to ensure it meets the  
35            obligations of Ohio’s renewable portfolio standard (“RPS”), set forth in Ohio  
36            Senate Bill 221.<sup>1</sup> Second, I will discuss how the Timber Road REPA benefits  
37            AEP Ohio ratepayers, the state’s economy, and energy policy more generally.  
38

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<sup>1</sup> 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 **BENEFITS OF THE STIPULATION'S TREATMENT OF THE TIMBER ROAD REPA**

2  
3 **11. Q. HOW DOES THE STIPULATION ADDRESS THE NEED FOR LONG-**  
4 **TERM CONTRACTS TO SUPPORT RENEWABLE ENERGY**  
5 **DEVELOPMENT IN OHIO AND HELP AEP OHIO MEET THE SB 221**  
6 **RPS BENCHMARKS?**

7  
8 A. As I mentioned in my direct testimony in the ESP Case<sup>2</sup>, a commercial-scale wind  
9 farm is a significant capital investment like any other large-scale power plant. To  
10 obtain lowest-cost financing for such projects, developers must demonstrate to  
11 investors and lenders the availability of a long-term revenue stream to repay the  
12 substantial upfront costs. This requires regulatory certainty regarding recovery of  
13 the costs for the duration of the long-term power purchase agreements.

14  
15 Without regulatory certainty on the question of cost recovery, wind energy  
16 investments today are becoming increasingly difficult, if not impossible, to  
17 finance. As the renewable energy requirements under Ohio's RPS escalate,  
18 Commission-sanctioned cost recovery for long-term contracts will play a critical  
19 role in the utilities' ability to cost-effectively satisfy those requirements and fulfill  
20 the promise of SB 221.

21  
22 The Stipulation establishes a framework that guarantees cost recovery through  
23 May 31, 2015, and then anticipates a new mechanism for cost recovery following  
24 corporate separation. In anticipation of that new mechanism for cost recovery,  
25 AEP Ohio has agreed in the Stipulation to terminate the "regulatory out"  
26 provision in the Timber Road REPA—subject to corporate separation occurring  
27 as planned—that allows AEP Ohio to cancel the REPA if cost recovery is denied  
28 by the Commission. AEP Ohio's decision to terminate the REPA's "regulatory  
29 out" provision inspires lender and investor confidence in the availability of a  
30 revenue stream for the full twenty (20)-year term of the REPA. Commission  
31 approval of the Stipulation will provide critical regulatory certainty for the  
32 Timber Road II project, and recognize long-term contracts as an essential element  
33 in the development of Ohio's advanced energy marketplace.

34  
35 **12. Q. HOW DOES THE STIPULATION ADDRESS THE COMMISSION'S**  
36 **PRUDENCY REVIEW OF THE TIMBER ROAD REPA?**

37  
38 A. The Stipulation anticipates a one-time, thorough, transparent Commission process  
39 for assessing the prudence of the Timber Road REPA. Costs of the Timber Road

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<sup>2</sup> See *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to §4928.143, Ohio Rev. Code, in the Form of an Electric Security Plan*, Case Nos. 11-346-EL-SSO *et al.*, Direct Testimony of Steve Irvin on behalf of Paulding Wind Farm II LLC (July 25, 2011).

1 REPA through May 31, 2015, will be recovered through the Alternative Energy  
2 Rider ("AER"). Costs will be reviewed through the annual Fuel Adjustment  
3 Clause ("FAC") proceedings through May 31, 2015. Additionally, the initial FAC  
4 proceeding under the new ESP will include a determination of the methodology  
5 for valuation of renewable energy credits ("RECs") for bundled purchases of  
6 RECs and electricity, such as those in the Timber Road REPA.

7  
8 **13. Q. SHOULD THE COMMISSION APPROVE THE STIPULATION?**

9  
10 **A.** Yes. The Commission's approval of the Stipulation, and with it, the approval of  
11 the Timber Road REPA, will bring direct benefits to Ohio ratepayers through  
12 lower prices, to Ohio's economy through increased private investment, and to  
13 Ohio's advanced energy policy through successful implementation of a large-  
14 scale generation project.

15  
16 **BENEFITS OF THE TIMBER ROAD REPA**

17  
18 **14. Q. HOW WILL THE TIMBER ROAD REPA BENEFIT AEP OHIO'S**  
19 **CUSTOMERS?**

20  
21 **A.** The twenty (20)-year length of the agreement facilitates long-term financing,  
22 which amortizes the cost of the project over a longer period, lowers interest rates  
23 and the cost of equity, and reduces upfront costs. The REPA will ultimately  
24 benefit customers by creating the kind of price certainty and lower rates that  
25 would be much less likely under short-term or spot-market REC purchases.  
26 Additionally, the Timber Road II project will have the benefit of existing federal  
27 incentives, which help to buy-down the cost of energy to AEP Ohio and its  
28 customers. Such federal incentives, which are currently set to expire on  
29 December 31, 2012, may not be available in the future.

30  
31 Importantly, the twenty (20)-year term of the Timber Road REPA poses no undue  
32 risk to ratepayers. Wind farms are capital-intensive but have the advantage of no  
33 fuel costs. Therefore, there are no significant cost variables that present long-  
34 term risk to ratepayers. Additionally, the Timber Road REPA presents no risk to  
35 customers who switch to another electric supplier. The costs of the REPA are  
36 fully bypassable, meaning customers who choose another electric supplier will  
37 not have to pay the per-customer charge associated with the REPA.

38  
39 **15. Q. HOW WILL THE TIMBER ROAD REPA BENEFIT OHIO'S ECONOMY?**

40  
41 **A.** The Timber Road REPA supports a \$175 million investment by EDPR NA in  
42 Ohio's economy in a region of the state that has historically not attracted  
43 investment at these levels, the creation of more than 1,000 construction jobs,  
44 nearly \$900,000 in annual tax revenues for the local county, and the training of a  
45 work force in wind installation and maintenance. This investment and the

1 potential for future investments rely on regulatory certainty surrounding the  
2 Timber Road REPA.

3  
4 **16. Q. HOW WILL THE TIMBER ROAD REPA BENEFIT OHIO'S ADVANCED**  
5 **ENERGY POLICY?**

6  
7 **A.** While some utilities have suggested a reluctance to enter into long-term  
8 renewable energy contracts because of regulatory uncertainty, AEP Ohio has  
9 shown leadership and a commitment to RPS compliance by entering into the  
10 Timber Road REPA and supporting the REPA in the Stipulation. For AEP Ohio,  
11 the REPA will provide a more definite, cost-effective means than short-term or  
12 spot-market REC purchases to satisfy the in-state portion of its non-solar  
13 renewable energy requirements.

14  
15 For the advanced energy market in Ohio more broadly, the Timber Road REPA  
16 serves as an example of the type of long-term contract that can spur development  
17 of additional, large-scale generation projects, ultimately increasing the likelihood  
18 of utility compliance, and the realization of the market's full potential promised  
19 by SB 221. Significant, new advanced energy generation resources are unlikely  
20 to be built in Ohio without the support of long-term contracts. The Commission  
21 has an opportunity in this case to provide regulatory certainty by making a  
22 definitive statement in support of the Stipulation and the Timber Road REPA.

23  
24 **CONCLUSION**

25  
26 **15. Q. DO YOU HAVE RECOMMENDATIONS REGARDING APPROVAL OF**  
27 **THE STIPULATION?**

28  
29 **A.** Yes.

30  
31 **16. Q. WHAT ARE THOSE RECOMMENDATIONS?**

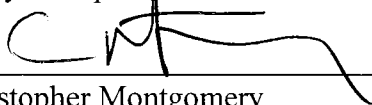
32  
33 **A.** I recommend the Commission approve the Stipulation. Approval of the  
34 Stipulation will provide critical regulatory certainty for the Timber Road REPA,  
35 and will also provide an important measure of support for the state's advanced  
36 energy market and help ensure the success of SB 221. More generally, I  
37 recommend the Commission use all tools available to it to remove regulatory risk  
38 associated with long-term cost recovery in Ohio for AEP Ohio and the advanced  
39 energy market as a whole.

40  
41 **18. Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

42  
43 **A.** Yes.

## CERTIFICATE OF SERVICE

The undersigned hereby certifies that the foregoing DIRECT TESTIMONY was served upon the parties of record listed below this 13<sup>th</sup> day of September 2011 *via* electronic mail.

  
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Summary: Testimony of Steve Irvin electronically filed by Teresa Orahood on behalf of Paulding Wind Farm II LLC