

**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

May 4, 2012

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 Executive Vice President, Central Region.
27

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

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30 **A.** I have held this position since September 27, 2011. From August 2010 –
31 September 27, 2011 I was Chief Commercial Officer. Prior to that time I was
32 Director of Power Marketing from June 1, 2005 – August 2010.
33

34 **6. Q. WHAT IS THE NATURE OF YOUR DUTIES WITH HORIZON?**

35
36 **A.** As Executive Vice President, Central Region, I lead both the Power Marketing
37 and Origination and Market Operations departments at EDPR NA. My
38 responsibilities include expanding and maintaining EDPR NA's customer
39 relationships, overseeing the marketing and negotiation of renewable energy
40 purchase agreements and managing the scheduling and hedging of EDPR NA's
41 merchant assets. In my prior role as Director of Power Marketing, I was also
42 responsible for overseeing the marketing and negotiation of renewable energy
43 purchase agreements and managing customer relationships.
44

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 A MODIFIED ELECTRIC SECURITY PLAN IN THIS**
10 **CASE?**
11

12 **A.** Generally, yes. I have reviewed the application of Columbus Southern Power
13 Company and Ohio Power Company (collectively “AEP Ohio” or the “Company”)
14 for approval of a modified electric security plan (“ESP”). I am not an Ohio utility
15 law expert. I am focused on the economics of wind farm development.
16

17 **9. Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?**
18

19 **A.** The purpose of my testimony is twofold. First, I will generally address the need
20 for Load Serving Entities (“LSEs”), such as AEP Ohio, to enter into long-term
21 contracts with wind energy providers to ensure that the obligations of Ohio’s
22 renewable portfolio standard (“RPS”), set forth in Ohio Senate Bill 221, are met.¹
23 Second, I will support AEP’s request for the Commission to establish prudence
24 and allow for the cost recovery of a twenty (20)-year Renewable Energy Power
25 Purchase Agreement entered into between AEP Ohio and Paulding Wind for the
26 electrical output of the Timber Road II project (the “Timber Road REPA”).
27

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

29

30 **10. Q. WHY ARE LONG-TERM CONTRACTS NEEDED TO SUPPORT**
31 **RENEWABLE ENERGY DEVELOPMENT IN OHIO AND HELP LSES**
32 **MEET THE SB 221 RPS BENCHMARKS?**
33

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

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.

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

11. Q. HOW LONG IS SUFFICIENT FOR THESE CONTRACTS?

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

12. Q. SHOULD THE COMMISSION APPROVE COST RECOVERY FOR THE FULL 20-YEAR TERM OF THE TIMBER ROAD REPA?

A. Yes. The Commission can and should make clear that its approval of the Timber Road REPA is for its entire twenty (20)-year duration. While the ESP in this case is for a three (3)-year period, the Commission has the ability to evaluate the present, one-time question involving the prudence of a utility's investment and approve cost recovery for the duration of the Timber Road REPA. Last year, the Commission approved two applications by Ohio Edison Company, the Cleveland Electric Illuminating Company, and the Toledo Edison Company, to conduct requests for proposals to purchase RECs and Solar Renewable Energy Credits ("SRECs") through ten (10)-year contracts.²

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

Notably, if the Commission were to deny cost recovery of the Timber Road REPA, a provision in the agreement would allow AEP Ohio to terminate the

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* dated June 8, 2011); *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. 10-4625-EL-ACP (*Entry* dated December 14, 2011).

REPA with no further obligations to Paulding Wind. If that were to occur, Paulding Wind would be left without a buyer for the output of the Timber Road II project, which is already in operation. Such a precedent would introduce tremendous additional risk to the marketplace, driving up costs and pushing capital to states with friendlier investment environments.

BENEFITS OF THE TIMBER ROAD REPA

13. Q. HOW WILL THE TIMBER ROAD REPA BENEFIT AEP OHIO CUSTOMERS?

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

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

14. Q. HOW WILL THE TIMBER ROAD REPA BENEFIT OHIO'S ECONOMY?

A. The Timber Road REPA supports a \$175 million investment by EDPR NA in Ohio's economy in a region of the state that has historically not attracted investment at these levels, the creation of more than 1,000 construction jobs, nearly \$900,000 in annual tax revenues for the local county, and the training of a work force in wind installation and maintenance. This investment and the potential for future investments rely on regulatory certainty surrounding the Timber Road REPA.

15. Q. HOW WILL THE TIMBER ROAD REPA BENEFIT OHIO'S ADVANCED ENERGY POLICY?

A. While some utilities have suggested a reluctance to enter into long-term renewable energy contracts because of regulatory uncertainty, AEP Ohio has shown leadership and a commitment to RPS compliance by entering into the Timber

1 Road REPA. For AEP Ohio, the REPA will provide a more definite, cost-
2 effective means than short-term or spot-market REC purchases to satisfy the in-
3 state portion of its non-solar renewable energy requirements.
4

5 For the advanced energy market in Ohio more broadly, the Timber Road REPA
6 serves as an example of the type of long-term contract that can spur development
7 of additional, large-scale generation projects, ultimately increasing the likelihood
8 of utility compliance, and the realization of the market's full potential promised
9 by SB 221. Significant, new advanced energy generation resources are unlikely to
10 be built in Ohio without the support of long-term contracts. The Commission has
11 an opportunity in this case to provide regulatory certainty by making a definitive
12 statement in support of the Timber Road REPA.
13

14 **CONCLUSION**

15
16 **15. Q. DO YOU HAVE RECOMMENDATIONS REGARDING APPROVAL OF**
17 **COST RECOVERY FOR THE TIMBER ROAD REPA?**
18

19 **A.** Yes.
20

21 **16. Q. WHAT ARE THOSE RECOMMENDATIONS?**
22

23 **A.** I recommend the Public Utilities Commission make a finding of prudence for the
24 Timber Road REPA and approve cost recovery for AEP Ohio over the entire, 20-
25 year length of the agreement. Given the lower overall costs associated with long-
26 term contracts, I believe such recovery would be performed under the RPS three
27 (3) percent cost cap and would ultimately be cheaper for ratepayers. Approval of
28 cost recovery for the Timber Road REPA would also provide an important
29 measure of support for the state's advanced energy market and help ensure the
30 success of SB 221. I recommend the Public Utilities Commission use all tools
31 available to it to remove regulatory risk associated with long-term cost recovery in
32 Ohio for AEP Ohio, as well as the advanced energy market generally.
33

34 **17. Q. DOES THIS CONCLUDE YOUR TESTIMONY?**
35

36 **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 4th day of May 2012 *via* electronic mail.



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