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Case No. 10-503-EL-FOR

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DIRECT TESTIMONY
Bruce Burcat
Mid-Atlantic Renewable Energy Coalition
CASE NO. 10-513-EL-FOR

BACKGROUND AND EXPERIENCE

Q. Please state your name and business address.

A. My name is Bruce Burcat. My business address is P.O. Box 385, Camden, Delaware.

Q. By whom are you employed and in what capacity?

A. I am employed by the Mid-Atlantic Renewable Energy Coalition as its Executive Director.

Q. Please provide a description of the Mid-Atlantic Renewable Energy Coalition.

A. MAREC is a nonprofit organization that was formed to help advance the opportunities for renewable energy development primarily in the region where the Regional Transmission Organization, PJM Interconnection, LLC ("PJM"), operates. MAREC's footprint includes Ohio, New Jersey, Delaware, Pennsylvania, Maryland, Virginia, West Virginia, North Carolina, and the District of Columbia. MAREC's membership consists of wind developers, wind turbine manufacturers, service companies and nonprofit organizations dedicated to the growth of renewable energy technologies to improve our environment, boost economic development in the region and diversify our electric generation

1 portfolio, thereby enhancing energy security. The primary areas of focus of
2 MAREC are to work with state regulators to develop rules and supportive policies
3 for renewable energy; provide education and expertise on the environmental
4 sustainability of wind energy; and offer technical expertise and advice on
5 integrating variable wind energy resources into the electric grid.

6 **Q. Please describe your professional background.**

7 **A.** I am an attorney with over twenty years' experience in the utility and energy
8 regulatory fields. I am responsible for MAREC's efforts to promote the growth
9 and development of renewable energy in its nine jurisdictions. I joined the Mid-
10 Atlantic Renewable Energy Coalition as its Executive Director after serving for
11 nearly fifteen years as the Executive Director of the Delaware Public Service
12 Commission. In that capacity I was involved in all facets of utility regulation,
13 including the restructuring of Delaware's electricity market and the reintroduction
14 of integrated resource planning for Delaware's major electric utility. As part of
15 the integrated planning process, Delaware's major electric utility was required to
16 incorporate electricity generated from renewable resources into its long-term
17 procurement plan. My office oversaw compliance by electric suppliers with the
18 State's renewable portfolio standard. I was intricately involved in the two-year
19 process that resulted in the first purchase power agreement in the United States
20 for the energy generated from an offshore wind farm that will be located off the
21 coast of Delaware. I have testified before the Federal Energy Regulatory
22 Commission and also numerous times before the Delaware House and Senate

1 on proposed energy legislation and major energy issues facing the state. Prior to
2 coming to the Delaware Commission, I was an attorney for the New Jersey
3 Division of the Ratepayer Advocate. Before that position I served as a Senior
4 Rate Attorney for General Waterworks Management and Service Company.

5 **Q. Please describe your educational background.**

6
7 **A.** I am a graduate of the University of Delaware. I received my Juris Doctor degree
8 from Rutgers University School of Law – Camden and a Masters in Law (LL.M) in
9 Taxation from the Villanova University School of Law.

10 **PURPOSE OF DIRECT TESTIMONY**

11 **Q. What is the purpose of your testimony?**

12 **A.** The purpose of my testimony is to respond to a portion of Duke Energy Ohio's
13 revised Long-Term Forecast Report and Resource Plan recently filed in this
14 case. Specifically, I will respond to the section of that document concerning
15 Duke Energy Ohio's "Renewable Compliance Strategy", wherein Duke Energy
16 contends that it would be imprudent for it to enter into contracts with third parties
17 that would extend beyond the present SSO period which ends on December 31,
18 2011. Duke Energy contends that engaging in long-term contracts with third-
19 parties presents "cost recovery risks" that it does not want to assume. However,
20 it "will" consider such contracts in the event the cost recovery uncertainties are
21 adequately addressed. My testimony will address the need for these long-term
22 contracts with wind energy providers in order to help meet the requirements of

1 Ohio's Alternative Energy Portfolio Standard (AEPS). The AEPS was enacted
2 with the passage of Senate Bill 221 in 2008.

3 **Q. Why do you believe that long-term contracts are needed to help meet the**
4 **requirements of the AEPS?**

5 **A. Between 2014 and 2019, In addition to REC purchases, Duke Energy Ohio's own**
6 **Resource Planning Model identifies the need for 300 MW of nameplate additions**
7 **of wind energy capacity that would contribute both RECs and energy in order to**
8 **meet the annually increasing requirements of the AEPS. The Company**
9 **recognizes that its long-term strategy for meeting the renewable resources**
10 **requirements of AEPS could be met in significant part by either owning the**
11 **resources or entering into long-term contracts with third parties. Long-term**
12 **contracting with wind energy developers provides substantial benefit. A request**
13 **for proposal ("RFP") process would provide for a very competitive process**
14 **leading to a cost effective outcome. Pricing for these contracts produce stable**
15 **priced energy over the entire term of the contract, because there is no volatility of**
16 **the price of the fuel source as there would be with traditional fossil fuel**
17 **resources. Furthermore, the risk of the project is on the developer. Duke Energy**
18 **Ohio and its customers would not be required to pay for any energy, unless the**
19 **project is in the ground and producing energy. Once the contract is executed the**
20 **developer bears the burden if there are any cost overruns. If this were a**
21 **regulated project developed by the electric distribution company, ratepayers**

1 would likely be the ones who would assume cost overruns through rates as these
2 costs could become part of the rate base.

3 **Q. Please explain why it is necessary for the wind energy developers to sell**
4 **RECs and energy through long-term contracts as opposed to building their**
5 **projects and selling into markets.**

6 **A. Generally speaking developers of renewable energy projects, such as large scale**
7 **wind farms, are seeking to develop projects that provide them sufficient certainty**
8 **that they will be investing in a market that will allow them to recover the**
9 **substantial capital costs over the long-term. They need the certainty of the**
10 **revenue stream that a long-term contract provides in order to attract the**
11 **necessary financing to defray the initial capital costs of the project. There is no**
12 **doubt that financial institutions and investors are much more likely to provide**
13 **funding to a project with a long-term revenue stream from a reliable counter-party**
14 **like an investor-owned utility. Wind energy investments that cannot demonstrate**
15 **an assurance of cost recovery are becoming more and more difficult to finance.**

16 The markets for short-term RECs have proven to be thin and illiquid, which has
17 led to significant volatility for these products. This volatility hurts ratepayers,
18 because when the market is short this leads to higher costs for ratepayers; and
19 when prices are low, the economics are not supportive of wind farm
20 development, which makes it more difficult to meet the renewable energy
21 objectives of the State. The appeal of long-term contracts for wind projects is
22 that they enable the financing of these projects, usually at more advantageous

1 financing terms. Ratepayers benefit as a result of the financing terms, as well as
2 the fact that a long-term contract removes the issue of price volatility for an
3 energy source that is needed for compliance with the AEPS.

4 **Q. What is a sufficient length of term for these contracts?**

5 **A.** Twenty (20) and twenty-five (25) years are contract lengths often sought. A
6 commercial wind energy project requires a substantial capital outlay. A longer
7 contract term allows the developer to amortize these costs over a more extended
8 timeframe. The longer term mitigates financial risk to the developers and
9 enhances their financing opportunities, which ultimately helps keep the cost
10 down to the ratepayers. A twenty (20) year term enables developers to receive a
11 more favorable financing rate. Investors and financial institutions will look at the
12 terms of a contract to determine whether it is worthy of their funding, and if so,
13 under what conditions. A long-term contract with a utility that will provide for a
14 return on the project through the course of the contract term will be educe
15 serious consideration. A ten- or fifteen-year term may not show a sufficient
16 return on a major wind farm project, which could reduce its financing
17 opportunities and possibly affect the terms of available financing; whereas a
18 twenty-year would be seen as sufficiently long to secure favorable financing
19 terms.

20 **Q. Does the Company have a valid concern over its stated concern over "cost**
21 **recovery risks" if it entered into long-term contracts to comply with the**
22 **AEPS mandates?**

1 **A.** Yes. Assuming Duke Energy Ohio entered into a contract with a wind developer
2 for a long-term contract, it would need to seek approval from the Commission to
3 recover the costs associated with the contract through one or more proceedings.
4 At the present time there is no certainty that the Commission would ultimately
5 allow rate recovery for the contract through the entire term of the contract.
6 Electric utilities are very risk averse and it is understandable that Duke would
7 raise this concern on behalf of its shareholders. Nevertheless, there have been
8 other electric utilities that have shown an interest in engaging in long-term
9 contracts.

10 **Q.** **Should the Commission provide utilities, like Duke Energy Ohio, a**
11 **sufficient assurance of cost recovery when they enter into these long-term**
12 **renewable energy contracts?**

13 **A.** Yes. Assuming that the Company acted prudently in procuring the contracts and
14 they were entered into for the purpose of compliance with the AEPS, then it
15 should be permitted cost recovery through the entire term of the contract. I
16 believe that prudence could be demonstrated by an electric utility if it had
17 implemented a competitive RFP process for the procurement and also been able
18 to meet the three (3) percent cost cap requirement of the AEPS when
19 considering the contracts. These types of contracts will in the long-term provide
20 greater rate stability for customers and would in all likelihood provide lower costs
21 than short-term purchases to meet compliance requirements. I believe that an
22 electric utility that employed the practice of meeting compliance of the AEPS in

1 significant part through long-term contracting with third-parties is acting in the
2 best interest of its ratepayers.

3 **Q Do you have any final thoughts concerning this matter?**

4 **A.** Yes. I would recommend that the Commission do whatever is necessary to
5 provide regulatory certainty for cost recovery for long-term contracts entered into
6 by Duke Energy Ohio with third parties as part of its compliance strategy under
7 the AEPS.

8 **Q Does this conclude your testimony?**

9 **A.** Yes.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing was served via *electronic mail* and Regular U.S. Mail upon the following this 14th day of March, 2011.


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