

BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION)
OF SOUTHWESTERN ELECTRIC POWER)
COMPANY FOR APPROVAL TO ACQUIRE) DOCKET NO. 19-035-U
WIND GENERATING FACILITIES)
PURSUANT TO THE ARKANSAS CLEAN)
ENERGY DEVELOPMENT ACT)

APPLICATION

Southwestern Electric Power Company (SWEPCO or the Company) files this Application to request an order from the Arkansas Public Service Commission (Commission) approving SWEPCO’s acquisition of certain wind generating facilities pursuant to the Arkansas Clean Energy Development Act and in support thereof states:

1. SWEPCO is a corporation organized and existing under the laws of the State of Delaware, and is duly authorized to do business in the States of Arkansas, Texas, Louisiana and Oklahoma. SWEPCO’s principal office is located at 428 Travis Street, Shreveport, Louisiana.

2. In the States of Arkansas, Texas and Louisiana, SWEPCO engages in a general electric utility business of selling, at retail and wholesale, electric power and energy to customers in its service areas. SWEPCO provides service to approximately 535,000 retail customers, of which approximately 119,000 are located in Arkansas. Electricity is provided by 12 generating facilities which the Company owns, in whole or in part, and through purchased power agreements. Electric power and energy is delivered to customers in the Company’s service areas via an integrated transmission and distribution system.

3. SWEPCO is a public utility as defined by Ark. Code Ann. §23-1-101 et seq., and is therefore subject to the jurisdiction of the Commission. This Application is filed pursuant to

the Arkansas Clean Energy Development Act (Ark. Code Ann. §23-18-701, *et seq.*), and Section 4 of the Commission's Rules of Practice and Procedure. Pursuant to Rule 3.04, all correspondence and other papers regarding this docket should be addressed to:

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4. In this Application, SWEPCO seeks an order of the Commission approving SWEPCO's acquisition of certain wind generation facilities (Selected Wind Facilities) pursuant to the Arkansas Clean Energy Development Act. Specifically, SWEPCO seeks authority to acquire in conjunction with its sister company, Public Service Company of Oklahoma (PSO), via Purchase and Sale Agreements (PSA), the project companies owning the three separate wind generation facilities located in the state of Oklahoma more particularly described herein.

BACKGROUND

5. SWEPCO's most recent Integrated Resource Plan (IRP), filed in APSC Docket No. 07-011-U on December 14, 2018 (and incorporated herein by reference), and also Louisiana's Draft IRP filed in accordance with the LPSC General Order dated April 20, 2012 in Docket I-34715 concludes that customers will benefit from SWEPCO's acquisition of low-cost

wind generation resources. The plan shows that increases in renewable energy, including wind and solar, over the planning period will provide significant benefits to customers. Under the plan, energy output attributable to wind resources increases from 9% to 26% of SWEPCO's total energy mix. Acquisition of the Selected Wind Facilities will reduce customers' energy costs and further diversify SWEPCO's portfolio of supply-side resources, while reducing the Company's reliance on carbon-based fuel sources. Further, SWEPCO continues to see strong customer interest in more renewable energy to meet their sustainability and renewable energy goals and to take advantage of approximately \$750 million in customer cost savings remaining available under the federal Production Tax Credit (PTC) extension contained within the Protecting Americans from Tax Hikes Act of 2015, net of Deferred Tax Asset (DTA) carrying costs.

In order to effectuate the IRPs, SWEPCO and its sister company Public Service Company of Oklahoma (PSO) (the Companies) both issued Requests for Proposals (RFP) for wind generation resources on January 7, 2019. A bidder that submitted a proposal in response to the SWEPCO RFP was required to also submit an identical proposal in response to the PSO RFP. SWEPCO requested proposals for the acquisition of up to 1,200 megawatts of wind energy resources to be in commercial operation by December 15, 2021. SWEPCO and PSO sought facilities on a turnkey, fixed-cost basis in which they would acquire all of the equity interests in the facility or the facility and all of its assets. Key considerations in the RFP evaluation process included cost, performance, and long-term deliverability. SWEPCO and PSO sought projects located in, and interconnected to, the Southwest Power Pool (SPP) regional grid in Arkansas, Louisiana, Texas, or Oklahoma – the four states in which SWEPCO and PSO operate. The projects bid into the RFP were required to interconnect to the SPP and have a completed System Impact Study by the proposal due date of March 1, 2019.

The Companies received 35 bids representing 19 unique wind projects totaling 5,896 MW in response to the RFP on March 1, 2019. Fifteen (15) projects were located in Oklahoma and four (4) projects were located in Texas.

Following a thorough review of all bids SWEPCO and PSO selected three wind facilities described in detail below. SWEPCO is seeking to acquire the project companies owning the Selected Wind Facilities to save customers money and further diversify SWEPCO's energy resource mix.

DESCRIPTION OF THE SELECTED WIND FACILITIES

6. The Selected Wind Facilities consist of 3 separate projects totaling 1485 MW in total installed nameplate capacity that are currently under construction in North Central Oklahoma. They are (1) the Traverse (999 MW) wind project with Traverse Wind Energy LLC (Traverse), (2) the Maverick (287 MW) wind project with Maverick Wind Project, LLC (Maverick), and (3) the Sundance (199 MW) wind project with Sundance Wind Project, LLC (Sundance). Traverse Wind LLC, Maverick Wind LLC, and Sundance Wind LLC are all affiliates of Invenergy LLC. SWEPCO's pro-rata portion of the 1485 MW is 54.5% or 810 MW, of which 155 MW is expected to be allocated to Arkansas. The Selected Wind Facilities will be engineered to have a design life of 30 years.

COST, METHOD OF ACQUISITION AND PROPOSED METHOD OF FINANCING

7. The Companies entered into 3 PSAs with Invenergy's affiliates (Sellers) for a total of 1,485 MW of wind energy projects located within the State of Oklahoma. The PSAs govern the construction of the Selected Wind Facilities by the Seller and the Companies' purchase of 100% of the equity interests of each of the respective Selected Wind Facilities'

holding companies, each a single-purpose entity that will own the rights and assets associated with each of the wind facilities.

8. The total purchase price for the Selected Wind Facilities is \$1.86 billion (\$1,253 /kW), including all interconnection and upgrade costs. The purchase price is payable to the Sellers at Closing of each of the Selected Wind Facilities with no pre-Closing progress or other payments. Closing will occur when each wind facility has reached Project Substantial Completion or Interim Project Substantial Completion as defined in the PSA and all Closing conditions precedent provided for in each of the respective PSAs have been satisfied. SWEPCO and PSO will share both the costs and benefits of the Selected Wind Facilities consistent with their respective 54.5%/45.5% expected ownership shares. Accordingly, SWEPCO's share of the total purchase price is \$1.01 billion. The contracts are turn-key fixed price PSAs that require project delivery to PSO and SWEPCO on the Commercial Operation Date.

9. The Company intends to finance its pro-rata share of the acquisitions by employing cash flow from operations, to the extent available, a combination of short term and long-term debt, and equity from its parent, American Electric Power Company, Inc.

CUSTOMER DEMAND FOR ADDITIONAL RENEWABLE RESOURCES

10. Many of SWEPCO's customers are seeking, or in some cases even requiring, that increasing amounts of their energy is provided by renewable resources. This need arises from the fact that some of SWEPCO's largest customers have significant renewable energy targets or commitments. In order to meet the needs and desires of its customers, and to make its service territory more attractive to new economic development, it is important that SWEPCO increase the amount of energy that is produced from renewable resources, while at the same time remaining focused on the cost of providing service to our customers. This proposal provides a

great opportunity to do just that, and is consistent with the expressed desires of SWEPCO's stakeholders during its last two IRP Stakeholders processes.

SAVINGS FOR CUSTOMERS

11. The Selected Wind Facilities are expected to provide savings of approximately \$2.12 billion in nominal dollars (\$588 million on a net present value basis), and produce robust savings and significant customer benefits under a wide range of scenarios as discussed by witnesses Thomas P. Brice and John F. Torpey. These time-sensitive Selected Wind Facilities take advantage of federal Production Tax Credits (PTCs) for the benefit of customers, so as to secure at least 80% of the value of the PTCs, and in the case of Sundance 100% of the value of the PTCs. In addition, SWEPCO is offering a suite of guarantees that are designed to provide value to customers, including a cost cap, a long-term minimum production guarantee, and a guarantee that the facilities will qualify for PTCs at the levels noted above. Cumulatively, the guarantees ensure that the acquisition of the Selected Wind Facilities is in the public interest.

ADDITIONAL RELIEF SOUGHT

12. SWEPCO is a multi-jurisdictional public utility and has simultaneously sought authorization to acquire 810 MW of wind energy produced by the Selected Wind Facilities in both Texas and Louisiana. PSO has also sought approval to acquire 675 MW of wind energy. If approved in all jurisdictions, the Arkansas allocated portion of the wind energy is expected to be 155 megawatts. However, realizing that it is possible that not all four of the regulatory commissions will grant the requested relief, SWEPCO and PSO have designed the proposed acquisition of the Selected Wind Facilities to be scalable to allow for all, or a subset of, the Selected Wind Facilities to move forward depending on regulatory outcomes. Therefore, if either SWEPCO or PSO does not receive approval in all jurisdictions, SWEPCO seeks authority

in this proceeding to acquire for its Arkansas customers a proportional part of the MWs otherwise allocated to a declining jurisdiction if the Commission determines such an increased proportional allocation to be in the public interest. The specifics of the additional relief sought are set out in the Direct Testimony of Thomas P. Brice and are incorporated herein by reference.

13. SWEPCO further requests the Commission to authorize cost recovery through a rider pursuant to the **Arkansas Clean Energy Development Act** until such time as the Selected Wind Facilities can be included in rate base through a general rate case.

WHEREFORE, Southwestern Electric Power Company respectfully requests that the Commission issue its order approving the acquisition of the Selected Wind Facilities pursuant to the **Clean Energy Development Act**; that the Commission include in its order the authorization for SWEPCO to allocate more than the Arkansas jurisdictional share of wind energy for its Arkansas customers if any other jurisdiction declines SWEPCO or PSO's Application for authority to acquire the Selected Wind Facilities; that the Commission authorize cost recovery pursuant to a rider until such time as the Selected Wind Facilities can be included in rate base through a general rate case; and for all other proper relief.

Respectfully submitted,

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