

**BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION**

**IN THE MATTER OF THE APPLICATION)
OF SOUTHWESTERN ELECTRIC POWER)
COMPANY FOR APPROVAL TO ACQUIRE) **DOCKET NO. 17-038-U**
A WIND GENERATING FACILITY AND TO)
CONSTRUCT A DEDICATED GENERATION)
TIE LINE)**

APPLICATION

Southwestern Electric Power Company (SWEPCO or Company) files this Application to request an order from the Arkansas Public Service Commission (“Commission”) approving SWEPCO’s acquisition of a wind generating facility and construction of a dedicated generation tie line, 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 530,000 retail customers, of which approximately 116,000 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 plant and construction of a dedicated generation tie line.

BACKGROUND

5. Invenergy Wind Development, North America (Invenergy), the largest independent wind power generation company in North America, is presently constructing the States Edge Renewable Energy and Interconnection Project (hereafter the “Wind Catcher Facility”) located in Cimarron County and Texas County, Oklahoma. The Wind Catcher Facility will be a 2,000 MW (name plate/1900 MW delivered) wind generation facility that will deliver

energy into the Southwest Power Pool (“SPP”) footprint via a dedicated generation tie line. The Wind Catcher Facility will have an expected net capacity factor of approximately 51%. Construction of the Wind Catcher Facility began in 2016, and is expected to be completed in the third quarter of 2020. As a result, the facility will qualify for 100% of the federal production tax credit (PTC) presently being phased out for facilities that commence construction after December 31, 2016. On July 26, 2017, American Electric Power Service Corporation (AEPSC), acting as agent on behalf of SWEPCO and Public Service Company of Oklahoma (PSO), entered into a Membership Interests Purchase Agreement (MIPA) with States Edge Wind Holdings I LLC to acquire the Wind Catcher Facility from States Edge Wind I LLC, an Invenergy single-purpose subsidiary, contingent upon and subject to all regulatory approvals and other conditions.

DESCRIPTION OF THE PROPOSED FACILITIES

6. The Wind Catcher Facility will consist of 800 General Electric 2.5 MW wind turbine generators (WTG) with a hub height of 88.6 meters and a rotor diameter of 127 meters. GE Renewable Energy, which will provide the turbine generators, anticipates that a significant number of turbine blades, towers and generator frames will be manufactured in Arkansas, Louisiana and Texas. The Wind Catcher Facility will also have 34.5kV collection systems and 34.5kV to 345kV substations. Invenergy has site control over 300,000 acres covering approximately 470 square miles for purposes of constructing and operating the facilities. Prior to commercial operation, Invenergy will be responsible for the development, permitting, engineering, procurement of all necessary equipment and materials, construction and commissioning of the Wind Catcher Facility for a fixed price according to the MIPA.

7. The Wind Catcher Facility will interconnect into the Tulsa North substation through a dedicated 765 kV extra high voltage generation tie line approximately 350 to 380

miles long and related facilities, all of which will be located in Oklahoma. AEPSC, acting as agent on behalf of PSO and SWEPCO, has contracted with a wholly-owned subsidiary of Quanta Services to construct the Wind Catcher Generation Tie Line (the “Gen Tie”) via a fixed-price, engineer, procure, construct (EPC) contract, subject to regulatory approvals and other conditions.

Quanta Services is a leading transmission construction contractor specializing in designing, building and maintaining transmission systems of all lengths and configurations across the voltage spectrum. Quanta, with minimal exception, is responsible for line routing, siting, permitting, easement acquisition, surveying, engineering, procurement, construction, testing, and commissioning to established AEP Standards and project specific design criteria.

DESCRIPTION OF THE PROPOSED PURCHASE

8. SWEPCO proposes to purchase a 1,330 MW portion (70%, delivered) of the Wind Catcher Facility and the dedicated Gen Tie, collectively referred to as the Wind Catcher Energy Connection Project (the “Project”). SWEPCO’s sister company, PSO, is expected to purchase the remaining 670 MW (30%, delivered) of the Project and will share in the cost of the dedicated Gen Tie in the same percentages. The Gen Tie is necessary to ensure that SWEPCO and PSO have access to some of the best wind resources in the U.S. and significantly reduces SPP congestion costs.

9. The ownership split of 70% for SWEPCO PSO results in the Company providing approximately 25-40% of its energy from renewable resources once the Project is included in the Company’s resource mix.

CURRENT INTEGRATED RESOURCE PLANS

10. SWEPCO’s most recent Integrated Resource Plan (IRP), filed with the Arkansas Public Service Commission in December 2015, proposed additional wind resources of 200 MW

“nameplate” of wind in 2017, and then growing over time beginning in 2023 to 1,200 MW of wind and 842 MW of solar by 2034. That plan also assumed a 435 MW combined cycle addition in 2026. The Project effectively accelerates that plan for wind and enables SWEPCO to delay the cost of adding the combined cycle. The benefits of the acceleration are the large energy savings, which when coupled with the PTCs and delay in adding additional generation, creates a unique opportunity for SWEPCO to save a projected \$1.9 billion dollars on a net present value basis for its customers.

11. SWEPCO’s IRP projects a levelized cost of energy (“LCOE”) for wind resources ranging from \$47-\$60/MWh, post-expiration of the federal PTC, non-inclusive of congestion costs. The Project, with full realization of the PTC, can efficiently produce wind energy at a much lower price with significantly reduced congestion cost risk. Although SWEPCO doesn’t have a current need for the additional capacity, the projected savings to customers, discussed hereafter, has led SWEPCO to conclude it would be in the best interests of the Company and its customers to accelerate the acquisition of the renewable generation previously identified in the Company’s IRP as being needed over time. Once the Project is operational, the Company will have an opportunity to deliver over 6 million MWh per year of low cost energy to their customers for 25 years or more.

CONSIDERATION OF MARKET ALTERNATIVES

12. SWEPCO went through a modeling analysis to assure that the Project provided significant customer benefits when compared to market purchases (the baseline scenario) or a generic wind case. The Company clearly demonstrates through this analysis that the Project, in conjunction with the Gen Tie, will deliver significant savings and lowest cost energy to its customers over the life of the project.

**COST OF THE FACILITIES AND
PROPOSED METHOD OF FINANCING**

13. The Wind Facility, pursuant to a turn-key agreement, requires no capital commitment by SWEPCO until the Project is completed and operational. The dedicated Gen Tie is being constructed pursuant to an EPC contract, and consists of approximately 350 to 380 miles of extra high voltage line. SWEPCO's portion of the Wind Facility and Gen-Tie will cost approximately \$2.0 and \$1.1 billion, respectively, for a total cost of the Project of approximately \$3.1 billion. The dedicated Gen Tie is essential to ensure deliverability and will provide benefits that are in excess of its cost. The large investment associated with the Project necessitates that the Company have assurance of recovery of its prudently incurred costs concurrent with the in-service date of the Project in order to move forward with the Project. Accordingly, pursuant to the *Arkansas Renewable Energy Development Act*, SWEPCO requests recovery of the additional revenue requirement through a rider that will be effective upon commercial operation of the facilities.

14. The capital cost of the Project will be financed with (1) short-term borrowings, (2) long-term debt, (3) retained earnings through dividend reductions or the elimination of dividend payments during portions of the construction phase, and (4) equity contributions from the Company's parent, American Electric Power Company, Inc. Equity contributions from SWEPCO's parent company, American Electric Power Company, Inc., will maintain SWEPCO's current capital structure.

CUSTOMER DEMAND FOR ADDITIONAL RENEWABLE RESOURCES

15. 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 their customers, and to make their service territories 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. The Project provides a great opportunity to do just that. Further, this project is wholly consistent with the expressed desires of SWEPCO's stakeholders during the IRP Stakeholders process.

SAVINGS FOR CUSTOMERS

16. SWEPCO's portion of the Project will provide savings to customers of approximately \$1.9 billion on a net present value basis compared to relying on the market. The cost of the Project's wind energy will be less than current wholesale power prices in SPP. Importantly, the energy savings created by the Project will more than offset the additional annual revenue requirement that will be created as a result of the combined cost of the Wind Catcher Facility and dedicated Gen Tie. Assuming new rates become effective with the first full year of service in 2021, the estimated incremental effect of adding the Project to SWEPCO's rate base would be a decrease of approximately 3.5% per month for an Arkansas residential customer using 1,000 kWh.

REQUEST FOR EXPEDITED PROCEDURAL SCHEDULE

17. In order to claim 100% of the PTC value, construction on an eligible project must have "commenced construction" prior to January 1, 2017 and show "continuous progress" toward completion and be in service by December 31, 2020. Invenergy has taken the necessary steps to secure the commencement and continuing progress of construction at the Wind Catcher Facility site to meet the first requirement to receive the 100% PTC. In order to meet the second

requirement of having the Wind Catcher Facility in service by December 31, 2020 significant investments in the project will need to be incurred beginning in mid-2018, when Quanta Services must commence construction in order to have the Gen Tie in service by December 31, 2020. Therefore, SWEPCO respectfully requests that the Commission establish an expedited procedural schedule that will permit entry of its final order by April 30, 2018. Upon entry of a final order, SWEPCO will issue a notice to proceed to Quanta Services.

WHEREFORE, Southwestern Electric Power Company respectfully requests that the Commission consider this matter in accordance with the expedited schedule suggested herein, and issue its order approving the Wind Catcher Energy Connection Project, and for all other proper relief.

Respectfully submitted,

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