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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE PETITION OF WASATCH WIND, LLC FOR APPROVAL OF A CONTRACT FOR THE SALE OF CAPACITY AND ENERGY FROM THEIR PROPOSED QF FACILITIES	Docket No. 06-035-42
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PREFILED TESTIMONY OF TODD VELNOSKY

John Deere Wind Energy hereby submits the Prefiled Testimony of Todd Velnosky in this docket.

DATED this 15th of May 2006.

Todd Velnosky

/s/ _____

Todd Velnosky
Business Development Manager—Wind Energy
JOHN DEERE WIND ENERGY

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was sent by United States mail, postage prepaid, or by email this 15 day of, May 2006, to the following:

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PREFILED TESTIMONY

Of

TODD VELNOSKY

John Deere Wind Energy

IN THE MATTER OF THE PETITION OF WASATCH WIND, LLC FOR APPROVAL OF A
CONTRACT FOR THE SALE OF CAPACITY AND ENERGY FROM THEIR PROPOSED
QF FACILITIES

Docket No. 06-035-42

May 15, 2006

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1 **BACKGROUND**

2 **Q. Please state your name and occupation.**

3 A. My name is Todd Velnosky. I am a Business Development Manager—Wind Energy
4 for Deere Credit, Inc., a wholly-owned subsidiary of Deere & Company having its
5 principal place of business at 6400 NW 86th Street
6 Johnston, IA 50131-6600. I appreciate the opportunity to provide this written
7 testimony in support of Spanish Fork Wind Park 2.

8 **Q. On whose behalf are you filing testimony in this Docket?**

9 A. Wasatch Wind

10 **Q. Have you submitted testimony to this Commission before?**

11 A. No.

12 **SUMMARY OF TESTIMONY**

13 **Q: What is the purpose of your testimony?**

14 A: I am presenting this testimony in support of the Spanish Fork Wind Park 2 wind
15 project in Utah. John Deere Credit is the majority owner in 9 community wind
16 projects in the United States totaling more than 200MW. Community wind projects
17 are generally considered to be locally-owned projects with an average nameplate
18 capacity between 10MW and 20MW. John Deere Credit's wind energy portfolio will
19 exceed 400MW within the next 18 months. I will address specific terms and
20 conditions in the power purchase agreement proposed by PacifiCorp and the terms
21 and conditions in power purchase agreements typical of community-based wind
22 projects.

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2 **Q: Please provide a summary of your observations as they relate to the PacifiCorp**
3 **contract and your experience with other community-based wind contracts.**

4 A: In projects similar to the proposed 18.9 MW Spanish Fork Wind Park 2 project, John
5 Deere Credit has not been asked to enter into any agreements with the following
6 contract terms proposed by PacifiCorp:

- 7 1. Energy Scheduling (Sections 6.5 and 6.6)
- 8 2. Termination and delay damage risk if the project fails to meet scheduled
9 commercial operation date (Sections 2.4 and 2.6)
- 10 3. Limitations on operations and maintenance activities (Section 6.4)
- 11 4. Liquidated damage risk associated with mechanical availability (Section
12 6.11)
- 13 5. Unlimited liability associated with a cost to cover concept (Section 7.2.4)
- 14 6. An annually adjustable security fund (Section 7.2.3)
- 15 7. Real-time production data (Section 6.9)

16 It is important to note that this is not a comprehensive list of issues, only those issues
17 that do not appear in any of our current contracts and represent significant barriers for
18 an equity investor.

19 **Q: What makes energy scheduling an onerous provision?**

20 A: To ensure that an energy output forecast is as accurate as possible for the purposes
21 intended, a reputable third party with expertise in this arena would be required to
22 provide the needed information. Given the relatively small size of the Spanish Fork

1 Wind Park 2 project, the cost of a meaningful forecast would be allocated to a limited
2 number of turbines. The value of such information would be of limited value to the
3 equity investor. Our experience is that a project this size does not significantly
4 impact an off-taker's load, and thus, has little, if any, impact on the ability of the off-
5 taker to manage its energy portfolio mix over the long-term.

6 **Q: What makes the termination and delay damages associated with commercial**
7 **operation date onerous?**

8 A: Wind projects such as Spanish Fork Wind Park 2, with an estimated nameplate
9 capacity of 18MW, are often built alongside larger projects so that contractors can
10 make the best use of their resources. Since the wind industry is growing faster than
11 the addition of reputable contractors, this requirement is intended to ensure that a
12 small project can be built cost-effectively and on a timely basis. As such, the smaller
13 project does benefit from the leverage of the larger project to complete the
14 construction. Delay damages and the risk of termination are not commensurate with
15 the ability of a community-based wind project to influence the rate of construction if
16 a delay occurs. Given the capital necessary to purchase wind turbines, secure
17 contractors and the necessary materials to move a project to commercial operation,
18 the risk of termination will deter an equity investor's willingness to invest in small
19 wind projects.

20 **Q: What makes the limitation on operations and management activities onerous?**

21 A: Turbine suppliers and equity investors have significant incentive to ensure the
22 turbines are able to generate revenues commensurate with the wind resource.

1 Turbine suppliers guarantee certain availability floors contingent upon their ability to
2 service and maintain the turbines. The availability of the turbines is a critical
3 component of the equity investor's financial model and its decision to invest in a
4 wind energy project. If turbine maintenance, both scheduled and on an as-needed
5 basis, is subject to the off-taker granting permission, it is highly unlikely that a
6 turbine supplier would submit to such terms. As an equity investor, we rely on the
7 turbine supplier's technical support and commitment to availability and maintenance
8 to make an investment decision.

9 **Q: What makes the liquidated damage risk associated mechanical availability**
10 **onerous?**

11 **A:** The impetus is on the equity investor to resolve any mechanical availability issues as
12 quickly as possible to ensure the revenue stream. If the turbines are not
13 mechanically available, the result is a loss of revenue which may be remedied
14 through maintenance or a longer term solution (such as replacement of critical
15 components). Situations exist where resolving a mechanical availability situation is
16 well outside the control of the equity investor such as availability of replacement
17 parts by the turbine supplier, manufacturing defects, supplier bankruptcy and force
18 majeure. In these situations, a project this size has less leverage to resolve the issue
19 than a much larger project. The liquidated damages associated with this provision
20 simply allocates to the off-taker money which would be better used to remedy the
21 mechanical issues. As noted below, the maximum risk associated with the security
22 fund must be determined. This risk, as measured against the proposed contract

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1 language, creates a situation where the potential liability is unlimited. This risk is not
2 commensurate with the ability of an equity investor's ability to resolve.

3 **Q: What makes the unlimited liability associated with a "cost to cover" concept**
4 **onerous?**

5 A: An equity investor cannot accurately model future energy costs to adequately plan for
6 the liability with "cost to cover". Publicly traded equity investors would be required
7 to disclose this liability. The risks associated with this disclosure are not
8 commensurate with the returns derived by a project this size.

9 **Q: What makes the annually adjustable security fund onerous?**

10 A: Similar to the cost to cover concept, adjusting the fund annually does not allow the
11 project to properly plan and evaluate the provision. Wind as an intermittent resource
12 already adds uncertainty. The costs of this fund, and its variable nature, is a critical
13 component in the analysis an equity investor will conduct to determine an investment
14 decision. In all likelihood, an equity investor will invest in projects that do not
15 contain this risk.

16 **Q: What makes the real-time production data provision onerous?**

17 A: Typically, projects of this size do not have the resources necessary to afford
18 deployment of this technology to the specifications required. Usually, a SCADA
19 system provided by the turbine supplier is utilized. While the standard technology is
20 advancing, the data is generally not available on a real-time basis.

21 **Q: What are your recommendations for the PacifiCorp proposed contract?**

22 A: I recommend that the provisions noted above be removed from the proposed

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1 PacifiCorp power purchase agreement and replaced with less onerous standard wind
2 power purchase agreement provisions.

3 **Q: Would John Deere Credit consider investing in a wind energy project which**
4 **contained an agreement with the above provisions as written?**

5 A: No.

6 **Q: Do you have any further recommendations?**

7 A: In many of the states where we have projects, there is delineation between large and
8 small wind projects, typically around 20MW in size. Smaller projects are governed
9 by terms and conditions which are less onerous than terms and conditions applicable
10 to larger projects. The contract language noted above is not found in power purchase
11 agreements for projects of less than 20MW. Some states in the Midwest treat this
12 separation as a key component to encouraging community wind project growth in
13 their state. I encourage Public Services Commission to review various approaches to
14 contract terms and conditions in states where community wind is rapidly growing and
15 apply some of those approaches to wind energy development in Utah.