LSU Alternative Energy Conference

Wind Energy and AEP

Presented by
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Summary

- AEP Overview
- AEP and Wind Energy
- Wind Energy Basics
- Conclusion
Company Overview

- 5.1 million customers in 11 states
- Industry-leading size and scale of assets:
  - Domestic Generation: ~38,200 MW (# 2)
  - Transmission: ~39,000 miles (# 1)
  - Distribution: ~208,000 miles (# 1)
- Coal & transportation assets
  - Control over 8,000 railcars
  - Own/lease and operate over 2,600 barges & 51 towboats
  - Coal handling terminal with 20 million tons of capacity
- 20,000 employees

Source: Company research & Resource Data
International Platts, PowerDat 2005

AEP Generation Portfolio

<table>
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<tr>
<th></th>
<th>Coal</th>
<th>Gas</th>
<th>Nuclear</th>
<th>Hydro</th>
<th>Wind</th>
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<tbody>
<tr>
<td>AEP</td>
<td>67%</td>
<td>24%</td>
<td>6%</td>
<td>2%</td>
<td>1%</td>
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AEP enjoys significant presence throughout the energy value chain
AEP’s Climate Strategy

- **Being proactive and engaged in the development of climate policy**
  - International Emissions Trading Association (IETA)
  - Electric Power Research Institute (EPRI)
  - Pew Center on Global Climate Change
  - e8
  - Global Roundtable on Climate Change

- **Investing in science/technology R&D**
  - FutureGen Alliance
  - US DOE research on carbon capture and sequestration at our Mountaineer Plant
  - EPRI – combustion technologies
  - MIT Energy Laboratory
  - B&W – Oxy-Fuel

- **Taking voluntary, proactive action now, demonstrating voluntary programs can work and setting policy precedents thru CCX**
  - Chicago Climate Exchange (CCX)
  - EPA Climate Leaders
  - EPA 6-6 Emission Reduction Partnership for Electric Power Systems Program
  - Asia-Pacific Partnership
  - DOE 1605B voluntary reporting of GHGs Program
  - Business Roundtable Climate Resolve
  - Numerous forestry activities

- **Evaluating longer term investment decisions such as new generation and carbon capture and storage (e.g., IGCC, Ultra-supercritical)**

AEP MUST BE A LEADER IN ADDRESSING CLIMATE CHANGE
AEP’s Long-term GHG Reduction Portfolio

Renewables (Biomass Co-firing, Wind)

Supply and Demand Side Efficiency

Off-System Reductions and Market Credits (forestry, methane, etc.)

Commercial Solutions of New Generation and Carbon Capture & Storage Technology

AEP is investing in a portfolio of GHG reduction alternatives
AEP’s Long-term CO$_2$ Reduction Commitment

Existing Programs

- **Renewables**
  - 777 MWs of Wind
  - 300 MWs of Hydro

- **Domestic Offsets**
  - Forestry – 0.35MM tons/yr @ $500K/year
  - Over 63MM trees planted through 2006
  - 1.2MM tons of carbon sequestered

- **International Offsets**
  - Forestry projects have resulted in 1MM tons of carbon sequestered through 2006

- **Chicago Climate Exchange**

AEP IS COMMITTED TO A 5MM TON/YR REDUCTION IN CO$_2$ EMISSIONS WHICH OFFSETS APPROXIMATELY HALF OF THE EMISSIONS PROJECTED FROM NEW GENERATION PROJECTS PREVIOUSLY ANNOUNCED
AEP’s Long-term CO₂ Reduction Commitment

New Program Additions

- Incremental Reduction quantity: 5MM tons/yr
- Timing: Implement during 2007 to take effect/receive credits by 2011
- Methods
  - +1000 MWs of Wind PPAs – 2MM tons/yr
  - Domestic Offsets (methane) – 2MM tons/yr
  - Forestry – Tripling annual investment to increase to 0.5MM tons/yr by 2015
  - Fleet Vehicle/Aviation Offsets – 0.2MM tons/yr
  - Additional actions to include DSM and end use energy efficiency, biomass and power plant efficiency – 0.2MM tons/yr

New Technology Additions

- Commercial solutions for existing fleet
  - Chilled Ammonia
  - Oxy-Fuel
AEP Wind Experience

- 75 MW Southwest Mesa PPA: Project built on AEP owned land (1998)  SWEPCo
- 150 MW Trent Wind Farm: AEP owned / developed IPP wind farm (2001)  AEPEP
- 160 MW Desert Sky Wind Farm: AEP owned IPP wind farm (2001)  AEPEP
- 147 MW Weatherford PPA: (2005)  PSO
- 151 MW Blue Canyon II PPA: (2005)  PSO
- 94.5 MW Sleeping Bear PPA: Completion in mid 2007  PSO

Desert Sky

Trent
New 360 MW RFP for Wind

- Issued RFP on behalf of two AEP owned utility units in April 2007: Indiana Michigan Power (100 MW) & Appalachian Power (260 MW)
  - Bids due 4/30/07
  - Expected online date 12/31/08
- Favorable paths to cost recovery for above market purchases of wind energy
  - Recovery methodology via fuel recovery clause in each jurisdiction
- Part of goal to add 1,000 MW of new wind PPAs by 2011
  - When combined with existing owned generation and purchased energy, AEP would control approximately 1,800 MW of wind by 2011
Wind Energy Overview
The Basics of Wind

- **Growth of Wind in the U.S**
  - Fastest growing technology (28% per year) in past decade
  - Why? Demand due to improved economics and environmentally driven demand from customers and policy makers

- **Technology**
  - Turbines are becoming larger and more efficient

- **Integration / Transmission**
  - Distributed, usually in rural areas
  - Intermittent – wind does not always blow

- **Cost of energy**
  - High CAPEX - $1,700 / kW +
  - No fuel cost – wind is free
Major Growth Drivers

- Utility Industry Commitment
  - Many utilities and others have committed ahead of Federal legislation to reduce greenhouse gas emissions

- Economics
  - Wind energy is beginning to close the gap vis-à-vis other sources

- Fuel Diversity
  - Increased focus on domestic sources of energy

- Customers Choice
  - Some consumers / businesses are asking for some portion of Renewables in their energy mix
    - Recent example: Whole Foods and Vail Ski Resorts

- Policy
  - Some states have enacted Green Tariffs
  - 23 States + D.C. have some form of Renewable Portfolio Standard (RPS)
    - Established mainly in states with either higher retail energy costs or good wind resource (or both)
23 States with RPS *

* IL and VA have a voluntary program for utilities

Source: Pew Center on Global Climate Change – 2007
US Wind Map – Macro View

UNITED STATES ANNUAL AVERAGE WIND POWER

Note: Extensive work on mapping wind in specific regions and states has been undertaken since this map was originally produced by the DOE. See www.eere.gov/windandhydro/windpoweringamerica/wind_maps.asp
Wind Turbine Basics

- **Upwind Turbine**
  - Points into wind
- **Taller than statue of liberty**
  - Tower ht. = 200 to 250 ft.
- **Wing-span of 747**
  - Swept area of blades is 200 to 250 ft.
- **Typical project:**
  - 20 to 100 turbines
  - 20 MW to 250 MW
- **Over 10,000 MW installed in U.S.**
Technology Evolution

- Turbine size and efficiency has increased over past two decades by over 1000%

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<tr>
<td>Rotor (m)</td>
<td>10</td>
<td>17</td>
<td>27</td>
<td>40</td>
<td>50</td>
<td>71</td>
<td>50 - 90</td>
</tr>
<tr>
<td>Rating (kW)</td>
<td>25</td>
<td>100</td>
<td>225</td>
<td>550</td>
<td>750</td>
<td>1,650</td>
<td>1,000 – 2,500</td>
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<tr>
<td>MWh / yr</td>
<td>45</td>
<td>220</td>
<td>550</td>
<td>1,480</td>
<td>2,200</td>
<td>5,600</td>
<td>3,000 – 7,500</td>
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Today: Range of Turbine Options
Portfolio Effects of Wind

Summed output for two PSO wind projects in 10 minute averages
Note: Capacity factor high of 50% and low of 19%

Output for 8 hour period from one of two PSO wind farms shown in 4 second increments
Note: High of 58% capacity factor

Output for 8 hour period from one of two PSO wind farms shown in 4 second increments
Note: Low of 11% capacity factor
Progress on Integration of Wind

- The Utility Wind Integration Group (UWIG) was established in 1989 to provide a forum for utility wind applications and to serve as a source of credible information on the status of wind technology and deployment
  - U.S. DOE and NREL provide funding to group
  - 94 members in US, Canada and Europe, including IOUs, public power and rural co-ops, as well as associate member corporate, government, and academic organizations
- Recent UWIG paper on wind integration is on point
Upfront Capital Costs

Construction & Equipment Costs

- Wind Turbines
- Towers
- Project Size
- Roads
- Turbine Foundations
- Substation
- SCADA system
- Meteorological towers
- Labor Rates
- Construction Insurance
- Enviro. / Permitting Compliance
- Construction Mgmt.
- Engineering
- Sales Taxes / Import duties
- Transmission
- Collection System

Approx 70% of total costs

Installed cost of wind is now approximately $1.7 Mil / MW
Revenues and Expenses

Cash Flows

- Wind Resource
- Energy and REC Value
- Tax Credits, benefits (if any)
- Time of Day
- Project Management
- Force Majeure
- Decommissioning Costs
- Interconnection
- Admin. Exp. (Legal, acctg., etc.)
- Utilities
- Insurance
- Capital Charge (Repayment of debt & equity)
- Routine O&M
- Non-Routine O&M
- Property Taxes / other Taxes
- Curtailment
Federal Tax Benefits

- **Federal §45 Production Tax Credits**
  - $19 / MWh for first 10 years of operation, based on production
  - Expires on 12/31/08; bill to extend to 2013 in U.S House of Representatives (HR 197)

- **MACRS Depreciation**
  - Wind project enjoy 5–year accelerated tax depreciation

Federal Tax benefits represent up to 2/3 of wind project NPV to project owners and serve to buy-down the cost of wind energy
The Bottom Line

“All-in” Cost of Wind Energy

- Decommissioning Costs
- Project Costs (CAPEX)
- Operating Costs (OPEX)
- Market Price of Energy in Region
- Wind Resource
- Transmission
- Operating Risk
- Decommissioning Costs
- Cost of Capital
- Rate Recovery
- Regulatory Risk
- Tax Benefits
- REC Value
- Point of Delivery
- Operating Risk
- Cost of Energy

Wind Development Building Blocks

- Wind Resource
- Real Estate Issues
- NIMBY / Community Acceptance
- Transmission / Dispatch
- Permits
- Power Off-taker / PPA
- Regulatory Recovery
- Engineering
- Turbine Selection
- Operations Plan
- Financial Projections
Conclusion

- Not all regions have the same indigenous resources with regards to renewables

- AEP proactively supporting a broad range of portfolio actions through its current investments in environmental retrofits, clean coal and renewables

- Regulatory and economic barriers must be addressed in order that these types of activities continue
Questions

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Appendix
AEP’s Climate Position

- AEP supports a reasonable approach to carbon controls in the US
- AEP has taken measurable, voluntary actions to reduce its GHG emissions and will support a well-thought out US mandate to achieve additional, economy-wide reductions
- Climate change is a global issue and AEP supports the US taking a leadership role in developing a new international approach that will address growing emissions from all nations, including developing countries such as India and China
- A certain and consistent national policy for reasonable carbon controls should include the following principles:
  - Comprehensiveness
  - Cost-effectiveness
  - Realistic emission control objectives
  - Monitoring, verification and adjustment mechanisms
  - Technology development & deployment
- Regulatory or economic barriers must be addressed
- Recognition provided for early action/investment made for GHG mitigation
- Inclusion of adjustment provision if largest emitters in developing world do not take action

A reliable & reasonably-priced electric supply is necessary to support the economic well-being of the areas we serve
AEP’s View of Financial Regulatory Certainty

- Projects approved with public interest, not least cost test
- Pre-approval of pre-construction, construction, operating, maintenance investments for generation and transmission
- Reasonable rate of return on investment
- Extra rate of return for investments in specified technologies (e.g., IGCC, wind, other renewables)
- Real time recovery of full investment, not when project is in operation
- Accommodation if new technology does not fully perform as expected or costs are higher than expected
State Investment Recovery Policy Examples

- Indiana (Code Section 8-1-8.B)
- Kentucky (Code Section 254)
- Virginia (SB 1416)
- Arkansas (Act 755)