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December 12, 2007

Luly Massaro, Clerk
Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

Re: National Grid – Renewable Energy Charge Filing – Docket No. 3901

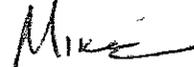
Dear Luly:

As you know, this office represents intervenor Bluewater Wind.

Enclosed for filing in this docket are an original and nine copies of the testimony of Erich Stephens, Vice President and Rhode Island Project Director for Bluewater Wind.

If you have any questions, please feel free to call.

Very truly yours,



Michael R. McElroy

MRMc:tmg
BW:3901-Massaro
cc: Service List

1 Testimony of Erich Stephens

2
3 **Q. Please state your name and address.**

4 A. Erich Stephens, 11 South Angell St., #195, Providence, Rhode Island, 02906.

5
6 **Q. Please state the company you are with, and your position there.**

7 A. I am a Vice-President, and Rhode Island Project Director, with Bluewater Wind, a Babcock &
8 Brown company. I am responsible for general operations of the company, supporting project
9 development underway in several states. I also head Bluewater's activities in Rhode Island.

10
11 **Q. Tell us about your education and background.**

12 A. I was the founding Executive Director of People's Power & Light, and held that position for
13 about five years. Prior to that I worked several years for developers of wind energy projects in
14 various states, in particular in Maine, Vermont and Rhode Island. I was a founding partner of a
15 design/build construction company, which specialized in environmentally sound construction
16 practices. I've studied energy project finance at Vermont Law School, and renewable energy
17 systems at Solar Energy International, in Colorado. Earlier in my career I was an ecologist
18 working for conservation organizations and real estate development firms. I have a Bachelors of
19 Science degree from Brown University.

20
21
22 **Q. Tell us about Bluewater Wind: What is its business and background?**

1 A. Babcock & Brown is an infrastructure investment corporation, and is the third largest wind
2 project developer in the country; the fourth largest in the world. We are somewhat unique
3 among developers in that we own and operate wind projects as well. Bluewater Wind, which is
4 owned by Babcock & Brown, develops offshore wind energy projects, with projects in various
5 stages of development off the coasts of Delaware, New Jersey, New York and other states.

6

7 **Q. Why did Bluewater ask to intervene on this docket and in National Grid's first docket**
8 **on this issue (Docket No. 3765)?**

9 A. Bluewater is interested in opportunities for offshore wind projects along the northeast coast,
10 and that includes Rhode Island. We believe there is potential for wind projects off the shores of
11 Rhode Island, and so obviously we see this as a development opportunity. But we also believe
12 such projects could be beneficial to the state of Rhode Island in meeting its policy objectives, as
13 stated in various laws and by Governor Carcieri, of obtaining more energy from within the state,
14 of reducing greenhouse gas emissions and other pollutants, and of helping to stabilize the cost of
15 energy. We also agree with the ISO and many others that New England will have a deficit of
16 generation capacity in the years ahead, but that it would be imprudent to build more natural gas-
17 fired plants, given the region's growing dependence on natural gas for heating and electricity
18 already. For all of these reasons, we think there is a good business case for wind energy off the
19 shores of Rhode Island, and also good reasons why the state should be supportive and pro-active
20 in facilitating the efforts of renewable energy developers like Bluewater and others.

21

1 Developing renewable energy projects is a lot like piecing together a puzzle. An efficient and
2 effective state policy to foster renewable energy project development would provide for just
3 those pieces to the puzzle that are not yet available, and that the state can provide cost
4 effectively. Long-term off-take agreements with credit-worthy entities are just such a piece to
5 the puzzle. Such agreements allow developers to access financing from the private sector,
6 effectively directing private finance towards a public benefit, advancing public policy.
7 Furthermore such long-term agreements create opportunities for a greater number of project
8 developers, thereby fostering greater competition among developers.

9
10 Today, these long-term contracting opportunities don't exist in Rhode Island, although the state's
11 renewable energy standard law explicitly recognizes the need for them. We believe this docket
12 is the right venue to address this problem, since at its heart the docket is about the effective
13 implementation of the renewable energy law.

14
15 **Q. What you think the parties to this docket should be doing to comply with the various**
16 **Renewable Energy laws and how would ratepayers be best served through this docket?**

17 A. One of the most important things developers like Bluewater needs in order to finance
18 projects are long-term contracts. Specifically, off-shore projects need contracts of at least 15
19 years, if not 20 years in duration, with credit-worthy buyers of the output of the project. Such
20 contracts are critical for project developers to secure the debt needed to actually build a project.
21 The output sold could include just the energy, but it might also include the Renewable Energy
22 Certificates or other products or services resulting from the plant. Developers must satisfy

1 lenders that the contract will supply enough revenue, and have a minimal amount of risk of
2 default by the buyer, so that the lender will make the loan. It is very similar to how a bank will
3 want to be satisfied with your employment situation before lending you a mortgage to buy a
4 home.

5
6 In addition, rate-payers can benefit from long-term contracts in at least two ways. First,
7 assuming the contract is with a wind plant or other source without a fuel price escalator, such a
8 contract helps protect ratepayers from escalating fuel costs. Furthermore, since new generation
9 will have to be built in the region anyway, if long-term contracts are not used to facilitate the
10 development of large wind projects, the market will likely respond with so-called merchant
11 plants, probably burning natural gas and oil. Use of these fuels, of course, result in electricity
12 prices that are volatile and increasing. Further, these merchant plants are an inherently riskier
13 proposition for investors, because their return on investment is dependent on the volatility of the
14 electric market and fuel market. And of course the riskier the investment, the more of a return
15 the investor will require, the higher the cost of capital for the developer, and so the higher the
16 cost for rate-payers. In addition, given the growing consensus of the need to regulate the
17 emissions of carbon dioxide, it would be imprudent to not be seeking ways to protect rate-payers
18 from the cost of implementing carbon capturing technologies, emissions penalties, and other
19 costs that are likely to be incurred by those that use electricity generated from fossil fuels in the
20 future. Entering into long-term contracts with renewable energy sources is one way to help
21 protect Rhode Island rate-payers from these costs.

22

1 **Q. What is Bluewater's main reason for intervening in this docket?**

2 A. Our main reason for intervening in this docket is to ask that National Grid, since it is the one
3 charged with proposing this procurement plan, strive to identify ways in which long-term
4 contracts for Renewable Energy Certificates could be made available to developers in such a way
5 as to facilitate the development of new renewable energy projects, and thereby better comply
6 with both the letter and spirit of the renewable energy standard and other related policies. We
7 hope to have the opportunity to work with National Grid and the other stakeholders to refine
8 proposed means for implementing such long-term contracts.

9

10 **Q. What specific changes would you like to see in National Grid's current plan, or**
11 **contained in an order from the Commission?**

12 A. We don't have any major concerns with the proposed plan as a one year plan, for this second
13 year of the Renewable Energy Standard. In other words, we support this plan as an *interim* plan.
14 But we think that all the parties need to continue working together to plan for what happens in
15 year three and beyond, and that the Commission needs to provide some specific direction for
16 this. So our request is that the Commission accept this plan only as a one year plan, and direct
17 National Grid, and either direct or request the other parties, as appropriate, to continue working
18 together in the Working Group so that the plan is soon more in compliance with the letter and
19 spirit of the law with regard to the issue of long-term contracts. We ask that the Commission
20 direct that National Grid (and the existing Working Group established in Docket 3765) make
21 their best effort to continue to meet monthly. The law was clearly meant to bring together the
22 EDC, National Grid, and others to enable long-term contracting so that new, renewable

1 generation sources could be built for Rhode Island, but that has not yet happened. However, the
2 Working Group has made significant progress and it should continue to push ahead with its
3 work.

4
5 In addition, we ask that the Commission order National Grid to file quarterly (or more often)
6 progress reports on the status of the Working Group, with copies to the service list and all
7 members of the Working Group, so that any party may submit additional comments if they feel
8 such comments are needed. Also, we respectfully suggest that the Commission should allow any
9 party to ask for a hearing on any quarterly status report, if that party feels the Commission's
10 intervention could assist the work of the Group.

11

12 **Q. Why do you feel monthly meetings and quarterly progress reports are needed?**

13 A. Because the Working Group has been meeting regularly since May, and although the
14 Working Group has made progress, we do not want to work for another year without coming up
15 with a firm consensus proposal regarding the issue of long term contracts and related matters.

16

17 **Q. Do you have any other comments?**

18 A. Yes. First, Bluewater agrees with, supports in its entirety, and adopts the Position Statement
19 filed by the Conservation Law Foundation.

20

21 Second, I would like to emphasize that Bluewater is essentially agreeing to National Grid's
22 filing, not because it achieves what is required, but because, by way of the continued meetings of

1 the Working Group the Commission set up in Docket 3765, we see that there is a path in place to
2 achieve what is required. However, if it turns out that the Working Group is not successful in
3 achieving a workable consensus approach, then Bluewater's position may be quite different in
4 the future.

5

6 **Q. Does this conclude your testimony?**

7 A. Yes, thank you.