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January 17, 2007

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

Re: National Grid – Renewable Energy Standard – Docket No. 3765

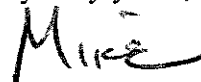
Dear Luly:

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:Massaro2

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, for Bluewater Wind, LLC.

8 Bluewater Wind is headquartered in Hoboken, New Jersey. I am responsible for general  
9 operations of the company, supporting project development underway in several states. I  
10 also head Bluewater's activities in Rhode Island.

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

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

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

2 A. Bluewater Wind is one of the country's leading developers of offshore wind energy  
3 parks, with projects in various stages of development off the coasts of Delaware, New  
4 Jersey, and New York. In Delaware, Bluewater's proposal to build a 600MW offshore  
5 wind park was recently selected for further review by the local utility, Delmarva Power &  
6 Light. In New Jersey, we are preparing a proposal in response to a state blue-ribbon  
7 commission recommendation for an offshore wind park in that state. Bluewater's  
8 proposal for a wind energy park off the Atlantic coast of Long Island was one of two  
9 finalists considered by the Long Island Power Authority. While Florida Power & Light  
10 was selected to the next stage with LIPA, we fully intend to move forward with the  
11 proposed project, whether or not LIPA is one of the off-takers. So we're very active in  
12 pursuing these projects along the northeast coast.

13

14 Bluewater is an affiliate company of Arcadia Wind Power Holdings LLC. Arcadia has  
15 been an active and successful developer of on-land wind projects around the country.  
16 Arcadia developed the first wind project in Montana, called Judith Gap, which is  
17 currently operating 135 MW of a planned total build-out of 181 MW. Judith Gap was  
18 financed because Arcadia bid and won a long-term contract with the local utility, and the  
19 project now provides enough electricity for 30,000 Montana homes. Arcadia was also  
20 involved in arranging financing of the Fenner project, which was the third wind farm to  
21 be built in New York.

22

1 Arcadia continues to hold a portfolio of project assets in various stages of development  
2 around the country. However the founder and President of Arcadia, Peter Mandelstam,  
3 felt that while the greatest need for new generation, and wind generation in particular,  
4 was along the East Coast, building large-scale projects on land in this region would be  
5 challenging. This is particularly true given the already difficult transmission constraints  
6 of getting energy from in-land generation plants to rapidly growing load centers like the  
7 New York City area and the shores of New Jersey and Delaware, which are seeing  
8 growth similar to what we are seeing here in the South County of Rhode Island. Given  
9 these problems, offshore wind offers an excellent solution. By building offshore we can  
10 avoid having to compete with other land uses and other problems associated with the  
11 dense populations of the region. And we can deliver energy directly to the load centers  
12 along the coast, where new capacity is needed most, without having to build much new  
13 over-land transmission lines. For these reasons, Arcadia is now focused almost  
14 exclusively on Bluewater Wind, its offshore development subsidiary.

15

16 Bluewater Wind has a full-time staff of nine, and has as many as eighty consultants and  
17 vendors participating on project development at any one time. Its headquarters are in  
18 New Jersey, with additional offices in Delaware and New York City. Bluewater Wind  
19 and Arcadia are privately owned.

20

21 **Q. Why did Bluewater ask to intervene on this docket?**

22 A. As I described, Bluewater is interested in opportunities for offshore wind projects  
23 along the northeast coast, and that includes Rhode Island. We believe there is potential

1 for wind projects off the shores of Rhode Island, and so obviously we see this as a  
2 development opportunity. But we also believe such projects could be beneficial to the  
3 state of Rhode Island in meeting its policy objectives, as stated in various laws and by  
4 Governor Carcieri, of obtaining more energy from within the state, of reducing  
5 greenhouse gas emissions and other pollutants, and of helping to stabilize the cost of  
6 energy. We also agree with the ISO and many others that New England will have a  
7 deficit of generation capacity in the years ahead, but that it would be imprudent to build  
8 more natural gas-fired plants, given the region's growing dependence on natural gas for  
9 heating and electricity already, at a time when gas prices are increasingly volatile. For all  
10 of these reasons, we think there is a good business case for wind energy off the shores of  
11 Rhode Island, and also good reasons why the state should be supportive and pro-active in  
12 facilitating the efforts of offshore wind developers like Bluewater and others.

13

14 The problem developers like us face is that, unlike other states we're working in, Rhode  
15 Island does not yet offer a clear road map for developing these projects. There are many  
16 pieces of the puzzle on the table, but they have yet to be assembled into a coherent  
17 picture. For example, Rhode Island has a Renewable Energy Standard, and the state has  
18 passed legislation laying a foundation for how electricity will be procured after 2009,  
19 when the Standard Offer ends. But these unto themselves aren't necessarily sufficient to  
20 facilitate the development of wind energy projects. We believe this docket is an  
21 opportunity for all the interested parties to continue implementation of policies in a way  
22 that will both benefit the state of Rhode Island, and enhance the opportunities for  
23 companies like ours to do business in Rhode Island.

1

2 **Q. Why do you believe this docket is the correct venue to continue implementation**  
3 **of policies to facilitate the development of renewable energy projects?**

4 A. Although this docket was opened to consider National Grid's plan, National Grid's  
5 plan will become, for all intents and purposes, the same as a state plan for implementing  
6 this policy. In fact, the renewable energy standard law explicitly calls upon the  
7 Economic Development Corporation, the Energy Office, and the Commission to work  
8 together with the utility in implementing the law. Of particular note is Section 39-26-7,  
9 which creates a renewable energy development fund within the Economic Development  
10 Corporation, and which is charged with working with the utility to help secure renewable  
11 energy certificates to comply with the law. Section 39-26-8 calls upon the office of  
12 energy resources "to collaborate with the division of public utilities, the trustees of the  
13 renewable energy development fund, the distribution company [and] with other interests  
14 and parties, as appropriate, in maximizing the combined impact and efficiency of the  
15 renewable energy program established by subsections 39-2-1.2(b) and (c) and the  
16 renewable energy standard."

17

18 In addition, it is normal and customary that the legislature and governor create broad  
19 policies, and that regulators and agencies, like the Public Utilities Commission, address  
20 the details and logistics necessary to implement and carry out those policies in the most  
21 effective manner possible. Indeed, Section 39-26-6 states that it is a duty of the  
22 Commission to develop regulations that include provisions for "procurement plans for  
23 renewable energy resources, to achieve the purposes of this chapter." Both the Governor

1 and the General Assembly have made it explicit policy for Rhode Island to increase its  
2 use of renewable energy. The question now before the Commission is what is the most  
3 efficient, or economic, means of achieving this policy objective, and this docket is the  
4 first instance the Commission has to answer this question.

5

6 However, Bluewater is not suggesting that this docket is the only place to address this  
7 issue. In particular, we recognize that this relates very closely to the question of  
8 procuring supply after the Standard Offer period. But we believe this docket is a first and  
9 good starting point.

10

11 **Q. Tell us more specifically what you think the parties to this docket should be**  
12 **doing to comply with these various laws you mentioned and how ratepayers would**  
13 **best be served through this docket?**

14 A. One of the most important things developers like Bluewater needs in order to finance  
15 projects are long-term contracts. Specifically for off-shore projects, contracts of at least  
16 15 years, if not 20 years, in duration, with credit-worthy buyers of the output of the  
17 project. Contracts such as this are critical for project developers to secure debt needed to  
18 actually build a project. The output sold could include just the energy, but it might also  
19 include the Renewable Energy Certificates or other products or services resulting from  
20 the plant. There is no specific requirement for these contracts, but developers must  
21 satisfy lenders that the contract will supply enough revenue, and have a minimal amount  
22 of risk of default by the buyer, so that the lender will make the loan. It is very similar to

1 how a bank will want to be satisfied with your employment situation before lending you a  
2 mortgage to buy a home.

3

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

21

22 So our main request in intervening in this docket is to ask that National Grid, since it is  
23 the one charged with proposing this procurement plan, to strive to identify ways in which



1 long-term contracts for Renewable Energy Certificates could be made available to  
2 developers in such a way as to facilitate the development of new renewable energy  
3 projects, and thereby better comply with both the letter and spirit of the renewable energy  
4 standard and other policies. I would like to make several points in this regard:

5  
6 First, we recognize that the procurement plan National Grid has proposed is a living  
7 document, and that this is the first year of the plan. We fully anticipate that the plan will  
8 likely be revised annually as the market develops, as National Grid's role in the Rhode  
9 Island market changes, as the Standard Offer expires, as policies, laws and regulations  
10 might change, and so on. Therefore, we are not seeking substantial changes in this year's  
11 plan. But we are hoping to be an active participant in helping to shape the plan in  
12 subsequent years. And we would like to now see several initial steps in getting to an  
13 improved plan in years ahead.

14  
15 Second, we recognize that National Grid may have concerns for not wanting to enter into  
16 long-term contracts of any sort. Some of these concerns might be less of an issue as the  
17 situation evolves in the years ahead, as I just described. But meanwhile we believe that  
18 National Grid should be leading an effort to bring together other parties, in particular the  
19 the EDC and the Energy Office, to undertake a cooperative effort to identify a  
20 mechanism to fully comply with the Renewable Energy Standard, and to do so in a way  
21 that addresses the concerns of all interested parties, including National Grid's, ourselves  
22 and other developers, and rate-payers. We are of the firm opinion that not only does  
23 existing law allow for such cooperation between the utility and these other agencies, but

1 that it indeed requires such cooperation. We further believe that if such cooperation was  
2 undertaken with input from developers such as Bluewater, and other interested parties,  
3 the result would be mutually satisfactory, advance the policies of the state, and benefit  
4 rate-payers.

5

6 Finally, we recognize that the Standard Offer will be expiring at the end of 2009, and that  
7 a separate process is now or will soon be underway to address this fact. Bluewater  
8 believes that this is not a reason for setting aside the question of how best to meet the  
9 requirements of the Renewable Energy Standard. On the contrary, it is a reason to start  
10 now to address this issue, so that decisions around the Standard Offer successor can be  
11 fully informed. In fact, we believe that answering the question of how Rhode Island will  
12 meet its renewable energy policies is integral to answering the question of procuring  
13 Rhode Island's electricity supply generally in the years ahead.

14

15 **Q. Can you give an example of how the distribution company might work with the**  
16 **EDC and the Energy Office to provide the long-term contracts that developers need**  
17 **while at the same time addressing the concerns of National Grid?**

18 A. Yes, for example: National Grid and the EDC enter into an agreement, with  
19 Commission approval, in which the EDC becomes a preferred provider of RECs  
20 [Renewable Energy Certificates] to National Grid, as specifically called for in Section  
21 39-26-7(b). The EDC then requests bids for long-term contracts to supply RECs, as  
22 contemplated in Section 39-26-7(c)(1). The EDC selects a winning bidder, and enters  
23 into a long-term contract with the REC supplier. Per the agreement between National

1 Grid and the EDC, National Grid then collects the necessary amount, per the contract, as  
2 a charge on the electric bill to reimburse the EDC for the RECs. The RECs are then  
3 assigned to National Grid for compliance with the RES.

4

5 From this general idea, any number of specific improvements, requirements, or  
6 contingencies are possible. Some general examples of this, without getting into much  
7 detail, are:

8

9 First, the renewable energy funds received by the Energy Office could be used to “prime  
10 the pump” for this purpose, or otherwise help facilitate its implementation.

11

12 Second, the long-term contracts could require that the RECs be provided on a contract-  
13 for-differences basis. This would both provide a price protection benefit for rate-payers,  
14 and would facilitate integrating the purchase of RECs with obtaining energy supply after  
15 the expiration of the Standard Offer. For example, the RECs might be purchased at a  
16 price that goes down in direct proportion to spot market energy prices going up, and vice  
17 versa. If this contract were used in conjunction with an energy purchase at Rhode Island  
18 spot market prices to meet a portion of National Grid’s load, it would effectively hedge  
19 energy costs for National Grid users, and also cost-effectively meet National Grid’s  
20 renewable energy standard requirements.

21

22 Third, the EDC may choose to exercise some or all of its powers in furtherance of the  
23 renewable energy standard, as described in 42-64-13.2. These powers include the ability

1 to borrow money for projects supported by the EDC. One could envision a scenario in  
2 which the EDC makes favorable debt available to the winning bidder to supply RECs,  
3 and in exchange the RECs are supplied on more favorable terms than what National Grid  
4 would be able to obtain on its own.

5

6 **Q. You earlier mentioned that other states are providing a road map for renewable**  
7 **project development that companies like yours can follow. Please give examples of**  
8 **what you meant when you said this, and why those states took the effort to provide**  
9 **such a roadmap.**

10 A. There are actually many examples, and each state of course is different. In Delaware  
11 the General Assembly responded to enormous price increases in early 2006 in that state,  
12 and simply passed a law requiring the main utility in the state to seek proposals for, and  
13 then enter into long-term contracts with, new generation sources that a) are located in the  
14 state of Delaware, b) provide long-term price stability, and c) allow the state to comply  
15 with its own renewable energy requirements and otherwise lessen environmental impacts  
16 of energy used in the state.

17

18 But perhaps a more relevant example is the State of New York. There, New York State  
19 Energy Research and Development Authority, called NYSERDA, was designated by the  
20 Public Service Commission to act as the state's central procurement agency for their  
21 renewable energy portfolio standard. NYSERDA is in many ways similar to our EDC,  
22 but with a focus on energy issues only. NYSERDA was created by the legislature in  
23 1975, as a public benefit corporation. NYSERDA has put out requests for bids to supply

1 RECs via long-term contracts. The RECs so supplied are then used to comply with that  
2 state's renewable energy law. As a state corporation NYSERDA is credit-worthy, and so  
3 developers selling RECs to NYSERDA are able to use these contracts to finance the  
4 construction of new renewable energy projects. It is our certain understanding that the  
5 Maple Ridge Wind Farm in New York, the largest wind farm east of the Mississippi, was  
6 financed at least in part through such a contract with NYSERDA.

7

8 **Q. Given your testimony, what specific changes would you like to see in National**  
9 **Grid's plan, or contained in an order from the Commission?**

10 A. We don't have any major concerns with the proposed plan as a one year plan, for this  
11 first year of the Renewable Energy Standard. In other words, we support this plan as an  
12 *interim* plan. But we think that all the parties need to start planning now for what  
13 happens in year two and beyond, and that the Commission needs to provide some  
14 direction to this. So our request is that the Commission accept this plan only as a one  
15 year plan, and direct National Grid, and either direct or request the other parties, as  
16 appropriate, to start working together now so that next year the plan is more in  
17 compliance with the letter and spirit of the law, as I described, with regard to the issue of  
18 long-term contracts. This might mean the formation of a working group of all the parties  
19 to see if some consensus can be reached before next year's filing. My impression is that  
20 most, if not all, of the parties are in agreement about what some key outcomes should be  
21 and, while they each have their specific concerns, they are willing to be pro-active and  
22 work in a constructive and collaborative manner. So I think forming a working group  
23 now could result in a filing next year that most parties would support. But we would not

1 be supportive of the currently proposed plan as the definitive plan going forward, because  
2 it does not address the issue of long-term contracts. The law was clearly meant to bring  
3 together the EDC, National Grid, and others to enable long-term contracting so that new,  
4 renewable generation sources could be built for Rhode Island, and that simply hasn't  
5 happened in this first year plan.

6

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

8 A. Yes, thank you.