

State of Rhode Island Public Utilities Commission

**In Re: Distributed Generation (DG)
Standard Contracts And Ceiling Prices For 2014**

Docket No. 4288

**Pre-Filed Testimony of
Larry Stone, Bostonia Partners
February 12, 2014**

State of Rhode Island Public Utilities Commission

**In Re: Distributed Generation (DG)
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Docket No. 4288

Pre-Filed Testimony of

Mark Depasquale

February 12, 2014

I. Introduction and Qualifications

1 **Q. Please state your name and business address.**

2 A. My name is Mark Depasquale and my business address is 3760 Quaker Lane, North
3 Kingstown, Rhode Island 02852.

4 **Q. By whom are you employed and in what capacity?**

5 A. I am the principal of Wind Energy Development, LLC (WED).

6 **Q. When was WED formed?**

7 A. The company was founded in 2009.

8 **Q. What was your professional background before starting WED?**

9 A. I have over twenty years in the commercial construction industry. I've developed,
10 managed and coordinated over 100 projects, totaling over \$350 million. My experience
11 ranges from manufacturing and warehouse facilities, commercial industrial parks,
12 municipal facilities, road construction, to office complexes and retail centers.

13 **Q. Do any of those other business entities still exist?**

14 A. Yes, I'm currently also the President of Site, LLC.

15 **Q. Why did you start WED?**

16 A. Given my history of site work for development, I wanted to start a business that will
17 have a positive impact on the environment my kids will inherit. I saw and still see a great
18 opportunity in wind energy development and my professional experience has prepared
19 me well for that work.

1 **Q. What is WED's mission?**

2 A. To be the lead developer of wind energy for Rhode Island and provide the state with
3 renewable, clean energy.

4 **Q. How has the business done to date?**

5 A. It is coming together nicely but not without substantial challenges.

6 **Q. What are the successes?**

7 A. We built one of the first DG projects in North Kingstown, next to my house, proving
8 that we can deliver these projects. That turbine is performing extremely well. We have
9 4 more projects in the planning stages in Coventry and one in North Smithfield and a
10 number of others in pre-development. There is lots of interest from investors and
11 banks, provided we can make the economics of these projects work. We are upbeat
12 about advancements and opportunities in Rhode Island's energy policy given the
13 current administration of the Office of Energy Resources, the energy planning work
14 underway (including the benefit/cost study for the DG program), the promise of
15 some pending legislative proposals and the hopefully improving alignment of the
16 interests of public policy goals and utility policies and procedures.

17

18 **Q. What are the challenges?**

19 A. The North Kingstown turbine is unfortunately operating at a loss because the rate of
20 \$.1335 per kWh is far too low to sustain the project costs. The risks and soft costs of
21 project development are still substantial, from siting policies to local taxation policy to
22 legal challenges posed by the utility (eg, interconnection policies, legal challenges to

1 project developments, etc). Attracting investors for the projects is also difficult because
2 the ceiling price is not high enough to earn them an attractive enough rate of return. It's
3 also difficult to find a tax equity investor for our investment tax credits.

4 **Q. If your first project in North Kingstown was not financially viable, why do you**
5 **continue to pursue this business and propose additional projects?**

6 A. We have learned a lot from the North Kingstown turbine and are very pleased with
7 how it has performed and been received by this community. We are fortunate to have the
8 financial resources to absorb some of the losses on the lead project in the effort to get our
9 mission moving in the right direction. We know what it takes to successfully develop
10 wind in Rhode Island and we want to make it successful for all parties involved.

11 **Q. Why did you propose to do your Coventry project at a rate you now argue is**
12 **unsustainable?**

13 A. We are working with investors who like the wind opportunity in Rhode Island. They
14 were especially interested in capitalizing on the federal tax incentives that expired
15 December 31, 2013. Those credits can bring substantial value to investors in the short
16 term even if the long-term economics of the project are not sustainable. From WED's
17 perspective, these investors are interested in a portfolio investment based on a volume of
18 projects and if we can close on an investment to develop a series of turbines, most of
19 which are sustainable pricing, we can ultimately overcome the early, financially troubled
20 projects.

21 **Q. Have you participated in the 2014 ceiling price proceedings?**

1 A. Yes, WED participated actively, attending every stakeholder session and providing
2 extensive input in response to all requests.

3 **Q. Did WED submit any documentation in support of your stakeholder input?**

4 A. Yes, we submitted all the documentation noted as our filings in the Brief of Wind
5 Energy Development, LLC (Brief) filed in this docket on December 31, 2013.

6 **Q. Did you make a public records request for documentation from the stakeholder**
7 **process?**

8 A. Yes, the original request was denied. Upon appeal, documentation was provided and
9 some pertinent documentation was the subject of data requests served in this docket and
10 was attached to those requests.

11 **Q. Do you concur with the statement of facts as presented in that Brief?**

12 A. Yes, we were fully involved with the development of that brief and the facts stated
13 therein are accurate to our knowledge.

14 **Q. Have you dedicated resources to help evaluate and respond to the proposed**
15 **ceiling prices?**

16 A. Yes, we have dedicated people from our own team to gather factual information from
17 local wind projects either under development or studied. We have also worked with Tom
18 Windram, a CPA from McGladrey, LLP and Larry Stone from Bostonia who have
19 assisted us with project finance and have helped us run, analyze and troubleshoot the
20 CREST model used by Sustainable Energy Advantage to develop the proposed ceiling
21 prices.

1 **Q. Were the results of that analysis included in the documentation attached to your**
2 **brief as well?**

3 A. Yes, the results of that analysis have been presented in and with the Brief.

4 **Q. What do the results of that analysis demonstrate?**

5 A. The results of that analysis demonstrate that when accurate inputs gathered from
6 projects developed and planned in Rhode Island are used in the CREST model, the
7 ceiling price needs to be \$.22/kwh with federal tax credits and \$.275/kwh without federal
8 tax credits in order to achieve an internal rate of return of 11% as the model seeks to do.
9 It also demonstrates that these projects will be extremely difficult to finance at
10 economically unsustainable pricing. Larry Stone, our project finance expert, will be
11 providing supplemental, expert testimony on these points. I realize that the \$.275/kwh
12 without an ITC Tax Credit is a large number to justify for renewable energy but it is a
13 ceiling price. We have done some additional work on our project development costs and
14 now hope and expect to be able to reduce our projected total installed costs for projects
15 enrolled in 2014, and therefore are willing to submit that a ceiling price of \$.21/kwh with
16 federal tax credits and \$.24/kwh without the tax credits can be made financially
17 sustainable at the possible risk of not always generating the full 11% market rate of return.
18 But, I submit that our capacity to deliver Rhode Island projects at that price is probably
19 unique and, therefore, that aggressive ceiling pricing would not reflect general market
20 conditions.

21 **Q. Do you see any ways in which the ceiling price for wind may be able to come**
22 **down in future years while achieving the target rate of return?**

1 A. Yes. For future years, we will be working on increasing the height of the towers to
2 100 meters and increasing the rotor diameter to 87 meters on the turbines to get closer to
3 the 26% capacity factor, but to achieve a higher production and lower costs requires
4 larger machines with total heights exceeding 480 feet. If we can make headway on
5 interconnection costs, local property tax policies, reasonable siting guidelines, and state
6 permitting for transportation of turbine parts throughout the state, we can reduce project
7 costs and pricing. Moreover, if the DG program is expanded and the DG Board will
8 consider raising the DG project cap for large wind from 1.5 MW to 6 MW, wind
9 developers will be able to purchase larger turbines to capture more wind, driving the
10 construction and interconnection costs down and the capacity factor up. As more
11 turbines are sited in Rhode Island the liability insurance costs will also come down.

12 **Q. Why are you investing significant resources and energy in the objection you**
13 **have presented in this proceeding?**

14 A. For three reasons. First, we sincerely want to be a substantial partner in the
15 achievement of Rhode Island's public policy goals of developing renewable energy in
16 this state and we cannot do that at prices that do not sustain these projects. Second, we
17 invested very substantial resources to participate actively in the stakeholder process and
18 are not satisfied with the results of that participation. Finally, we want to be sure that the
19 DG ceiling price process is based on accurate data moving forward, as it was intended
20 and designed to be.

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

1 Yes.

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I. Introduction and Qualifications

1 **Q. Please state your name and business address.**

2 A. My name is Larry Stone and my business address is 699 Boylston Street, Boston Mass.

3 **Q. By whom are you employed and in what capacity?**

4 A. I am a Managing Director at Bostonia Partners involved in assisting clients with
5 raising capital for various types of projects in the energy space.

6 **Q. Q. Please describe your educational background and training**

7 A. I have been an investment banker for over 30 years, employed by some of the
8 country's largest commercial banks and have raised over \$5 billion of capital for various
9 clients. My educational background includes a BA from the University of Vermont and
10 graduate work in International Economics from UC-Davis, California.

11 **Q. Please describe your professional experience.**

12 A. I have been a registered rep for over 30 years acting in a capital markets role, raising
13 various types of capital for both private and public companies.

14 **Q. What is the purpose of your testimony in this docket?**

15 A. Provide information relating to determining the economic value of the various wind
16 projects owned and being developed by WED and under what conditions they will be
17 attractive to investors seeking wind projects.

18 **Q. What work do you do for Wind Energy Development, LLC?**

1 A. Bostonia Partners is seeking investors that may invest/purchase wind projects owned
2 and developed by WED in RI. In this capacity, we are working with WED on different
3 financial structures and performance scenarios.

4 **Q. Please explain how WED intends to finance its wind projects in Rhode Island?**

5 A. WED intends to aggregate wind projects and sell them as a bundle or portfolio,
6 providing the investor with a certain level of megawatts and blended return.

7 **Q. Why are the finances of the North Kingstown turbine unsustainable?**

8 A. Based on the information provided to Bostonia, a low capacity factor leads to
9 relatively low production numbers and combined with the contractual PPA price, results
10 in a low internal rate of return relative to the investment to build the project.

11 **Q. How does WED's business plan remain sustainable despite the financial woes of**
12 **the North Kingstown project?**

13 A. At this point, we are not clear on what projects the portfolio will include and it is very
14 possible that it will not include the North Kingstown project which may be viewed as a
15 sunken cost not atypical for first ventures in this industry. It seems clear that one or all of
16 three variables will need to be improved upon: 1) working with the turbine manufacturers,
17 WED will need to try and increase the capacity factor for new projects beyond those in
18 development, 2) with its acquired wind development experience and strong pipeline of
19 potential wind assets, WED needs to work on reducing its installed price, and 3) increase
20 the contract price for the power produced. Advancement with one or all of these variables
21 will increase the potential returns to investors and ultimately make WED's business plan
22 sustainable.

1 **Q. Why are investors and banks currently interested in the opportunity presented in**
2 **WED's business plan?**

3 A. WED represents an attractive value proposition for investors and lenders for a
4 number of reasons: 1) WED has the needed wind development experience, 2)WED has
5 invested its own equity and wants to continue to invest in projects as they are developed
6 demonstrating commitment ,3) WED has an operational asset that was developed
7 successfully and is operating well, 4) WED's business plan indicates sufficient asset
8 development (pipeline of projects) to attract investor's interest, 5) WED business plans
9 indicate the potential for sufficient investment returns, and 6) the State's strong RPS
10 standards and incentive programs seem to make Rhode Island an attractive location to
11 invest in renewable energy projects.

12 **Q. What will it take for WED to secure the investment and financing it needs to**
13 **achieve its mission?**

14 A. Ability to construct and bring on line a series of wind projects that provide an
15 adequate return to the investor. For 2014 projects, this will require a higher ceiling price
16 and lower total installed costs. For future years, the ceiling price may be able to come
17 down if the capacity factor improves or upon the resolution of key policy and operational
18 issues that could reduce project development cost (eg, interconnection cost, property tax,
19 insurance, siting).

20 **Q. Why does the assumption used for a projects capacity factor and construction**
21 **cost have such a major impact on project economics?**

1 A. The Capacity factor drives the amount of energy produced and thus dictates the
2 anticipated revenue line. Total installed cost is the most substantial element of project
3 cost, so it has a very direct bearing on anticipated returns.

4 **Q. In your opinion, what ceiling price is required to allow a private owner to invest**
5 **in a 1.5MW wind turbine in Rhode Island at a reasonable rate of return with and**
6 **without federal tax incentives?**

7 A. Based on the cost estimates and capacity factors provided for the projects we have
8 seen that do not have any federal tax incentives, a contractual price of approximately
9 \$.275/Kwh is needed to allow WED to invest in a 1.5MW wind turbine in Rhode Island
10 at a reasonable rate of return. The ceiling price required for 2014 may be able to come
11 down if WED can improve on its cost structure and the price required for subsequent
12 years will depend on the development factors addressed above.

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

14 Yes.

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