NSUARB-BRD-E-R.10

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF: The Electricity Act, 2004, c. 25

- and -

IN THE MATTER OF: Section 18 of the Renewable Electricity Regulations, N.S. Regs. 155/2010 (Renewable Energy Community Feed-in Tariffs)

TRANSCRIPT - PART A

HEARD BEFORE: Peter W. Gurnham, Q.C. Chair
Roland A. Deveau, Q.C., Member
Murray E. Doehler, CA, P.Eng, Member

PLACE HEARD: Halifax, Nova Scotia

DATE HEARD: Friday, April 8, 2011

APPEARANCES:

Board Counsel: Mr. S. Bruce Outhouse, Q.C.

Board Counsel Consultants:	Synapse Energy Economics, Inc. Bruce Biewald Geoff Keith Meister Consultants Group Wilson Rickerson, CEO Hilary Flynn Tellus Institute Dr. John Stutz, Vice-President
Board Advisor:	Steve Pronko, P.Eng.
Hearing Clerk:	Anne Bonang, NSUARB
Recorded by:	**Dictum Digital Inc.**
Transcribed by:	**Dictum Digital Inc.** **Halifax, Nova Scotia**

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Halifax, Nova Scotia

--- Upon commencing at 9:02 a.m.

THE CHAIR: Good morning, everyone. I understand we have a preliminary matter to deal with, Mr. Outhouse, or do we?

MR. OUTHOUSE: Yes, Mr. Chair, we do.

Mr. Merrick has indicated to me that for the wind proponents who are testifying this morning he has questions for them which will require them to give confidential information, should they answer, about their costs, their debt/equity ratios, that sort of thing.

And anticipating that they will have some reluctance to do that, at least in an open forum, it would appear to me that, at a minimum, we will, subject to what they have to say, have to go in to confidential session to have them answer those questions. And I'm not sure what their response will be in terms of whether they're prepared to give that information.

I should just -- there's -- I guess as background, under the Board's rules, as the Board is aware and Mr. Merrick would be aware but the wind proponents probably are not, that if they have information and they've filed evidence and they're asked to give confidential information, of course, the room is cleared except for the people who are entitled to hear the confidential information.

They have the option of not answering those questions, of course, but if they do so, they must withdraw their evidence. So that's the option they have. Not a particularly enviable option at this stage.

I just wanted to make that clear to them: Nobody can compel them to answer the questions, but otherwise, it's relevant evidence and they would have to give it. They're entitled to the protection of confidentiality, which would mean that, in the ordinary course, unless they waive it, that others in the room who aren't entitled to hear the confidential information would have to temporarily clear the room.

So that's where we are. I don't know whether Mr. Merrick has anything he wishes to say in addition to that.

MR. MERRICK: No, other than, Mr. Chairman, the areas that I was going to canvass with the wind producers is how they structured their project, whether they did it by a debt or equity and, if so, what ratios, what their cost of debt was, what their rate of return was projected to be and what it's turning out to be in light of what they've bid.

And I know that we've got their bid price or their project bid price. It's on file with the Board; it's confidential. But what we don't have is their debt structure and the additional information.

So it's that area that I'd want to get into, and that's where I anticipated that there may be some confidentiality concerns.

THE CHAIR: You might just indicate, Mr. Merrick, why you think that information is important.

MR. MERRICK: Absolutely.

One of the issues that's been raised here is what is an economic rate or a rate that will sustain economic development and a reasonable level of economic activity.

We've had evidence from some proponents or some intervenors that they would need a certain rate at a certain level. I think that if they're able to operate at a lower rate than that, then that's a highly relevant piece of information for this Board in determining what level would generate a reasonable level of economic activity.

THE CHAIR: Okay. It seems to me there's two issues here. One is whether the confidential information is required in the public interest for purposes of the hearing, and probably we should hear parties on that and then the Board will make a decision.

And then parties can determine whether they're -- assuming -- if the decision is that it's not required, then there's no issue. If it's decided that it is required, then parties have the option, as Mr. Outhouse indicates under the rules, of not disclosing the information but having their evidence withdrawn.

So I'll give those wind producers who are here an opportunity to address the first issue, and that is whether they're prepared to disclose the confidential information and, if not, why not.

Do you want to start, Mr. Livingston?

MR. LIVINGSTON: Good morning. I don't anticipate that there's anything that I couldn't disclose publicly, and if there was -- because I can't determine the exact nature of the questions -- if, let's say, out of 25 questions there were two that seemed to be that I couldn't answer except redacted, then you could go into redacted for just those two, for instance.

THE CHAIR: And would you be prepared to disclose those in confidence?

MR. LIVINGSTON: Sure, absolutely. But I don't see that there's very much that I wouldn't disclose in public.

THE CHAIR: Okay. Then I think the way to handle your cross-examination is for Mr. Merrick to ask you questions. If one comes up that you think is confidential, tell us that. We'll get Mr. Merrick to put it to the end of his questions, we'll clear the room, and deal with it that way.

MR. LIVINGSTON: Great. Thank you.

THE CHAIR: Scotia?

MR. ROSCOE: Dan Roscoe from Scotian WindFields.

I would suggest the same, that I would have no problem answering questions. I don't foresee anything that I would be concerned about mentioning in public, but if there is, I'd still choose to answer it in a confidential way.

THE CHAIR: So handle your questioning the same way. Mr. Merrick can ask his questions. If he gets to one where you're uncomfortable, tell us, and then we'll get him to put that question to the end of his questioning and we'll do it in confidence.

MR. ROSCOE: Sounds good.

MR. BARRY: Pretty much the same answer. I just have one for Mr. Merrick.

I assume most of your questions are likely specific to Watts Wind Energy Project. Is that fair to say?

MR. MERRICK: Depending on which entity is being -- presenting at the time, yes.

MR. BARRY: Okay. Yeah, so that's fine. Some of those questions will be in confidence, but I think we'll be prepared to disclose that.

THE CHAIR: Okay. Then I think what we'll do is leave it to you to police that. When you get to a question you're uncomfortable answering on the public record, we'll note it and then we'll come back -- we'll clear the room at the end of your cross-examination and we'll come back to it.

MR. BARRY: Okay.

THE CHAIR: I think we can handle it that way, Mr. Merrick.

MR. BARRY: That's good.

THE CHAIR: I think that will work.

MR. MERRICK: I think so, Mr. Chair. I'm comfortable with that.

MR. LIVINGSTON: If Nova Scotia Power is a redacted party at the hearing, for instance, some of us might consider that that information which we might disclose to you we might not want to disclose to them.

THE CHAIR: Yeah, I'm saying if there's anything that you don't want a party -- other party to hear, then that should be disclosed in confidence.

MR. LIVINGSTON: Okay. But is Nova Scotia Power part of the redacted session or not?

THE CHAIR: No.

MR. LIVINGSTON: Oh, okay.

THE CHAIR: Well, thanks very much. I think that's a solution we can work with.

So I think we're ready for Black River. And if you'd come up to this table.

And just to remind parties, I think you can assume the Board has read your evidence so that we've been through it and you have an opportunity for a three- to five-minute opening statement and then, after that, parties who want to ask you questions have an opportunity to come forward and ask questions.

And I'm going to swear you in.

MR. NEAL LIVINGSTON, Affirmed:

OPENING STATEMENT - MR. NEAL LIVINGSTON

MR. LIVINGSTON: Good morning. My name is Neal Livingston; I'm the President of Black River Wind Limited.

In my evidence I also talk about I'm also the President of Black River Hydro Limited, which has sold power since 1983. I'm also President of a CEDIF called the Cape Breton West Wind Field Inc. and have a number of other levels of experience in the last 30 years in renewable energy.

The main thing I did in this hearing was to bring forward in my evidence a model, which I think is different than the model that Synapse has produced and also make some general comments about the fact that independent power producers, being private companies or individuals, have been left out of the policy and if they hadn't been I think this would have been quite a different hearing.

It concerns me in the relationship between the Board's responsibility to look at ratepayers and ratepayers' risk and cost and how that rolls back into this exact government policy. So if the government policy had been -- whether or not the government policy has been essentially put to enough of a means test to be brought forward to the Board so the Board can have some assurance that the -- for lack of a better word, that we won't end up with kind of a mess in a year or two, which has a -- could have a long-term impact on ratepayers, because if projects don't get built or if they fail and renewable energy targets aren't met properly and other units have to be -- come on line later on they have can have a higher cost and that can be a greater risk to the ratepayer.

So essentially part of my evidence is to suggest that the Board should look at that from a broad perspective because it could involve ratepayer risk in that if government hasn't properly addressed policy and its development that, you know, the Board should look at that from a perspective of telling government that they may need more information or better policy development.

The -- one thing that's not in my evidence which I'd like to put forward is, I think -- and I think I'm not the only one who thinks this, who's come to this hearing from the independent power producer side, is that we've suggested, Mr. Pynn's letter and my own letter, and I think a little bit from Mr. Couture yesterday, that equity is where costs of projects often go up because of the cost of equity. And there seems to be a differentiated approach here to what the cost of equity can be.

One of the main drivers that could change that whole perspective, a number of us have gone to government and said, you have around 250, $300 million year in your industrial expansion fund at NSPI. And if you were an equity partner in these projects or a loan guarantor -- but I'll take the perspective of an equity partner -- you could make 8 or 10 percent return on those projects.

You could put, let's say, $1 million into a 2-megawatt project or a megawatt and a half project, and suddenly the whole cost of what the ratepayers have to bear and what has to be paid for those projects goes down, or if doesn't go down there's some assurance that the investors in -- the local investors in the project will actually make a return.

And government has refused to

entertain that, has turned down applications that we've put forward in that. I know that they've turned down other people in a similar way. NSPI won't entertain those kind of applications.

And the main thing that you find is if you go to a jurisdiction like Germany and you look back in the last 25 years, the policy drivers that have created a situation ---

MR. DOEHLER: Excuse me, Mr. Livingston, this is policy which is beyond our remit. What's this got to do with the rates? Thank you.

MR. LIVINGSTON: In relationship to equity.

MR. DOEHLER: Well, where's your evidence of the equity, please?

MR. LIVINGSTON: It is in my statement, opening statement; my evidence that I filed and my example -- my mathematical example. The cost of equity drives ---

MR. DOEHLER: So we have it in evidence then?

MR. LIVINGSTON: --- drives up the

cost, yeah.

And I was making -- and so, ultimately, if the cost that can be paid by ratepayers can go down because of the cost of equity going down, one of those drivers can come from government playing a role.

I also wanted to say that I find Mr. Pynn's evidence very interesting because our situation as Black River Wind is that we're trying to build a project that isn't built. And Mr. Pynn's example is he's just built a project, and both of our evidence aligns very closely in terms of the cost realities from finance.

In a general way, I just wanted to say how interested I am, and I think most independent power producers, to have a profoundly good renewable energy policy in this province, because that will help create a vibrant renewable sector and that can lead to lower risk for the ratepayers and also a lot of economic development and employment in this sector. And getting it right is an essential component, and obviously in my evidence I suggest that the Province isn't getting it right here yet.

I think that's enough time and enough information for my opening statement.

MR. MERRICK: Thank you.

THE CHAIR: Thank you.

Mr. Merrick?

MR. MERRICK: Thank you, Mr. Chairman.

CROSS-EXAMINATION BY MR. MERRICK

MR. MERRICK: Mr. Livingston, as I understand it you've got three projects presently operating?

MR. LIVINGSTON: I, since 1984, under Black River Hydro Limited, have a hydro electric plant, which ---

MR. MERRICK: Sorry, wind projects.

MR. LIVINGSTON: --- which is a hydro utility. In wind power I have nothing operating.

I have three projects which have awarded PPAs about a year ago, in the middle of December 2009. In each of those -- those three projects total 6 megawatts and they're at three different sites, so they're aggregated from the three to equal 6 megawatts.

MR. MERRICK: And are they still underway?

MR. LIVINGSTON: We are still involved in trying to finance those projects.

MR. MERRICK: Do you have any anticipated dates when you will go into production?

MR. LIVINGSTON: The power purchase agreement states that they have to be in production by July 1, 2011, so we are hoping to finance the projects and still be able to build them by that date.

MR. MERRICK: And without anybody holding you to this, do you anticipate being able to do so?

MR. LIVINGSTON: I hope we can do it. The problem is to be able to finance them on terms which work for all parties involved.

MR. MERRICK: So do I take it you have no financing in place yet?

MR. LIVINGSTON: The only equity we have in the project is the developed equity which we've brought forward in our own investment. To date, that could change quite quickly in the next month if things work out from a number of discussions but those discussions could also go nowhere.

MR. MERRICK: What's your current plan as to how you're going to finance it? And what I want to know about that is how much equity, how much debt?

MR. LIVINGSTON: The current plans, I guess we would have three -- two or three tranches in that, is we are attempting to see if we can what -- the maximum level of debt that we see possible seems to range, if we were to try to do that locally, to be about 50, 60 percent, and that seems to be roughly the same in Canada.

There seems to be some potential to maybe go as high as 70 percent. The time it may take to find that 70 percent may be too long for our agreement. So that means we have to end up with about 40 to 50 percent equity, and we -- so that -- I think that answers your question.

MR. MERRICK: So you anticipate being able to finance approximately 50 to 60 percent debt?

MR. LIVINGSTON: That seems to be what seems to be normal. I don't know if I could say anticipate.

MR. MERRICK: Have you had conversations with lenders of that debt?

MR. LIVINGSTON: Yes, we've met with banks locally. We've met with brokers who represent lending institutions in Canada and Germany and the United States.

MR. MERRICK: And I take it that based on those discussions you consider that a feasible proposition, that you're going to be able to finance maybe up to 60 percent debt?

MR. LIVINGSTON: That appears to be the norm at the moment. So that's one -- that would be what I would call the normal finance tranche.

MR. MERRICK: Yeah. And can you tell us what the cost the debt is anticipated to be?

MR. LIVINGSTON: I tend to agree with Synapse. It's a little bit hard to tell. In most of the information that I am putting out to potential investors regarding finance costs these days I usually use about 7.5 percent to 8 percent.

MR. MERRICK: That's what you're representing to potential investors?

MR. LIVINGSTON: That's correct.

MR. MERRICK: And based on your

discussions with the lenders, is that a realistic number?

MR. LIVINGSTON: It depends on the term that they're willing to give to the project, and that seems to be a reasonable number. There seemed to be an idea a few years ago, and I think this is maybe represented in potentially, if I could -- if I'm allowed to interpret a little bit about what I see in Mr. Chernick's evidence where I think he talks about 6 percent, that there are a lot of funds that potentially fund these kind of projects. Some of them manage pension funds like Manulife and things like that.

Generally those funds are absolutely not interested in small projects. They might have been a few years and they're not anymore. And in general the world of finance for these kind of projects is not interested in small projects, particularly it seems in this region; I'm not sure why. But in Ontario with their solar policy there seems to be a very quick development of finance around solar because those solar costs could be lower.

But we don't have any insight into -- I don't have any insight into that except to say that in this region, which I believe is much more difficult to obtain equity and financing than any other region, I've discovered that we end up in a situation like I've described.

MR. MERRICK: What's the lowest cost of debt that you have discussed with the potential lenders?

MR. LIVINGSTON: Probably 7.5 percent in the last three years.

MR. MERRICK: Have you discussed 7 percent with anybody?

MR. LIVINGSTON: I've certainly said I'd like it if it could be five, but I don't think any of that's taken seriously.

In terms of information we've got back I don't think we've ever seen a situation where anybody's willing to consider anything less than 7.5, and that would be on a 10-year term and it would be very difficult, I think to build the kind of projects we're working on on 10-year finance.

I know that Watts Energy seems to be -- have financed their project on a 10-year term from their evidence, but I'm -- from the discussions we've held and the economics that we look at, it doesn't seem to be possible because it means the equity has less chance of getting any return in the first decade.

MR. MERRICK: And the cost of -- or your return on equity, what is the rate that you are advertising to potential investors as being likely?

MR. LIVINGSTON: During the -- I think this is important you asked this question because I'm not sure it was understood properly earlier in the week by Mr. Chernick and possibly by Synapse.

In the example I gave, which is my 2-megawatt example, I suggested in that example that -- and I said it in the written part of my testimony as well, that in our experience equity is looking for between 20 and 24 percent at a minimum.

And I guess what I left out in there is that's during the loan payback period, and that after a loan payback period they're looking for whatever the largest upside they can get relative to their position in the project.

And in the latter years of a project,

it also has to be understood that there's a higher risk relative to having to rebuild a machine or machine failure. So although on one level it looks like you have the potential to make very large returns in the last number of years, although wind machines technically are better than they used to be, it doesn't mean that you couldn't have significant problems in the latter part of those years that cost a lot of money.

It's why I also brought forward from discussions we've had with partners who would be bringing forth both equity and finance, let's say, in a package, they've been looking to have, let's say, all of the first year's revenues parked in a reserve fund or us having to borrow money at the levels I'm talking about, you know, in my example, also as an extra cost of borrowing for a reserve fund.

And again, what I mean by a reserve fund, just to be clear from the other day, is that's a fund if you don't have enough money from moment to moment cash flow to pay for a problem. It's not a theoretical matrix in a spreadsheet.

MR. MERRICK: Let me return to my

question.

What are you representing to potential investors as being the likely return on equity in your projects?

MR. LIVINGSTON: At the moment we seem to be only able to interest someone out of discussion if, during the loan payback period, we're offering them in the range of 20 to 24 percent, at a minimum. And like I said, in the latter years where the loan is paid back, that the returns would be, you know, over 30 percent.

And the overall average, if you took those years together, would be in the range of about 30.

MR. MERRICK: Have you ever represented that the anticipated return on equity would be as low as 4 percent?

MR. LIVINGSTON: Oh, no one would be interested in holding a discussion with us like that. And I guess I would move my hat a little bit to be the President of a CEDIF at this point because I'm also the President of a CEDIF.

And when we went to raise money in respect to this project several years go under a lesser amount of a PPA with 6.5 cents we were offered at that time by the utility, or 6.8 -- I think it was 6.5 -- that when we approached CEDIF-type investors and said that the returns might be as -- very low, like 4 percent, you know, we got quite a bit of hostility, actually, when we talked to people about that.

MR. MERRICK: But at that time -- and I understand we're talking about a couple of years ago, prior to this current regime of COMFIT prices, in proposing a CEDIF proposal for wind power, you were representing a return of 4 percent.

MR. LIVINGSTON: No. In my example that I use in my basic inputs here that someone can put into a spreadsheet -- and I did reverse math in my example, and the reason I ended up with 20 percent for the outside equity was that that was simply a number that zeroed out a return to the CEDIF shareholders, and I was trying to use an example that the CEDIF -- there didn't seem to be a way that the CEDIF shareholders under the Synapse example could end up making any kind of a return during those first 16 years.

So in the latter four they might, in

one of these PPAs, except by the time you get these projects built under these current PPAs because the clock ticks on them -- let's say in our PPA if we have it built, let's say, for January 1st of 2012, there's only 18 years left in the PPA, so the financial period is actually less.

So essentially, what you're ending up doing is having to go the CEDIF shareholders and saying, "How would you like to invest in something that you might not get a return for the first 16 or 17 years?"

So I think, ultimately, what I was trying to argue in my example in the background was not necessarily so much that the Synapse rate is higher, but what we do if the fact that the outside equity is causing significant problems to the ability of CEDIF shareholders to make a return when the government policy is demanding that CEDIF shareholders be involved in these projects.

And that's why I used my example this morning about if government's making a demand that there has to be CEDIF shareholders, maybe they should also be a participant on some level to make the outside equity become reasonable so the CEDIF shareholders can be ensured a profit.

Because I think we end up technically with quite a bit problem if several hundred or several thousand CEDIF shareholders two or three years from now, if they've been kind of heady about investing in something green, find out that it doesn't look like they'll ever get a return or their money back. And there's kind of a history of that so far that the government's ignoring.

MR. MERRICK: Forgive me for labouring the point, but I want to make sure I've understood your answer to me.

When you set up your CEDIF fund for the purpose of promoting a wind power project, what were you representing as being a rate of return for investors?

MR. LIVINGSTON: It's -- oh, I'm very glad you asked that question because it came up yesterday and it wasn't answered properly.

It is illegal under the Nova Scotia Securities Commission Regulations to promise any kind of a return. And if you look, for instance, at the Watts prospectus, the prospectuses say you're at risk of you invest in these things. You may never get a return. You have to understand that.

These are prospectuses for what's called unsophisticated shareholders, not sophisticated shareholders. And the Regulations absolutely forbid the promising of any returns.

MR. MERRICK: Did you get subscriptions to your canvass?

MR. LIVINGSTON: Yes. Our fund raised $103,000 in 2002, the idea behind that being that at that time Scotian WindFields, which is quite a different business than today and different owners, I believe, was going to build a wind project. That project never went through, so the money ended up getting invested in my company, Black River Hydro Limited, which is an established company.

But we raised $103,000. After fees of raising that money and setting up the CEDIF, we ended up with $85,000 in the bank account. And by the time -- the running of the CEDIF happened for about a year and a half or two years before that money was invested, and $75,000 was available to invest.

So that's a very important example because in my example I say the CEDIF has to raise -- in my example I provided as evidence, the CEDIF raises 1.1 million but they only invest a million. When lesser amounts are raised, the costs of those fees bears more heavily upon the net that can be invested.

And you also have -- of course, have to keep some money in reserve to run the CEDIF if it's not going to get a yearly dividend in the short term. That's a very serious issue.

MR. MERRICK: How much were you looking to subscribe?

MR. LIVINGSTON: Pardon me?

MR. MERRICK: How much were you looking to subscribe for?

MR. LIVINGSTON: At that time the way the rules worked, you needed a minimum of 25 shareholders to form a CEDIF, so the initial forming up of a CEDIF is often based around getting people to invest so you have that minimum amount of people.

So I don't believe there was any kind of a threshold below $100,000 that we were looking for. It was -- I believe 100,000 was probably the minimum threshold, but a lot of the organizational desire was simply to get the CEDIF set up with those people.

It wasn't focused on a project. The fund was set up just as a way of getting established to look at investing in projects.

MR. MERRICK: So you raised what you were generally looking for.

MR. LIVINGSTON: We weren't focused on how much money we were going to raise because it wasn't focused on investing in a specific project. It's quite a different era than today, I think.

And what we were looking at doing was simply forming the group, which needed a minimum of 25 people. And the financial matrix associated with that landed us at the minimum around $100,000, which worked. We could have raised 80, probably, could have raised, you know, 25 or 50, I think, if people put in $1,000 each.

It wasn't focused around a specific amount of raised to be invested in a project. It was, I guess, kind of like a blind pool.

MR. MERRICK: When you bid in your price for the PPA that you got in your calculations of doing that bid price, what did you calculate in that number as being your cost of debt? What was the rate of your cost of debt?

MR. LIVINGSTON: I would say that we calculated again in the range of 7.5 to 8 percent, because we, for a number of years, have been trying to put together this project, so we would have simply carried over those basic financial matrixes in the background of how we came up with the bid price.

MR. MERRICK: Do you have a breakout of that bid price?

MR. LIVINGSTON: What do you mean by breakout?

MR. MERRICK: Somewhere where it exists. A written record of what your calculations were.

MR. LIVINGSTON: I don't believe I do in the sense that what we knew when we bid that price was we knew that previous RF PPAs were -- had been -- even though it wasn't public information I think we knew from hearsay that 10 cents seemed to be about what previous PPAs had gone forward at. And we actually bid what we thought was a very high price when we put in the amount that we bid because we felt that we understood the equity investors wanted to get 20 or 30 percent.

I actually do a lot of stuff in my head on this. I don't find it that complicated that if we're going to have to get in the range of 20 to 30 percent for an equity investor and I know how much power a project will produce per year on a conservative level, you know, and I can look up on a computer what an interest rate is, I can quite quickly come up with a PPA bid.

MR. MERRICK: In calculating your PPA bid, what did you calculate would be your rate of return?

MR. LIVINGSTON: You mean for the overall project or for us as the ---

MR. MERRICK: What did you anticipate getting for a return on equity when you put in that price?

MR. LIVINGSTON: I don't really use a percentage basis when I look at things. What I would do is I would look at how much free cash I thought there was after operating the company per year. How much the cost of paying that loan per year was over 15 years, and if that final amount that was left over would be distributable to the equity shareholder at a 20 percent level to 30 percent level and if there was anything left over that I thought was reasonable for us as the developers. And if that worked that's about how I look at it.

MR. MERRICK: And you were satisfied that your bid price made that work?

MR. LIVINGSTON: Yeah, I felt that although there were uncertainties, because if your build is going to happen two years later than your bid and you don't know what equipment costs are going to be, then in our example we were almost a little bit surprised that we got our bid accepted because we just didn't want to end up in a situation where -- there's been a tendency to underbid in these kind of RFP and bidding processes and then projects don't get built.

So what we decided to do was to bid a price that we thought was robust enough so that with all of the intransigents that we couldn't understand for building a project two years later, then at least our best guess would be that there'd be enough cash from flowing out of this project to satisfy the requirements of debt and equity.

MR. MERRICK: Last area, Mr. Livingston, that I want to explore with you is whether you intend or your company intends to avail itself of whatever COMFIT rate comes out of these hearings?

MR. LIVINGSTON: Well, as my example shows, I think it's very difficult ethically to put together a project in which the potential for the CEDIF shareholder is not to get a return. So there seems to me to be a fundamental kind of breakage in the government policy in terms of thinking, and I don't believe the government thought about this properly.

In my discussions and meetings with government I have pointed this out previous to this hearing and they don't seem to care. And I think that that's a really significant issue because I don't think government should be putting forward policies that's potentially putting small shareholders at risk in a policy.

So -- and I've also argued that I thought that the policy, the same as they've made available for biomass and tidal, shouldn't have a requirement on wind for there to be a CEDIF. Because I think it's very unfair for it to be like that because it takes down the whole value of entrepreneurship.

So let me use an example, because I like to use this example -- unless you think I'm too long, you can cut me off on this.

Let's say we want to do -- let's say a group of people want to do a project. So a bunch of people in a community get together and they sit around a table. And they say, "Okay, we're going to need, I don't know, let's say $100,000 to develop this -- to try to develop the first stage of this project in the first year. We're going to have to form a CEDIF. We're going to have to do some basic engineering work. The government says it might give us some money. Maybe that'll be 10 cents a -- on the dollar. Somehow the government thinks the county might put in another 10 cents on the dollar. Still going to have to have $80,000 and maybe double that to get somewhere with this project.

So how are we going to do that initially? And we've got have $10,000 or $20,000 to form the CEDIF."

So there's a group of us sitting

around and we say, "Who's going to put that first money on the table? So one of the questions becomes, "If we're the first guys in can we get an upside later on?"

And my opinion is that that scenario is again problematic because when -- if you go and form a CEDIF and you bring in other CEDIF shareholders they're not going to give those first high risk people an upside.

So at every level you analyze this, and I believe the government hasn't done any analyzing, ultimately this can create a mess which ultimately means the projects don't get built or they get built and don't have enough money to continue running, and therefore ultimately more projects might have to get built that shouldn't have to if you have a good policy, and then essentially the ratepayers end up suffering in the end.

So if you had a classic situation, which they've done for biomass or tidal, where they're saying entrepreneurial work can come into this process without a CEDIF -- it's a very difficult mix, because how does it -- if I'm an entrepreneur and I bring a project forward to a CEDIF and the CEDIF raises some of the money and an outside equity comes in with the rest of the money, how do I ever, as that high risk first person, get rewarded. Because my experience is that there isn't enough territory to do that, in general.

So I see that the model the government has put forward I –- when I do analysis on it, from my experience, it doesn't seem to work.

MR. MERRICK: Let me suggest this to you, Mr. Livingston, and tell me if this may make it work.

The COMFIT rate was never intended for you. It was intended for community organizations, which may require a tariff that would be high enough to overcome whatever hurdles they've got.

MR. LIVINGSTON: M'hm.

MR. MERRICK: It was never intended to encourage economic or commercial entities. Would that not explain some of the difficulties in your model?

MR. LIVINGSTON: Well, I suggested in my cross-examination with Synapse earlier this week or Moses Coady, I can't remember which one, but one of -- The Association of Small Sawmillers, I believe.

At one point I suggested this week that you've got an example where you could have

100 percent foreign ownership of some of these projects once government removes the COMFIT regulations. So that also I don't think is a good organization of how this whole thing is going forward. So again, I don't think a proper level of thinking has gone into this.

But I disagree because expertise is very important. And how does the CEDIF bring in the expertise that exists locally to make sure that their projects are successful, and how can that expertise be paid for and rewarded properly?

And I don't think that the COMFIT rate that you're suggesting is also going to be any higher than a rate that the utility would have to offer particularly to anything else. I mean, you're suggesting really that the government's Synapse-calculated COMFIT rate would be higher than what the utility would have to pay if they were left completely on their own doing a small RFP. And I don't think there is any difference particularly.

MR. MERRICK: If the tariff to be set as a result of these hearings is to be high enough to truly overcome whatever hurdles a community organization may have, and to encourage and stimulate community organization ownership, then arguably it may require a higher tariff. But then how does the Board do that without giving such a high tariff that the lambs -- the wolves come in and eat the lambs' food?

MR. LIVINGSTON: Well, in essence you're agreeing with my evidence in the sense that I'm suggesting that government has not properly done basic analysis in the development of this policy to use real examples. And if there was a government witness -- which there isn't this week, which I think is extraordinary, to ask them about the policy. They've -- they're operating in the shadows here. You can't ask them about the policy development unless the Board can subpoena a government person today.

I see that my only example that I can bring forward is government should play an equity role. It has industrial finance funds, and that that would ensure that the whole thing works, because otherwise, in what I call the, you know, the real world of capitalism and the real world of equity finance, it's not a friendly world. If you can't -- it isn't. Nova Scotia is an equity place which all the equity players in Nova Scotia outside -- what I call outside equity in my example, they're only venture capitalists. They understand exponential returns. These kind of projects don't work with exponential returns.

If you go to the markets in Ontario, they kind of wonder why they can't find $1 million in their own province. They kind of think you're maybe kind of weird, so they want a lot of upside.

If you do to New York, which we've been to, they think you're completely weird that you're looking for a few million dollars in equity and you can't find it in your own backyard.

And to use an example, earlier this week, if I was in Calgary, I'd have a dinner party and I'd have my equity at the end of the party, and in Cape Breton I've got a bunch of empty wine bottles. And although that's a funny way of saying it, it's the true reality of what it's like here.

Because we live in, what I can only determine to be -- you know, my father was a businessman who was constantly doing small investments. He was a small businessperson in Hamilton, where I grew up, and I can only say that Nova Scotia is one of the strangest places I've ever encountered for equity. And we have to deal with that reality if we're going to have a successful economy here, and it's why the government gives, year after year after year, hundreds of millions of dollars to help out industries. And, yet, in the policy we have here, the government is refusing to entertain that.

MR. MERRICK: I guess, using your father's analogy of the party, it depends on who's on your guest list.

Those are all the questions I've got.

THE CHAIR: Thank you.

Do any other parties have questions for Black River?

Mr. Giroux?

CROSS-EXAMINATION BY MR. GIROUX

MR. GIROUX: I guess I'm just sort of wondering, what you're describing, to me, in a CEDIF, seems to be -- the returns, I guess, it seems to be remarkably what we guarantee for NSPI, in a general sense. I mean, a return on equity, there's -- I guess, why should CEDIF players expect different than the regulated utility, I guess is my question?

Do you think there should be a difference or ---

MR. LIVINGSTON: I'm sure if you're familiar with my example from my evidence, but I was suggesting that in my example, that there's a very high risk that the CEDIF shareholders will not get any return.

And it also has to do with the cost of running the CEDIF. Even if a certain amount of money flows to the CEDIF, our example -- what we found is, our CEDIF, for instance, gets a dividend per year -- the Cape Breton West Wind Field Inc. gets a dividend per year, at the moment, from it's $75,000 investment in Black River Hydro, of $3,750 a year. It's a 5 percent interest rate.

And from that we can run the CEDIF. That's how much, basically, money it costs so the CEDIF doesn't collapse, per year, and the principal will come back at some point.

Two years ago -- actually, it was last year, sorry, in fiscal 2009, we paid about $1,200 worth of taxes to the provincial government, and we were astounded when we got this from our accountants because, if we're only bring in $3,750 a year, somehow on the books we were making enough of a profit, even though it cost that much money to run the CEDIF, that we owed the provincial a bunch of money.

So I can only theorize, coming out of that limited experience, that even if a dividend comes into a CEDIF from one of these wind projects that are being forecasted, that the government may tax that at about a 20 percent rate. We don’t know how much it costs to run that CEDIF.

And again, Mister -- you know, the example that there could be 4 percent, for instance, which I think came from Mr. Chernick, that that 4 percent may deteriorate further. And you can see that in my example, in my second model example, that even if you could get equity money cheaper, that you still might not get very much money to the shareholders.

And I’ve also found in my experience that people who invest in CEDIFs don’t want a little bit of money. I completely disagree with Mr Chernick’s example, that we’re building playgrounds. This is a situation in which most small investors, which are called "unsophisticated investors" again, are thinking that there’s a significant upside to investing in the cutting edge of something new, just as an outside equity party thinks that they have the right to have a large upside as well.

I mean, I was personally kind of shocked when I got into this business, because I haven’t had a lot to do with finance besides my example of building my hydro project years ago, and being a normal person with a mortgage, that -- I mean, we’re kind of shocked to see that people want 30, 35, 40 -- and we’ve turned down a number of deals where, once we can do the math, we can see that those outside equity investors want closer to 50 percent.

And we call them up, and we say, “Do you understand what you sent us?"

MR. GIROUX: Did they have Italian accents or something?

MR. LIVINGSTON: No, they’re mostly from Toronto.

So they -- we’ve been shocked that -- and they say, "Well, it’s just a high-risk project. You know, it’s small, you know, failures.” And we say, “Oh, the equipment comes with 12-year warranties. You know, it’s very good equipment. We’re looking at Intercon.”

There doesn’t seem to be any idea in the general knowledge base within the province or government about what the real world of equity is, because, essentially, we’re used to thinking NSPI makes 8 percent and that’s how it is.

MR. GIROUX: So it seems to me, if I was looking at CEDIF for, say, shares in NSPI, Emera -- whatever the vehicle is they use -- I mean one’s high-risk, one’s low-risk. Why would I even buy in CEDIF?

MR. LIVINGTON: Your profits from NSPI are basically profits that come from coal-burning, and your profits from the CEDIF would be green, so that might influence you.

MR. GIROUX: An ethical investment? Thanks.

THE CHAIR: Ms. Ashworth?

CROSS-EXAMINATION BY MS. ASHWORTH

MS. ASHWORTH: Good morning, Mr. Livingston.

MR. LIVINGSTON: Good morning.

MS. ASHWORTH: Good morning, Panel. Good morning, Chair -- Mr. Chair.

THE CHAIR: Good morning.

MS. ASHWORTH: Just a couple of questions.

Yesterday Synapse had mentioned that they used the assumption, August -- sorry, the first day we talked about the assumption that Synapse had used that 4 percent of the project costs were required to raise the capital of that project? You have since mentioned that 5 percent is needed to keep the CEDIF running.

I'm wondering if you have any comments on that figure, from your experience, that leads you to believe, in favour or otherwise, from that -- of that 4 percent number.

MR. LIVINGSTON: I'm not sure I understood what you wanted relative to -- can you just phrase the question again? I'm not quite clear on what you meant by ---

MS. ASHWORTH: Sure, yes. In the assumptions from Synapse -- and, I'm sorry, I don't have the spreadsheet reference. I could look it, but they had assumed that there was a 4 percent cost of -- the overall cost of raising the equity for the project, was it 4 percent of the total project cost?

MR. LIVINGSTON: Sure.

MS. ASHWORTH: Do you remember that?

MR. LIVINGSTON: Yes. Yes, I -- okay, so my understanding when I read that was, when you raise equity you often do it through a broker, or there’s a fee related to that equity. The same as, often, if you’re sourcing debt through a broker, or even a bank will have fees if you’re dealing directly with them.

So that’s actually kind of a significant issue and I’m glad you brought it up because our experience for the cost of that incoming equity -- actually, we've signed a number of non-exclusive deals with people to help us find money.

We’ve signed deals where those people will potentially get a fee as high as 8 percent or as low as 1 percent. We, actually, are finding that the people who are charged the lowest fees are actually -- seem to be usually more competent in their business.

The amount of 4 percent that Synapse is using, I suppose could be considered average, but we haven't actually locked the deal in, so I'm not sure what our final overall in that will be. So I could say 4 percent is reasonable, but we might end up paying six, or we might end up paying two, so I think four isn't a bad fee.

What we have found, which is interesting, and I think often people don't understand this is let's say we have to raise -- let's say the project costs -- well, my example is the project costs $5 million, so I think I'll work from that one.

Let's say the project costs $5 million. If you're paying a 5 percent fee on that, a 5 million raise -- well, actually, a CEDIF usually comes in at about 6 percent, those fees, and that's why the CEDIF delivers you less, and -- but in terms of the outside equity and the borrowing, if you're paying, let's say, a 5 percent fee, that's another 5 percent you need in your budget.

But what you forget sometimes, when you think about needing another 5 percent in your budget, is that extra 5 percent in your budget, is that extra 5 percent in your budget also gets the fees attached to it. So we found in some examples that we worked with, that our actual project budget could go up -- well, we're looking at a 15 -- like somewhere between a $14 and $15 million budget, for the 6 megawatts? That we actually didn’t realize at one point -- we were very interested when we started doing this calculation -- that those fees can actually raise that budget as much as $1 million or as little as a half a million.

And if you forget to circle that back into the overall cost, and the fact that those fees also go on that, you can miss a big hunk of capital that you need and you could be in a very dangerous situation.

MS. ASHWORTH: Okay. So you just mentioned also that the CEDIF costs 5 to 6 percent, just in the administration of the CEDIF, and yesterday Mr. Chernick identified that ---

MR. LIVINGSTON: Guys, before you go on to your next part, I just want to clarify that.

MS. ASHWORTH: Oh, sure.

MR. LIVINGSTON: Sorry. Our

experience with CEDIFs, as the President of a CEDIF, the Cape Breton West Wind Field Inc., is what when we raise money, the fees are about 6 percent, but the cost of running the CEDIF is separate from that. You shouldn’t combine the two of them together.

So if you set up a CEDIF, let’s say the legal fees to setting up the CEDIF could be $10,000 to $20,000. The fees for raising $1 million could be 6 percent, but then there's other organizational fees relative to the delivering of that money and administering the CEDIF, which also have to be figured in.

Mr. Chernick talked about volunteerism, and you're not allowed, as a CEDIF Board member, to charge for your time that you put in, but you do have to go and hire other professionals like accountants and people like that to do work. It functions like a normal corporation under the rules of the Securities Commission.

It's not a community playground project, as I said before. It works under very severe rules under the Securities Commission. For instance, we found our normal accountant we use in Mabou is a CGA.

Well, the Securities Commission won't accept a CGA or a CA. They'll only accept a CPA, a Certified Public Accountant.

So there's another range of costs related to CEDIFs that people often don't understand.

MS. ASHWORTH: So I guess going back to the assumption on Mr. Chernick's opening statement on the last page -- and if you have it there, do you want to pull it up?

He had made the assumption that CEDIFs would be seeing a 15 to 18 percent return on their investment when calculating in the 65 percent tax credit. We had that discussion yesterday with him.

I'm wondering from your experience, then, are CEDIFs likely to see the reality -- that full reality of the 65 percent, or is that value over-stated by Mr. Chernick, perhaps?

MR. LIVINGSTON: I guess I'd answer that question in two parts.

I'm very much in favour of having small businesses and communities be part of this growing renewable energy world. In my own example, I don't see that there's the opportunity for the CEDIF shareholders to make a profit that's reasonable, or a profit at all.

So I disagree profoundly with Mr. Chernick's analysis, which I don't think he understands the reality of small projects and the cost of doing them and the capital raise.

Also, there seemed to be some piece of information that suggested that the CEDIF shareholders could get a second and third tax break from government. Our experience with our CEDIF actually was the opposite.

Although we've never given a dividend to the shareholders, because we tend to show for some strange reason -- I don't really understand it; I'm not an accountant -- that we're in the positive and not negative on our books, we don't qualify to give the shareholders that second or third tax break.

Because when we called up government and said, "Can we give this to our shareholders; how do we it?" they said, "Well, we're looking at your statement here. You can't do it."

So often the information that government puts out isn't fully understood operationally and isn't quite as operational as they'll often make it seem.

MS. ASHWORTH: Is that everything for that -- on that topic? You said you had two points.

MR. LIVINGSTON: Oh, that was the second point.

MS. ASHWORTH: That was the second. Okay. Thank you. That's the end of my questions.

THE CHAIR: Thank you.

Mr. Outhouse, any questions?

MR. OUTHOUSE: I just have one question, Mr. Chair.

CROSS-EXAMINATION BY MR. OUTHOUSE

MR. OUTHOUSE: Mr. Livingston, you've talked about the three wind projects for which you have PPAs. Is that correct?

MR. LIVINGSTON: Yes, that's correct.

MR. OUTHOUSE: And I just wanted to confirm for the record, and I’m not going to go into any details, but the three projects, as I understand it, are Creignish Rear, South Cape Mabou, and Irish Mountain?

MR. LIVINGSTON: That's correct.

MR. OUTHOUSE: All right. And are they under CEDIFs, or are they something that you own in another capacity?

MR. LIVINGSTON: They have nothing to do with CEDIFs. They are projects of Black River Wind Limited, of which I'm the President, and there's no relation at all to those projects to a CEDIF at all.

MR. OUTHOUSE: And I probably misheard you earlier. Those are scheduled to be in service at the end of 2011. Is that correct?

MR. LIVINGSTON: I would answer that technically a little differently, is the power purchase agreements are stale as of July 2012.

MR. OUTHOUSE: July 2012.

MR. LIVINGSTON: Yes.

MR. OUTHOUSE: Okay. That's all. Thank you, Mr. Chair.

MR. LIVINGSTON: There was one other small item -- I don't know if I can address it or not -- was that in terms of share ownership in these projects, if the outside equity is demanding a certain level of return, one of the things I think people don't understand is how you would structure that outside equity in, so if the government says that CEDIFs have to own 51 percent of a project, that most people will think okay, it just works so the outside equity gets 49 percent.

But if that 49 percent number that's derived for dividend doesn't equal the kind of return that they want, that's demanded by the outside equity, you have to develop other ways of share classes. And often those other share classes also demand guaranteed returns, so it, again, tends to model itself as a deterioration, potentially, to the CEDIF shareholders.

THE CHAIR: Mr. Deveau?

QUESTIONS FROM MR. DEVEAU

MR. DEVEAU: I have one question, Mr. Livingston. And it's a question I'm not sure if you actually answered Mr. Merrick's question.

He asked you in terms of a CEDIF what return you represented or -- perhaps represented is the wrong word, but indicated could be forthcoming.

And I understand your position that in Securities law you can't promise a return, but you don't get -- you know, Apple and Exxon Mobil don't promise returns, either. They're not allowed under the Securities laws.

But what -- aren't you allowed to put a business plan together and project a return, obviously with the caveat that it's not promised?

So what -- in your business plan to CEDIF investors, what is the return you indicate that is possible?

MR. LIVINGSTON: In the original raise that we did ---

MR. DEVEAU: Prospectus.

MR. LIVINGSTON: Yeah. In the original prospectus for 2002, like I said, that was kind of a blind pool. There was absolutely no promise made in raising the funds.

MR. DEVEAU: No, not promised, but what do you indicate in the plan?

MR. LIVINGSTON: It wasn't related to any project at all, so there was no relationship at all in that original raise.

I do not recall, but I believe I have it still in our files, that we did another prospectus which was directly related to the Black River Wind Project for its former PPA when the PPA paid 6.5 percent, and I can provide that offering document to the Board.

I had a computer stolen not that long ago, so I don't have it on my computer. The Securities Commission would have that on file.

So I do not ---

MR. DEVEAU: So in that prospectus, there's a figure with respect to Wind River.

MR. LIVINGSTON: I don't know if there is or there isn't because the major thing that I know about those prospectuses is they say probably 50 or, you know, 25 or 20 times in them that beware, you know, of all financial projections related to this.

And I haven't looked at that document in about five years, so I simply don't remember what's in it. But I can provide it, if you want.

MR. DEVEAU: That's five years ago?

MR. LIVINGSTON: Yeah.

MR. DEVEAU: Okay.

MR. LIVINGSTON: I can provide it if you want it provided, though.

MR. DEVEAU: That's fine. Thank you.

MR. LIVINGSTON: I think the more recent example would be to look at the Watts prospectus.

THE CHAIR: Thank you very much, Mr. Livingston.

MR. LIVINGSTON: Thank you.

THE CHAIR: The Board appreciates your filing your evidence and appearing this morning.

MR. LIVINGSTON: Thank you.

THE CHAIR: Mr. Giroux?

MR. OUTHOUSE: What you can do, Mr. Giroux -- now, he's ---

THE CHAIR: Oh, I see. You want to do it by technology.

I was going through the exhibit list. Sure, we can do it by technology. So it would be Seaforth?

So just state your name for the record and then I'll swear you in.

MR. BARRY: It's Jonathan Barry with Seaforth Energy.

MR. JONATHAN BARRY, Affirmed:

THE CHAIR: As I say, you have an opportunity for a three- to five-minute opening statement to summarize your evidence and then you'll be available for questions from other people.

OPENING STATEMENT - MR. JONATHAN BARRY

MR. BARRY: I'll keep the opening statement very concise in that we very much support the approach that the Board's used and Synapse has used, and any evidence that we would provide here now would just be based off of making sure the costs that are input are correct.

THE CHAIR: Thank you.

Mr. Merrick?

MR. MERRICK: Thank you, Mr. Chairman.

CROSS-EXAMINATION BY MR. MERRICK

MR. MERRICK: What wind projects do you have in operation presently?

MR. BARRY: I'll do a little preface, if you would, Mr. Merrick ---

MR. MERRICK: Sure.

MR. BARRY: --- on -- Mr. Pynn is on

his way here. He was unavoidably detained.

THE CHAIR: Do you want to wait and stand aside until he gets here?

MR. BARRY: We can, if he's on his way. He's at a -- I can't quite tell exactly which his emergency is, but here's what I can tell you.

I can answer quite a few questions about Watts. Probably a lot of them will be answered in confidence. I can answer anything to do with -- certainly with Seaforth Energy. And if Mr. Pynn's able to ---

THE CHAIR: Well, I don't mind standing you aside and going through the list and then -- in the hope he might be here in an hour. Do you think that would work better?

MR. BARRY: Yeah, I'm fine to do that. Yeah.

THE CHAIR: Okay, let's do that.

MR. BARRY: Okay.

MR. MERRICK: No problem. I'll wait in anticipation.

MR. BARRY: You might not like some of the answers though.

MR. MERRICK: It won't be the first time.

THE CHAIR: So Scotian WindField.

MR. MORIN: It seems to me that your mic particularly is low, Mr. Chair.

THE CHAIR: I'll pull it closer.

Mr. Roscoe, if you'd just state your full name for the record and then I'll swear you in.

MR. ROSCOE: Daniel Roscoe with Scotian WindField, Inc.

MR. DANIEL ROSCOE, AFFIRMED:

THE CHAIR: And we'll mark your opening statement as Exhibit B-29.

--- EXHIBIT NO. B-29:

Opening Statement of Mr. Daniel Roscoe

THE CHAIR: Maybe just wait a second until the clerk gets it around the room.

MR. ROSCOE: B-29?

THE CHAIR: B-29.

Okay, I think we're ready. Thank you.

OPENING STATEMENT - MR. DANIEL ROSCOE

MR. ROSCOE: Thank you very much, Mr. Chair.

I've prepared a brief opening statement to -- essentially to review and to clarify a few things that have come up regarding our evidence since the time that it was submitted prior to this hearing beginning, and also that have arisen through various cross-examinations and various other evidence that have -- that has been presented.

I think it has become clear, through

the testimony of Synapse and subsequent questioning, that there are some inputs into, specifically, the schedule -- or sorry, Exhibit I, that have been underestimated; these include the interconnection costs, the site maintenance, general admin, and land lease sells in the Annual Operations and Maintenance categories.

And that we still believe that there's a significant uncertainty regarding the electrical losses, particularly with the small wind capacity factors that previous survey-based and historical information would not have encountered because of the differences in how these small wind turbines will be -- will connect into the grid.

Specifically on those points, the -- it became evident with the testimony of CanWEA that the numbers that was used in the Synapse model were conservative, even based on the CanWEA survey, and that that survey had been based on projects which would have enjoyed much larger economies of scale than those envisioned in the COMFIT program.

We wanted to suggest from our experience, particularly with small wind, that maintenance operation costs can -- have ranged, in our experience, between $6,000 and $12,000 annually for projects and turbines in the 50 kilowatt range, and suggest that even though the processes may -- and standards involved in the COMFIT program will likely be higher than that metering, that we'd like to point out that the O&M values that we are suggesting are in the low range of our experience even though our standards will be higher.

In particular, perhaps this -- all of -- there has been much discussion about debt and financing, and I'd like to make the comment that one of the reasons that there's so much uncertainty is because there is no market, that debt has not been readily, you know, commercially available. Debt has been available for community projects.

Now, it can -- it is reasonable to assume that that -- those conditions will improve with this program. I don't think there's any question that availability to debt will increase. It's just that uncertainty that causes that concern from a developer's point of view and that that's why we are suggesting a change in the interest rate for both wind classes.

In particular, we'd also like to

address the comments that have been made by the Consumer Advocate regarding returns and the nature of community projects. And I mentioned this in cross-examination and provided a few references here in my opening statement regarding the policy objectives from the Province for this program repeatedly call out economic development as a key plank, a key reason for why they're putting this program. And I would suggest that by expecting volunteer contributions and lower rates of return for community investors that that would work against the stated policy objectives of the government for this program.

So we continue our support of the return on equity put forward by Synapse and not those put forward by the Consumer Advocate.

THE CHAIR: Any parties wish to -- oh, sorry, Mr. Merrick, I'm sure you do, so I'll start with you.

CROSS-EXAMINATION BY MR. MERRICK

MR. MERRICK: I do have one or two.

Mr. Roscoe, can you tell me what wind projects your company, companies, presently have operating?

MR. ROSCOE: Presently, that we are in full control over that we currently have under operation, there would only be one.

MR. MERRICK: Which one's that?

MR. ROSCOE: That is the 100-kilowatt turbine in Porter's Lake, Nova Scotia.

MR. MERRICK: And when did it go into service?

MR. ROSCOE: May of 2008.

MR. MERRICK: And are there others that you have some sort of an interest in?

MR. ROSCOE: Yes. We still have a financial interest in, although not equity-based, in the Digby Wind Farm.

MR. MERRICK: Yes.

MR. ROSCOE: Which is a 30-megawatt project now owned by Nova Scotia Power.

We also have signed power purchase agreements for 6 megawatts worth of generation. Those contracts are with Nova Scotia Power. Much like Mr. Livingston's project they are three 2-megawatt projects in individual locations.

MR. MERRICK: And they are at what stage of development or evolution?

MR. ROSCOE: They are in very early stages despite the power purchase agreements being awarded sometime ago. A combination of similar financial issues that Mr. Livingston mentioned, along with changing municipal bylaws in two of the three areas have made it difficult to actually pinpoint a location.

Specifically, changes to the municipal bylaws in Annapolis County and the County of Richmond have caused us to have to relocate. Although not far, it still creates a challenge from a project development point of view without actually knowing where the turbine's going to go.

THE CHAIR: I should note that the Annapolis one has been appealed to the Board. Is that the one you're involved in?

MR. ROSCOE: The -- no. This -- not -- this is just a single turbine.

THE CHAIR: Yeah.

MR. ROSCOE: And I believe there's -- I'm not sure, are you referring to the land use bylaw in

Annapolis or the ---

THE CHAIR: Land use bylaws; that's not yours?

MR. ROSCOE: Well, we -- we are not involved in appeal of the Board of the Annapolis bylaw; however, have spoken out against the -- essentially what amounts to a moratorium on wind energy in the county.

THE CHAIR: So Scotian WindFields is not a party to that appeal?

MR. ROSCOE: No, we're not.

THE CHAIR: Okay. That's fine then.

MR. MERRICK: I suppose that may be where Nova Scotia or community support may be of some dollar value.

But let me ask you the question, the Porter's Lake project or generator that you've got ---

MR. ROSCOE: That's right.

MR. MERRICK: --- how have you got that financed?

MR. ROSCOE: That has been financed with the majority of equity input as well as a shareholder loan.

MR. MERRICK: Can you give me the ratio?

MR. ROSCOE: It's roughly 60 percent equity, 40 percent loan.

MR. MERRICK: And that's a shareholder loan?

MR. ROSCOE: That's right. It's a personal loan from an individual shareholder at Scotian WindField, Inc.

MR. MERRICK: And is it with recourse on any other security?

MR. ROSCOE: I believe there's recourse on the equipment.

MR. MERRICK: All right. And what's the cost of that ---

MR. ROSCOE: Eight (8) percent.

MR. MERRICK: --- financing? Eight (8) percent?

MR. ROSCOE: That's right.

MR. MERRICK: And what rate of return was anticipated at the time the PPA was signed?

MR. ROSCOE: I believe that the

anticipated rate of return was in the rate of 4 or 5 percent.

MR. MERRICK: M'hm.

MR. ROSCOE: And that's an IRR ---

MR. MERRICK: And how long has that generator been operating?

MR. ROSCOE: It'll be two years in May, in the coming month.

MR. MERRICK: And can you tell me what rate of return is being experienced?

MR. ROSCOE: Closer to 2 percent.

MR. MERRICK: And it's the intention of the company, I assume, to keep that operation going?

MR. ROSCOE: That's right.

MR. MERRICK: So whatever the financial circumstances are, the operator is comfortable with it? He's certainly not prepared to walk away from it?

MR. ROSCOE: No. It is essentially covering its costs, so we will continue it in operation, yes.

MR. MERRICK: And you're proceeding

with the other two PPAs that are in development?

MR. ROSCOE: We are attempting to, yes.

MR. MERRICK: And have you got financial lined up for them?

MR. ROSCOE: No, we don't.

MR. MERRICK: Have you been talking to financial institutions?

MR. ROSCOE: Many, yes.

MR. MERRICK: What kinds of institutions have you been talking to?

MR. ROSCOE: We have talked to many sort of standard banks, commercial institutions, charter banks, secondary financial institutions, those like Manulife and the such, but most of our efforts are coming -- are now on to private equity, international venture capitalists, that tier of investment, and ---

MR. MERRICK: When you were talking -- sorry.

MR. ROSCOE: That type of financing and investment.

MR. MERRICK: When you were talking to the traditional lenders, what rates were being discussed as to possible ---

MR. ROSCOE: In general, with the very traditional, you know, commercial banks, charter banks, if you will, the discussion did not go far enough to discuss rates. There simply -- their interest and knowledge level isn't there.

With less traditional debt providers, interest rates are in the 8 to 9 percent range.

MR. MERRICK: Eight (8) to 9 percent?

MR. ROSCOE: That's right.

MR. MERRICK: And what ratio of debt financing was being proposed or discussed?

MR. ROSCOE: I believe the highest ratio that has been discussed is 65 percent debt.

MR. MERRICK: And have you gone any further in developing how the equity financing, or the equity component of your financing, would be composed?

MR. ROSCOE: There have been a few -- there have been many -- many different arrangements on how the equity side could work.

The projects have yet to be financed,

so, generally it involves some form of scenario of a group providing close to 100 percent of the equity financing required for the project, in exchange for -- 100 percent of the funds for, you know, 80 or 90 percent of the actual equity.

MR. MERRICK: And would that be 100 percent of the equity funds, or 100 percent of the total ---

MR. ROSCOE: One hundred (100) percent of the equity.

MR. MERRICK: All right. And has there been any discussion as to rate of return that would be required?

MR. ROSCOE: There's been discussion, yes.

MR. MERRICK: Can you tell me what those discussions are?

MR. ROSCOE: It varies significantly, depending on -- there are a significant number of variables in our financial pro forma that would go into calculating that. I would say that they range from unleveraged to -- rates of return in the 5 percent range, to leverage rates in the 20 to 25 percent range.

As you can imagine, various debt/equity ratios, various different scenarios, fees, associated with -- there's a wide number. We've talked to well over two dozen different financial institutions, so they're -- in groups and organizations, so ---

MR. MERRICK: And whatever the financial climate is that you've been experiencing, part of what you've told us today, you're comfortable, your company is comfortable, proceeding with the project?

MR. ROSCOE: Yes, we are still proceeding with the project, and confident that it will be completed.

MR. MERRICK: Is it the intention of your company to access a COMFIT tariff?

MR. ROSCOE: Indirectly, yes. We are not an eligible organization within the current structure of the COMFIT; however -- Scotian WindFields Inc. is not a CEDIF.

MR. MERRICK: And that was going to be my question; how are you going to organize yourself to ---

MR. ROSCOE: We have affiliations and agreements with many CEDIFs, as well as other -- and are working to -- for arrangements to work as developers on behalf of community organizations, so that their role would be in raising funds and promoting the project in the community, and our role would be the construction, development, handle the application process, deal with all of the list of requirements that are noted in the regulations on behalf of that community entity, and likely take a minority ownership role once the project's complete.

MR. MERRICK: And when you said that, taking a role with a community organization, what kind of an organization are you talking about?

MR. ROSCOE: Our main focus has been working with a number of CEDIFs where we already have an affiliation. Scotian WindFields Inc. was actually formed in part by collaboration of a number of CEDIFs focused on wind energy projects.

So in our share structure, we list a number of active CEDIFs as shareholders in Scotian WindFields Inc. So it is out focus -- many of them also have a seat on our board, so it is -- has been our focus to work with them as our primary -- as our primary focus with respect to that, for community feed-in tariff projects.

MR. MERRICK: And you say they have raised funds. Do you know how -- where and how they raise their funds?

MR. ROSCOE: Yes, and all that information is publicly available.

They have raised -- I believe the number in total amongst the different groups that we have affiliations with, is two and a half to $3 million, that they’ve raised over their span. Most of that has been invested, some of which in Scotian WindFields Inc. and some of which in other projects and companies in the renewable energy field.

Most of them will -- two of the groups raised money in this RRSP season, had successful offerings, the Chebucto Wind Field and the Bay Wind Field, and many of them will look to raise money once the rates are set and the application process is open.

MR. MERRICK: And do I take it that the majority source of funding for the CEDIFs would be going to local investors and getting money from them?

MR. ROSCOE: That's correct, yes.

MR. MERRICK: So it would be community -- raised from community individuals?

MR. ROSCOE: That's right.

MR. MERRICK: Can you tell me what the rates of return have been, both the proposed or actual?

MR. ROSCOE: No rates of return have been realized, no funds have been returned to any wind field CEDIF investor that I'm aware of, and no rates of return can be proposed at all until the rates are set for COMFIT projects.

Investments prior to the community feed-in tariff have been company-based, so it's very challenging to forecast rates of return in an operating entity, rather than in a project-specific investment.

Once rates are set, projects are identified, and developed to a significant point where cash flow and rates of return can be identified, then that's what we will do. But until that time, it would not be prudent to speculate, especially with respect to investment, what those rates of returns will be.

MR. MERRICK: Do you know for -- how long have some of this -- has some of this equity money been in existence? Over what period of time has it been in existence?

MR. ROSCOE: I believe the first CEDIF raised -- offerings, were in 2002, I believe. I'd have to check on that, but the CEDIFs that we are working with, they're all independent organizations but they -- I believe the first ones started raising money in 2002.

MR. MERRICK: And your evidence is that there's been no return on any of that equity funding?

MR. ROSCOE: To my knowledge, no. As I said, I'm not on the Board, and I am -- I was on the Board of one of them, and I am an investor in one of them, personally, and I can -- I know that that particular wind field has not had any returns and I don't believe any others have either.

MR. MERRICK: But I take it that these CEDIFs continue to raise funds?

MR. ROSCOE: That's right.

MR. MERRICK: Do you know if there's been any calculation, any representation, any expectations given, as to what the rate of returns may be for any of these CEDIFs?

MR. ROSCOE: I don’t believe that there have been. Much of the investment -- I think a lot of investors recognize that it’s a risky investment, but with any type of return investment that’s put forward in an offering document, would have to be substantiated before Securities would issue a non-object letter. And without real data to point to in a project and real results, you wouldn’t be able to forecast that, so ---

MR. MERRICK: Do you know if any or all of the CEDIFs come under the Securities regime, the Securities' regulations?

MR. ROSCOE: Oh, yes, all CEDIFs have to have -- receive a letter of non-object from Nova Scotia Securities in order to raise funds.

MR. MERRICK: And is it the intention of any of your companies to -- I may have asked you this, to access the COMFIT rate?

MR. ROSCOE: Yes.

MR. MERRICK: Yes. That’s right ---

MR. ROSCOE: Yes.

MR. MERRICK: --- and you told me how you were going to do that.

Those are all the questions, thank you.

THE CHAIR: Thank you.

Are there any parties who wish to ask questions of Scotian WindFields?

Mr. Livingston?

MR. MERRICK: Mr. Chair, there was one other question that I just realized I had.

THE CHAIR: Sure, go ahead.

MR. MERRICK: And that requires reference to your written submission.

MR. ROSCOE: Okay.

MR. MERRICK: And just give me a second because I may have ---

MR. ROSCOE: The opening statement or my written testimony?

MR. MERRICK: No, your written -- your filed testimony.

MR. GURNHAM: It's Exhibit B-10.

MR. MERRICK: Do you have it in front of you?

MR. ROSCOE: I will in a second, yeah. Yes, I do.

MR. MERRICK: If you'd turn to -- I don't see any numbering on the pages but if you turn to one, two -- fifth page over, second-last. Down at the bottom of the page you'll see the title, "Interest Rate."

MR. ROSCOE: That's right, yes.

MR. MERRICK: "There's very little evidence of debt financing of community-sized renewable energy products. While Synapse was able to get input from financial institutions what rates may be reasonable..."

Et cetera.

MR. ROSCOE: Yeah.

MR. MERRICK: In making that comment, were you referring to any additional evidence other than what you've already told me in response to my questions?

MR. ROSCOE: No, I haven't.

MR. MERRICK: That's an awkward

question.

That's all I've got, Mr. Chair.

THE CHAIR: Thank you.

Mr. Livingston?

CROSS-EXAMINATION BY MS. CAMERON

MS. CAMERON: Hi. I have two quick questions.

I just wondered, in your evidence you said that there's been about $2.5 million raised through the CEDIFs that you're familiar with?

MR. ROSCOE: I believe that's accurate, yeah.

MS. CAMERON: Yeah. I just wondered how many groups are CEDIF -- are making up ---

MR. ROSCOE: Making up that group?

MS. CAMERON: Yeah.

MR. ROSCOE: I believe 9 or 10; 9 or 10 different CEDIFs that have added up to make that money. I -- there would be The Bay Windfield SouWester, Glooscap, Chebucto, Colchester-Cumberland, Northumberland, and I believe Cape Breton West and Evangeline would also be included in that number.

MS. CAMERON: So is that about $200,000 per CEDIF?

MR. ROSCOE: It works out between, yeah, 2.5 to -- sorry, 250 to 300,000 per. It actually is not broken out very evenly.

MS. CAMERON: No, I understand that. Yes.

So it's a relatively small amount of money compared to ---

MR. ROSCOE: For 10 years of starting companies, yes, very small. And very little, you know -- it's -- with no returns and very little project-based investment within that.

MS. CAMERON: I know you're not directly involved in a CEDIF, but do you believe that there's -- when investors purchase shares in CEDIFs, do you think they have an understanding of what there is about an exit strategy?

MR. ROSCOE: An exit strategy is something that I think has been a hindrance for the CEDIF movement, that's how -- they're not traded, they're not publicly traded, so selling the shares in a CEDIF can be challenging.

So while it is envisioned to be a long-term investment, at least five years, ultimately, with the different tax incentives going out up until 15 years, it's certainly a long investment tool, a long-term investment tool.

Having the ability to invest in revenue-generating assets such as a COMFIT project I believe will go a long way into relieving that exit strategy concern. While shares can't be easily traded or sold, they can be bought back by the CEDIF with revenue generated from projects.

Investing in development companies such as Scotian WindField does not necessarily yield a lot of free cash flow that could be returned to the CEDIFs. However, investing in a properly capitalized COMFIT project would net cash flows back to the CEDIFs in which they could (a) provide dividends or (b) provide the option to buy back shares in the treasury from CEDIF investors.

MS. CAMERON: So to date, would your opinion be that most shareholders who've invested in CEDIFs have had to hold their shares?

MR. ROSCOE: That's correct, yes.

MS. CAMERON: Okay, thank you.

MR. ROSCOE: The vast majority.

CROSS-EXAMINATION BY MR. LIVINGSTON

MR. LIVINGSTON: I just had one question, which is since I was testifying I have looked at both the Cape Breton West 2006 offering and also the Watts Energy offering. And in both those offerings, there's no financial projections about revenue, and I believe it's not allowed under the Securities Commission that you can make any promises of returns in those offering documents.

And I just wondered, in your experience, if you would confirm that or disagree.

MR. ROSCOE: I have not seen a CEDIF offering document that referred to returns or revenue generation.

I can't speak to whether or not it's actually allowed or not, but I know that with any that I have seen that no revenue projections have been given. And while I don't know if it's allowed or not, I suspect that the standard is pretty high if you're going to say something. You'd have a significant amount of back-up required to prove it, and I don't think any of those opportunities have presented themselves to meet that burden of proof for Securities.

MR. LIVINGSTON: Okay. Thank you.

THE CHAIR: Any other party who wishes to cross-examine?

Okay, Mr. Outhouse.

Oh, sorry. I didn't see you. Come on up, Mr. Christmas.

CROSS-EXAMINATION BY MR. CHRISTMAS

MR. CHRISTMAS: Good morning, Board. Good morning, sir.

I have a couple of questions, and just to put it into a bit of context, the Mi'kmaq of Nova Scotia are about to commence our own sort of Mi'kmaq fund. The structure of that fund may resemble in some respects what the CEDIFs are doing.

And as I was listening to your testimony, I was quite concerned that you were testifying that there was no returns in the CEDIF or there were no returns that you could think of or that you saw in any of those -- of the CEDIFs. Is that correct?

MR. ROSCOE: That is right. My statement was that I don't believe any funds have been returned to any -- if I could -- windfield-based CEDIFs. Although they have made investments which may have increased in value, no funds have been returned to any individual shareholders.

MR. CHRISTMAS: Okay. What would be the sort of -- what's the fundamental reason for that? Is it just price, that they're not getting the right price for their wind?

MR. ROSCOE: Well, most of the -- I think the reason is sort of twofold. One, in starting out, a lot of investments will take time to recognize their value. I guess for lack of a better example, many of them invested in the formation of Scotian WindField Inc.

Scotian WindField Inc. has grown, has developed projects, has expanded its revenue, yet has not been in a position to be able to offer any kind of returns in a cash or dividend or any returns back to our investors at this time.

The value of Scotian WindField and

therefore, the value of their investment, has increased. However, that has not yet to trickle its way down.

MR. CHRISTMAS Okay.

MR. ROSCOE: And secondly, I would suggest that one of the main reasons that their investments have only been in sort of operating companies rather than project-specific investments, if I can make that delineation, is that the -- our current market for project investment has been very large projects.

For example, we were the original developers of the Digby Wind Farm, which had a ballpark budget of approximately $80 million. Between all the CEDIF groups, they've raised two, or two and a half or three million, which is a very small amount when it comes to a big project like that.

So the opportunity to participate hasn't been -- the opportunity hasn't presented itself. That's why we're interested in the COMFIT project because it actually allows for reasonable size equity investments in revenue-generating assets.

MR. CHRISTMAS: Okay. And that's a good segue to my next question, was that obviously the

Mi'kmaq are interested in the COMFIT process, and specifically large and the small wind in that.

Do you see the rates as they are being currently set that would give a return to the CEDIFs as they are currently structured?

MR. ROSCOE: I think it's feasible to -- I think if the rates that were adopted -- there were rates, say, originally proposed by Synapse were adopted that the CEDIFs would be able to install projects that would generate a rate of return for their ---

MR. CHRISTMAS: Could you give me some kind of range as to those returns? Just kind of your general (inaudible) knowledge.

MR. ROSCOE: Unfortunately, I wouldn't be able to because without -- there's sort of an order that's going to happen. The rates will be set, then financial arrangements can be made, then return on investment.

The -- you know, I think that the rates of return that are proposed in the 13 percent range are feasible. Likely -- I think those can be achieved ---

MR. CHRISTMAS: Okay.

MR. ROSCOE: --- I'll say.

MR. CHRISTMAS: Is there any movements within the CEDIF community to maybe change the structure of the CEDIFs -- I'm not suggesting that this is what you do, but it sure would begin to mimic more of a venture capital pool of resources, or if that's something that you would consider doing?

MR. ROSCOE: It's certainly possible that they can invest in projects and look to exit shortly, by, you know, bringing in a lease perhaps or some form of other financing, or a combination of debt and lease or something like that. That's possible.

I wouldn't -- I would actually suggest that one financial option may be 100 percent equity investment in the short term with bringing in debt after established cash flow, so that can be arranged based on cash flows.

We certainly haven't seen any partners willing to provide debt at the beginning of the project for projects of this size. However, there has been an interest indicated once the project cash flows -- you know, once you're doing it for three years type of thing, sure we'll invest.

MR. CHRISTMAS: Yeah, okay.

Do any of CEDIF directors, or I guess employees -- again, I'm not familiar with how they're set up, but do they sit on any of the boards of the investments that they then put resources into? Is that ---

MR. ROSCOE: They have -- the CEDIFs have very few resources, from a staff point of view. Most of them rely on sort of a management contract for the day-to-day operations; paying the bills, you know, actually do shareholder's minutes, recordkeeping, bookkeeping, that type of stuff. But very few of them are -- have any boot -- you know, boots on the ground from a project development point of view and they would look to us -- at least the ones we work with would look to us.

We have an agreement that we've put forward to our -- the local CEDIFs, of which some of them have signed, which essentially delineates the different roles, and essentially their roles are public promotion and raising money.

MR. CHRISTMAS: Okay. Have the CEDIFs

MR. DOEHLER: Excuse me. These questions are getting into the operation of CEDIF, which is not part of the tariff here.

MR. CHRISTMAS: Okay. That's fair. Thank you very much.

MR. ROSCOE: Okay.

THE CHAIR: Okay, I think we'll go back to Seaforth. Are you ready now?

MR. BARRY: Yes.

THE CHAIR: Sorry, did you have questions?

MR. OUTHOUSE: The only question I had, Mr. Chair, I just wondered whether that was the last question for this witness. Is it?

MR. MORIN: I did have some questions.

THE CHAIR: Okay. Sorry, I jumped the gun. Come on up.

MR. OUTHOUSE: I like the way you think, though.

THE CHAIR: I don't want to be here in July.

CROSS-EXAMINATION BY MR. MORIN

MR. MORIN: Good morning, Mr. Roscoe.

MR. ROSCOE: Good morning, Mr. Morin.

MR. MORIN: May I ask how Scotian WindFields and these various community funds make money? What is their revenue source?

MR. ROSCOE: Right now I'm not ---

MR. DOEHLER: Are we getting away from the tariff again? I'm -- is this going to the tariff we're talking about?

MR. MORIN: Yes, it is. It seems to be that we're disputing a lot about whether CEDIFs are viable or their return on investment. My point and question is relevant to that, is that all of these companies make dividends by producing power and selling it. The projects have just begun; therefore, they have not returned an investment.

MR. ROSCOE: As I said, I don't believe any CEDIF has established any revenue source to speak of, and Scotian WindField Inc.'s , the majority of our revenue -- well, I won't say the majority, I guess, our revenue's split about 50/50 between revenue from project assets that have been developed, and -- although not necessarily directly from the sale of power -- as well as that we have a turnkey side of our business as well that does installation of renewable energy equipment on a turnkey basis, solar panels and smaller wind turbines.

MR. MORIN: But you are making revenue from the investments you've made in your wind energy related businesses?

MR. ROSCOE: Scotian WindField, Inc. is, yes.

MR. MORIN: As a project developer, what is the estimated time of a project development, if I was to invest, before I would make a return on an investment?

MR. ROSCOE: As a developer, as short as 12 months, as long as five years.

MR. MORIN: So if we got involved in a COMFIT project I could expect as an investor that it perhaps would not bear revenue for at least five years?

MR. ROSCOE: That could be the case, yes.

MR. MORIN: No further questions.

Thanks.

THE CHAIR: Thank you. Any other questions before Mr. Outhouse?

Mr. Outhouse?

MR. OUTHOUSE: Thank you, Mr. Chair.

Mr. Chair, I just wanted to confirm with Mr. Roscoe his projects.

CROSS-EXAMINATION BY MR. OUTHOUSE

MR. OUTHOUSE: You have three under the PPA that was, I guess, rose out of the 2008 RFP for small wind?

MR. ROSCOE: That's correct.

MR. OUTHOUSE: And those projects are Granville Ferry, Isle Madame, and Dunvegan?

MR. ROSCOE: That's correct.

MR. OUTHOUSE: Okay. Thank you, Mr. Roscoe.

QUESTIONS FROM MR. DEVEAU

MR. DEVEAU: Just one question, Mr. Roscoe, just getting back to the CEDIF just quickly.

Just as a basic premise; what happens is a fund is created, not necessarily for a project, is that what happens? Then once the money is in the fund then the various investors look at what community development initiatives ---

MR. ROSCOE: M'hm.

MR. DEVEAU: --- may -- they can embark upon; they may be renewable, they may be something else, as long as they're community economic development?

MR. ROSCOE: That's right. There is essentially three different ways a CEDIF can form. One is a blind pool in which the money is raised, essentially almost like a mutual fund and then invested in various opportunities. Most of them have a mandate to invest in renewable energies in Nova Scotia.

MR. DEVEAU: Okay.

MR. ROSCOE: It could be operating companies; it could be technology manufacturers; it could be project specific.

A second option is what's called an active company; we're actually, you know, looking to raise funds, put -- you know, hire people, put boots on the ground and build the projects yourself.

And the third is what's called a

targeted investment where there's a specific opportunity to put a turbine on that hill over there. We're going to raise money for that and that's it. And that's -- and there's no -- and it's not -- doesn't have an ongoing premise to it.

MR. DEVEAU: So even on a targeted project it's too early in the process to actually put a business plan together in terms of enticing investors?

MR. ROSCOE: I would say that a target investment would likely have some kind of pro forma or something put together. I don't have a whole lot of experience with that. Most of the groups we work with are blind pools.

MR. DEVEAU: Okay, so they're not –--

MR. ROSCOE: Yeah.

MR. DEVEAU: You have no experience in terms of the ones you're involved with?

MR. ROSCOE: No, most of the CEDIFs we work with are blind pools.

MR. DEVEAU: Okay.

MR. ROSCOE: That they will raise money on a large -- on a -- sort of a broad basis and then invest it with different opportunities as they are approached with it.

MR. DEVEAU: Okay. And your answer in relation to once you get a COMFIT rate ---

MR. ROSCOE: Yeah.

MR. DEVEAU: --- then you look at these projects.

Do you anticipate once a COMFIT rate is set that that'll ease financing pressures in terms of going back to financial institutions and so you can -- you know what the rate is, then we can easily more break down debt/equity and the rates that are involved?

MR. ROSCOE: I certainly agree that it will -- it will certainly help. It will certainly aid in this process, which has been a significant holdback. I am concerned about under what conditions. I'm concerned about the time it's going to take, but it will help.

MR. DEVEAU: Okay. And would that sort of help provide assistance to, or ease the pressure with respect to lending rates and returns on equity?

MR. ROSCOE: I think over time it will, yes. I think that it will help. I think that it --

I think that the COMFIT program will be essentially a catalyst for community-based renewable energy development. Obviously as we've expressed we -- you know, there's some minor details, line items that we're looking to, you know, adjust, but ultimately we think the program will be successful in meeting its mandate.

MR. DEVEAU: Thank you.

QUESTIONS FROM THE CHAIR

THE CHAIR: I just had one sort of technical question and it relates to your discussion under electrical losses and availability. I don't think you need to turn it up in your text. And then your third bullet in your opening statement that talks about the significant difference in electrical losses associated with a COMFIT compared to previous experience through net metering.

MR. ROSCOE: That's right.

THE CHAIR: Could you just explain to me why the losses are occurring and why it's different from somebody who's in a net metering situation?

MR. ROSCOE: Net metering installations are installed and the interconnection will take place, what's referred to as behind the meter.

THE CHAIR: Yeah.

MR. ROSCOE: Which is at the -- which is likely at a very similar if not exact voltage that the turbine is producing. So any production records from that turbine will not have any losses associated with the transformation of power from, say, 600 volts, which is the standard production voltage in Canada by the time it's consumed and recorded on the net meter.

For net metering projects, they will not be installed -- and that's referred to a serial connection, they will be installed in a parallel connection so a separate connection with the grid. The grid voltages are at -- are going to be likely at least 12,000 volts or higher compared to the 600 volts that the turbine is operating at. And by all accounts, although there's no certainty in that yet, at least that we've been able to receive from the system operator, the meter for these net meter turbines will go on the high voltage side.

So if we're comparing historical data of net metered projects, they won't include that loss from that transformation in -- from 600 volts to grid voltage at the distribution level.

The challenge is that those transformers will have to be sized to handle the peak output from the turbine which is, you know, give or take, 50 kilowatts. Therefore -- but in reality, the turbines will be operating at less than 50 kilowatts the majority of the time, which will actually increase the inefficiencies of those transformation processes.

And so in general, losses associated with this type of transformation -- and I've received this information; I'm not an electrical engineer -- are in the 5 to 10 percent range.

THE CHAIR: That was my next question. How did you arrive at the 6 percent number?

MR. ROSCOE: It is at the lower end of the range that we've been told that these -- that transformation process can be taken. The specific information came from an engineer with a turbine manufacturer that manufactures the 50-kilowatt turbine.

THE CHAIR: Thank you.

Any questions arising out of Board questions?

Then thanks very much, Mr. Roscoe. We very much appreciate your evidence and your appearing here this morning.

MR. ROSCOE: Thank you very much.

THE CHAIR: I think we're back now to Seaforth.

(SHORT PAUSE)

THE CHAIR: Mr. Barry was sworn in, but Mr. Pynn, you weren't, so if you'd just state your name for the record and I'll swear you in.

MR. PYNN: Paul Pynn.

MR. PAUL PYNN, Affirmed:

MR. JONATHAN BARRY, Resumed:

THE CHAIR: And we had the opening statement, so we're back to you, Mr. Merrick.

MR. MERRICK: Thank you, Mr. Chairman.

CROSS-EXAMINATION BY MR. MERRICK

MR. MERRICK: Gentlemen, I'll direct this to either of you.

How many projects do you have in place?

MR. PYNN: Do you mean own or participated in the construction of?

MR. MERRICK: Well, let's start with the larger number, owned or participated.

MR. PYNN: Owned or participated, okay.

MR. MERRICK: Maybe the owned. Let's start with that one.

MR. PYNN: Pardon?

MR. MERRICK: How many do you own? Let's start with that one.

MR. PYNN: Okay. The only one that we have ownership in is the Watts project.

MR. MERRICK: And where is that located?

MR. PYNN: Near Sheet Harbour in Watts Section.

MR. MERRICK: All right. And what size?

MR. PYNN: One point five (1.5) megawatts.

MR. MERRICK: All right.

MR. PYNN: Projects that we have been involved in the development and/or construction on, let's see. So there was the West Cape project in PEI, which was Phase 1 and 2 were approximately 50 megawatts.

The Fermeuse Wind Project in Newfoundland a couple of years ago that was 30 megawatts. Developments -- these are construction projects that we were involved in the construction.

Higgins Mountain was three turbines. That's 3.6 megawatts. Springhill, Digby Neck, those were single turbines. What am I forgetting?

Thunder Bay we were involved in the

development side of that. That was 100 megawatts. Digby Neck we were owners/engineers for Nova Scotia Power on that one. That's 30 megawatts.

Maryvale in Antigonish, that was four turbines, 1.5, so that was 6 megawatts.

And there's a number of other development projects that are in the development phase I can't talk about.

MR. MERRICK: Let me sift those down and see if I can get a shorter list to work with.

MR. PYNN: Okay.

MR. MERRICK: Other than the one that you presently have in operation, how many others in Nova Scotia where you started out at least as the developer of?

MR. PYNN: As the developer? Well, our core business is as owners/engineers for the owners or developers, so we've worked with the developers. But the only ones that we've actually participated in the development as an equity shareholder would be Watts.

MR. MERRICK: All right. And on the Watts project, when did it go into operation?

MR. PYNN: Last week.

MR. MERRICK: Okay. And when that -- how did you finance that one?

MR. PYNN: Okay. So -- I have to think about whether I can say this.

MR. MERRICK: You may have missed the opening.

MR. BARRY: Yeah, and I've told him that some may be answered in confidence. Some of the details probably around the financing he'll answer in confidence.

MR. PYNN: Yeah. I guess what I can say is that there's a CEDIF component to the financing of that. Is that what you're getting to?

MR. MERRICK: Well, let me give you very specific questions and you can decide whether you want to answer.

MR. PYNN: Okay, sure.

MR. MERRICK: What I'm looking for first is whether you did it through debt and equity and, if so, in what ratios?

MR. PYNN: I think I'd better answer those in confidence, if that's okay.

MR. BARRY: I'll answer what can be answered, so there's -- it's a public record. So 1.8 million has been raised through a CEDIF.

MR. MERRICK: Yes.

MR. BARRY: And then the balance of the financing, I'd recommend that we answer them in confidence.

MR. MERRICK: All right. Do you intend to take advantage of the COMFIT rate, whatever it may be?

MR. PYNN: It depends on what the rate is.

MR. MERRICK: All right. Have you made any calculations or any business plan for doing so?

MR. PYNN: Yes.

MR. MERRICK: And for that, I assume you've had to assume, maybe, a rate.

MR. PYNN: Yes.

MR. MERRICK: And in assuming that rate, what has been your cost of debt?

Let me back up. That's not a good question.

In assuming what rate may be set and doing whatever business plan or projection you may have ---

MR. PYNN: Yeah.

MR. MERRICK: --- what rate of return have you built into that? Or to put it better, what rate of return would that assumed rate give you?

MR. PYNN: Different rates of returns for different investors. What we found, I guess -- and I'm trying to answer your question here. What we found in the experience with Watts is that personal investors which are under a CEDIF in Nova Scotia -- and they're limited to personal investors because a CEDIF can only be an individual and not a company, and it's capped at $50,000.

Those type of investors, in our experience, were interested in rates of returns, you know, in the neighbourhood of 11, 12, 13 percent.

Outside investors outside of a CEDIF, not necessarily outside of Nova Scotia, but outside of a CEDIF that couldn't take advantage of the tax advantages of a CEDIF, in our experience were more interested in higher rates of return, in the neighbourhood of 20 percent.

MR. MERRICK: All right. But talking about your proposal to possibly take advantage of a COMFIT rate, what rate did you model that on? What did you presume would be the rate that was set that would be applicable for your project?

MR. PYNN: So you're asking what I think would be a good rate to encourage projects?

MR. MERRICK: Well, if you took a look at whether you might be -- might take advantage of a COMFIT rate ---

MR. PYNN: Yeah.

MR. MERRICK: --- what rate were you modeling, or rates?

MR. PYNN: I don't have a number.

MR. BARRY: Do you mean -- just a clarifying question, perhaps -- the rate of return to individual investors, to potential outside equity, or to the debt holders?

MR. MERRICK: I was going to get to that. What I wanted to first establish is what tariff or rate were you using as your base, and then I wanted to determine what that allowed you, what cost of debt were you taking into a calculation as to whether that would be attractive or not and what return on equity that would give you.

So that's the global question.

MR. BARRY: Yeah. I would recommend if we could answer that in confidence later with everything, then we'll give you the details.

MR. MERRICK: I think I've asked all my non-confidential questions.

THE CHAIR: I think we'll see if there are any other questioners and then we'll go into a confidential session.

Any other questions for these witnesses?

Mr. Outhouse?

Okay. I think what we'll do is we'll finish this cross-examination and then we'll have a 15-minute break so you guys will have a little longer break.

So I'm going to ask the Clerk to clear the room and post a notice outside, and then once we're through these few questions -- I don't think it will take very long, Mr. Merrick -- we'll take our normal 15-minute break.

So I would think we wouldn't be back here until 11:20.

MR. OUTHOUSE: Perhaps just for Mr. Lisi's benefit, who's listening in, obviously we're not going to get to him for a while yet and so we're going to be shutting off the audio cast when we return on the confidential session.

THE CHAIR: No, we're going to do that right now, the confidential session.

MR. OUTHOUSE: Okay. We're going to do that now, so that's going to be shut off.

THE CHAIR: I'm assuming that and coffee break will get us to 11:20, so he should turn it back on at 11:20.

MR. OUTHOUSE: Okay.

So Anne, do you want to show everybody out?

--- Upon recessing at 10:51 a.m.

CERTIFICATE OF COURT TRANSCRIBER

I, Patricia Cantle, Court Transcriber, hereby certify that I have transcribed the foregoing and it is a true and accurate transcript of the evidence given in this matter.

Patricia Cantle
Registration No. 2006-57

Halifax, Nova Scotia

Saturday, April 9, 2011