STATE OF CONNECTICUT

ENERGY AND TECHNOLOGY COMMITTEE

TESTIMONY OF JOHN SCHOPFER

MANAGING DIRECTOR

MESIROW FINANCIAL, INC.

ON BEHALF OF

CLEARVIEW RENEWABLE ENERGY, LLC

and

CLEARVIEW EAST CANAAN ENERGY, LLC

March 10, 2009

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INTRODUCTION

This is the testimony of John Schopfer, Managing Director of Mesirow Financial, Inc. I have over 30 years of experience in financing facilities which produce energy from alternative fuels, usually waste-based fuels such as municipal solid waste or biomass. I have spent three years practicing municipal finance law, and 27 years in public finance and/or project finance with the firms Kidder, Peabody, Salomon Brothers and Bear Stearns. From 1989 to 2008, I was employed by Bear Stearns to work in Public Finance and in Project Finance to bring energy facility project financings to the capital markets. Recently, I joined Mesirow Financial in its New York office, where, among other things, my responsibilities include the project financing of waste-to-energy and biomass-to-energy facilities. I am familiar with Connecticut's recent procurement of bio-mass-to-energy electric capacity through the Project 150 Program, and have been working with Clearview Power, LLC to determine how best to finance the projects which it has won in the State's procurement process.

Over the past 18 months, the capital markets in the United States have been in turmoil. The markets have not been receptive to new money issues, particularly issues with credit quality rated below AA/Aa by major rating agencies. Investors which had holdings of fixed income investments have lost vast amounts as the value of their holdings has declined precipitously. Investors which were highly leveraged have had to sell many of their holdings to meet debt repayments or to repay their own investors. As a result, there is far less capacity available to lend to developers of project-based transactions. We have advised Clearview, among other potential borrowers, to consider other avenues to raise the funds needed to continue development or to initiate construction. We were and are particularly concerned that project-based transactions would be vulnerable to investor anxiety over risk, and that such projects would find it difficult to attract sufficient capital in these markets to fully fund their development and construction needs. One of the factors which we felt would impede investment was the structure of the proposed power contract, which provided as revenues only a fixed dollar amount per kilowatt hour. We do not believe that the form of the current Energy Purchase Agreement can attract equity and debt in today's market. Therefore a new approach to the structure of the Projects' long term energy and capacity purchase arrangements is necessary in order to allow for financing. Bill 6636 would likely provide the appropriate solution."

In a project-based financing, the most important security for fixed income investors is the energy contract, and the most important element of that contract is the certainty of revenue flow. We would like, therefore, to testify vigorously in support of the General Assembly's Bill No. 6636. This bill seeks to amend Subdivision (2) of subsection (j) of Section 16-244c of the State's General Statutes by requiring that the owner of biomass projects selected in the State's recent biomass procurement be compensated on a cost of service basis at a rate that provides the opportunity for the owner to earn a reasonable rate of return so long as the project operates at a sufficient capacity factor. The department is tasked to determine the rates, capacity factor and other factors that will arrive at this result. The cost of these contracts is directed to be included within certain charges which would assure that the purchaser would be able to collect any of its power or administrative costs from its customers. In addition, the owner is permitted to seek a fuel cost adjustment, to be granted if the department determines it to be in the public interest.

In our experience, power contracts which include the right for the regulated buyer to recover its costs from its customers are well regarded by potential investors, particularly those contracts based upon cost-of-service with a fuel cost adjustment clause. These provisions give investors a great degree of certainty that a project, once up and running, will receive a revenue stream sufficient to pay it operating costs and its debt service. Given the current conditions in the lending markets, these provisions, if enacted by the General Assembly and applied to the Clearview power contracts, will distinguish these projects from other similar projects and will greatly enhance their financeability. Investors will be far more likely to put their money to work on these projects than on others which have less secure, less robust revenue streams. In addition, the provisions will help Clearview attract equity investors, which will provide a layer of subordinate capital beneath the senior debt investors, again enhancing the relative attractiveness of these projects to skittish investors.

We at Mesirow await the improvement of conditions in the markets and the resumption of normal lending practices. Meanwhile, we support any means that may improve the credit quality of worthy projects, such as the Clearview Connecticut biomass-to-energy facilities. We believe that alternative energy, if properly supported, will lower our nation's dependence on imported fuels and improve our environment. These goals are only realized if the projects have contracts and other institutional arrangements which allow them to be financed and placed into service. Bill No. 6636 puts Connecticut in the forefront of States which have adopted realistic approaches that will help the private sector attain socially necessary goals. We testify fully in support of the proposed bill in its current form.