

**TESTIMONY OF
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ON BEHALF OF THE
NATIONAL VENTURE CAPITAL ASSOCIATION**

**BEFORE THE
HOUSE SELECT COMMITTEE ON ENERGY INDEPENDENCE
AND CLIMATE CHANGE
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Introduction

Good afternoon, Chairman Markey, Ranking Member Sensenbrenner, and Members of the Committee. My name is David Prend and I am a founder and managing general partner at the venture capital firm RockPort Capital Partners which has offices in Boston, MA and Menlo Park, CA. We invest in both early and later stage companies in the energy and power, process and prevention and advanced materials sectors. RockPort's funds comprise the largest pool of dedicated capital in the fast growing venture capital investment sector known as Clean Technology.

I am pleased to appear before you today on behalf of the National Venture Capital Association (NVCA), on whose Board I serve. The NVCA represents approximately 480 venture capital firms in the United States and is committed to advancing those public policies that are conducive to innovation, entrepreneurship, and US competitiveness. In no other sector are those ideals more critical than in the clean tech sector.

Over our history, RockPort Capital has invested in over 40 companies spanning a wide range of innovations including:

- renewable energy such as solar and wind power;
- next generation transportation technologies, such as hybrid and fully electric vehicles;
- “smart grid” technologies that enable more efficient use of the existing electric generation, transmission and distribution infrastructure;
- clean air and water technologies; and
- energy conservation and “green building” technologies.

RockPort has deep business and industry expertise gained from our partners' extensive backgrounds in management, technology, finance, and operations. This expertise and experience is invaluable as we identify, invest, and build high-growth companies in the Clean Tech markets.

I began my career in the energy industry as an engineer at Bechtel where I worked in the area of advanced energy technologies. Following Bechtel, I worked at Amoco in the Treasurer's Department and in the chemical and upstream oil and gas subsidiaries. Later, I joined Shearson Lehman in their Natural Resources Investment Banking Group where I advised companies in the energy, mining and forest products industries. In 1990, I joined Salomon Brothers where I was promoted to Managing Director and headed the Global Energy Investment Banking Group.

In the last 36 months, the venture community has seen tremendous growth in investment in the clean tech sector. According to data from Thomson Financial, venture capitalists invested over \$2.2 billion into more than 200 clean technology deals in 2007, representing a 340 percent increase from 2005. In the last year alone, venture capital investment grew 47 percent and shows no signs of slowing. The number of venture capital firms investing in the clean technology sector more than doubled. This increased interest is driven by a number of factors, the most important being the promise of return on innovation in the space.

Being a venture capitalist investing in clean tech today is very exciting indeed. We are positioned right where the information technology and semiconductor industries were 35 years ago, and where the biotechnology industry was 20 years ago. There is a perfect, benevolent storm brewing as market demand, government support, technological breakthroughs and available risk capital are coming together to foster a revolution. What venture capital did for the Internet and Biotech revolutions, we are now poised to replicate with clean energy technologies with one difference: in the case of clean tech, the potential markets are much bigger in scale and scope and much more mission-critical for the entire globe.

I am pleased to be with you today to discuss what the federal government, and in particular, what the Congress can do to help cultivate the environment for the burgeoning clean tech industry. The clean tech revolution is going to be good for the U.S. economy and it is going to be good for job creation. Rest assured, these advancements in energy technology will take place regardless of whether the U.S. government acts to foster the advancement of clean technologies. While that is good news for the environment, it could be extremely problematic for our country. If our government doesn't assume a significant role in enacting policies that will advance these emerging technologies, the ramifications are twofold. First, the time and difficulty it will take to reach our goals of energy independence and a cleaner environment will be significantly greater. Second, other nations are ready, willing, and able to take the lead on driving innovation and will gladly leave the U.S. behind given the opportunity. As a country, we can either facilitate the renewable energy industry or be left in the dust by countries that support energy innovations.

I truly believe that nothing less than our nation's standing in the global marketplace is at stake. We can either lead that charge on the race for energy technology advancements or we can lose our competitive advantage to other countries that have rightly made this a priority.

Given the critical nature of the national energy crisis, I believe that victory will require a multi-faceted approach. There is no silver bullet, no single policy solution that is going to win the day. Just as we will need multiple energy innovations and technology advancements to resolve this crisis, so too do we need a multi-pronged policy approach. To achieve this goal, I have outlined nine policy suggestions on which the Congress can act that I believe will achieve our stated goals of energy independence and national

security while combating the threat of global climate change. This list by no means encompasses all the federal government needs to do, but it is a necessary start.

Recommendations:

1. **Long-term extension of the renewable energy Investment Tax Credits and Production Tax Credits** - The House has passed a very robust energy tax package, which I believe correctly redirects incentives from older, more established energy sources, to newer and very promising renewable energy technologies. Ideally, the extension would be even longer than two years in order to provide the maximum certainty for project development, but we recognize the difficulty in achieving longer-term tax credits. The Senate has recently acted with the passage of the Cantwell-Ensign measure as well. However, reaching compromise on the two chambers' bills and getting that compromise signed into law must occur without delay. This legislation cannot fall victim to election year politics because quite literally companies will fail, jobs are at stake, and our global competitors will seize the lead in the race to innovate if we fail to provide the necessary incentives for these nascent companies who rely on the ITC and PTC.
2. **The adoption of a National Renewable Portfolio Standard of 20 percent** - States are already adopting individual Renewable Portfolio Standards, creating a patchwork of programs that differ from one state to the next. This fragmentation is not going to serve anyone's interests – neither the utilities nor the companies that want to provide renewable energy to the utility. It is time for the federal government to adopt a single standard that sets a high bar and challenges the private sector to meet that goal. States should be allowed some flexibility in how they attain the RPS, but meaningful penalties should be enforced for non-compliance. This national RPS can be established quickly and should not wait for the adoption of a cap & trade program or other climate change legislation to be enacted.
3. **Embracing the innovation curve** - NVCA supports a technology-neutral approach to innovation and agrees that the federal government should not pick winners and losers, but there should be recognition that there is a high value in the government helping an industry “ride the learning curve” and reach market potential. This dynamic was particularly relevant in the silicon and semiconductor industries. Early support by the federal government helped these industries leverage the learning curve and reach their potential. In the case of solar and wind power, this support would be particularly helpful to drive the cost out of these technologies in the medium term and eliminate the need for subsidies in the longer term.
4. **A national agenda for energy efficiency** – Energy efficiency is critical to solving the energy crisis so we recommend an efficiency plan that pushes “de-coupling” with the utilities by disconnecting their profits from kwh sales.

Utilities have to be incentivized in order to achieve the best results. Telling utilities to lessen demand or improve efficiency is ineffective. Rather, they must be compensated through regulated income. We should continue to pursue strategies and technologies for energy efficiency and conservation, and not penalize utilities financially for doing so.

5. **Carbon cap and trade** – As Congress seeks to address this highly complex and controversial issue, we should look to the European markets who are ahead of the U.S. and seek to avoid some of the mistakes that have been made with the implementation of their program. With the adoption of any cap and trade program, it will be necessary to require that strong verification procedures be in place to ensure integrity in the marketplace. Consistent with the principles endorsed by the U.S. Climate Action Partnership, we believe a cap and trade program must be environmentally effective, equitable and economically sustainable.
6. **Redirect oil and gas subsidies** – We must wean the oil and gas industries off their long-enjoyed subsidies and re-allocate those funds toward more generous funding for renewable and next generation energy supplies in solar, wind, and electric vehicles. This strategy will greatly accelerate the end of subsidies for renewables and foster a supply/demand, purely economics-driven industry, which we all agree is the ultimate goal.
7. **Address the challenges in transportation head-on** - It is widely agreed that the transportation sector is a major contributor to global warming so advances in the electric drive train and electric and hybrid vehicles will be of tremendous environment benefit. Incentives for biofuels and continuing increases in CAFE will be positive improvements.
8. **More federal support for R&D across the spectrum of federal agencies** – Too often critical research done in federal agencies is subject to wildly fluctuating appropriations. The result is a scattered, disjointed effort on the part of the government to provide early stage basic research. The work coming out of the national labs, and notably the DOE Office of Science, the National Institute of Science and Technology, and the National Science Foundation, if consistently and adequately funded, would yield faster and improved technological advances.
9. **Creation of an ARPA-E** - Modeled after the Defense Department’s highly successful and innovative DARPA program, the creation of an ARPA –E agency, whose mission would be to solve the nation’s urgent energy challenges, would provide a focal point for critical projects. DARPA’s success was due in large part to its small size, nimble abilities and willingness to take on risky ventures. There is no reason why this couldn’t and shouldn’t be repeated in the field of energy.

Not only does supporting the clean tech start-up community foster innovation, but it also supports economic growth. According to a 2007 study by Global Insight, venture backed companies accounted for more than 10 million jobs and 18 percent of US GDP in 2006. These companies have been proven to grow at a faster pace than their non-ventured counterparts in every industry sector. We expect clean technology to be no different.

Conclusion

Venture capitalists have an obligation to their institutional investors to identify the best companies and invest in the most promising technologies that will change the way people live their lives. The significant interest by the venture capital community in the clean tech industry is indicative of the tremendous market potential that this sector represents. Every single small clean tech company that we invest in today holds the promise of bringing a much needed innovation to life. When that happens, there are many winners: our investors, entrepreneurs, and most importantly the American public who will benefit from new jobs, new companies, and a cleaner environment. For a venture capitalist, this intersection is the best of all worlds: we can do well by doing good.

But we can't do it alone. We need to partner with US lawmakers, regulators, and the Administration to jumpstart our efforts and develop a strong pipeline of innovation in the clean tech space. The opportunities are abundant for those who choose to play. Just as we did with information technologies and biotechnologies years ago, the venture community chooses to play in clean technology. We only hope that Congress will again stand beside us so that we all can win and reach our goal of energy independence, a cleaner environment, and economic growth for decades to come.

Thank you very much for the opportunity to testify before you today.