

WINDUSTRY'S
Community Wind Energy 2006

Financing Community Wind: Equity Panel

Moderator: Keith Martin

Speakers/Panelists: James Duffy
David Brija-Towery
Ward C. Marshall
John P. Harper
Tim MacDonald

Moderator's Comments

Keith Martin, Partner, Chadbourne & Parke LLP

Part A 00:06-1:21

The US Federal Government subsidizes wind projects by as much as 65% of their value, if the owners can use the tax credits.

Panelist Introductions

Part A 1:22-10:51

Ward Marshal, Babcock & Brown

- Babcock & Brown finances many large public development projects and they are looking to team up with people to do wind projects.

John Harper, Principal, Birch Tree Capital, LLC

- Birch Tree Capital is a small financial services company that works with everyone from small community wind developers to big corporations and is focused on assisting developers, investors, and public entities to structure financing for renewable power projects.

James Duffy, Partner, Nixon Peabody LLP

- James Duffy is a lawyer at the large national law firm of Nixon Peabody who focuses on production tax credits (PTCs).

David Brija-Towery, Business Development Manager, John Deere Credit

- John Deere is a one-stop shop for community wind developers that can handle financing, turbine sales, construction, and project management.

Tim MacDonald, Senior Vice President, Meridian Clean Fuels, LLC

- Meridian Clean Fuels is in the tax credit business and they specialize in bringing equity partners to a project that can take advantage of the tax credits that are available.

Using the Tax Production Credit

James Duffy, Partner, Nixon Peabody LLP

Part A 10:52-24:50

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The production tax credit is a dollar-for-dollar reduction in what you pay for federal income taxes. The amount of your credit is based upon the amount of energy your project produces. But the tax credits can only be used by the owner and producer of the energy. It is difficult for many wind producers to take advantage of the credits because they do not have enough taxable income. Most developers are also trying to monetize the production credit up front to cover their development costs.

The original developer of a wind project can structure the legal entity so that all the tax benefits go to an equity partner that can use them while still maintaining control over the project by being the managing member of the LLC. Other components that can be incorporated into a project's structure include equity flips, put options, pay-as-you-go plans, and adjustable payment obligations.

There are certain fixed costs to every project that are roughly the same regardless of the project's size. Small projects will likely have to show a higher earning potential than larger projects in order to cover these costs and attract investors.

Highlights from the Question and Answer Session

Part A 25:04-Part B 35:40

How much will developers pay to lease land?

A rough estimate is \$3,000 to \$5,000 per turbine per year, but it depends on your region of the country. Before you negotiate a land lease, make sure you know what you are getting.

How many turbines can you have on a piece of land?

For large turbines placed side-by-side, there should be a distance of 3 times the diameter of the rotor between each turbine. For turbines placed one in front of the other, there should be a distance of 10 to 15 times the diameter of the rotor between each turbine.

What P Factor do lenders use?

It can vary between a P factor of P-50 or P-99, and anything in between.

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How many years of data do you need to have for your wind resource?

It is all project-dependent. Generally at least one year. The more information you have, the better.

Do lenders prefer P value reports of anemometer readings?

P value reports can be used instead of met towers for some lenders but not all. Most lenders want a combination of the two sources.

What are pre-development costs for a wind project?

That depends on where the project is. Many of the costs are related to legal costs of creating the contracts.

What are Clean Renewable Energy Bonds (CREBs)?

They are interest free bonds available for some groups. The holders of the bonds are paid in tax credits by the federal government.

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