

NWX-NATIONAL RENEWABLE ENERGY

Moderator: Susan Hinnen
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(Michele Suttleson): ...name is (Michele Suttleson) from the American Public Power Association and I would like to welcome all of you to the seventh in a series of wind and renewable energy Webinars sponsored by the National Rural Electric Cooperative, American Public Power Association, Western Area Power Administration, the Department of Energy's Wind and Hydrotechnologies Program, National Renewable Energy Lab, Utility Wind Integration Group and the American Wind Energy Association and the National Wind Coordinating Committee.

The subject of today's Webinar is Clean Renewable Energy Bonds and production tax credit updates. Among the topics we'll be discussing today are the incentives available to consumer owned utilities in the private sector, for example taxable entities, to finance wind project development, the strategies for securing an award and what this translates to in terms of the cost of energy from wind projects.

I will be the moderator for today's session and here at APPA I manage APPA has a research and grant program called the Demonstration of Energy Efficient Developments, and that's what I manage for APPA.

Today we have a distinguished panel of speakers, it includes Susan Petit from NRECA, Dave Rich from Nebraska Public Power District, and Dan Noble of Gamesa Energy.

I encourage you all to submit questions electronically at any time during the Webinar and we'll try to address as many of them as we can at the conclusion of all of the speaker presentations. Instructions for how to submit a question during the presentation are on the current slide.

We are currently working on posting answers to questions we're not able to get to during the Webinar session on the (repartners.org) Web site. The Web site will also allow you to go back and replay the audio recording and view the presentations from this and previous Webinars in the current series.

Finally, I'd like to let you know that the next Webinar in this series will be held July 29th and the topic will be Wind Turbine Maintenance Programs. So feel free to continue to visit the (repartners.org) Web site for updates and also on the APPA Web site we link over to that ([repartners](http://repartners.org)) Web site and I'm sure the NRECA probably does as well to allow you all to you know, go to your association Web site for information.

With that I'd like to introduce Susan Petit who is Senior Principal at NRECA, specializing in tax issues. In this role Ms. Petit recently oversaw the enactment of Clean Renewable Energy Bonds that help cooperatives finance renewable generation projects and the 8515 rule tax relief to facilitate electrical cooperative participation in a restructured market.

Prior to joining NRECA in May 2004 she spent three years as a tax lobbyist for the American Public Power Association and we really enjoyed having her here too.

Susan Petit: Thank you.

(Michele Suttleason): Where she led the effort to advance two major tax priorities for the association that were tied to comprehensive energy legislation. Susan spent eight years at the Energy and National Resources Law Firm Van Ness Feldman where she represented utility clients on electric industry restructuring and coordinated coalition efforts on hydropower wetlands and other issues.

Susan's a graduate magna cum laude from St. Mary's College in Maryland and Ms. Petit will present on Clean Renewable Energy Bonds and feel free to take it away Susan. Thank you.

Susan Petit: Thanks for that nice introduction (Michele). I feel like I hardly remember college now but it's nice to be reminded once in awhile. I want to start before I advance my slides; I want to just make sure everyone has the basic primer in Clean Renewable Energy Bonds in mind.

This is only one of many ways to finance a wind project. The (unintelligible) were conceived as a joint effort between America Public Power Association and NRECA to find a way that not-for-profit utilities who don't have tax appetites find a way for us to be able to finance and subsidize renewable projects.

The stimulus bill of this year and the bailout bill of the fall of last year expands the production tax credit, the investment tax credit, creates new grant programs for tax payers who cannot use the production tax credits to finance

wind. And I know one of our speakers is going to talk later about those types of programs.

So there was a kind of expansion of options under those two bills and along with that there was an infusion of a significant authorization of funding for the Clean Renewable Energy Bond program. Those bills also included modifications to the program that we think are improvements.

The Clean Renewable Energy Bond was originally enacted under the Energy Policy Act of 2005. It is a tax credit bond and just to remind folks how that works, with a tax credit bond the issuer has to repay the bondholder principal over the life term of the bond but the issuer doesn't ever have to make interest payments to that bond holder, so that's a significant savings.

This is an oversimplification but instead of the issuer making interest payments to the bondholder, the federal government gives the bondholder a tax credit in lieu of interest. So at its simplest form a tax credit bond is the federal government picking up the tab of that interest cost. The original clean renewable energy bonds were essentially interest free loans, there have always been issuance costs associated with the program so it's never gotten to 0% interest but at its simplest level this was conceived of as an interest free loan.

This was meant to give the not-for-profit utilities something close to parity with the subsidy of the production tax credit but it never has been as deep a subsidy as the production tax credit. But it's an approximation I would say. It does not capture the benefits of depreciation, but it's been somewhat successful so far. It's continuing to be improved and I'll talk a little bit more about further improvements that may be needed to the program later on.

But I think also in terms of back draft I just want folks to understand that eligible applicants for the clean renewable energy bond are electric cooperatives, municipal utilities, non-utility municipalities, tribal governments and cooperative lenders. In the electric coop community we have the Cooperative Finance Corporation or CFC and we have CoBank, both of those entities are eligible to issue clean renewable energy bonds and both have been very helpful in assisting electric coops to execute these transactions.

Now under these two very recent massive bills that included significant energy sections, this tax credit bond model has been expanded, new programs called Energy Conservation Bonds, and Build America Bonds have been created to go beyond just financing renewable energy.

Under those programs anything really connected to, for the conservation funds anything connected to efficiency, greenhouse gas emission reductions, anything kind of in the name of green can be financed with the conservation bonds, although only municipalities are eligible to issue those conservation bonds. And Build America bonds can be used for almost any purpose under the sun so long as it's a public purpose and those are issued by municipalities again, and not electric cooperatives.

So for the cooperatives we're focused on the Clean Renewable Energy Bond Program. In terms of where we are to date under the 2005 Energy Policy Act, authorization for the program and a subsequent little bump up in authorization in 2007 \$453 million, and we can advance the slide or I think I'm supposed to, I am sorry I'm not finding my little arrow; oh here we go, okay. User error, here's the advanced slide.

Under the authorizations so far \$453 million has been approved for electric coops and that is not, this does not represent all that we applied for. The

program has been limited and capped, that's been a problem for many users, but out of what we applied for we've received \$453 million in allocations of this bonding authority.

So that money is going to ultimately fund 88 projects, including 12 hydro projects, 24 wind, and 27 solar and 23 biomass projects. So we've seen broad applications for the program and a lot of these bonds have not yet been issued. The deadline for issuing bonds that were already received has been extended through the end of this year.

Obviously the bond markets have been a strange place to be, so for various reasons a lot of the issuances of these bonds have been delayed and we hope that we, that our lender, Cooperative Finance Corporation, will be issuing very soon this year to accomplish some of these projects. So not everything you see on this slide is online at the moment, but they're pending.

But in terms of what we've already brought online, and obviously already issued bonds for their 18 projects representing 50 megawatts of new renewable capacity.

Looking just at wind our topic today, five coops have seven different wind projects already online for 27 megawatts. So obviously this has gone so far to small scale projects. At least ten megawatts more is anticipated for 2009 and as you saw in the other slide we still anticipate more wind to come online just from the previous allocations of the (unintelligible).

I think I want to kind of pause here to talk a little bit about you know, the fact that this has gone to small scale projects so far. Under the original program Treasury had to figure out how to allocate a limited number of these clean renewable energy bonds and essentially the method they used was to provide

smallest to largest allocations so whoever was asking for the least dollar amount went to the head of the queue and whoever was asking for the most dollar amount of authorization would bump up against the cap or may fall outside of the cap. This was to distribute the programs fairly across the country and also to come up with a very transparent process.

Treasury put out a notice in previous years and their latest notice in 2009-33, that notice is calling for applications by August 4th of 2009, those notices have application procedures in them and in the main thing, and this is a very transparent process, is the applicant just needs to make sure they have a third-party engineer certification that says where the project's going to be, what it's going to do and in order to issue these bonds you got to pretty much do what you said you were going to do.

So when we get to this next round of funding, well back to the smallest to largest for a moment, because of that allocation methodology, although it's transparent there definitely was a favor given to smaller projects, some of that is alleviated by the fact that we now have this massive new funding allocation, the cap was previously only \$800 million but now the two recent bills, the economic rescue and the stimulus bill have added \$2.4 billion to the Clean Renewable Energy Bond Program.

Eight hundred million in the first program was for everybody but now \$800 million is available just for electric coops and it's available until spent. So we hope to see, that's a long way of saying, we hope to see some larger projects come online because now there should be plenty to go around, even under the small to large allocation method, which is the way that Treasury is still going to look at electric coop applications.

On the public power side, and I'm sure NPPD will speak to this, there's been a change in the program so that perhaps more large projects on the public power side will be captured through a pro-rata sharing of credit allocation, but for coop it's still small to large and we're hopefully that \$800 million will be enough to accommodate some of the large coop projects.

And as I mentioned if you're looking for more information after this call notice 2009-33 is available on the IRS Web site, we also have it on the (innereca.org) Web site applications for this large new infusion are due by August 4th.

I wanted to spend a little bit of time talking about things that Congress has done to improve the program. As I mentioned this new funding is available until spent instead of being subject to an annual deadline. It's very hard to predict year to year how many applications are going to come online, so hopefully if \$800 million is available till spent that gives us time to see, you know, what coops are out there and it's just a more sensible way to go about the program.

I think there may be more demand on the public power side so it may very well be that their allocation is expended all in one year. A big difference in the program, under the original clean renewable energy bond just like a mortgage payment the bond had to be repaid in level principle payments.

Under current market conditions under a formula the bond is about, well the old bonds were about 15 or 16 years in term, now that conditions have changed in the bond markets that term has dropped to I think about 12 or 13 years last time I checked. But essentially under the old program issuers had to make level principle repayments of the bond over the life of the program.

Now they've been made into bullet maturity bonds, meaning you repay the entire bond at the very end. This makes the clean renewable energy bond resemble all of the other bond programs like tax exempt bonds that are out there, so it's more user friendly, people understand this and from a financing point of view it's a much better way to go because projects may not be producing revenue in the first couple of years as they're established, so the bullet maturity was a great enhancement.

At the same time the government provided this bullet maturity, which makes it a richer subsidy, they gave that with one hand and they took it away with the other, meaning instead of as under the old program the government providing all of the interest payments or approximating all of the interest payments that the bond issuer would otherwise have to pay, now the issuer has to provide 30% of the interest payment or cut the bond price sufficient to capture that to reflect that.

And the government is going to provide a tax credit in lieu of interest picking up 70% of the tab. We actually evaluated the net present value of the old program and the new program and found that they are essentially equivalent in terms of their value to the user, and having this greater flexibility with the bullet maturity is sort of an intangible benefit, and that makes it you know, I think even better than just the net neutral as the numbers bear out.

The new product is (trickable), so you could sell the tax attribute to one party and the bonds to another party and I'm sure there are transactional bond attorneys somewhere who can better explain why that's such a valuable idea, but it's certainly something that the practitioners really recommended for the program and was incorporated. And it does help with the marketability of the program.

A reserve fund under this program can be established to invest money subject to certain specific limitations. Money can be invested along the way so that when you make your payment at the end you are prepared to do that.

Finally, another key change is that Davis-Bacon Prevailing Wage Labor Standards apply for anyone issuing these bonds. That was not true in the stimulus bill when it came to the production tax credit or the investment tax credit, the other tax credits that the tax paying entities can use but for this program the Davis-Bacon will apply.

So last we, I want to talk about the challenges to the program moving forward. I think on the very bright side there's strong political support and as I mentioned earlier in my presentation this model is being applied to different types of financing needs on the greenhouse gas emission reduction side and other city programs like the Build America Bond, so there's a lot of political interest in sort of replicating this program for other purposes.

So that means we can keep working on improving it and there are some good ideas in the Build America Bond Program. Under that program instead of the Treasury setting a tax credit rate and trying to replicate the market and essentially what Treasury does is they look at what corporate A rated taxable bonds sell for and they attempt daily to set a rate themselves looking at indexes to figure out what if a bond were issued on that day what the tax credit in lieu of interest should be, and what we found with the program is Treasury can never exactly match the market.

And if Treasury doesn't get that tax credit rate correct, which would be impossible to do in fairness to them, the bond can sell at a discount so that the subsidy is not what it's intended to be.

One of the nice features in the Build America Bond Program is that the issuer sells the bond for what the market will bear and then the Treasury simply gives a check directly to the issuer to buy down the cost of that interest payment that the issuer made, so takes the government out of the business of trying to set credit rates that replicate the market, so we're looking at that as an interesting model that could you know, improve the usability of this program moving ahead, you know, I think one question also has been whether anybody has appetites for tax credits right now and we're going to of course have to see moving ahead.

We think that we're, that our lender is going to be, you know, making a significant issuance soon, it's been put off a couple times but you know, we do think we can sell this fund and there have been other stories recently about these bonds being placed. So it's there but I think folks feel a little tenuous about current market conditions.

Also the subsidy level, the fact that this subsidy level does not nearly match the production tax credit and certainly doesn't match the outright 30% grant check that Treasury will write to a tax paying entity covering 30% of the capital costs of their project up front, this program does not match that. So there may be ways we can continue to enhance the subsidy. I'm sure there are smart people working on this right now.

But finally size you know, we keep having to go back to Congress for greater requests, certainly \$2.4 billion is a good, it's the best authorization we've all had to date but I know given the, you know, pressures in the utility industry right now to comply with renewable portfolio standards, make changes on the climate front, you know, we can use between public power and coops a lot more of these types of programs and certainly could use more funding for this program.

So those are some of the challenges that I see moving ahead and that's at this point I think that we could turn to the next speaker.

(Michele Suttleason): Thank you Susan. That was really informative. Appreciate it. Our next speaker is David Rich. Mr. Rich has been employed with Nebraska Public Power District for the past 31 years. He's currently serving at NPPD's Renewable Energy Development Manager and in this position he's responsible for the development and implementation of Nebraska Public Power District's renewable energy strategy by leading the development of renewable energy facilities and programs that provide cost effective renewable energy to NPPD's resource mix.

Mr. Rich's responsibilities include assessing renewable energy resources in Nebraska, renewable energy technologies, financial incentives supporting renewable energy and the political environment regarding renewable energy. He works closely with customers to develop renewable energy products and services to provide additional value to customers and supporting development and implementation of NPPD's energy supply and environment strategies by providing information on renewable energy attributes and developing projects that support the strategies.

Mr. Rich graduated from the University of Nebraska Lincoln with a degree in Electrical Engineering and the University of Nebraska at Kearney with a Masters in Business Administration.

Mr. Rich will present on NPPD's experience with Clean Renewable Energy Bonds. So at this time I'd like to ask Dave if he would take it away please. Thank you.

Dave Rich: Thank you (Michele). And I'd like to thank all the sponsors for the opportunity to share NPPD's experiences. We'll start with a little background on NPPD and then share our experiences with CREBs and also then with partnering with private entities who can take advantage of the production tax credits and now tax grants.

NPPD in Nebraska is unique. We're the only state in the nation entirely served by public power electric utilities, dates back to the 1930s when we were given statutes that allowed us to essentially buy out all the IOUs in the state, some of the municipals in the state date back to the 1880s.

We pride ourselves on being low cost. Electric rates in Nebraska are consistently well below the national average and among the ten lowest in the nation. Our current wholesale rate for the past year including transmission delivered to our wholesale customers was approximately 4.2 cents. We serve approximately 25 rurals and public power districts and cooperatives, or 50 municipals at wholesale and 80 plus downs at retail. We provide almost half the electricity consumed in Nebraska.

Our experience with CREB applications in 2006 we submitted two applications the first was for a 3.6 megawatt low head hydro, the application was for \$8.8 million and we also submitted for a 15 megawatt build out of the Ainsworth Wind Farm.

A little more background on that application, NPPD first became involved in owning of a wind project at Springview, Nebraska back in 1998, it was a two turbine one and a half megawatt farm that was a demonstration project with DOE and (Epry). Our second project then was in 2005 where NPPD coordinated and developed a 60 megawatt wind farm at Ainsworth, which we shared with other utilities in Nebraska and one in Florida, and that farm again,

we owned and financed it independent of any CREBs and so this 2006 application was to add an additional 15 megawatts to that farm. Neither one of these applications however were successful.

In 2007 we submitted three applications, we resubmitted the 3.6 megawatt low head hydro and resubmitted the 15 megawatt build out of Ainsworth, the prices however had escalated somewhat. We also submitted a 1.8 megawatt Springview Wind Farm at 3.4. We had retired the original two unit turbines and were looking to build a new direct drive farm consisting of two 900 KW turbines.

We did receive recommendations from the IRS to resubmit the ten turbine Ainsworth application as ten 3.3 million single turbine applications. Again, this I think was helpful from the IRS to make the individual amount smaller so we would have a greater opportunity for selection and they also suggested that we resubmit the two turbine Springview application as two separate applications for one turbine each.

We received notice on December 11, 2007 that the two Springview applications were successful and that the (unintelligible) and Ainsworth projects were denied. And again, the basis of this denial was that they started with the smallest projects and then moved up until they ran out of money and also neither the (unintelligible) or Ainsworth projects were funded.

(Michele Suttleson): Dave, could I ask you to speak up a little?

Dave Rich: Okay.

(Michele Suttleson): Thank you.

Dave Rich: Challenges of CREBS application process is burdensome and costly. Again we used outside legal counsel and engineering review as required. Probably the biggest challenge is that there's no guaranty of award. We submitted a total of five applications over two years, only one of which was successful, so we were at a 20% batting rate there.

Since the CREBs rely in tax credit there is very few and these currently have the appetite as was previously mentioned, and for where we were at the effective interest rate with the fees was going to amount to somewhere between one and a quarter and 1.35% for 12-year term versus a tax exempt bond that we issued earlier this month for a ten-year bond of 3.74%.

Again, NPPD is looking for the lowest cost renewable energy product and we have found that partnering with private entities that can take advantage of the other incentives at a federal level actually result in significantly lower costs.

NPPD solicited bids for the successful Springview application. The challenge we ran into there was that the original developer who had proposed the project was no longer in business. We had other developers step forward, the challenge was that the prices were 80% higher than the original project bid that we had and as such those bids or those CREBs that we had approved have not been utilized. They will be expiring the end of this year and unless we can find a developer that is willing to provide that project at close to the original finance approved it is unlikely that we'll move forward there.

We are moving forward on several other projects with private entities that can utilize the PPCs and now the grants. Again, we see it as a significantly less cost to us and I should also mention there's also a significant transfer of risk. We find that entering into power purchase agreements with developers we can

transfer the operational risk to the developer because we only pay on a per megawatt hour basis for the energy we received.

Our Ainsworth Wind Farm the first year we had a 43% annual capacity factor and by the third year that had dropped to a 35% annual capacity factor because of limited availability equipment problems, challenges in getting parts, which diminished the availability of the equipment.

We have successfully partnered with private companies at a submission in Midwest wind energy on the 80 megawatt Elkhorn Ridge Farm. We have also signed the power purchase agreement to buy 42 megawatts from the Crofton Hills Wind Farm; again both of these are power purchase agreements, 20-year agreements where we purchase the electricity and the renewable attributes for a 20-year period. We do have the option to buy the farms if it be to our advantage at the end of ten years.

That again is the summary of our experiences. At NPPD with CREBs they are, or it's been said there's been improvements made to fund those which would, should significantly help the potential of future applicants, but again we found at the present time if you're driving for larger projects and some certainty and the timing that the RFP process requests for proposals to solicit projects from private developers appears to be a lower cost alternative for NPPD.

With that I'll turn the program back to (Michele).

(Michele Suttleason): Thank you Dave for sharing NPPD's experience.

Now, I'd like to introduce our final speaker. Dan Noble leads the Gamesa Energy USA's Wind Farm Business Development activities conducted from

his offices in Philadelphia, Austin, Chicago and Nevada's Energy in Minneapolis.

Mr. Noble has 20 - during a 20-year career in the independent power industry how the variety of senior level positions in asset management and development and North American and internationally.

Prior to joining the Gamesa, Mr. Noble has a series of senior-level business development and asset management responsibilities with CMS Enterprises, the independent energy arm of PS - CMS Energy in Michigan.

This experience included P&L responsibility for a 4,300 megawatt portfolio of projects in the Middle East, Africa, and India and an 8-year stint as an expatriot leading development and heading operating businesses in Southeast Asia.

His last assignment at CMS Enterprises was as Executive Director of Development responsible for establishing the Wind Energy Development Program. Mr. Nobel has had key assignments for green and brown field development as well as project acquisitions and sales - sorry about that.

Renewable energy financial incentives is the topic of Mr. Nobel's presentation and I'd like to hand control over to Dave.

Thank you.

Dan Noble: (Michelle), thanks very much.

Just the - I'd like to open the discussion of these incentives with a little bit of background in Gamesa so that you know maybe the context in which I'll make some further comments.

Gamesa Energy is the North American or USA development arm of Gamesa in Spain and in about 5 years ago Gamesa, the Spanish entity decided to invest in the United States to develop its wind turbine manufacturing capability, as you know people in Europe have been dealing with wind power in various other forms of renewable energy very extensively.

And so they sought to bring that experience here and to participate in the U.S. market and in doing so they established a manufacturing facility in the State of Pennsylvania and they also established a development company that initially was Minneapolis, Minnesota where they purchased an existing company called (Navata) Development company and that development company has grown now into 4 regional development offices that (Michelle) mentioned. They're in Austin, Texas; Minneapolis, Minnesota; Chicago, Illinois and Philadelphia.

Philadelphia is the headquarters of the development company and our principal aim is to develop wind farm renewable energy projects and we utilize the Gamesa turbine in our - in the wind farms that we develop - that we develop here.

Gamesa currently is current being the line product offering as a 2 megawatt machine that comes in different power heights and blade lengths depending on the particular wind machine where the turbine is located and has certain features which are appropriate for the temper ranges for the turbine's going to give out.

So in the course of Gamesa's - Gamesa Energy's commercial experience here in the United States, we've developed over 3,000 megawatts of wind farms. Gamesa Energy does not own and operate a wind farm so we develop them for ownership and by operation by other firms.

And so we have sole projects either after construction or in the course of development.

So with that bit of background, I'll just sort of launch into the discussion of the incentive. Before I do that though, let me just mention that our - wind farms that we're developing are in the size range where the minimum size might be at 30 megawatts and the maximize size would range 200 megawatts or higher and the average wind farm for us that we develop is in the 100 megawatt, 100 to 150 megawatt range. So it's that size that we're dealing with.

So let's get into the discussion of the financial aspect of some of the tax incentives that are available and during the course of this discussion here I want to start out by identifying the various forums of tax incentives that are available and then get into some discussion about how those tax incentives are being or could be applied in transaction with a - or power sales or project sales to publicly tolerated.

The Production Tax Credit is - has been in the law for some time now. The PPC or Production Tax Credit is an amount for kilowatt hour produced and so it's based on the actual production of the wind farm so then if you get into a situation anything like Dave Rich was describing like in a wind farm or initially it started out producing at one level let's say at 40-plus-% capacity factor, but that degraded over time, then the incentive, the Production Tax

Credit that you would receive would be reduced also. So the amount received for Production Tax Credit is subject to some operating risks.

Now, the recently enacted stimulus legislation included provisions for investment tax credits and there are even provisions for those investment tax credits if certain conditions are met where the project owners can receive an upfront payment equivalent to that investment tax credit.

Now, investment tax credits have been tried before in the industry. It was tried initially in California and where there were a large number of wind projects that were installed in the Altamont Pass area and it was an adverse experience there because developers, owners of projects put up wind equipment which didn't continue to function well so they got the benefit of the investment tax credit but the production from the wind turbine didn't meet the original expectations so there was a period of time when investment tax credits were not in favor because of that experience largely.

And - but recently with the stimulus legislation and the drive to utilize more renewable energy, the use of investment tax credits has pumped back into favor albeit with several provisions which guard against the type of adverse experience that occurred in the California area.

So there's some provisions in the detail that someone who seeks to take advantage of the ITC needs to take care of (unintelligible).

Now, there's also accelerated depreciation, 5-year accelerated depreciation and I've shown in the slide there how much of an acceleration actually occurs and so for the private entities that has a tax appetite, those are accelerated depreciation provide a tax shield against the taxable income. It can be valued on a real basis in terms of their tax base.

We - in addition to the production tax credit and the investment tax credit and the accelerated depreciation, the negative depreciation, there are also loan grants and guarantees available from the DO and those are quite important in the current financing department because there's a general loss of liquidity or ability to borrow in the capital markets.

So the federal loans guarantees that the credit is enhanced and a little bit more liquidity in the marketplace and we expect to see more banks lining up to loan money to wind farm projects.

There are also state and local grants available and that varies a lot by state. In Pennsylvania, for example, some of the studio's money granted to the state is being applied to the energy conservation and renewable energy project.

So on a state by state basis there are separate grant opportunities which are available.

Now, this is a little bit of detail about projects which would seek to use the investment tax credit. The first thing that the eligible basis for computing a tax credit is based on the project cost, but there is some pretty detailed rules about what's allowable in the project costs and what isn't.

So the experts project now that approximately 95% of the typical project costs or the typical costs that are involved in the liquidity of the project would be eligible to receive 30% of that amount of that basis amount would be eligible as a tax credit. And then the depreciation if you avail of the tax credit, the basis for depreciation, the negative depreciation is reduced by one-half of the credit amount.

Now, you can't use both the PPC and the ITC so you have to select one or the other, but the ITC is viewed more favorably under certain conditions so let's focus on what those divisions might be for a moment.

First of all, the - for the bail of the grant if you can get the 30% grant to the project, then that can help greatly in financing the project. Now, the rules for establishing those grants are still under development and not finalize, but I expect that they will be soon and projects will be lining up to unveil of those grants because there is a limited - there's a limited sum of money for those.

That's one reason why the investment tax credit is viewed quite favorably. Another reason that it's viewed favorably is that you get the money irrespective of the production assuming they put certain production criteria are met. So in the case where you get a slight degradation in the production of the wind farm compared to what you expected, that is not a factor in the investment tax credit, but it is certainly in the production tax credit.

So but a third area where the investment tax credit is attracted to everybody that's interested of availing of wind farms and by everybody I mean from the power purchasers people who favor renewable energy and people who are interested in seeing the renewable energy available at the best cost and in good quantity.

The ITC makes it possible for areas of the country which have lower wind velocity or lower wind energy on a sustained basis; you still support a commercial wind farm. In areas of our country, many areas are not - don't yield the 40% capacity factor as Dave was explaining in Nebraska.

Many areas of the country are more on the low 30's or even the high 20's and in these areas it's feasible with the investment tax credit to have a commercial

wind farm of a reasonable size. These commercial-size wind farms, the capital cost of those larger size takes advantage of the economy of scale so the delivered cost to the consumer to the purchasing utility is significantly less for a smaller project.

I think Dave - Dave's point about successfully partnering with independent power companies is an illustration of that; being able to access the larger size - power from the larger size facilities.

There are some conditions placed on the investment tax credits and the projects must construction by 2010 and they must be - conclude construction by 2012 and for the DOE grant aspect which many people and developers and project investors and power purchasers are interested in, that will be a front-end thing certainly so most of the projects to the veil of that will be started in 2009 or 2010 and will be completed in 2011.

Talk about the production tax credit for just a moment. The production tax credit has been the singular for incentive - government tax base incentive for the wind farms and one of the problems it has been has been it's lapsed. It's been enacted into laws and those laws have been lapsed and not been reviewed or in some cases the laws have been extended for 1-year intervals and it makes it very difficult for investors in all stages of this project life cycle to plan on what they want - on what they're doing commercially. You know, their decisions are very difficult to make because of the discontinuous nature of the tax policy.

So in this case the tax - production tax credit was extended through 2012 so that means all projects which are completed by 2012 are eligible for that tax credit so it provides a basically 3-year time window instead of a 1-year time window to unveil of that tax credit.

Now, we're sort of leaning behind the part of the presentation which focuses on what type of tax benefits are available to room, power projects, what types of incentives are available.

And now we're going to talk a bit about how they're applied or how they're used. So the first point I touched on briefly before, but there's lots of IRS rules and regulations so if you're as a public power agency, publicly owned power company involved in purchasing power from one of these projects, then the investors for that project are going to be examining very carefully all of these structure of that project, all of the factors to make sure that it adheres to IRS rules and regulations.

So there will probably be some lawyer tax experts doing due diligence to make sure that all of the IRS rules are complied with and that it's a virtual certainty that the tax benefits that they're valuing are going to be there as needed. There are re-capture rules so if there are changes in ownership along the way, this is one of the things that happened in California.

The original developers of the project took the tax credits and then flipped or sold the projects to subsequent owners and so there was an uneven distribution of benefits from the project and this seeks - these re-captures seeks to address that situation that arose in the past.

I mentioned there are very favorable situations to use - the upfront use of the credit and so the projects are generally try to be structured so that the - so that upfront use can occur.

Now, there are a variety of ways which - of which a public power agency or a publicly owned power company can unveil of this type of structure. Dave

Rich mentioned one of those which is to participate in the power sales agreement with a project that is owned by an entity who would use these tax - who would use these tax incentives.

You know, I presume that the entity emission energy that Dave spoke of there has other businesses or involved in the utility business not only nationwide but in Southern California so that I presume that what they're interested that they have other businesses which produce taxable income and so they can use these tax incentives for that purpose.

So then the public power entity can unveil of the lower cost energy which is possible through the use of these taxes, but there are other types of structures that have been used or are being used also for public power entities to avail of lower power costs through the use of these taxes.

One of the variations on the power purchase agreement that some have used is a prepayment and taking advantage of lower cost financing so that the public power agency actually prepays for the power that they will use and they don't purchase anywhere near 100%. They purchase some fraction of what's reasonably going to be delivered or available and they use the lower cost financing options as they have available or as they may have available.

This lower cost financing option provides a lower cost financing for the developer to complete the project and the developer is willing then to pass along that benefit to the public power agency.

There are other variations of different types of ownership structure that are available. One additional variation is called the field operate transfer. And these tax incentives typically exist for about 10 years so one of the structures has a private entity owning the project for its initial period of life and then

going to another owner. It could be the power purchaser of power entity having the option to purchase it later in life after those tax incentives have been used or largely used.

Another type of structure that has been considered and used in the past is a sale and lease back type of a structure and to illustrate what that might be, I'll use the example of a Gamesa developed project which we sold to a company that would have tax appetite - would be able to use the tax credit and so they would be the owner of the project and collect the tax benefits and then they would lease the project back to a third party who would operate the project and drive the power from the project and have an option to purchase it or to continue leasing it.

Obviously there's a - you know, there's several hybrid structures that are possible. Some of them become quite involved and need quite a bit of lawyer time and expense to prepare and produce so it's best to have a clear idea of how this all will work and what the costs are going to be in the prospects for success as you enter any particular commercial approach here, but these incentives that have been provided in recent legislation are very attractive.

I think they are going to be very meaningful and helpful for the development of wind energy projects and other renewable - other types of renewable energy projects. I think it will greatly facilitate the use of renewable energy across all spectrums of the energy consuming public.

I think it's something to look forward to finding proven ways to imply these incentives as the weeks and months roll by. I will tell you that Gamesa is - we're developing in several states, in Pennsylvania, Virginia, West Virginia, Ohio, Wisconsin, Illinois, Iowa, Minnesota, South Dakota, Montana, Wyoming, Colorado, Texas, Oregon, many, many different places.

We have a pipeline of about 5,000 megawatts and it's during the course of that (unintelligible) we are interacting with several public power entities and we do have proposals to them for sale of power and so this is an area of very vital interest and this is the very core of our business plan involved.

So with that I'll conclude my comments and turn it back to (Michelle).

(Michelle Suttleson): Thank you, Dan. We really appreciate what you've said.

Actually, thank you to all of our speakers.

Now, we're going to turn to the question and answer portion of the Webinar. If you have any questions for our speakers, please submit them through the question and answer tabs at the top of the live meeting window and I actually do have a couple of questions already.

The first one is, is it correct that state and local government issuers, municipal utilities, electric cooperatives and certain cooperative lenders are the ones that are eligible to issue CREBS and is there any one else that I'm missing?

I think Susan Petit can answer that.

Susan Petit: Indian tribal authorities are also eligible.

(Michelle Suttleson): Okay, great.

And I had another question I think for Susan. What does the geographic allocation of the 88 approved projects look like?

Susan Petit: Oh, it's spread pretty well across the country. I don't have that specific data right in front of me, but it is definitely spread across the country because you're talking about different types of resources too not just wind.

(Michelle Suttleson): Right. Okay, and also Susan or any of our speakers, I don't hear too much about REPI anymore, Renewable Energy Production Incentive.

Is that program defunct?

And I think I remember reading something about zeroed out in the President's fiscal year 2010 budget request. Do you know anything about what might be the - going on in the future with that program?

Dave Rich: This is Dave. I can assure that with our Spring view project and with our (Aimsworth), we did receive REPI payments, Renewable Energy Production Incentives that were designed for public power and they were initially set up to pay essentially the same as the production tax credit so on a 1 for 1 basis.

However, the challenge was that they were only appropriated approximately \$5 million a year and that needed to be appropriated on an annual basis. So we started out initially receiving close to the equivalent of the PPCs as the number of public power entities requesting these funds increased with the same level of funding, the percentage of what you actually received continued to decrease.

And so we went from 100% to 75 to 50 to 25 to 20 and to the point now where as you indicated the President's budget as I understand has no dollars in there and I think the concept is the initial dollars placed into the CREBS financing will replace altogether REPI.

(Michelle Suttleson): Does anyone else have anything to add to that?

Susan Petit: No, I don't have any additional information.

(Michelle Suttleson): Okay, great.

Okay, I have another question here I think for Dan. What specific parts of a wind project are ineligible for inclusion in the ITC cost basis?

Dan Noble: I don't have a, you know, ability to answer it in great detail, but let me answer it in a general way. The parts of the project which are clearly going to be allowed are those parts for the purchase of the hardware and, you know, the construction activity and the management and so on that go to the project.

But the things that are typically excluded are what I call soft project costs such as, you know, public relations and sort of things that are not directly tied to, you know, the actual project itself. You know, it would be typical - I think you can envision the type of thing that an auditor would disallow as not being, you know, really germane to the project cost.

I sense that's the best way to think of it, but for anybody that's interested in this specifically, you know, I think they should contact, you know, somebody who's - you know, whose in the accounting area in the - specifically familiar with the IRS rules about what's allowed and disallowed.

On a general basis it would be typically those things which would be disallowed because they are not really necessary for the project.

(Michelle Suttleson): Okay, I have another question here. Does this tax credit apply to the total installation cost of the wind turbine in this case or just the cost of the wind turbine itself?

Dan Noble: No, it applies to the total cost of the facility.

(Michelle Suttleson): Okay, let's see here. I have another question. Dan do you - can you share anymore experience that you've had working with public power utilities or co-ops? Have you any specific projects that you can share information on?

Dan Noble: You know, with the - we have a number as I mentioned during the talk; we have some discussions going underway with certain companies. At this point they're all subject to confidentiality provisions that I cannot - once we get to the point of announcing a project under these particular rules, then certainly, you know, we'll be able to. We're just not at that stage yet.

The projects that we developed are in some cases the power is being used by public power agencies, but we're not the owner operator. We develop projects to sell to others to private entities and to public entities so we're not - you know, we're really not in a position to speak directly about a project that we have with a particular agency at this time, but we certainly will in the future because we have a number of commercial discussions going on at the present time.

(Michelle Suttleson): Okay, great.

Well, I don't see anymore questions here so with that I want to conclude the Webinar on CREBS and TTC and thank you again to all of our speakers and to all the participants for joining us today and we are going to be putting up a slide - actually, it's up now.

If you have any questions related to this topic, you can feel free to send them to (Robert Putnam) and the Web site - the e-mail address is up there and we'll try and answer them and put the questions and answers on the Web site, the repartners.org Web site and also if anyone is going to be submitting for CREBS, that's a public power utility, we would be interested in knowing and perhaps we can help you and share some of the resources we have on the EPK Web site.

Feel free to send an e-mail to me and I will make sure to - you know, provide you with any assistance that I can and also there was a DOE was actually going to be presenting a Webcast today that I thought I would share with you.

It's free and it's at 3 o'clock East Coast time so that's in about an hour and 45 minutes. You can probably sign up and the information is on the slide there if you're interested in talking - learn more about CREBS today.

And with that I would like to say again thank you to the speakers and the participants and we hope to have you join you again in our next Webinar which is wind and renewable energy - I mean, wind turbine maintenance programs. That's going to be on July 29 and with that I will hand the controls back over to our organizer and thank you very much.

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