

COST OF WIND ENERGY, PROJECT FINANCING, AND FUNDING

February 16, 2011

Coordinator: At this time all participants are in a listen-only mode. After today's presentation, we will conduct a question and answer session. To ask a question at that time, please press star 1. Today's conference is being recorded. If you have any objections, please disconnect at this time.

I would now like to turn the call over to Mr. Randy Manion. Sir you may begin.

Randy Manion: Great. Good morning everyone. Welcome to today's U.S. Department of Energy Wind Powering America Monthly Webinar Series. And today the Webinar is on cost of wind energy, project financing and funding. We have three excellent speakers today; Amy Hille with the American Public Power Association; Mark Bolinger with Lawrence Berkeley National Lab; and Brian Minish with South Dakota Wind Partners.

And just a few housekeeping items before we get started. We will have the Q&A at the end of the Webinar. And you can either email your question or click on the Q&A button at the top of the screen and you can send you question that way or the operator will come in at the end of the presentations and you can - she'll select you and you can verbally ask your question.

So with that, oh let's go to the - and I'm also working through this blind everybody, sorry. My - out of all the days I can't get the My Meeting to come up today. So (Corrie) I'm on the second slide, upcoming WPA Webinars.

And we do have these Webinars monthly. It's at 3:00 pm Eastern Time each month. The March 16 Webinar, small and distributed wind and April 20 radar and wind systems.

And then the last slide, any questions can be directed or input to the Wind Powering American Program can be given to (Ian), (Jessie) or (Michele) and their email addresses are on the last slide.

So with that, let's get started with our first presenter, Amy Hille. Amy is a Government Relations representative for the American Public Power Association. She's been with APPA since 2008. And she's been covering tax, finance, appropriations, renewable energy and energy efficiency issues at APPA. And prior to joining APPA, Amy worked on Capital Hill for Kentucky Congressman Ben Chandler for four years.

And Amy, I'll turn it over to you to talk about challenges to financing public power wind projects.

Amy Hille: Great. Thanks so much Randy and thanks everyone for joining us today. As Randy mentioned, I work for the American Public Power Association. And just to give you a short background of who we are, APPA represents over 2000 state and locally owned electric utilities in 49 states, all but Hawaii unfortunately. And we server about 46 million end use customers in the country.

Public power utilities are non-profit and for renewable financing purposes, we don't benefit from traditional tax incentives such as the production tax credit. Public power utilities and electric cooperative utilities who are also non-profit serve about 25% of customers in the country. And we refer to those two groups together often as consumer (end) utilities.

Many of our public power utilities are ideally situated in terms of their location and their size to integrate wind into their systems. So some of the financing tools that we use for public power include purchase power agreements, which I'll go into more detail about; clean renewable energy bonds or CREBs, which you'll hear a lot about today; qualified energy conservation bonds; and tax exempt financing.

So first purchase power agreements are a tool that our members have been using a lot lately. Because of, you know, the difficulties in issuing CREBs, many wind and other renewable projects have ended up going forward using PPAs.

The way that this works is that a private developer who has been able to take advantage of the 1603 Treasury Grant Program which came about in the stimulus bill will contract with a public power utility to build wind power. And then the developer would receive the incentive, which is equal - a grant equal to about 30% of the cost of the project. And then they may pass a portion of that incentive along to the public power utility.

Obviously our members would prefer to receive that grant directly. Get the entire 30% cost of the project instead of just a portion of that. But unfortunately the way that the program was set up, it's not for non-profit utilities.

We were working in the last Congress to have some bills introduced and we did have some bills introduced that would expand the program to public power but unfortunately that didn't end up happening and the program was only extended as is at the end of the year.

The main financing tool for consumer end utilities has been clean renewable energy bonds. And I'm going to give you a little history of this program. The program was included originally as part of the energy policy as of 2005, which happened under a Republican House, Senate and White House, which we like to remind folks in the House of now.

The original program was extended twice as is and then modified in the Emergency Economic Stabilization Act of 2008. That was the bailout bill that people talked about to make it more workable for public power and more attractive institutional investors. And I'll go into more detail in a bit about some of those changes.

And then along with that bill and along with the stimulus bill, ARRA in 2009, those two bills combined provided an additional \$2.4 billion in CREB funding split equally between public power providers, rural electric cooperatives and the category of other government bodies. So government entities that are not public power utilities.

So just a discussion of those modifications that have been very useful to us. The big changes that happened in 2008 which we now call CREBs the new CREBs because of these changes; an actual category for public power was added.

Originally back in 2005, there were two categories and one category was rural electric cooperatives and the other category was called government entities. And the intention of the bill was really so that cooperatives and public power utilities could build utility scale projects. But within that government entities category, all government entities were included.

So we were sharing that pot with schools, maybe firehouses, city halls, things like that. And the allocation methodology at the time was the funding would go to the smallest projects first and up to larger projects. So all of the funding was being doled out to small solar panels on city hall, that kind of thing.

And very few, if any, actual public power utilities received any funding before these changes were made. So the allocation methodology only in the public power category now is pro rata. So anyone who applied for CREBs if they have a sound application, meet all the requirements, will get a portion of the allocation.

This has benefits and disadvantages as well because the problem is you don't know how much funding you will be getting when you apply. But at the same time, at least everyone will get something.

And then a big benefit for us in 2008 or sorry, 2010 in the HIRE Act in March, the direct pay feature was added to tax credit bonds including CREBs. And that allows issuers of clean renewable energy bonds to be able to issue the bond as a direct pay bond similar to build America bonds.

You could still issue it as a tax credit bond but you can issue it as a direct pay bond instead. And without getting into the weeds of what that means, it made the bonds a lot more marketable in a downturn economy. And it's been very useful for the program.

So some of the difficulties that we've had in issuing CREBs unfortunately are numerous. Since the beginning CREBs has been over subscribed as a public power utility. There have always been more applications for funding than available.

As a result, most public power projects since they have been getting the allocations have only received a portion. Our estimate was in the last allocation round in 2009. Those that received funding only received about 45% of the total cost of their project for financing.

And the economy has affected utilities' ability to secure financing and its limited demand to purchasers of these bonds. Like many other people in other situations, the economy had an affect in the appetite for these bonds.

And unlike the production tax credit, the investment tax credit or the 1603 Treasury Grant Program, the CREB program has an arbitrary cap. If we were an investor in utility and wanted to take advantage of the production tax credit, we would get as much of the credit as we needed based on how much we produced or in the case of the IGC, we would get as much as we needed to build a program - build the project.

But the CREB program has a cap. And again, as I mentioned, it was 1/3 of 2.4 billion. So 800 million total for public power. And then some other technical issues, the expenditure rules, reimbursement rules. In some cases our - or CREBs are complicated and restricted. Some of them are just plain flawed and we need to correct them.

And some of the changes that we're seeking for CREBs include lifting the cap on the program altogether. We also are seeking to eliminate the other government entity category so that we can take the program back to the original intent of incentivizing utility scale projects.

The other government entities also have the ability to use qualified energy conservation bonds now, which can fund those smaller scale renewable

projects as well as energy efficiency projects that some of those entities are really interested in.

So really aren't leaving them high and dry. There's a new program that we feel fits that sort of project better. And then some technical changes; as I mentioned, the reimbursement rules, expenditure rules. We want to put the bonds more in line with tax-exempt bonds so that it's less confusing in the market.

And last year toward the end of the year, Senator Cantwell of Washington and Congressman McDermott of Washington both introduced bills to make these changes that we're seeking and we're working with them right now to reintroduce the bills and hopefully to have bipartisan support on those bills.

So just a little bit about the allocations that did go out in 2009. Those were parsed out in October of 2009. Public power, as I mentioned before received 800 million or 1/3 of the 2.4 billion total.

Our wind projects that received CREBs allocation included projects in LA, Illinois, Massachusetts and then also several projects in Washington state. A lot of our CREB funding in general went to Washington state because they have so many projects proposed and underway.

And looking at these wind projects, to our knowledge none of the CREBs has been issued yet for any of these wind projects. And there are several reasons for that. One is that they actually have until October 2012 to issue the bonds. They get three years to issue the bonds. And if they're not issued within that three-year window, they go back to Treasury and then Treasury can reallocate them if they choose to. That's actually a new feature and it's pretty useful.

And also permitting challenges due to environmental concerns some of the folks that I talked to and our members said that that was what was holding them up which I'm sure many of you are aware of this or of this concern.

Then there can be a slew of other difficulties. Maybe they didn't get enough of the allocation that they were hoping for. They may have been hoping to finance their entire project with CREBs and realized that 45% just wasn't quite enough. Lack of interest in the market.

Also, we have some large members who have projects that exceed 800 million alone. They may have a \$1 billion project. So they know that it really doesn't make sense for them to apply. And if they did apply, they'd be taking up a large chunk of the available allocation.

So in the future we are continuing to fight on the Hill for comparable incentives for public power. And our goal there is because consumer end utilities, public power and electric coops serve 25% of end use customers, our goal is to get 25% of federal incentives. So just our fair share, not trying to get as much as the tax paying entities because they're bigger than us; just our fair share.

And going forward, public power is of course supportive of wind and other renewables. And in 2010 we were actually new - actually maybe it was 2009. Now we're actually the only electric utility trade association to come out with a resolution in support of a renewable energy standard. But with that renewable energy standard we do have a caveat that it should come with incentives for public power to build renewables of course.

So that's our standpoint. And I want to thank you all for listening to this portion today and here's my contact information if you have any questions.

And I look forward to taking any questions you have at the end of the other presentations. All right. Back to you Randy.

Randy Manion: Great. Thanks Amy. All right. Our next speaker is Mark Bolinger with Lawrence Berkley National Lab. He is a Research Scientist there where he focuses on analyzing the cost of performance and value of renewable generation within electricity markets.

Mark holds a Master's Degree in Energy and Resources from University of California at Berkeley and a Bachelor's Degree from Dartmouth College. And Mark I'll turn it over to you.

Mark Bolinger: Okay. Great. Thank you Randy and good afternoon everyone on the line. I'll use my 12 minutes today to provide an overview of a report that I released just a few weeks ago, the title of which matches the title of my presentation shown here.

The purpose of the report is to highlight the financial innovation that's occurred in the community wind sector over the past year or so as well as some of the policy changes that have facilitated that innovation.

To achieve this purpose, the report takes a case study approach of five recent community wind projects built in five different states across the U.S. It then concludes by distilling the experiences of these five projects into some common themes. And my talk today will largely follow the same format.

To introduce my talk I thought I would note how community wind has traditionally served as a proving grounds or test bed for not only up and coming - up and coming wind turbine manufacturers who are trying to break

into the U.S. market, and my first bullet here lists several examples of that, but also for project financing structures.

For example, one of the most common financing arrangements in the market today, the partnership flip structure was being developed and tinkered with by community wind projects in Minnesota more than ten years ago before being adopted and adapted by the broader wind market.

And what I want to highlight today is that we now seem to be in the midst of yet another wave of financial innovation, one that in some cases moves beyond the now standard partnership flip structures.

And in many ways this new wave of innovation has been fueled by policy changes. Most notable is the Recovery Act of 2009, which of course gave wind the ability to choose the ITC or 30% cash grant in lieu of the PTC.

This in turn enables lease financing, which had not been and is still not permissible under the PTC. Projects selecting the ITC or grant also need not worry about some of the PTC's anti-double dipping or haircut provisions.

New markets tax credits are not really new. They've been around since 2001 but they've only recently been tapped for solar project financings and have now for the first time been part of a community wind financing in 2010.

And these policy changes are not just limited to the tax code. The 2008 Farm Bill expanded the USDA's ability to lend to renewable generation projects even if they are not serving traditional rural markets.

We'll see each of these policy elements resurface as I walk through these five community wind projects to exemplify the breadth of the innovation that's

been occurring. I'll talk more about each of these projects individually with a notable exception of South Dakota Wind Partners, which I'm going to skip completely because we have Brian Minish who will follow me and talk more specifically about that project.

But here I just want to point out that there are a lot of firsts on this list. And these are not just firsts for the community wind sector but also for the U.S. wind market as a whole.

These include the first RUS loan to a standalone wind project, the first sale leaseback of a wind project, the first intrastate offering to combine both equity and debt and also to go to construction and then finally the first wind project to not only use new markets tax credits but also what's known as an inverted or pass through lease structure.

So let's get started off the coast of Maine and then work our way Westward. By now many of you are familiar with the 4-1/2 megawatt Fox Island's wind project, which has been operating since November 2009. The project sponsor is the local electric cooperative that provides electricity to the islands and also buys the power from the wind project.

In order to capture federal tax benefits, the cooperative had to form a for profit subsidiary known as Fox Island's Wind LLC whose two members include the cooperative and a local business that invested \$5 million in tax equity. The rest of the project is being financed through a \$9.5 million 20-year term loan from the USDA's Rural Utility Service or RUS.

And this loan is notable for two reasons. First, this is the very first time that the RUS has ever provided a loan to a wind project on a standalone project finance basis. RUS typically provides loans to established rural electric

cooperatives and in fact there's a common misperception out there that RUS can only loan to cooperatives.

But that's not the case. It is authorized to make non-recourse loans to wind projects but just hadn't done so yet. And there was reportedly a bit of a learning curve on both sides of the table for this deal.

Second, the RUS loan is guaranteed by the USDA, which means that it has a very low interest rate. It is priced at just 12-1/2 basis points above the corresponding treasury yield, which in this case translates to somewhere around 3.5% for this 20-year term loan.

The other implication of the guarantee is that the IRS does not consider loan guarantees to be subsidized energy financing, which means that you could actually combine this loan with a PTC and not cause a PTC haircut.

This project however elected the ITC rather than the PTC and at the end of the five-year ITC recapture period the cooperative will very likely buy out the local tax equity investor.

So the significance of this project at least from a financial perspective is that it brings together or combines two very different financing worlds that have up until now been largely separate; the world of tax equity on the one hand and the world of low cost government debt. And by combining these two, even this fairly expensive project at least on a per unit basis has been able to secure financing and be built.

Okay. Let's move Westward to Minnesota where earlier this year Project Resources Corporation and Union Bank of California announced the first sale leaseback financing of a wind project, the 25.3 megawatt Ridge Wind Project.

This is a 20 year single investor lease where the developer and sponsor, Ridge Wind Power Partners, sold the project's hard assets to Union Bank and then leased that equipment back to operate, maintain and manage over a 20 year period.

As lessor, Union Bank gets the Section 1603 grant, depreciation deductions and lease payments. Meanwhile lessee, Ridge Wind Power Partners, will benefit from any cash revenue that exceeds its operating expenses which of course include the lease payments that its required to make.

It's also worth noting that Union Bank not only serves as lessor but also provided the construction financing. And the fact that PRC and Union Bank each had to deal with just a single counter party for both construction and permanent financing greatly simplified the overall financing process and eliminated the possibility of inter-creditor issues cropping up.

Lease financing has been fairly common for solar projects in recent years. But some tax equity investors have questioned its suitability for wind mostly because the year-to-year variability in the wind resource can be significant which in turn can wreak havoc on a schedule of fixed lease payments.

But if you think about it, this risk is really not all the different from that which a company's term debt, which also of course requires that fixed payments be made regardless of how well the project performs. And this is particularly true with the Section 1603 grant, which not only reduces the amount of capital that needs to be raised but also reduces the project's performance risk relative to the PTC.

That said, performance risk is still a bit more of an issue with lease financing than it is with partnership flip structures which means that turbine choice

becomes all the much more important. The Ridge Wind Project uses turbines from Siemens, which is considered to be a Tier 1 turbine supplier and it is doubtful that a sale leaseback structure would have been as palatable to Union Bank if lesser known turbines had been selected.

Okay. The final thing I want to note about this project is that the community participation element will come into play only after the project is up and running at which time PRC will implement its Minnesota wind share program by opening up a portion of the project LLC to local investment through a private placement.

This is a relatively low risk approach that eliminates developments and construction risk and in this way it stands in contrast to certain other community wind models that tend to solicit high-risk early stage equity from local investors.

Okay. South Dakota Wind Partners is a very cool project but as I mentioned, I'm going to skip over it altogether because we have Brian Minish waiting patiently to talk more about it after I'm done.

So let's move right on to Washington State where the Coastal Energy Project is the first wind project to combine New Markets Tax Credits and the Section 1603 grant using an inverted or pass through lease structure.

New Markets Tax Credits provide a 39% investment tax credit taken over a seven-year period and they are intended to encourage private investment in low-income communities.

New Markets Tax Credits are interesting not only because they provide quite a bit of value but also because they don't flow directly from the project itself but

rather from a qualifying investment in an intermediary known as a community development entity or CDE.

In other words, they're sort of once removed from the project itself and for this reason most tax lawyers agree that New Markets Tax Credits taken in conjunction with the PTC will likely not cause a PTC haircut which could be worth keeping in mind if we do revert to a PTC only world after 2012.

As the name suggests, an inverted lease is essentially just the opposite of a normal lease in that the developer or sponsor plays the role of lessor while the tax equity investor serves as lessee. The appeal of this structure to developers is that as lessor they will automatically own the project at the end of the lease term. There is no need to buy out the tax equity investor at that time.

And the fact that the project sponsor retains ownership is also important from a New Markets Tax Credit perspective where again the idea is to stimulate investment in rather than acquisition of qualifying low-income businesses.

There's no doubt that this structure is certainly innovative. But I also want to point out that it is - it's extremely complex involving not just one but two different tax equity investors investing through two different CDEs. One of the CDEs basically provided a loan to the project while the other capitalized the sort of special purpose leasing vehicle with equity. And you can just imagine the transactions cost of pulling this deal together.

The replicability of this structure depends not only on the New Markets program being extended but also on continued access to the ITC or cash grant because once again remember that leasing is not permissible under the PTC.

So although it's certainly worth keeping New Markets Tax Credits on your radar screen, at least in my opinion the degree of complexity combined with potentially limited replicability going forward makes this structure somewhat less compelling for community wind and some of the other structures that we've talked about.

Okay. I think in the interest of time I'm going to skip over the nine-megawatt (PA2) project in Oregon. This project is not quite as innovative as some of the others I've covered. It is still essentially just a flip structure.

But I do want to mention that it does very well exemplify the degree of bootstrapping or resourcefulness that is often needed to piece together a workable financial package for projects of this size. So anyone who is interested, I would encourage you to take a closer look at the project in the full report.

Okay. So wrap this up, these five projects, only three of which I actually talked about, bring to light a number of general observations or lessons learned.

The first of these is that the Section 1603 grant has been critically important to most of these projects, none of which it should be noted elected the PTC. The cash grant reduces the need for tax appetite, simplifies the financing process, reduces performance risk, enables leasing and avoids haircut issues when using low cost government (unintelligible).

All of these elements are particularly important for community wind. Don't underestimate the need for seed capital. We tend to focus or get caught up in talking about construction and permanent financing but most of these projects spend somewhere on the order of half a million dollars or more in feasibility

and predevelopment work before even seeking construction or permanent financing.

As you'll see from Brian's talk, South Dakota Wind Partners in particular highlights the benefits of piggybacking on adjacent projects or nearby development. All five of these projects demonstrate the value that partnering with experienced professionals can bring to a project.

In general these are complicated projects, as I mentioned, in many cases representing industry first and it's simply not all that realistic to think that a landowner or first time developer or even an experienced developer will be able to easily find success by going it alone.

Consider the RUS as lender. RUS debt has often been overlooked on the false presumption that only cooperatives or similar entities are eligible. But we now have examples to prove that that's clearly not the case.

New Markets Tax Credits, as I mentioned, can be complicated to structure but are nevertheless worth keeping in mind as they do provide quite a bit of value and will likely not cause a negative interaction with PTC going forward.

Be prepared for a long haul. Developing a utility scale wind project is a complex undertaking and could easily take five years or longer as demonstrated by several of the projects that I reviewed.

And then finally, the challenges don't necessarily end once you've financed and built your project. Several of the projects that I reviewed are now facing operational challenges ranging from integration issues to trying to comply with noise regulations.

And that's all I have. Here's a link to the full report as well as my contact info if you have any questions. Thank you all for your time and attention. And I'll turn it back to you Randy.

Randy Manion: Great. Thank you Mark. Our next speaker, Brian Minish, co-owner of Val-Added Services Corp and CEO of South Dakota Wind Partners. Val-Add Service is a consulting company that has been very active in ethanol development as well as several other agricultural ventures and specializes in assisting new entities to develop business plans, designing their corporate structures and raising capital.

Val-Add Service assisted South Dakota Wind Partners during their startup and continues to provide management services. Brian.

Brian Minish: Thank you and welcome everybody for joining this part of the presentation today. I will quickly go through the kind of the overview of the SDWP project and then get into the more details on the financing piece. Now I can't get it to advance.

Okay. Can the operator advance this for me?

Coordinator: One moment.

Brian Minish: Thank you. The - our entity got formed as a coalition between four groups that started basically with East River Power Electric who is the regional distributor for the coops in our area and had been looking for a method to get more investment from what we would call ordinary investors in South Dakota into the wind opportunities.

So they worked with South Dakota Farmers Union, Farm Bureau and the Corn Utilization Council, they all kicked in \$20,000 and put together this entity. Next slide please.

The scope of the project was we were going to put of seven turbines that would be added onto 101 turbines that Basin Electric is putting up through their Prairie Winds subsidiary. So our project was about a \$23.8 million project and we were going to be utilizing the 1603 30% grant for 6.7 million. So we had another 17.15 million that we needed to secure for financing the project. Change please.

So what we had done is we worked out a number of agreements with Prairie Winds; a overall agreement and engineering procurement and construction contract, operating maintenance agreement, power purchase agreement, an interconnection agreement and mutual option agreement. Advance please.

Just a quick summary of those. Basically our agreement was that Prairie Winds would be constructing our towers and turbines just exactly as they are doing there. So they are identical in nature. They actually did all the procurement for me. They put up GE turbines. And we did not as a CWP participate in the transmission lines that they were building to the substations where they would then be connecting to (WAPA).

Our agreement with them was that we would be paying a proportional cost of the entire project. So of the 108 turbines that were being construction, we would be paying for seven of them, so 6.48% of the entire project. Advance.

And then we had an operations agreement, basically our costs for maintaining operating our project would be the same proportion as what the - we are of the

whole project. So we were paying 6.48% of the operations and maintenance. Advance.

For risk mitigation we basically had it set up in our maintenance agreement that everything that we - that was not a major part of the project as far as an asset, those risks would be mitigated through our maintenance and operation agreement where we would just be paying a proportional cost of anything that went on.

If there was a destruction of one of the towers, we would then have insurance for that. So that was a way we took some of the risk out of the project for not, you know, having - have had the lemon tower out there that would be ours and have to worry about some higher than normal maintenance costs on that. Advance please.

And our electrical sales we had. Through our power purchase agreement we had a set 20-year agreement with them at 4.3 cents and with an escalator clause in that over the years. Okay.

And then as an exit strategy and looking at our investors, you know, we figured what term did we feel that would be useful and plus looking at the requirements in the 1603 grant.

We had a mutual option agreement whereby at the end of about 6-1/2 years we have the option to sell the - our seven towers to Prairie Winds and they have an equal agreement to be able to require us to sell it to them. So we expect to exit this investment for our investors at the end of about 6-1/2 years.

So with all of those things tied up, I'm going to turn to the next page here now, then we were able we thought to put together investment opportunity for what

we call just regular retail type investors across the state. We thought we took a lot of the risk out of the project. We had obviously a well-respected construction group with Basin building it for us. We had the power purchase. We tried to mitigate the risks and we had an exit strategy.

So what we wanted to do then was to raise both the debt and the equity from our investors. We wanted to sell these investment opportunities to South Dakota investors at primarily were members of the four sponsoring organizations.

We knew that we needed to target some of our investors as being those that are looking for a regular fixed return and others that are looking for some of the tax benefits that would be available.

So we developed a capital structure that would give us both a balance of equity and debt that would be pretty commonplace for these type investments and still create what we thought was a reasonable risk reward structure that attracted capital. And page please.

So what we put together was a South Dakota public offering. Obviously it would be for South Dakota residents only. But it allowed us to go out and promote this offering being it was a public offering. We didn't have the credit investor requirement that you would get through a private placement offering.

And also because we wanted to prevent having to become a public reporting company, we broke it into different classes of investors and they just had to be different from each other enough and that would then allow us to have up to 500 in each of the different classes so that we could grade - we thought the amount of capital that we needed from a wide enough group of potential investors.

We put - our equity units that we offered were offered at \$750 a piece. And we offered notes for a maturity that would be six years and nine months. Okay.

So we put the three different classes of offerings together. Each class required a purchase of an equity piece and a debt piece or a note. The debt offerings were all the same, the six years nine months, which would be at the point where the agreement would be kicked into place on the option for Prairie Winds to purchase the project at the end. So it gave us our financing to the entire expected term of the project.

And we made only so much of each class available so we'd have the right balance of equity and debt when we were done. Each equity class that we provided had a little different set of rights with them which were required to make sure we had enough differences to be allowed to have up to 500 in each of the classes according to securities laws. Next.

Offering structure, again, all the units offered were equal entitled to their earnings of the company and the tax laws. So the equity piece they all looked the same. Each class of debt that we offered earned a specific rate of return that would have been paid semiannually.

And the debt offering is secured by the assets of the company of which the only thing that would be ahead of them was an interim loan that we had for a short period of time to cover the grant funds that we would get back at the end of the project. We secured those grant funds - that portion of the funds with CoBank and it worked very nicely for us. We'll be able to pay back that when we get the grant back at the end. Okay.

So let's take a look at each of the classes of offerings that we made. There was a requirement for a \$15,000 minimum investment in our Class A. They would be buying \$750 worth of equity in the project and then equivalent to 19 units of debt. So they'd have a note for \$14,250 and we were paying 7% interest back on that debt.

Now we understand that this is a premium we're paying for the debt. But it's a way to funnel the opportunities from this investment back to our investors through a note with a specific rate of return. We structured it so that the Class A investors were entitled to one vote per person, more like a coop look would be.

Again, that made it a different right than our other groups which is again one of the requirements under securities laws if you're going to have multiple classes and they would be a (Fed A) preferred status when we make a final distribution. So there's some rights differences that way and they would be able to elect one member on the board of members that we had there. Next.

Our Class B investment option again with \$15,000 investment but you had to buy two units of equity or be a \$1500 equity investment then a note for \$13,500, which left - which would be paid at an interest rate of 6-3/4%. Again, different terms under this. And again, both the A and the B would be targeted people that are looking primarily for a fixed investment return.

And so as you can see, these types of rates were very preferable to what CD rates or anything comparable probably was on the market here especially last summer when we were offering this. Little bit different in their voting rights. As you can see, one vote per unit rather than one vote per member. And difference in priorities and they elected two board members of the seven. Next.

The Class C investment option was geared more toward somebody that could utilize the tax losses that would be generated over the first six years of the project. With the accelerated depreciation that was available, this made this a good investment for somebody that is going to have tax liability.

And they were more weighted at the opposite direction. They would be buying 19 units of equity. So for their \$15,000 investment, they'd have \$14,250 worth of equity investment; only \$750 worth of a note that was paying 5.5%. Again, they were - these investors were allowed one vote per unit. They were third in distribution rights at the end but they did get controlling interest on the board of managers at four of the seven.

Again, we were allowing only - people to only invest in the increments of \$15,000 because we had to have in each investment then the right balance of the equity and debt that they were after and to get that proportional, we needed to do it in - all in \$15,000 increments. Next.

So when you look overall and we were done, the Class A was primarily debt investment, Class B was primarily debt investment, Class C was primarily equity investment and then the grant came in obviously which would all come in as equity. And so it gave us a nice balance at the end of actually having a little bit more equity than we had debt in the overall financing of the project.

So this was not - going out and raising retail funds like that was not new to us. As Val-Add Service Corporation we had done a lot of this type of work in the ethanol industry as it was built in the process area. So we had a pretty ready group of potential investors to go out and talk to with the membership we had in the four sponsoring organizations.

And so it was a rather unique way of doing it. Met our objectives of both a balance of debt and equity and be able to provide we think a reasonable rate of return to investors across the state. We raised about that 17 - just under \$17 million in about six weeks in our offerings out here. And the project is just completing construction right now and hopefully it will be operational within the next 30 days. Next.

That's all we have.

Randy Manion: Thank you Mark.

Brian Minish: Okay.

Randy Manion: So let's - is the operator there?

Coordinator: Yes I am.

Randy Manion: I think we're ready for the Q&A.

Coordinator: Okay. If you would like to ask a question, please press star 1 on your touchtone phone. Please un-mute your phone and record your name clearly. To withdraw your question, please press star 2. Again, to ask a question, please press star 1. One moment please.

(Guy), your line is open.

(Guy): Oh thanks. Thanks Randy for putting together a great group of speakers here. I've got a question of Amy. I was struck by - and I appreciated your work on getting the APPA to get a national renewable energy standard in place.

And I was wondering given the fact that you've got 2000 members, it's hard to believe you've got all of them marching in the same direction. Congratulations on that. Can you share with us the - how you were about to get the buy off on that?

Amy Hille: Yes. It definitely was a controversial resolution. You know, I think it - we were pretty specific about what we would support which was 15% by 2020, similar to the (Bingaman) RES.

And I think for us it was important to talk to our members about the fact that, you know, at the time we really felt like an RES was inevitable and it was better for us to kind of be onboard and be at the table and help shape that legislation. So it was something that was really possible for our members to comply with instead of just fighting it at the time.

So, you know, that's how we came to agreement at the end of the day. And we probably still have some members that aren't too happy about it to be honest.

(Guy): Okay. Thanks. Thanks for the candid remark.

Coordinator: And the next question comes from (Nat). Your line is open.

(Nat): Hi. Thanks everybody. Really great presentations. Brian, on your South Dakota Wind Partners project you mentioned that you didn't have any part of or you were just tying into all of the transmission work that Basin Electric was doing.

With all of the competing projects in South Dakota, just a huge mass if you think about all the tribes that want get it on and all the private development, do you think you're create a financing solution will work for others that are

coming along the line as the capacity for transmission starts to get gobbled up as your projects start to be the first in the door for capacity?

Brian Minish: Well I think there's the opportunity for it. Obviously there will be limited availability of capital just from, you know, local investors, South Dakota investors. But I think you - if you bite out the proper proportion for local financing, I think you can do that.

Ours was a total of \$23 million with the 1603 grant of a project that was in the like \$350 million range. So - and we bit that amount off because that's what we thought we could raise locally in the area with our experience what we've done in the ethanol plant. So I think it's going to just - if you size it right, I think you can replicate this a number of times.

(Nat): (Unintelligible).

Coordinator: Your next - did you want to go to the next question or...

(Nat): Well just have the facilitators remind us that there's a way that we can all get the PowerPoint slides or not.

Randy Manion: Yes. This Webinar has been recorded. So the recording will be on the Wind Powering America Web site. And if you would like a copy of the slides, email me and - at manion@wapa.gov and we'll get you a copy.

Woman: Repeat that please.

Coordinator: I think he did drop out of the queue.

Randy Manion: The Webinar has been recorded. So you can find that recording on the windpoweringamerica.gov Web site in about a week or so. And then if you are interested in copies of the slides, email me at manion@wapa.gov and we'll get you the PowerPoint.

Coordinator: And the next question comes from someone who did not record their name. If you press star 1, your line is open. Please check your mute button. If you pressed star 1 on your phone, your line is open. You may ask your question. Okay. And again, if you would like to ask a question, please press star 1.

Randy Manion: There's a few questions that were asked over the chat and I'll go ahead and read those. The first question is for Brian. Brian, what was the cost for the all in maintenance contract for the South Dakota Wind Project?

Brian Minish: The cost for the maintenance contract. We just are doing that on a proportional basis. The total cost for operating and maintenance will be determined on a monthly basis and we pay 6.48% of that cost on a monthly basis.

Randy Manion: Okay. Another question for you. What was the value proposition for the Prairie Winds and having South Dakota Wind Project finance a portion of the overall project, i.e., what made it worthwhile for them to go to the trouble of carving out a turbine steam for ownership by a second party? And would Prairie have installed those seven turbines without your group's investment?

Brian Minish: We got that a question a lot if we were out raising the capital for this and I don't know we've ever asked them directly. But our guesstimate is there are a couple of things. I don't know that they would have added the additional turbines on or not.

I believe they had a certain amount of tax appetite and the extent of the project that they had originally planned for probably met that. So I think that that might have been one of their reasons for ending at that point.

We believe one of the real significant benefits to them is the political side of this. There now are about 650 direct wind investors in the state of South Dakota. So as legislation or anything like that is needed on a state basis, there is a significant pool of interested parties out here now that could - well I think help support those efforts as they look legislatively.

And in a state like South Dakota, 650 interested people can make quite a loud noise in our political environment. So I think there's some real political gains. And I think the other piece was I know that what East River wanted to do initially was be able to respond back to their ownership which are people across the state of South Dakota in saying, you know, why can't we participate - find a way to participate in wind energy investments.

And they were able to satisfy I think their membership, which Basin being the coop it'd be also their membership. So I think there was a - those types of incentives is what drove them to do it.

Randy Manion: There was another question. Are regulated for profit utilities eligible for Section 1603 cash grant. Amy, that may be best for you.

Amy Hille: Investor and utilities are eligible for the 1603 grants. I think some of them had a hard time maybe actually accessing it. I'm not an expert on the IOUs but in theory, yes, they should be eligible.

Coordinator: I do have a few questions that came in on the phone. Did you want to take them now?

Randy Manion: Sure. Yes, please.

Coordinator: Okay. The next one is from (Heather). Your line is open.

(Heather): Oh, this is me?

Randy Manion: Yes.

(Heather): Sorry about that. So I was curious about feed-in-tariff. If they would help the size of projects or utility own projects, consumer owned and if so, what level of payment would be needed to benefit, you know, say a statewide or national feed-in-tariff?

Mark Bolinger: This is Mark. I mean I don't really think I can answer this one adequately but I'll take a stab. Certainly community wind projects got their start over in Europe under feed-in-tariff regimes. So, you know, it is a mechanism that can work with these types of projects. I think it's kind of speculative to think about a national feed-in-tariff in the U.S. and what sort of level might be needed. So I think I'll just sidestep that part of it altogether.

Coordinator: Did we want to take the next question?

Randy Manion: Sure.

Coordinator: Okay. (Eric), your line is open.

(Eric): All right. Thank you. This is a question for Brian. The - you know, the PPA, is that with Basin for the full 20 years?

Brian Minish: It's actually with Prairie Winds...

(Eric): Okay, with Prairie Winds.

Brian Minish: ...with wholly owned. A subsidiary of Basin but technically it is but in substance it's - yes, it's actually with Basin for 20 years.

(Eric): Okay. So all right. That's going to stay the same. Why did you want to get out after six years and nine months?

Brian Minish: Well, a couple of reasons. First of all, the tax advantages you're able to fully optimize after the six years because of accelerated depreciation is available in this project. So we're able to deliver all of the tax benefit to our investors. Also, we are not repaying any of the principle on the note the way we have them out. We're just paying interest.

And so when we can sell it at the end of the 6-1/2 years and because of the grant that we're able - that we got on it, the 30%, we're able to sell it at that point in time back to Prairie Winds at a price that would fully allow us to pay off the principle amounts on the notes as well as return a reasonable amount back to the equity holders in the project.

If we continue beyond that, we would have to start paying down principle and it wouldn't cash flow nearly as well. So it seemed a reasonable length of term for us to do it that. Plus I think it's a reasonable length of time for people to tie up their investment capital for the returns that we were investing.

(Eric): Great. Thank you.

Coordinator: Your next question comes from (William). Your line is open.

(William): Yes. This is (William). How can you get financing for your small scale 20 megawatt project or less especially in South Dakota when, you know, a private project when none of the local (Mesos) or ISOs will buy your power whether you have a (PERPA) - a no (PERPA) requirement within that state?

Brian Minish: Well it's difficult today. I don't know that we go out and find somebody like we did with Basin on the project we did that it would give you a power purchase agreement for a considerable length of time. That's definitely the secret to it is finding somebody that's willing to purchase the power and obviously you have to be in a location where you can get on some distribution that'll get it to them.

So it's not really easy to do. Until we get some additional transmission and have access probably to some larger markets where we can get some more power purchase agreements.

(William): Would you say that by buying your equipment from Basin, having equipment - having Basin install your equipment and then having Basin buy it back from you after seven years that that was a very strong impetus for the utility not to give up market share and to be able to get back into the power business to give you and your customers what they wanted and at the same time give Basin what they wanted which is kind of be the only player in the game?

Brian Minish: Well I don't know - I can't speak for them what their incentives were that way. But I - like any business agreement, if you going to find something that's a win-win for both sides, that's usually when things happen. And I think there was something for both parties in this agreement to benefit from. And they - I don't know whether it was important for them to control that or not. But it was a good arrangement for us and I believe they feel it was good for them.

(William): All right. Well I'll take that as a yes. Thank you.

Coordinator: And again, to ask a question, please press star 1 on your touchtone phone.

Randy Manion: All right. I have a few more written questions. This one's for the group. What would the prospects be for all of these projects if the 1603 cash grant program is not extended and we go back to the PTC?

Mark Bolinger: This is Mark. I'll take a stab at that one. I think the prospects would be fairly dim in most cases. In some cases we're talking about actual regulatory hurdles of - well for example for the Ridge Wind Power Partners project lease financing is not permissible under the PTC. So just mechanically that project could not have happened as it did if the grant were not around.

You know, given the quality of that project, it may have been able to proceed under the PTC but certainly not to a lease structure. I think for South Dakota Wind Partners the grant played a big role in reducing the amount of tax appetite and that was ultimately required among the Class C investors that Brian talked about.

So, you know, whether a ten-year PTC and the risk that that entails would have been feasible in that situation is also I think somewhat doubtful.

Brian Minish: Yes. This is Brian. I'll concur. The extent of the tax appetite out here currently is not real large. We raised the class - they're using Class B funds much more quickly. The Class Cs are the last ones we had to fill out because there just isn't that tremendous of a tax appetite out here. So it helped us considerably having it as a cash grant.

Amy Hille: And this is Amy. I'll just add that even though public power can't use the 1603 program directly, we are still using it indirectly. And in a lot of cases our members are finding that it's the best cost for building renewable projects is to use the program indirectly through a private developer, so. It will also harm us actually if it, you know, expires.

Randy Manion: Okay. I have another question. And this is for you Mark. Could a community wind project be established to serve a large end user who owns multiple commercial office type buildings located in multiple locations?

Mark Bolinger: Okay. It sounds like you're talking about a behind the meter application in that case which means that the answer is going to depend on which state - in which state you're located and what sort of rules they have in place for net metering.

Some states do have what's referred to as virtual net metering where they allow you to aggregate meters from different locations and apply the generation from a single project against multiple meters. Other states aren't quite as far along in allowing that. So I think it's really a state-by-state answer there. But it is certainly something that can be done in the right situation.

Randy Manion: Okay. Brian, a question for you. Were there any investment - foreign investors or were they - foreign investors allowed to participate in the South Dakota Wind Project?

Brian Minish: No. Because it was a state public offering, we were limited strictly to residents of South Dakota.

Randy Manion: Okay. This question is for either of you Brian and Mark. Is there or will there be a secondary market for these instruments at some point? And did you construct the scheme in such a way? I guess that would be for you Brian.

Brian Minish: Yes. We plan to have secondary market. They are restricted to holding their original investment for nine months. And after that nine months we expect there to be a secondary market established where they could be traded.

Randy Manion: Okay. Next question. And one point it was unclear if public sector entities were allowed to own electricity generation projects other than for self-generation. If excess power is sold to the grid, it might be viewed by the IRS to be private business use and the bonds could lose their tax-exempt status. Do we have the answer to this question yet?

Amy Hille: I can take this. That is still considered private use if there, you know, there's a limit how much can be used for private business use so we really are limited in the amount that we can sell off.

If you're financing a project with CREBs, CREBs does not have private use restrictions but tax exempt financing does. And that's something that is on APPA's tax priority list just for easing some of those private use restrictions and at least taking things back to where they were pre-1986.

Randy Manion: Okay. Next question. Could such an arrangement as used in South Dakota be applied to scattered site single turbines?

Brian Minish: I imagine that it could if you could find the same type of risk assurances that we were able to get as far as a PPA at the right price. Probably one of the limiting factors there is in differences is we were able to because of our cost structure and the construction by piggybacking with Prairie Winds. We were able to take advantage of the cost efficiencies of a 108-turbine farm.

When you do that on an individual basis, I think the cost structures will change significantly. And that may limit the feasibility of it a lot more. I think you could use the structure but you still have to put a business proposition together that will attract the capital. I don't know that you could do that as easily.

Randy Manion: Okay. Next question Amy probably for you. Where can we find out more information on pending CREB projects?

Amy Hille: Well, that's kind of a good question. You know, there is information out there. The IRS does now publish their list of allocations. So that's on (wine). You can see what projects have received CREBs for 2009 and there's a list from 2007. Before that, they didn't publish the recipients so we have very little information there.

But as far as, you know, where each recipient is in the process or issuing the bonds, there's really isn't information out there about that unless you call them directly.

Randy Manion: Okay. Operator, any other questions pending?

Coordinator: I do have another one on the phone. One moment.

Your line is open.

(William): Yes. This is (William) and - again. And I've got a relatively simple question but it's probably a difficult answer. If you're going to finance schools or you're going to finance let's say non-profit organizations whether they be associated with religious entities or clubs, what would be the best way to get those funded and financed?

Amy Hille: This is Amy. That's definitely beyond my area of expertise for public power. Sorry.

Mark Bolinger: And I'll throw out one option here that's become popular at least in the solar sector and that is third party ownership. So I presume you're referring to maybe a single turbine located at a church or non-profit or something like that. Basically in certain situations you can have a developer who's able to benefit from these tax benefits, own the project and operate it and just sell the power to the non-profit entity.

And if you're in the right state and have the right incentives, you can often work out the deals so that the non-profit ends up paying less for the renewable generation than it would pay to the local utility for conventional power. So that's one option that's probably more feasible in the solar sector than wind although, you know, certainly it's possible with wind.

Brian Minish: Well I can understand that response. We do have one school that's a bit of an oddity in Walla Walla, Washington that is putting in 67 turbines on their campus. And these are all a megawatt and a half or better. And so of course funding and financing is an issue for the college. So thank you.

Coordinator: Again, to ask a question, please press star 1.

Randy Manion: Okay. There's one more written question. What is the average cost of generation per kilowatt-hour for these wind farms? How much does transmission add to this cost?

Brian Minish: Well I can just speak for ours. We were about \$2300 a meg without transmission costs. So that's - again that was building on the scale of over 100 turbines in the project.

Mark Bolinger: I can throw out a few data points maybe. I believe the Coastal Energy Project in Washington is selling its power at a price that starts somewhere around \$75 per megawatt hour and I believe it escalates after that. Just looking at the list of projects. I don't think I have actual good information on cost of generation for any of the other projects that I looked at.

Randy Manion: So that concludes the written questions. Operator, any more verbal questions?

Coordinator: At this time I am showing no questions on the phone.

Randy Manion: Well I want to thank our three speakers who did an outstanding job. And thanks to the audience for asking such great questions. Again, we look forward to having you on next month's call on small and distributed wind.

And please let us know if you had any technical problems today. I had a problem and it's probably on my end but if you had some problems that you think were on our end, please let us know so we can make sure that next month's Webinar is even better yet.

And with that, thanks everyone and we'll see you next time.

Coordinator: This concludes today's conference. Please disconnect at this time.

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