



Developing a Model for Success

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Tax Benefits

- 5 year Accelerated Depreciation
- Federal PTC = 2.1 cents per kwh Sold
 - This credit began at 1.5 cents in 1992
 - Due to expire at the end of 2009
 - Extended or Modified?
- Tax Law Precludes Effective Use of PTC by Local Individual Owners
- Outside Investor Takes a Majority of the Tax Benefits
- Large C-Corporations are Best Suited
- Most investors will not commit until Certain Key Agreements are in Place

Key Agreement

The Power Purchase Agreement (PPA)

This is where accurate

- ☀ Cash Flow and
- ☀ Tax Consequences

modeling is so important to insure you have a sellable project



Key Factors to Consider

Items Drive a Significant Portion of your Model

- ✦ Capacity Factor
- ✦ Project Cost
- ✦ Projected Maintenance

Other Items to Consider

- ✦ Local Owner Royalty Payments
- ✦ Lease Payments
- ✦ MN Production tax
 - ✦ 2 MW or Less = .012/kwh
 - ✦ Over 2 MW up to 12 MW = .036/kwh
 - ✦ Over 12 MW = .12/kwh
- ✦ MN CBED Security Fund or Letter of Credit
- ✦ Maintenance and Warranty Costs
 - ✦ Both Scheduled and Unscheduled
- ✦ Insurance
- ✦ Utilities
 - ✦ Telephone Communications
 - ✦ Turbine Electricity Use
- ✦ Management and Professional Fees

Goals

- ☀ Find the Proper Power Purchase Agreement Rate to provide adequate cash flow to:
 - ☀ Cover Operating Annual Expenses
 - ☀ Debt Service
 - ☀ Local Owner Payments
- ☀ Support Investors Required Return – Keep in Mind a Significant Portion of the Investor's Return is from the Tax Attributes (Depreciation and Tax Credits)
- ☀ Bottom Line – You want a project that you can sell to the bank and to an outside investor



Develop a Financial Model to
Make Your Project a Success