

# Wind Energy Options for Farmers & Rural Landowners: Risks and Rewards

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## Outline

- About Windustry
- What makes a good wind project
- Landowner Options
  - Lease Your Land
  - Community wind: What is it?
- Risk vs Reward for landowners
- Successful Case Studies



# Windustry

- Non-profit organization based in Minneapolis, MN - work locally, regionally and nationally
- [www.windustry.org](http://www.windustry.org)
- Focus on community wind, landowner options, and rural economic development
- Provide landowner education, outreach and technical assistance

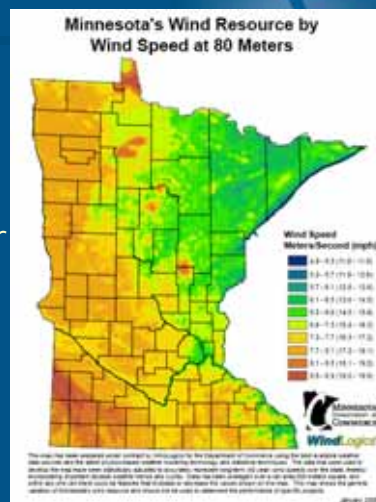


**Mission Statement:** *"Windustry promotes progressive renewable energy solutions and empowers communities to develop wind energy as an environmentally sustainable, community-owned asset. Through member supported outreach, education and advocacy we work to remove the barriers to broad community ownership of wind energy."*



# What makes a good wind project?

- Quality Wind Resource
  - Verifiable data, at least one year
- Proximity/access to the power grid
- Cost of Capital
- State and Federal Incentives
  - [www.dsireusa.org](http://www.dsireusa.org)
- Market for the Power



## Landowner Options

- **Lease your land to a wind project**
  - Local project
  - External developer
- **Be a partner in a community wind project**
- Put up a residential or farm size wind turbine for your own power

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### Wind Development: Risk vs. Reward



## Leasing your land to a developer: Leases & Easements

- Main way for landowners to participate in wind energy development
  - No cash outlay
  - Low financial risk
- Few standards: range from good to bad to ugly.
- Compensation varies widely based on turbine size, wind resource, price of energy and many other factors.
- Long term commitments – usually last 20 to 40 years.
- Best results when landowners make informed decisions.
- Options for easements and leases are typical components of most wind energy projects, large and small.

## Windustry's Package of Lease/Easement Resources

Materials include: (will be updated in early 2009)

- Easements and Lease Agreements – What might appear in these contracts and what to watch out for. An updated version of Windustry's original "Wind Energy Easements: Legal Issues."
- Compensation – Compilation of compensation packages from real wind projects.
- Policy and Best Practices – Recommendations and Proposals to facilitate sustainable wind development.
- Bibliography of additional resources.
  - Farmer's Legal Action Group report on Landowner options
  - Steel Rives LLP guide "The Law of Wind"



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## Lease vs. Easement vs. Option

- Lease
  - – Contract for exclusive possession of land for a period of time for specified compensation
  - – Parties may specify terms
- Easement
  - – Permission to use an area of the land, while the landowner retains ownership
- Option
  - – Right to obtain lease or easement rights at some point in the future
  - – May be useful during period before developer knows for sure whether project is viable



## Compensation Packages – How much can you expect?

- Old: \$2,000 per turbine year.
  - Based on turbines in the 600-750 kW range.
  - "Average" figure popularized in late 1990s.
- New: bigger turbines (1.5-3.0 MW) usually mean bigger payments.
- Often, landowners will receive various payment depending on the stage of development
  - Initial Payment/Signing Bonus
  - Pre-Operation Fees
  - Operating Fees
    - Fixed Payment: About \$3,000-\$6,000/MW
    - Royalty Payment: About 2-3 % royalties based on revenue
    - Some leases do a combination of the two factors



## Before you sign on the dotted line...

- How much of my land will be tied up and for how long?
- How much will I be paid and how will I receive payments?
- Are the proposed payments adequate now and will they be adequate in the future?
- How will a wind project impact my other land uses?
- Who will be responsible for decommissioning the project at the end of the lease?
- Who is responsible for associated taxes?
- Have I considered all of my other options and is this the best one for me?

*More questions listed in the Outline.*



## What is Community Wind?

### **Working Definition:**

- Locally owned, commercial-scale wind projects that optimize local benefits.
  - Locally owned means that members of the local community have a significant direct financial stake in the project other than through land lease payments, tax revenue, or other payments in lieu of taxes.



## Minnesota Supports Community Wind Through Public Policy

- Renewable Energy Standard (RES)
  - 25% X 2025, & 30% X 2025 for Xcel ([Minn. Stat. § 216B.1691](#))
- Renewable Development Fund
- Production Incentives - Small Wind Tariff
  - 1 to 1.5 cents per kWh for projects under 2 MW
- Net Metering for systems under 40kW
- Community-Based Energy Development Tariff (C-BED)



## Windustry Resources: Community Wind Toolbox



# Wind Project Ownership Levels of Local Investment

## Varying Degrees of local Investment/Value-added

- Some local organizing, debt & equity investment
- May or may not stay locally owned
- Example: Trimont Wind



### Lower Levels of local Investment

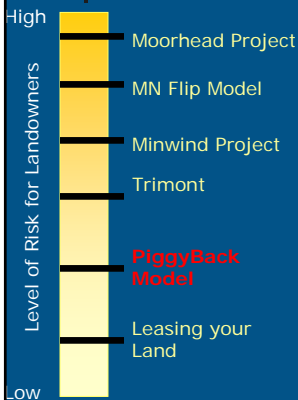
- Conventional Developer Owned Wind Projects
- Local involvement limited to taxes, land leases, and indirect economic benefits



### High Local Investment

- Public Projects
- Community or Farmer Owned Projects
- Examples: Minwind Energy, Schools, Municipal Utility or REC

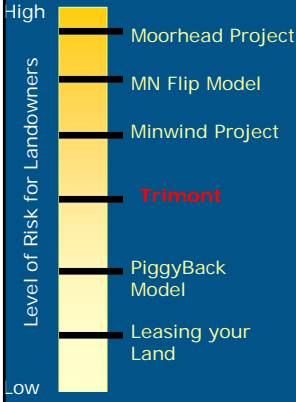
# PiggyBack Model Lamar, CO



- Leveraged utility scale projects to develop a locally owned project
- Five 1.5 MW GE turbines less than 25 miles from CO Green, a 162 MW project in Lamar
- Municipal Utilities (Lamar Light & Power and Arkansas River Power Authority) timed their project to coincide with Colorado Green.
  - Coordinated with CO Green to lower development, construction and maintenance costs.



# Trimont Area Wind Farm

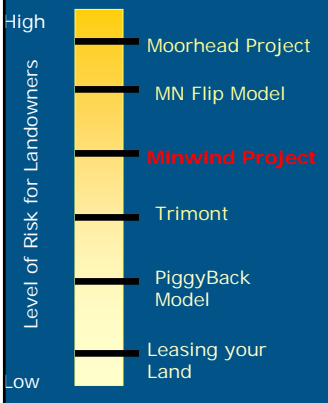


- 100 MW Wind Farm (67 1.5 MW GE Turbines)
- Organized by group of local farmers and landowners (Pre-development)
- Answered a RFP from Great River Energy to develop the project
- Sold it to PPM Energy
- Some opportunity for revenue in addition to lease payments



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# Minwind Energy, Luverne, Minnesota



## Farmer Ownership:

- Nine LLCs, 11 wind turbines owned by 200+ local investors.
- Installed in 2002 and 2004.
- Goals: local economic dev., maximize return on investment, diversify local economy.



“We wanted a farmer owned project that would bring economic development, get farmers a return on their investment, and could use local businesses and contractors to do the work.”

--Mark Willers, CEO Minwind Energy



## Minnesota "Flip" Model

Level of Risk for Landowners

High

- Moorhead Project
- **MN Flip Model**
- Minwind Project
- Trimont
- PiggyBack Model
- Leasing your Land

Low



- Allows local owners to own a significant portion of the project, while partnering with an equity investor that can utilize the PTC
- Equity investor has controlling interest is first 10 years of the project, then controlling interest "flips" to landowners.
- Typically, the local landowners contribute start-up capital to secure permits, interconnection and pre-development work. Equity investor contributes cash to acquire turbines and for construction/operation.
- Advantages of using the 'flip' are:
  - Efficient utilization of tax benefits
  - Potentially easier to access debt financing
  - Eventual local ownership



*"I needed a way to diversify my farm operation to survive. There's nothing coming to us so we had to create our own jobs. It's not easy to put a wind energy project together, but it is a good opportunity. That's why I am doing it."*

*--Dan Moore, Farmer*

## Moorhead Public Service Moorhead, Minnesota

High  
Level of Risk for Landowners  
Low

### Moorhead Project

- Two 750 kW turbines, installed in 1999 and 2001.

### MN Flip Model

### Minwind Project

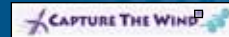
### Trimont Project

### PiggyBack Model

### Leasing your Land

- Public utility- used their own funds to purchase the machine. (pre-approved by city council)


- Among the highest subscription rates in the nation and one of the early successful municipal projects.



## In Summary:

- Know your rights as a landowner, whether you are signing a lease or developing your own project
- Stay current; the market and the legislative landscape is changing. Be flexible and creative
- Work to get the policy incentives right
  - Now is the time to talk to your elected officials and candidates. Vote for those candidates that support the energy policy you support
- Work together for a stronger voice.
  - Developing a community owned wind project is difficult and time consuming. You need to work together to achieve results. Think creatively and act collaboratively.





*“Community wind helps get people connected to their energy use. Local energy production helps to build a better society, a better culture, and a better planet.”*

*--David Benson, Nobles County Commissioner & Farmer*

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## State & Federal Incentives

- Xcel Renewable Development Fund
  - Promotes the startup, expansion and attraction of renewable energy projects and companies in the Xcel service area
  - To date, more than \$ 70 million has been allocated
- Net-metering
  - utility must compensate customers for customer net excess generation (NEG) at the "average retail utility energy rate,"
  - Size cap is 40 kw
- C-Bed Tariff
  - requires electric utilities to consider community-based wind energy projects, when seeking to add wind generation to its supply mix
  - requires utilities to develop and offer C-BED tariffs. Under a C-BED tariff, the utility offers developers a "front-ended loaded rate" for the energy from a community-based energy project
- Production Tax Credit
  - Tax credit that can be applied to passive income. Works the best with developers who have a large "tax appetite"

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September 30, 2008

| Utility                  | Completed (MW) | Under Contract (MW) | In Negotiation (MW) | Total C-BED Projects (MW) |
|--------------------------|----------------|---------------------|---------------------|---------------------------|
| Xcel                     | 78.4           | 17.0                | 446.5               | 541.8                     |
| CMPA                     | 0.0            | 10.0                | 0.0                 | 10.0                      |
| GRE                      | 0.0            | 0.0                 | 0.0                 | 0.0                       |
| SMMPA                    | 0.0            | 0.0                 | 125.0               | 125.0                     |
| Minnesota Power          | 2.5            | 0.0                 | 0.0                 | 2.5                       |
| MRES                     | 34.7           | 0.0                 | 0.0                 | 34.7                      |
| Otter Tail Power         | 0.2            | 0.0                 | 1.9                 | 2.0                       |
| Dairyland Power          | 0.0            | 0.0                 | size TBD            | 0.0                       |
| MMPA                     | 0.0            | 0.0                 | 0.0                 | 0.0                       |
| Minnkota                 | 0.0            | 0.0                 | 0.0                 | 0.0                       |
| Interstate Power & Light | 0.0            | 0.0                 | 0.0                 | 0.0                       |
| Basin Electric           | 0.0            | 0.0                 | 0.0                 | 0.0                       |
| <b>Total MN</b>          | <b>115.7</b>   | <b>27.0</b>         | <b>573.4</b>        | <b>716.0</b>              |

## MN C-BED- September 2008

Total: 115.7 MW

