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Power brokers hail federal tax rewards

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Developers in the renewable energy field greeted the federal stimulus package with cautious optimism.

AP

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SAN DIEGO — For a small army of high-powered bankers, investors and wind energy developers gathered here last week, news of a compromise in Washington, D.C., on the federal economic stimulus package was welcome relief.

Word that the \$790 billion, 1,400-page bill included an extension of tax incentives and other provisions important to the wind energy industry filtered quickly through the three-day Wind Power Finance and Investment Summit via panelists and the ubiquitous Blackberys attached to the hips of the more than 400 attendees.

"It is definitely going to help," Jeffrey Chester, chairman of the summit and the head of the wind practice at the New York-based law firm of Kaye Scholer LLP, said Thursday during an interview at the Paradise Point Resort and Spa where the summit was held. "It is not going to solve all the problems but it is definitely a good start."

There is cautious optimism in the wind energy market, Chester said, echoing the sentiments of many at the forum.

While the "exuberance of a year ago has been tamped down" the tax equity market could be helped by the stimulus package, he said, adding that the debt market has already started to rebound. Both tax equity — the transfer of tax credits by developers to companies that can take advantage of the incentives — and loans from banks have been crucial in the financing of wind energy projects.

An economic model developed on behalf of the U.S. Minerals Management Service for the Cape Wind energy project proposed for Nantucket Sound assumed a debt-to-equity ratio of 75 percent to 25 percent.

Cape Wind, which did not have a representative in San Diego, could begin to seek financing this spring but does not yet know what the funding ratio will actually be, said company spokesman Mark Rodgers.

But Cape Wind also was buoyed by the stimulus compromise, Rodgers said.

"It's another demonstration of support among both chambers of Congress and the Obama administration for accelerating renewable energy projects like wind power as a means to economic stimulus, creating jobs, increasing energy independence and demonstrating leadership on climate change," he said.

Massachusetts and waters off Cape Cod are a hotbed for wind farm proposals, including a 420-megawatt floating platform proposal by Blue H USA and a 1,000-megawatt wind and wave project proposed by Grays Harbor Ocean Energy Co., which both had representatives at the San Diego conference. But Cape Wind is the furthest along of any offshore proposal and is currently awaiting final federal government approval.

Tax incentives hailed

The wind energy industry has taken a big hit along with every other sector of the economy in the past six months, according to panelist after panelist at the California conference. Although the next year will bring more difficulties in securing financing for large utility-scale wind projects, the incentives announced as part of the stimulus bill clearly lightened the mood among developers and investors.

Chester predicted that project financing levels may not reach 2008 levels again until 2011 but predicted that by then projects will surpass the more than 8,000 megawatts of wind projects financed last year.

While "the devil is in the details" was a common refrain among panelists, the broad outlines of the legislation approved by Congress are clearly favorable toward financing wind and other renewable energy projects. The bill includes an extension of the tax credit tied to the amount of energy a project produces.

This production tax credit, PTC, has historically been extended by Congress only as it is about to expire, making it difficult for renewable energy developers to plan. Currently, wind projects can receive 2.1 cents in tax relief for every kilowatt hour of electricity produced.

A second tax incentive is also part of the legislation's language. The investment tax credit, ITC, would give developers the option of recovering 30 percent of the cost of new equipment for a project with the exception of transmission infrastructure. Developers could choose either the PTC or the ITC.

Cash grants favored

It appears that a third option of converting the ITC into a cash grant for some projects is also part of the bill, a provision developers would likely flock to, said John Eber, managing director of energy investments at JP Morgan Capital Corp.

The market for wind energy projects has shifted dramatically over the past several years. The drop in tax equity capital has put the brakes on most financing deals, according to panelists.