

**“Getting the Best Wind Agreement...a seminar for landowners”
West Central Clean Energy Resource Team (CERT) Meeting
in Partnership with the Southwest Initiative Foundation
and Upper Minnesota River Valley Regional Development Commission**

June 27, 2008
Chippewa County Courthouse, Montevideo, MN

Meeting Purpose: To educate the audience on wind rights and development choices, on how to ensure you get a fair agreement, on your options, about where to access resources for advice, and on some sense of the “big picture” and why this is an opportunity.

Presentations from Melissa Peterson, Cheryl Glaeser and Mike Michaud can be found @ <http://www.cleanenergyresourceteams.org/publications/regional-presentations#windforums>. These presentations provide all of the nitty-gritty details and thus, the notes here are simply a summary and document responses to additional questions fielded by our presenters and panelists.

The Big Picture - Risks and Rewards: Melissa Peterson, Windustry

- What makes a good wind project? Wind resource: check broad scale using state wind maps; get an anemometer for micro-siting and finance. Proximity to grid. Money/funding. State and federal incentives – Production Tax Credit (PTC) and C-BED Tariff. Market for power – Power Purchase Agreement
- Landowner Options
 - o Lease your land: local project or external developer
 - o Partner in community wind
 - o Your own project
- 1. Leasing. No standard for leases – range from good to bad to ugly.
 - o price and terms will vary based on resource and access to transmission lines
 - o Stoel Rives LLP guide “Law of Wind”
 - o Compensation Packages – started at about \$2,000 per turbine, moving toward \$3,000-\$5,000 +/- 2-3% royalties, based on revenue.
- 2. Community-wind: typically commercial scale
 - o Benefits: local wealth, more economic benefit, greater acceptance of wind.
 - o Why community wind in Minnesota?
 - ✓ Supportive policy
 - ✓ RDF = \$53 million in community wind
 - ✓ C-BED tariff – good tool and details. www.c-bed.org
 - o Case studies on ownership models:
 - ✓ Lamar, Colorado: piggy back model - community get to own a share of a larger project (maybe 100 MW project with 10 MW of local ownership) – timing is everything, must be involved in early discussions. Community projects benefits from the scale of the overall project (for ordering turbines, O&M contracts, etc.)
 - ✓ Trimont: got better lease payment goes had done more footprint work up front
 - ✓ MinWind – 200+ local investors, 11 turbines (950 KW + 1.65 MW), 9 LLCs
 - ✓ Minnesota “flip” model – Dan Moore partnership with John Deere
 - o Available resources from Windustry:
 - ✓ Community Wind Toolbox: <http://www.windustry.org/CommunityWindToolbox>
 - ✓ Leases overview: <http://www.windustry.org/leases>
 - ✓ Lease/Easements:
<http://www.windustry.org/sites/windustry.org/files/LandEMain.pdf>

Red Flags for Wind Land Leases – Kevin Walli, Attorney with Fryberger, Buchanan, Smith & Frederick, P.A.

Kevin noted that he's worked with 8 community wind projects and 12 that are currently in development.

- Lease issues:
 - o Who: who are you working with? A reputable organization? Have they done other projects? Local? What are their objectives and time frame? What about transferability? "Joe", your neighbor, might initially be signing folks up but then later transfer ownership to someone you don't know.
 - o What: what will be on your property? Turbine? Road? Underground cable? Projects require set back from neighboring property, roads, etc. You might not get actual turbine.
 - o How long? Duration – 20 years minimum – but often that's too short, already made big infrastructure investment you will want to keep. Sometimes want additional 10 year option, another 10 with re-negotiation. Make sure you have provision to re-negotiate (at a higher rate).
 - o Where? Real estate law is an exacting practice. Be specific.
 - o How much? Driven by your wind regime and the revenue that project will generate. Flat rate? % of gross revenue? One or the other or both.
 - o Crop damage – provisions for loss
 - o Money should take into account loss capacity for other uses (less able to farm or lease your land for farming); some land value changes
 - o Take agreement to local counsel
 - o Template lease – if one land-owner modifies the lease agreement, does that modification ripple back to other landowners? Not necessarily, and depends upon non disclosure agreements in some respects, but most like standardization
- Issues to be Aware of/Moving parts:
 - o Start with business structure – how many people involved? LCC? Multiple turbine towers? Multiple LLCs to build wind farm?
 - o Security Issues – aware of and sensitive to: money down is at risk and there are legal requirements for this that must be followed:
 - Circular (always)
 - Statement of issuer (always)
 - Document filing
 - Some exemptions – up to 35 investors can have state exemption
 - o Selling Power – Power Purchase Agreement (PPA) – appetite of utilities to purchase renewable – Northern States Power RFP for C-BED – want MISO group 5 (in study for 18 months – 2 years)
 - o Interconnection/Transmission – MISO is a long process requiring lots of money
 - o Financing – equity financing and debt financing. Equity takes interest in project for at least first 10 years.
 - Key for equity investor is Production Tax Credit (a passive income tax liability credit). If it expires on Dec 31, 2008, development will stop. Also get benefit of accelerated depreciation (5 year). Want 5 year or longer extension.
 - Considering PTC redefinition (Matt Woelmen (sp?) on Tim Walz staff) so that it would apply beyond passive income and perhaps expand to earned income, which would give advantage for local investors
 - o What about no turbine but wind rights? When your land is in the overall footprint of the project but not actually slated to get a turbine? Because of set back requirements you could get some sort of wind right payment, but one receives different levels of money based on land usage (thus, if you have a turbine, you'd likely get a higher payment).

- Local attorney sufficient to review agreements? Yes, typically; especially for land/real estate issues. LCC member control and operating agreements might be slightly more complex, but many local attorneys have the capacity to do this.

Rural Energy Development Initiative - Cheryl Glaeser, Southwest Initiative Foundation

- C-BED tariff – a quick caveat – “tariff” might not be quite the right wording – it’s not that average folks are paying a tax to move projects forward. It simply allows a power purchase agreement to be front loaded so that a project receives higher payments in the first ten years (during the debt service period) and lower payments for the later ten years.
 - See official legislation here: https://www.revisor.leg.state.mn.us/bin/getpub.php?pubtype=STAT_CHAP_SEC&year=current§ion=216b.1612&image.x=7&image.y=6
 - For an overview, calculator, etc., see: www.c-bed.org
- Why C-BED? Opportunity to invest. Local construction and jobs. Local wealth circulation. Local manufacturing. Opportunities for dispersed generation. Xcel 1/3 of RES to be community-based
- REDI (Rural Energy Development Initiative) intended for community-owned wind projects that will sell their electricity to a utility (not farm/home scale)
 - An Energy Assistance Program to help get community wind projects going
 - Partners – George Crocker, Paul Blackburn
 - Goal: maximize rural economic development, build capacity, expertise and leadership around the state – three primary efforts:
 - ✓ Outreach and public education (no fees)
 - ✓ Technical assistance with formation of energy project development entities – “hand holding” but really capacity building
 - ✓ Low interest rate revolving loans – for at least 12 projects selected via a competitive application process – there is no hard and fast deadline for these applications, but it’s to your advantage to be sooner rather than later
 - Also looking to establish “REDI certified developers”, “electrical experts” etc. to help build local capacity for all of the various project development components – they’ll likely be developing a questionnaire for this effort that folks can fill out to be listed on their website.
 - Fact Sheet: <http://www.swmnfoundation.org/documents/REDIFactSheet3-08.pdf>
 - Interest Form: <http://www.swmnfoundation.org/documents/REDIInterestForm.pdf>

Dispersed Generation Study Overview – Mike Michaud, Matrix Energy Solutions, member of DG Study Technical Review Committee

Mike indicated that the Dispersed Renewable Generation Transmission Study could have been titled “the C-BED study” because it looked at 10-40 MW projects and the lowest voltage lines available to assess what could be installed and operational by 2010

- Modeling – standard model @2013, added lower voltage lines to model – 34.5kV, 41.6kV, 46kV – never previously integrated amongst all utilities, caused for re-allocating loads to be lower voltages. Total of 2253 substations, estimated wind resource at each one.
- Screening methodology – how much power can you inject without overloading?
- Most substations have 2 lines, typically it splits power but contingency planning must account for what happens when one line fails and all power must go to one line.
 - Incremented size of generated at 5MW increments and tested each of 2000+ subs to see where the system failed
 - Wind of 35% capacity factor was low limit

- Appendix D – lots of data
 - o Failure MW at each sub – dictates project limit
 - o Available in PDF and searchable
- Map – “Sweet Spots” and generation sinks (blue stars). Goal was to deliver to MN load with target of backing down gas peaking plants because it’s the most expensive. These are sink locations.
- Dorsey Substation in Winnepeg – have 2 transformers that step up voltage from 230 kV to 500 kV and all sites selected in the northern part of MN caused those transformers to fail.
 - o Shows we could get 600 MW of dispersed wind online now without affecting existing system of needing to make transmission upgrades.
 - o 600 MW was legislative limit, only went this far, could be more
 - o Why Dorsey showing up now and not in MISO? It sas come up in others...
 - o 260 MW wind in Eastern North Dakota, going to Fargo, Fargo sink matters and may allude to local utilities in NW being able to buy wind to supply local load without any issues
- Dorsey “fix” options
 - o \$41 million to install a third 1200 MVA, 230/500kV transformer
 - o Phase shifters
 - o Install special protection scheme to deal with transformer issues that might be rare and doesn’t require long term infrastructure project
 - o DC runback with Manitoba Hydro, could back off hydro power running through 500kV line. This is an issue for Xcel
- A few additional results of this study:
 - o Might allow for faster interconnection process on state authority without going through MISO & FERC. C-BED tariff retail tariff for intra-state commerce, looking to lower voltage system. Kick starts that conversation.
 - o This level of data will help with feasibility study of “on ramp”
 - o Didn’t recognize projects on queue to come online after 2013
 - o MISO yesterday submitted proposals to address backlog that would make the queue milestone based queue (i.e., first done is first interconnected as opposed to first in first out). Won’t likely hear back from FERC on this proposal for another 6 months. More details on the Midwest ISO “Queue Reform Proposal” are here: <http://www.midwestmarket.org/page/Recent+News+Details?newsID=215>
 - o 393 substations passed screening analysis, only 20 were used to make up 600 MW, lots of other subs that fit preliminary screening criteria; may be other opportunities
 - o Might kick start a conversation about MISO fees based on percentage of size project, rather than a uniform rate

Panel Discussion including above referenced speakers (Melissa, Cheryl, Kevin and Mike) in addition to Charlie Daum, Geronimo Wind; Al Christopherson, President of MN AURI Board of Directors, landowner, farmer and member of Whirlwind Energy, LLC; Kevin Halvorson, member of Whirlwind Energy, LLC; and George Crocker, North American Water Office

- Wind rights? For every acre there’s a wind right. That said, sites that would be good locations for a turbine are likely to be valued higher (in a land lease situation) than sites that just need to remain open to protect the “wind-shed” of a project.
- Driver for C-BED? By valuing all of the land within the footprint of a project – whether it’s the location of a turbine or not – projects are able to garner more broad community support. It can seem unfair when one land owner gets several turbines and therefore more \$ and another landowner does not, but that’s why the option for community ownership helps.

- Turbines on CRP land? Adding a turbine may cause your land to lose its CRP status – or at least CRP on a specific portion of your land. If so, you must pay back the payment you received for that share of your land. Must have been in CRP for 5 previous years. A developer may compensate you for that lost revenue.
- In California folks are receiving land leases for \$9,000/acre. How can a landowner figure out how much their land is worth? Look at local markets? Talk to neighbors? Yes and yes. In addition, for a wind project the value of your land is based on the value of the resource produced (i.e., the wind generated electricity)...4 cents for purchase, 2 cents for 40% capacity factor. Competition for land (from multiple developers) also drives up the “value” of your land.
- When looking to start a project, how do you avoid SEC problems? Small initial group, don’t knock on doors until you have a story to present. Must be clear to avoid enforcement afterward. Clear on costs, risks, stage of work, etc. Contingencies.
- Are rural electric cooperatives doing local development with their membership? Generation and Transmission (G&T) coops (like GRE) are doing C-BED requests for proposals. C-BED statute was recently changed to allow local electric coops (like Kandiyohi Power Cooperative) or municipal utilities (like Willmar Municipal Utilities) to be a qualified C-BED owner. That said, most local co-ops operate under an “all-power requirements” with their G&T with a small 5% option for outside sources; most coop refer wind projects to GRE even if they’re under the 5% threshold cause don’t have local expertise to develop the projects.
- Cap and trade provision. Who gets environmental benefits of the project? Most utilities have reserved the credits for themselves as part of the power purchase agreement. Similarly with REC (renewable energy credits) – timeline and value? Not there yet; right now utilities would still own via the power purchase agreement (it’s how they can count the wind energy as renewable energy), but perhaps projects will be able to renegotiate these terms when projects are repowered after 20 years.
- Can an out of state resident who owns land in MN and pays taxes in MN be a C-BED qualifying member? No, but they could be an owner in the other 49% of the project.
- How did the Whirlwind LLC wind energy project get started? Initially it began as an offshoot of the Kandiyohi Co Economic Development group. It was a slow process with a number of one-on-one conversations. They looked at where it was windy and where the best sites might be. The initial investment only required \$2000.