

# Renewables Energy Tax Benefits & Transaction Structures



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*Presented By*

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# Available Renewable Energy Tax Benefits

- Solar, Micro-Turbines and Fuel Cells
  - 30% Sec. 48 ETC benefits available only to either user or constructor (Fuel Cells limited to \$200/Kw capacity)
  - 10% Sec 48 ETC benefits – qualified Micro-Turbines
  - Basis reduced by 50% of ETC
- Biomass, Geothermal & Wind
  - Sec. 45 Production tax credits
    - Closed-loop Biomass, Wind, geothermal @ 1.9 cents/KWh
    - Open-loop Biomass, LFG & Muni Solid Waste @ 0.9 cents/KWh
- Qualified Energy Equipment
  - Micro-turbines, Landfill, Geo-thermal, Solar or Biomass
    - **5 year MCRS depreciation**

Note: Enhanced Energy Security  
Tax Incentives of 2006 : S.2748  
Sen. Jeff Bingaman D-NM  
Recommends 10% EITC for CHP



# Customer Tax Benefit Use Issues

- Capital Budget Issues
- Moving Operating Expense to Capital Account - Balance Sheet Issue
- Potential AMT Issues
- Subsidiary/Division Performance Target

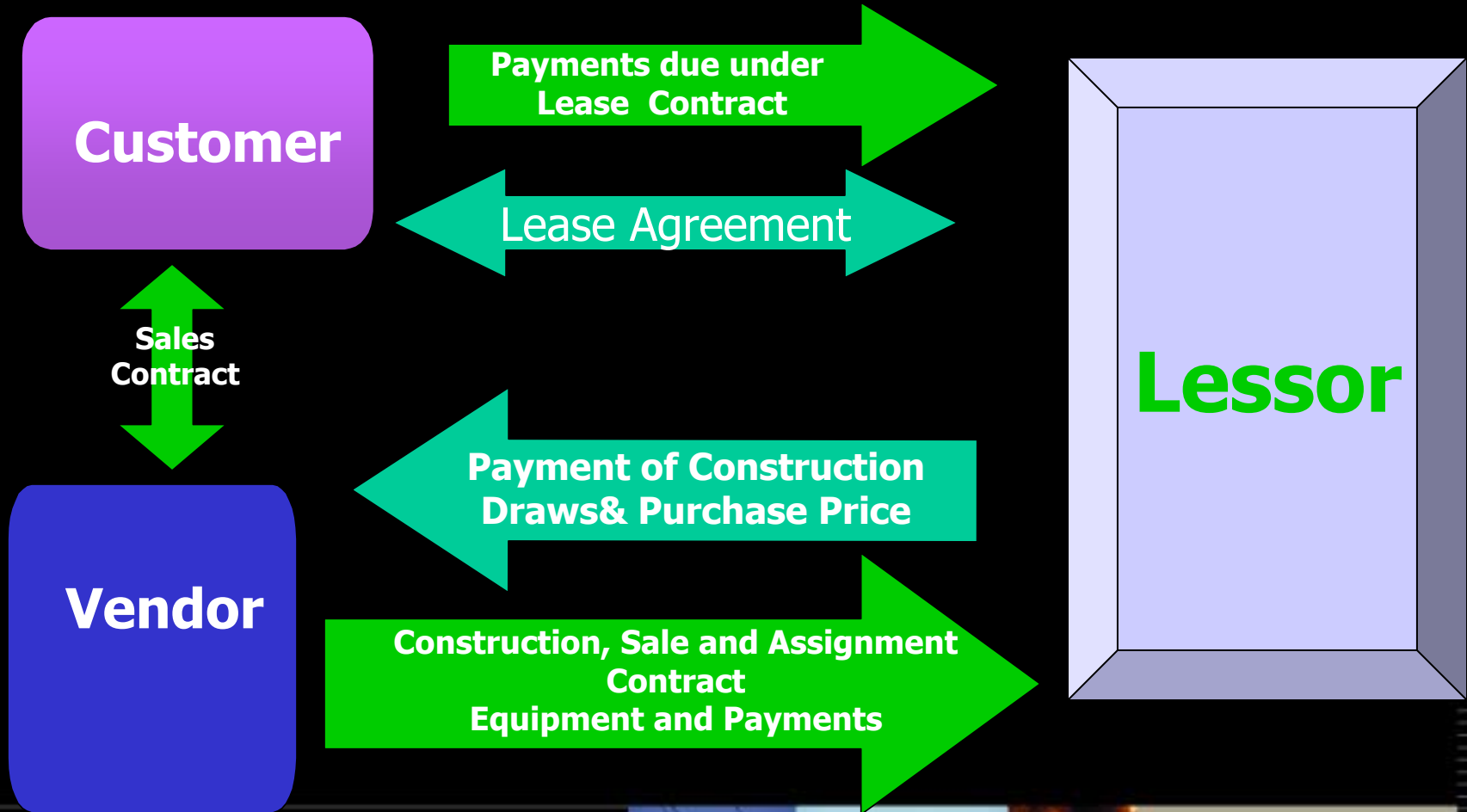


# Tax Lease Transaction Parameters

- Tax structure requirements:
  - Rents must NPV at less than 90% of cost
  - Lessee may not have a bargain option to purchase
  - Term must not exceed 75% of useful life
  - Lessee may not have equity interest in the equipment
- Lessee must be a taxable entity\*
- Tax-exempt entities may be able benefit from properly structured commodity/services agreements



# Typical Tax-Lease/Operating Lease Structure



# Comparison

**Cost: \$1MM, less \$500K rebate**  
**Generates 150 kw/DC**

## Capital Lease

- 6.5% Implicit Rate
- 15% Residual
- Payments: \$4,050.00
- Term required to achieve B/E cash flow: 185 Months

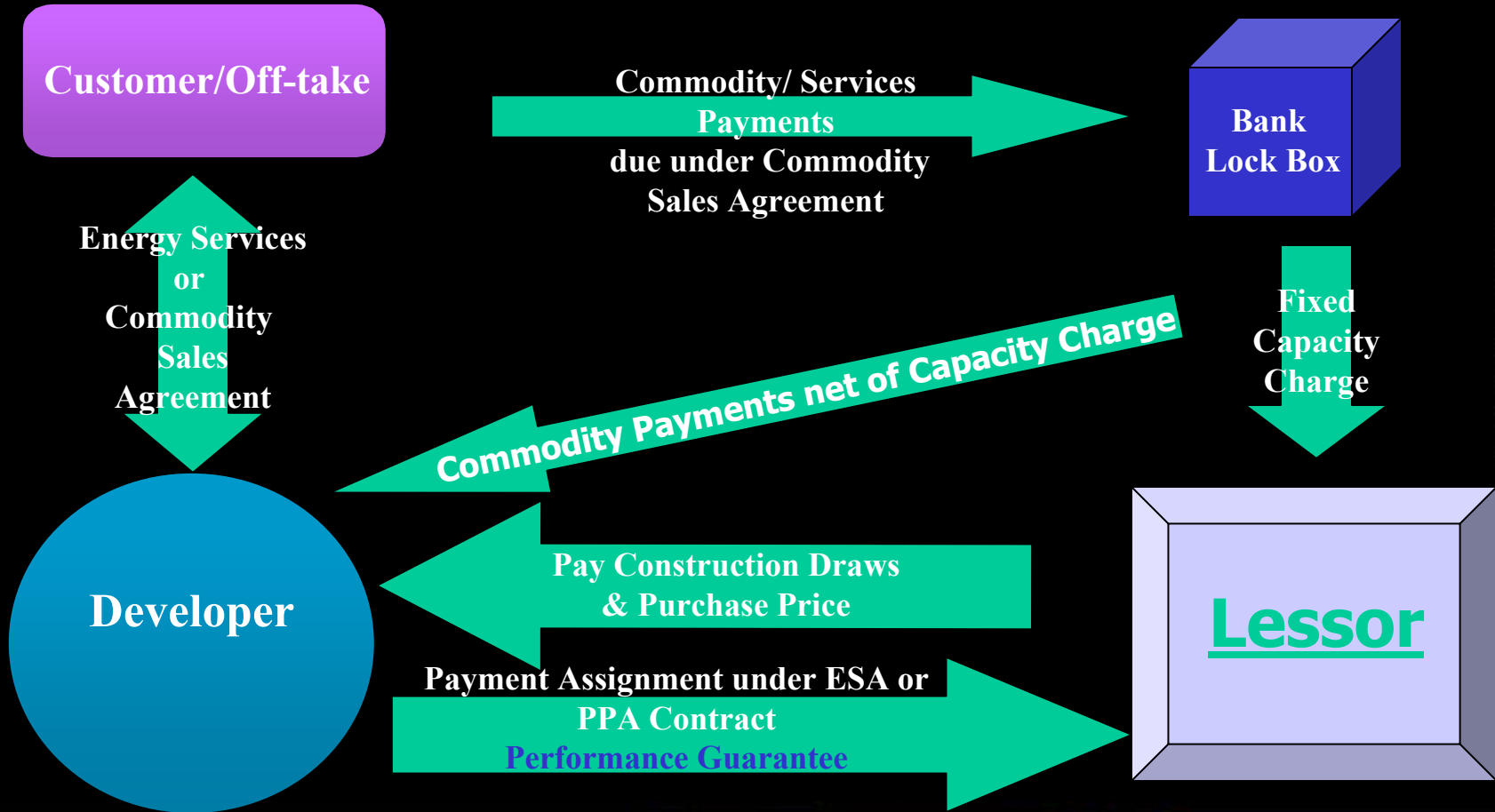
## Tax Lease

- 1% Implicit Rate\*
- 15% residual
- Payments: \$ 4,050.00
- Term required to achieve B/E cash flow: 112 Months

*\* Subject to credit strength and transaction timing*



# ESA / Commodity Purchase or DBOOM Financing Structure



# Comparison

## Renewable Energy Systems

### Project Finance

- **10 to 40% Tax Equity required**
- **Performance Risk – Owner/Equity**
- **Construction Risk – Owner/Equity**
- **Fuel Risk – Owner/Equity**
- **Complicated Multi-party Structure**
  - Bonding required – all parties
  - Payment/Performance reserves
- **High legal costs**
- **Mid-teens + Cost of Issuance**

### Tax Lease

- **100% Financing NO Equity\***
- **Performance Risk – Developer/EPC**
  - Output Shortfall Guarantee
- **Fuel/Feed Stock Risk – Developer/EPC**
  - Long Term Hedges required
- **Less complicated structure**
- **Low single digit cost of Funding\***

*\* Subject to credit strength and transaction timing*



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# National City Energy Capital

- Part of Fortune 50 and S&P 500 bank with over \$140 Billion in assets and lease portfolio of over \$4.5 Billion
- Funding commercial or industrial as well as institutional, municipal or federal transactions
- Energy and Water Financing Specialists
- Large appetite for tax benefits



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# Thank You

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