Renewable Energy Education Field Day
Financing for Anaerobic Digestion Projects
March 14, 2012

Positive energy.
Agenda

› Renewable Energy Industry Drivers

› Overview of Funding Options
Baker Tilly is the 8th largest accounting network worldwide

> 19th largest in U.S. consisting of over 1,400 Professionals

> Virchow Krause established in 1931

> Eleven years as an established investment banking practice through Baker Tilly Capital, LLC

**Baker Tilly Renewable Group U.S. Clientele**

> Developers
> Public Entities / Utilities
> Manufacturing
> Real Estate
> Native American Tribes
Baker Tilly clients have completed or have ongoing renewable energy projects in the states shaded green.

1,500+ MW
55+ projects
- Wind
- Solar
- Biomass
- Anaerobic Digestion

Tax Credits/Incentives
- 1603 Grants
- ITC/PTC
- 48C Monetization
- New Markets Tax Credits
Primary Drivers of Renewable Energy

› Renewable Portfolio Standards (RPS) creating demand for renewable power
  – State level incentives
  – Renewable Energy Credits (REC) currently an inefficient market
  – National RPS has been proposed/discussed

› Financial Incentives for Renewable Energy Projects (ARRA most recent)

› Carbon emission regulations and offset markets creating economic incentives to reduce greenhouse gas emissions
  – EPA currently regulates CO2 emissions (fine based system)
  – “Cap and Trade” system has been adopted in California (October, 2011) creating a compliance market for carbon credits from agricultural projects

› Environmental regulations increasing – major impact on agricultural and food processing sectors relating to waste disposal processes
RPS Standards

RPS Policies

www.dsireusa.org / September 2011

29 states + DC and PR have an RPS
(8 states have goals)
Net Metering Policies

State policy
Voluntary utility program(s) only
www.dsireusa.org / October 2011

Net Metering

www.dsireusa.org / October 2011

43 states +
DC & PR have adopted a net metering policy

Note: Numbers indicate individual system capacity limit in kW. Some limits vary by customer type, technology and/or application. Other limits might also apply.
This map generally does not address statutory changes until administrative rules have been adopted to implement such changes.
ARRA Incentives:

- Production Tax Credit equal to $.022/kwh produced for 10 years
  - Indexed to inflation
  - 50% less for open loop biomass/trash facilities (digesters fall under these definitions)
- Investment Tax Credit ("ITC") equal to 30% of eligible project costs
- 1603 Grant in Lieu of ITC
  - Grant proceeds available 60 days after Commercial Operation Date (COD)
  - Project must have “commenced construction” by December 31, 2011
  
  For PTC, ITC or 1603 grant, Project must reach COD prior to December 31, 2013

- Accelerated Depreciation (5 Year MACRS) applies as well (basis reduced by 50% of the 1603 grant)

New Markets Tax Credits (NMTC)

- Brings additional low cost capital to fund a project
- “Typical” NMTC deal ($10 million of allocation) provides approximately $2.0 million of benefit to the project
- Total allocation of $29.5 billion since program’s inception in 2000
Structures Used for Tax Investment

› Structures
  – Sale-leaseback
    » Term of lease must be meaningfully shorter than useful life of equipment
    » FMV requirements
  – Flip Structure (Section 45, Revenue Procedure 2007-65)
    » Investor owns 99% of project, sponsor owns 1% but is managing member
    » Automatically shifts to 5/95 split at pre-arranged “flip point” (based on IRR for tax investor)
    » Sponsor has option to purchase remaining 5% at FMV
  – Preferred membership class for tax investor
    » Preferred equity holders would receive preferred return and their original capital in advance of distributions being made to the common equity holders.
    » Tax benefits from losses included in definition of “cash flow” for purposes of calculating distributions to preferred members

› Requirements in all cases
  – Must be investor at time qualifying equipment is placed in service (Sale-leaseback provides 3 month cushion)
  – Economic substance guidelines

Tax Investor will have similar underwriting perspective to senior lenders
Funding Options

<table>
<thead>
<tr>
<th>Potential Funding Options</th>
<th>Cost of Funds</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1603 Grant Funds*</td>
<td>Nearly 0%</td>
<td>Need to have met &quot;start of construction&quot; requirement prior to December 31, 2011</td>
</tr>
<tr>
<td>NMTC Proceeds</td>
<td>Nearly 0%</td>
<td>Not an &quot;entitlement program&quot;, must secure allocation from CDE</td>
</tr>
<tr>
<td>Utility Rebates/Grants</td>
<td>Nearly 0%</td>
<td>Depends on project deliverables and timing for &quot;yearly&quot; program goals/funding</td>
</tr>
<tr>
<td>Federal Loan Guarantees/TIF/Other</td>
<td>4-8%</td>
<td>Specific to project location, availability and owner’s overall profile of need</td>
</tr>
<tr>
<td>Foundation Investments</td>
<td>5-8%</td>
<td>Depends upon fit of project with &quot;Program Funds&quot; available</td>
</tr>
<tr>
<td>Senior Debt</td>
<td>6-9%</td>
<td>Depends upon Sponsor’s background and contractual &quot;de-risking&quot; of the project</td>
</tr>
<tr>
<td>Tax Equity</td>
<td>10-15%</td>
<td>Supply/demand driven and is a fluid market</td>
</tr>
<tr>
<td>Equity</td>
<td>12-20+%</td>
<td>Depends upon technology’s stage of development</td>
</tr>
</tbody>
</table>

* Requires a bridge investment (funds received post COD).

Observation:
› Having well established partners and clear communication is critical. Not easy to bridge varying perspectives that exist between engineers, energy, financial and agricultural communities