

**Staff Report  
on the Status of**

**IAMWIND/RIDGEPORT**

April 20, 2009

It has been nearly six months since the City Council approved membership in Phase II of the Ridgeport Wind Energy Project. As a part of this project, a 28E entity, IAMWind, was formed to accept easements for location of wind power generating equipment, negotiate power purchase agreements, and enter into other contracts necessary to move the development forward.

To this point, the City has paid a total of \$197,665.30 toward the project budget of \$825,000 collected to date. (This amount includes Iowa State University's share.) This is half of what the City's total contribution to Phase II expenses is anticipated to be.

Approximately 48 easements have been obtained to date, with others expected to be completed by mid-May. It is hoped that a total of 66 easements will be obtained by that time. Depending on the size of the turbines installed, between 99 and 135 MW of power could be produced at the site.

At a meeting last week, staff learned that 2011 would be the earliest that power could be available from the site, and that would be if all went well. However, with the recent financial crisis, equity financing has all but disappeared. Costs are up dramatically for financing that is available. The total cost of the development of the Ridgeport Project is expected to be \$200 – \$250 million.

If IAMWind were to own the project, debt could be structured through tax-exempt electric revenue bonds. The current 28E agreement and the By-laws allow for IAMWind to do this. **However, since IAMWind has no direct customers, no current generating assets, and no rate-making authority, rating and selling bonds would be very difficult (if not impossible).**

If the project were constructed and owned by a private entity, for a possible future "flip," cost of money will be higher, and the bonds themselves would be taxable. Taxable bonds will come with a higher cost that will be passed through to the member utilities through Power Purchase Agreements. However, under this scenario, excess power can be sold by IAMWind members into the grid without regard for who purchases it and at what price.

A final option involves tax-exempt debt issued directly by the member utilities to finance the project. For the bonds to be tax-exempt, virtually all of the power produced must be

sold to utilities qualified to issue tax-exempt bonds. This would severely limit the sale of excess capacity and likely increase the total cost of power for members of IAMWind. This would be a complex bond issue and will require additional research. **For the City of Ames, this means we could be asked to issue Electric Revenue Bonds in the range of \$50-\$55 million or more for approximately 22 MW of wind power. The actual capacity which would be added to our system would be much less than that. This is important due to the additional 15% capacity over peak which we must maintain. This structure may need to be backed by the City's G.O. Bonding capacity as well. This would raise a number of legal questions, as a number of the City's taxpayers reside outside of the Utility's service area.**

It is important to note that should the City commit to revenue bonds to help finance the Ridgeport Project, this will require a commitment of all revenues of the City of Ames Electric Utility as well as a commitment to raise rates to customers to repay the bonds regardless of the success of the IAMWind project. The bond issuance would also reduce the ability (and increase the cost) to issue bonds to meet new emission standards to extend the life of our base load generating capacity as planned in the current CIP. Lastly, we may be required to be responsible for the obligations of other participants in IAMWind that may be unable (or unwilling) to sell their portions of the project's financing requirements. This is known as a "Joint and Several" Obligation for financing. Clearly this presents a much higher level of financial commitment and risk than contemplated when the City agreed to continue with Phase II of the IAMWind project.

City staff has informed the members of IAMWind that debt financing of this project has not been considered by our Council. **Staff believes a direct issuance of debt by the City to fund the IAMWind project would substantially raise the level of risk for significant future rate increases for our rate payers. Currently, it is our belief that a taxable bond issue (by a private entity) is likely the best alternative for funding the IAMWind project, with or without a future "flip" option. However, many members of the IAMWind board may not be receptive to this option.**

IAMWind will continue to pursue an equity partner for the Ridgeport Project. However, costs to our rate payers through a future power purchase agreement are likely to be higher than originally anticipated due to the higher cost of financing, regardless of the financing option chosen. On the positive side, the "freezing" of the equity markets has resulted in the cancellation of a number of wind projects. Turbines are more available than they were a year ago, and at a slightly better price.

Staff will continue to keep you updated on this process.