

As some of you may know, companies that are interested in constructing renewable energy projects can receive thirty percent gains in lieu of tax credits under The American Recovery and Reinvestment Act of 2009. What you may not know is that if combined with a separate eighty percent federally guaranteed loan program, the two programs can produce a fifty percent return on equity and a long term low interest construction loan.

The Department of the Treasury Grant Program

Eligible energy projects started or completed in 2009 or 2010 can receive from the Treasury Department grants for thirty percent of the cost of certain projects, but if the project is started in 2009 or 2010, it must be completed by 2013 to 2017, depending on what type of project it is. On application to the Treasury, payment of the grant will occur sixty days after the project is put into service.

Projects eligible for grants are as follows:

Thirty percent of the costs if construction is started by the end of 2010 and operational by January 1, 2013:

- Wind Facility

Thirty percent of the costs if construction is started by the end of 2010 and operational by January 1, 2014:

- Closed-Loop Biomass Facility;
- Open-Loop Biomass Facility;
- Small Irrigation Power Facility;
- Landfill Gas Facility;
- Trash to Power Facility;
- Hydropower Facility; and
- Marine and Hydrokinetic Renewable Energy Facilities.

Thirty percent of the costs if construction is started by the end of 2010 and operational by January 1, 2017:

- Fuel Cell Property that has a capacity of at least 0.5 kilowatts of electricity using an electrochemical process and has an electricity-only generation efficiency greater than thirty percent;
- Solar Power Property; and
- Small Wind Energy Property which has a capacity of not more than 100 kilowatts.

The DOE Eighty Percent Construction Loan Program

Additionally, if a company uses a “new or significantly improved technology” at one of these eligible energy facilities, the project may also be eligible for a loan guarantee for up to eighty percent of the cost of constructing the project under the Department of Energy’s Loan Guarantee Program. The Loan Guarantee Program received \$6 billion of additional funding under the stimulus bill and the Energy Department has begun issuing up to \$8.5 billion in loan guarantees. A solicitation was issued in July 2009 seeking applications for a range of renewable energy projects (as well as certain types of manufacturing efficiency projects). The categories of projects include: fuel from biomass, efficient electricity transmission, distribution and storage, and energy from geothermal, solar, wind and hydropower. (Other projects such as energy efficient building technology and energy efficiency projects are also covered but are funded differently). If a project type is not on the July list, companies need to meet with the DOE and persuade it to issue a public invitation to submit pre-applications or applications to the DOE for the type of project proposed. Once an invitation to apply is issued, companies need to demonstrate in the application that the project will avoid, reduce, or sequester greenhouse gases and that it uses a “new or significantly improved technology.” The application process is complex. Deadlines for each of the remaining solicitation rounds for Part I applications are in October 2009 through August 2010.

The Two Programs Combined

The combination of the two programs can yield attractive results. Eighty percent construction financing from DOE on a guaranteed loan basis means that only twenty percent equity is needed. A thirty percent cash back credit from Treasury on the cost of the project means that once the project is operational and provided the deadlines are met, the company receives back an amount equal to the initial equity invested plus a fifty percent return on the investment (since the credit is for thirty percent of the cost of construction). The company would then have twenty to thirty years to pay back the eighty percent construction loan at reduced federally insured rates during the operation of the facility.

There are other programs with a longer completion date of 2017 yielding a lesser credit from the Treasury Department of ten percent instead of thirty percent (e.g. certain types of geothermal, microturbine, or combined heat and power systems).

If you would like more information on how your clients or the companies you invest in can benefit from these programs, please contact us at nwbernstein@nwblc.com

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