These IRS guidance documents are relied upon when applying value measurements and the attendant valuation and calculations associated with the 80/20 Rule. As of this writing, there are no known challenges or other published IRS guidance that specifically address the repowering of electric generation facilities or the 80/20 Rule.

Revenue Ruling 94-31 defines "individual wind turbines and functioning components, together with their respective towers and supporting pads" as the "Facility". IRS Notice 2016-31 amplifies Revenue Ruling 94-31, by stating, "[a] facility may qualify as originally placed in service even though it contains some used property, provided the FMV of the used property is not more than 20 percent of the facility's total value (the cost of the new property plus the value of the used property)."

The Valuation of Remaining Assets

A typical wind farm consists of many Facilities with assets such as turbine generators and supporting components, towers, and foundations or supporting pads. Any Facility component may be replaced and considered when testing for the 80/20 Rule. Costs outside of each Facility, such as balance of plant assets, are not considered to be applicable to the 80/20 Rule.

Each Remaining Asset is a component of a Facility. In most instances, Facilities typically do not independently generate income (Income Approach) or transact separately (Market Approach), thus, the Cost Approach to valuing the Remaining Assets is the most appropriate appraisal methodology. Therefore, the Remaining Assets are valued on a component level, or a bottom-up approach, via the Cost Approach.

The Cost Approach considers the Cost of Replacement New, also known as "COR", with deductions taken for (i) economic obsolescence, (ii) functional/technical obsolescence, and (iii) physical depreciation. The COR analysis is undertaken not only for the Remaining Assets but is inclusive of all other existing projects assets. With such an analysis, the COR of the Remaining Assets is correlated to market information at both the Remaining Asset level as well as at the existing project level.

Each form of diminution in value is considered differently in the Remaining Assets valuation:

- **Physical depreciation** is applied based on the concluded remaining economic useful life ("REUL") of the Remaining Assets as they reside in the existing project. This is typically done by applying an age life factor which considers the salvage value and any other decommission costs.
- **Economic obsolescence** associated with the Remaining Assets is measured via a discounted cash flow valuation and COR minus physical depreciation. As previously mentioned, the Remaining Assets do not have discrete income streams and do not lend themselves to discrete discounted cash flow valuation. As such, the discounted cash flow valuation is performed at the existing projects basis and aggregate economic obsolescence is measured. The discounted cash flow measures the existing project value over the REUL of the existing project.
- Any potential **functional obsolescence** due to performance that may or may not be present is considered captured by the economic obsolescence measurement. The project-level economic obsolescence is allocated down to the Remaining Assets (and other project assets) to arrive at the indicated the FMV of the Remaining Assets.