

Applying the 80/20 Test

Once the value of the Remaining Assets is determined for each individual Facility, the concluded value of the Remaining Assets is compared to the provided depreciable costs of the New Assets to conclude whether the Facility is eligible to be considered originally placed in service under the 80/20 Rule. Hence, the 80/20 Rule can be mathematically applied as follows:

The FMV of Remaining Assets must be less than or equal to 20% of the sum of the FMV of the Remaining Assets plus the Cost of New Assets

or

The Cost of New Assets must be greater than or equal to 80% of the sum of the FMV of the Remaining Assets plus the Cost of New Assets.

One of the most common misconceptions of the 80/20 Rule is that the FMV of the Remaining Assets is the same their respective book (depreciated) value. This is not correct. A professional experienced in machinery & equipment valuation should be retained in order to determine the most supportive value for the 80/20 filing, especially if it is ever subsequently reviewed by the IRS.

It has been our experience that sponsors seeking a new ITC or PTC for their wind farm facilities typically want to have an 80/20 Test that leaves margin for "interpretation" by the IRS, with results for the 80/20 Analysis in the area of 85/15 or 90/10.

Conclusion

Marshall & Stevens' execution of wind repowering project analyses is approached on a highly client specific and consultative basis. The repowering model is assumption-driven, and many scenarios may need to be examined to quantify various sensitivities to multiple potential outcomes. We must maintain a high degree of direct interaction with our client and their respective financial, tax, and legal teams so that the most supportable 80/20 Rule positions are taken and documented as the basis for our conclusions.

Marshall & Stevens

Founded in 1932, Marshall & Stevens' is a full-service independent valuation firm with practices in the valuation of businesses, intangible assets, debt and equity instruments, equipment, and real estate. Since 2010, Marshall & Stevens has provided valuation opinions in excess of \$100 Billion to its Energy & Infrastructure clients.

For more information on repowering or other valuation topics, please visit our website or contact one of the parties listed below.



Steven R. LaMantia, ASA
 Managing Director
 Technical Leader
 Energy & Infrastructure
 312.964.4718
 slamantia@marshall-stevens.com

Steve has been with Marshall & Stevens since 2010 and a valuation professional for more than 40 years. His experience includes the valuation of US offshore and on shore wind, solar, geothermal, biomass, coal, fuel cell, gas fire and nuclear energy generation facilities.

Ralph Consola
 Principal
 213.233.1511
 rconsola@marshall-stevens.com

John Geraghty
 Managing Director
 212.897.9482
 JGeraghty@marshall-stevens.com

Jim Nutter, ASA
 Managing Director
 312.223.8355
 jnutter@marshall-stevens.com