

# **Restricted Use Appraisal Report of the Landwest Wind Farm**

**Owned by Landwest, Inc  
Company Code: 102600**

Located in the Town Wethersfield (565000)

Intended Use: 2011 Advisory Appraisal for the Town of Wethersfield

Client: The Town of Wethersfield

Valuation As Of July 1, 2010

Taxable Status Date March 1, 2011

***Fee Simple Market Value of Plant Improvements Only in the  
Town of Wethersfield is:***

**\$8,000,000**

The final value above was derived using a direct capitalization model and a cost approach for the subject improvements only. Please note that for assessment purposes, a separate land value must be added by the assessor.

Portions of this appraisal may be based upon data provided to ORPTS by the plant owner under the condition that this data be considered Trade Secret and Confidential. As such, portions of this report may be redacted in copies of appraisals provided to parties other than the owner.

Date of Report:

October 29, 2010

## **Highest and Best Use Analysis**

In New York State, property must be assessed based on its inventory as of the taxable status date and may not be assessed based upon some contemplated future use. This appraisal is for ad valorem purposes, and the appraiser has assumed that the current use of the subject property is its highest and best use.

## **Jurisdictional Exception and Appraiser's Work File**

The jurisdictional exception, for Advisory Appraisals only, has been invoked and copies of this report have been sent to the property owner and the County Real Property Tax Director in accordance with section 195-2.3 of New York State Office of Real Property Tax Services (NYSORPTS) Rules.

Additional supporting documentation concerning the data, reasoning and analyses is retained in the appraiser's work file in draft form. This report is intended for the client's use only. The depth of discussion contained in this report is specific to the needs of the client and for the intended use stated below. The appraiser warns that this report cannot be completely understood without additional information and the appraiser is not responsible for unauthorized use of this report.

## **Definition of Market Value**

Market Value means the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and the seller, each acting prudently, knowledgeably, and for self interest, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of the sale as of a specified date and the passing of title from the seller to buyer under conditions whereby:

1. buyer and seller are typically motivated;
2. both parties are well informed or well advised, and each is acting in what they consider their own best interests;
3. a reasonable time is allowed for exposure in the open market;
4. payment is made in terms of cash U.S. dollars or in terms of financial arrangements comparable thereto; and
5. the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

\* Source of the definition is from regulations published by federal regulatory agencies pursuant to Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989 between July 5, 1990, and August 24, 1990, by the Federal Reserve System (FRS), National Credit Union Administration (NCUA), Federal Deposit Insurance Corporation (FDIC), the Office of Thrift Supervision (OTS), and the Office of Comptroller of the Currency (OCC).

## Sales History of the Subject Property

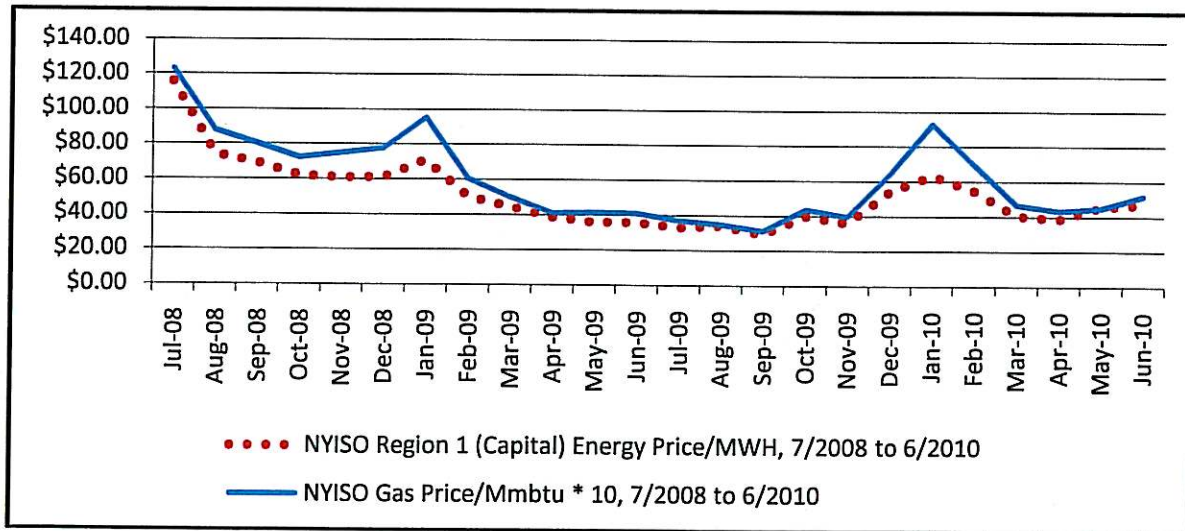
There is no current agreement of sale, option, or listing of the subject property as of the valuation date.

## Scope of Work

- An inspection of the subject property.
- Research and collection of market data related to market conditions and market activity.
- A degree of due diligence to determine the existence of apparent adverse conditions.
- Development of the income approach.
- Development of the cost approach.
- Arriving at a final estimate of value and writing this report.

## Analysis of the Current Power Market

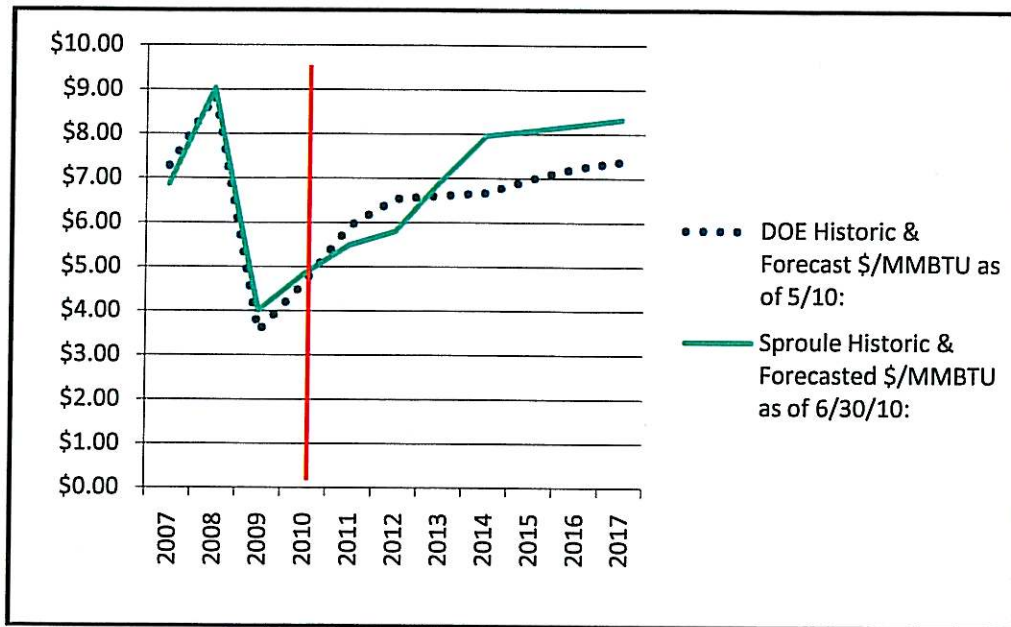
In the New York State market, there is a very close historic relationship between the price of natural gas and the price of energy. Natural gas prices in New York began decreasing steadily in late 2008 which caused a corresponding decrease in the State's energy prices (see graph below). As can be seen below, gas and electricity prices as of the July 1, 2010 valuation date have recovered somewhat from the low seen in September of 2009 and a modest spike in energy prices were seen in the winter of 2009/2010:



Due to the fact that natural gas prices drive the energy market in NY, we must therefore consider forecasts of natural gas prices available near the valuation date to gauge the direction of future energy prices (and consequently plant values) anticipated by the market. To do this, we look at the publicly available forecasts from the U.S. Department of Energy and from Sproule. Though there are relatively minor differences in these forecasted prices, both

forecasts project a return of gas prices to historic levels in the next few years.

Sproule & DOE's AEO 2010 Natural Gas Prices/MMBTU, Historic and Forecasted:



Note: The vertical line in chart above (red in color copies of this report) represents the valuation date and the approximate break point between historic and forecasted Sproule/DOE gas prices.

In conclusion, at ORPTS we believe that the energy market is now beginning to recover from the near historic lows seen in September 2009 and the mid-term outlook shows a gradual price recovery in the next few years. Further, both long-term forecasts show gas prices becoming more in line with the historic trend upward.

Typically, lower energy prices this year are resulting in reduced net operating incomes for the year ending June 30, 2010 (i.e. for power plants that derive most of their revenue from the sale of energy). On average this is resulting in lower power plant values for the 2011 Advisory cycle. However, NOIs are anticipated to increase slowly over the next few years as the forecasted price of natural gas rebounds.

## Appraisal Methods and Techniques

The income approach utilizing the direct capitalization technique is used in this appraisal. Four years of historical net operating incomes (NOI) have been estimated in our analysis (four years ending June 30, 2010). Historical market prices for energy and capacity have been obtained from the New York Independent System Operator (NYISO). Expenses are based primarily on data supplied by market participants as adjusted for inflation using data purchased from Platts and from the CPI. The NOI used in the valuation of the plant is that which we believe is representative of what a typical investor could anticipate going forward.

A sales comparison approach was not used due to the lack of current power plant sales.

A cost approach was also used in valuing the subject improvements as it is relatively new



construction. Cost new was based upon per kilowatt of capacity construction cost estimates from Platts. Physical depreciation is based upon the observed condition of the property.

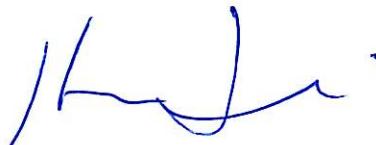
## **Reconciliation**

We believe that the year end June 30, 2010 net operating incomes for power plants are lower than what an investor could anticipate going forward, and, not representative of the current anticipated direction of the market. Therefore, we have capitalized a value near to the year end June 30, 2009 income as we believe this reflects both the lower market prices for energy, and, the anticipated future recovery of energy and natural gas prices over the next few years. The cost approach has been given lesser weight in reconciliation due to the current downturn in the energy market.

## **Certification:**

I certify that, to the best of my knowledge and belief:

- The facts and data reported and used in the valuation process are true and correct;
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial and unbiased professional analyses, opinions and conclusions;
- I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest or bias with respect to the parties involved;
- My engagement in this assignment was not contingent upon developing or reporting predetermined results;
- Power plants appraisals for Advisory purposes are often requested by the local municipality on a one to three year schedule. Therefore, ORPTS may have also appraised this power plant for the local municipality within the last three years.
- My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal;
- My analyses, opinions and conclusions were developed, and this report has been prepared accordance with, the requirements of the Uniform Standards of Professional Appraisal Practice (USPAP) as adopted by the Appraisal Standards Board of the Appraisal Foundation;
- Pursuant to the provisions of Article 6E (New York State) of the Executive Law as it related to Real Estate Appraisers, I am certified to transact business as a Certified General Real Estate Appraiser under this program through November 17, 2011;
- I have over 20 years experience in valuing residential, commercial, vacant land property and utility property including generating station appraisals. I am qualified to perform this assignment;
- I have inspected the property that is the subject of this report in 2007.
- Chris Hayes of ORPTS' State Valuation Services staff has provided real property appraisal assistance to the person signing this certification.



Henry Szypulski  
Associate Accountant  
NYS Certified General Real Estate Appraiser #46-33197

**FACTS SHEET**

**Plant Name:** Landwest Wind Farm

**Owner:** Landwest, Inc

**Municipality:** T. Wethersfield (565000)

**SBLs:** 107.-2-2.1

106.-2-57./2

107.-2-24./1

**Value by Approach:**

<b>Cost Approach:</b>	\$9,835,388
<b>Income Approach:</b>	\$6,616,740

**Reconciled Value:** \$8,000,000

**Total Range:** \$7,200,000 to \$8,800,000

**Final Value per Kilowatt:** \$1,231

**Capacity:** 6.50

**ONE YEAR DIRECT CAPITALIZATION**

*Plant Name:* Landwest Wind Farm

*Owner:* Landwest, Inc

<b>Cash Inflows:</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
<i>Historical LBMPs and 2008 Estimate:</i>	49.87	58.09	46.57	32.82
<i>Annual Production (KWH - at annual average):</i>	<u>18,220,800</u>	<u>18,220,800</u>	<u>18,220,800</u>	<u>18,220,800</u>
<i>Annual Projected Cash Inflows from Energy:</i>	\$908,656	\$1,058,440	\$848,491	\$597,977
<i>Renewable Energy Credits:</i>	\$417,256	\$350,022	\$275,772	\$314,400
<i>UCAP Revenue (at 20% total capacity):</i>	<u>\$34,579</u>	<u>\$35,399</u>	<u>\$31,859</u>	<u>\$37,224</u>
<i>Total Gross Cash Inflows:</i>	\$1,360,492	\$1,443,861	\$1,156,122	\$949,601

<b>Cash Outflows:</b>				
<i>Fixed O&amp;M (No variable O&amp;M per Platts):</i>	\$158,994	\$162,500	\$166,437	\$168,268
<i>Reserves:</i>	\$19,079	\$19,500	\$19,972	\$20,192
<i>Land Lease Payments (\$2,860/turbine, 7 Turbines on leased land)</i>	\$20,020	\$20,020	\$20,020	\$20,020
<i>Detriment to View Payments (Est. 10% lease payments or \$286/turbine):</i>	\$2,002	\$2,002	\$2,002	\$2,002
<i>Management Expense (5% of Total Cash Inflows):</i>	<u>\$68,025</u>	<u>\$72,193</u>	<u>\$57,806</u>	<u>\$47,480</u>
<i>Annual Projected Cash Outflows:</i>	<u>\$268,120</u>	<u>\$276,215</u>	<u>\$266,237</u>	<u>\$257,962</u>
<i>Annual Projected Net Cash Flows:</i>	\$1,092,371	\$1,167,646	\$889,885	\$691,639

<i>Annual Projected Net Operating Income:</i>	<b>\$900,000</b>
<i>OAR (Without Taxes):</i>	<b>10.00%</b>
<i>Tax Rate:</i>	<b>3.15%</b>
<i>OAR (With Taxes):</i>	<b>13.15%</b>
<i>Total Capitalized Value:</i>	<b>\$6,842,000</b>
<i>Less: Personalty &amp; Intangible Deduction:*</i>	<u><b>\$225,260</b></u>
<i>Final Value of Realty:</i>	<b>\$6,616,740</b>

\* - As applicable, P&I deduction is 5% of first million dollars in value, 3% of next \$9 million in value, and .5% of value over \$10 million.



# COST APPROACH, at 7/1/10:

RCN:

Turbines (10 at .65MW each): \$11,442,195 RCN/KW per Platts

Total RCN Before Entrepreneurial Profit: \$11,442,195

Entrepreneurial Profit (0%): \$0 Income approach indicates no E-Profit is likely.

RCN with Profit: \$11,442,195

RCNLD:

Percent Good: 85.00%

RCNLD with Profit: \$9,725,866

Land Value: \$109,523

Total Market Value per Cost Approach: \$9,835,388