

Wind turbines

Energy business group

A payback period of 6 years.

Background

Perhaps the most iconic image conjured up in the imagination of the public when discussing renewable energy is wind turbines, whether they be off-shore or on-shore. Whilst a wind turbine can often be the easiest renewable energy scheme to fund because the model is "tried and tested" it can perhaps be the most difficult to obtain planning permission for given public opinion.

Our experience indicates that many land owners and farmers are seeking to develop small scale wind farms to supplement their income, particularly as payback can be as little as 6 years with an IRR of 20%.

Feasibility

We can carry out an initial due diligence appraisal of the proposed project. This can include carrying out high level forecasts to give indications of IRR returns, expected profit levels etc. We can also make introductions to various specialist consultants including scheme manufacturers etc. At this stage UHY Hacker Young can comment and advise on the most appropriate structure and corporate vehicle to run and operate a scheme as well as advise on available tax reliefs.

Planning and Construction

UHY Hacker Young can assist in the planning process of a wind scheme. This can include introductions to wind manufacturers and negotiations with government bodies.

We can also make introductions to civil engineering companies who specialise in the development and installation of these schemes.

Funding

UHY Hacker Young can assist in the fundraising for the project. We have good relationships with banks, private and institutional investors who are all currently looking to invest in renewable projects. Our work would include the completion of a robust business plan and projections and the project management of the transaction including liaising with solicitors etc, until funds are received.

Operations

UHY Hacker Young can assist in the day to day financial running of a scheme once it is operational. Our services can include not only preparing accounts and completing tax returns but also operating and communicating with electricity suppliers regarding electricity sales and dealing with Renewable Obligation Certificates (ROCs) or Feed In Tariffs (FITs) as appropriate.

Projections

In connection with suppliers and installers of wind turbines, we have prepared high level projections to be used for illustrative purposes and give an indication of the income and returns that could possibly be made from the installation of such turbines.

The installation of smaller wind turbines has only recently become more cost effective with the UK Government's introduction of the FITs to incentivise small scale electricity generation by communities and businesses and land owners. Effectively the electricity generator will now be paid for every kilowatt hour (kWh) of electricity generated whether the electricity is used onsite or exported to the local electricity network.



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The FIT scheme started on 1 April 2010 and the Government confirmed that tariffs for wind turbines will be paid for 20 years.

It is worth noting that FIT payments are indexed by RPI, to ensure that target rates of return are maintained in real terms for the lifetime of the scheme.

Results

For a 330 kW turbine the high level projected profit & loss account can be provided.

The key figures are as follows:

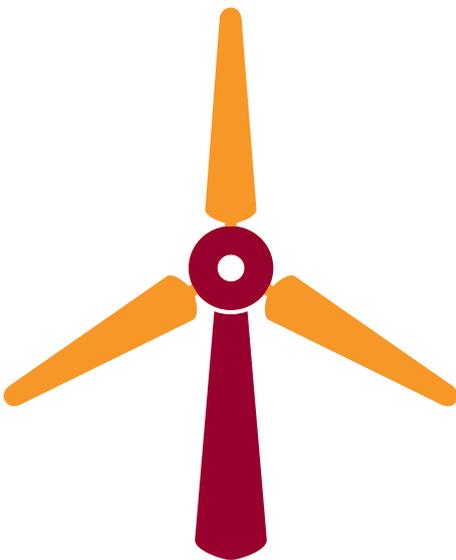
| | |
|---------------------------------------|----------|
| Turnover per annum | £189,000 |
| Profit before interest & tax | £84,000 |
| Payback period | 6 Years |
| Internal rate of return over 20 years | 24% |

Assumptions

The projections have been prepared on the following bases and assumptions:

- The capital cost of a 330 kW turbine will amount to circa £710,000, excluding VAT.
- The turbine will be utilised on an annualised basis of 2628 hours. This is equivalent of the scheme operating at 30% efficiency.
- The scheme will be entitled to a FIT rate of 18.8p per kW of generation.
- The scheme would earn 3p for each kW of electricity exported. (Sold to the grid and not consumed by the generator).
- It is currently assumed all electricity would be exported.
- The capital equipment is depreciated over 20 years.
- The forecast does not take interest or tax into account. This has been omitted as we have no knowledge of funding structure or vehicle structure being proposed. (Banks are typically lending at circa 5.5% to 6% at present. Corporation Tax for small companies is currently 21%, reducing to 20% in 2012. Profits generated from commercial wind turbine developments are subject to UK Income and Corporation Taxes).

For further information or advice please contact your usual partner, or visit our website at www.uhy-uk.com.



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