Does It Pencil?

Q. Residue from logging has never been a lucrative commodity in its own right, though mill residue is a useful by-product that has a role in helping power lumber mills. Can a biomass energy plant really justify and sustain a $250 million investment?

A. Probably not on its own. But Federal policies and stimulus funds have created an artificial market causing new players to rush into the biomass niche.

The concern is whether the business is sustainable after the subsidies run out.

GOING IN:

American Recovery and Reinvestment Act of 2009 (ARRA) - allows companies building renewable energy facilities to receive a *grant of 30 percent of the investment* in the facility.

2008 Farm Bill, Sec 9011, provides federal matching funds (up to $45/ton) to sellers who produce biomass for energy plants like ADAGE. *Up to $27 million/yr (604,000 tons x $45).*

Federal Statutes 26 USC § 168 and 26 USC § 48 - Modified Accelerated Cost-Recovery System (MACRS) - establishes the rules which determine how long it takes a business to recover investments through depreciation deductions. *For biomass property, the MACRS property class life is seven years.*

WA State RCW 82.08.956, 82.08.957, 82.12.956, 82.12.957 makes forest-derived biomass for production of power plants *exempt from retail sales and use taxes* thru June 30, 2013.

WA State RCW 82.08.02567, 82.12.02567 - makes up to 100% of sales and use taxes for *equipment, labor and associated services* for power production exempt through July 31, 2013.

WA State RCW 82.04.4494 gives ADAGE tax credits to offset B&O taxes. *A B&O tax credit up to $5/ton is provided for each green ton of forest-derived biomass sold or used for production of power* in biomass plants through June 2015.

POSSIBLE CLOSING SCENARIO:

2011 - ADAGE receives ARRA construction grant. Enjoys numerous tax exemptions.

2013 - WA State sales and use tax exemptions end for equipment and labor, and for sale of biomass used for energy production.

2015 - WA State B&O tax exemption ends.

2015? - Federal Farm Bill match expires, reducing amount of biomass on the market. Demand for biomass from the 39 new biomass plants built in Washington State in 2010-2011 drives price for clean woody biomass up to uneconomic levels.

2017 - Seven year accelerated depreciation period under MACRS is completed.

2017 ? - ADAGE has vested in lucrative carbon credits that can be sold under proposed *Cap & Trade Legislation* after the Plant is closed.

ADAGE leaves. Takes tax loss on project. Plant is either converted to burn coal or garbage, or it must be dismantled.

IMPORTANT: ADAGE is a LLC (limited liability company) so if it goes bankrupt, the parent corporations are not liable for legal obligations or clean-up costs owed by ADAGE. Taxpayers pay the bill.

The ADAGE Plant may well work out great for Areva and Duke Energy. What's unclear is how this scenario would benefit Mason County.

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RCW info from Washington State Bioenergy Policy Framework, http://www.commerce.wa.gov/site/887/default.aspx