

# Former Goldman Sachs banker gives landowners a chance to spin a profit from wind

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By Rosy Lum

The concept of harnessing wind for power is centuries old, but the intense focus on renewable energy as a necessary alternative to the more traditional and heavier polluting energy resources available today has breathed new life into the industry.

Developing the technology and the expertise needed to effectively harness wind has attracted a lot of attention, not to mention investment. Large companies and small, communities and individuals are sweeping into the wind industry to slice their pieces of the turbine pie.

One of the companies focusing on renewable power generation at the community and individual level is OwnEnergy.

OwnEnergy, which was founded in March by a former Goldman Sachs Group Inc. investment banker, partners with landowners looking to develop and own small — 10-MW to 50-MW — wind farms, providing advice, securing capital and guiding the process of development over the approximate two years it takes to render a wind farm operational.

"It starts ... with us reaching out to a potential partner because we think that they are sitting right at the crossroads of a good renewable resource," OwnEnergy founder Jacob Susman said. "But the twist on it for our model is we need to find a local partner who we think, first and foremost, is interested, entrepreneurial and just generally will be able to be a strong local partner for us so they can drive a lot of the aspects of local development."

Among the aspects of development that OwnEnergy drives are providing landowners with the templates, guidance and oversight into both the permitting and the transmission processes, helping them manage work flow, and selecting third-party engineers and service providers.

But the company does not do everything. By definition, the partnership requires the landowner to take an active role in the project, in addition to having invested capital.

"Whatever's going on at the local level, whether it's appearing in front of the town council to explain the plan for the project, or talking with the local utility about how the project's going to be interconnected, we leave a lot of responsibility for the local work in the landholder's hands," Susman said.

After the initial stages of development — establishing that the landowner's property will be able to harvest wind, coming to an agreement with the landowner and beginning the process of submitting permits for connection to the transmission grid — OwnEnergy steps in to navigate the morass of contracts, permits, financing and negotiations characteristic of the wind industry.

"This is the time where you get into the more structurally intensive, engineering intensive, contractually and financially intensive aspects of the development process," Susman said. "And that's where our team of experts and our deep experience here at OwnEnergy would really enable us to be a great partner. We've negotiated power purchase agreements, we've negotiated complex turbine supply agreements, and financial tax and cash equity financing, so those are all areas where we're able to bring our resources to bear on the opportunity."

OwnEnergy currently comprises five people, with an offer out to a sixth. Three of the five previously worked at Goldman Sachs, including Susman, who managed Goldman's investment in Energias de Portugal subsidiary Horizon Wind Energy LLC. Work backgrounds also include Florida Power & Light Co. and General Electric Co.

Susan Sloan, a spokeswoman for the American Wind Energy Association, acknowledged that for those less experienced in wind, erecting a farm without the aid of an expert would be far more complicated.

"Putting up a wind farm — it's a competitive industry," Sloan said. "A lot of things have to go into a wind farm. There is finding the right land, leasing that land, having rights to that land, negotiating with the landowner, making sure you're close to transmission lines so you can get your power to market, negotiating so you can get your power onto the grid."

"And so if somebody can come in and figure out a way to provide the expertise and help with the financing and get those projects put together — wonderful," she added.

Unlike fossil fuel plants, for example, wind farms require most of the capital up front to construct them and gear them up for operation. Once the project becomes operational, costs over time are more predictable.

"It's not an operation-intensive business like a gas plant or a coal plant, and so after that operation period is up, there's some terrific out-source providers of O&M services we can look into," Susman said. "Or, as our company evolves, we may look to bring that function in-house ourselves."

## Financing the farms

OwnEnergy partners with outside investors who provide the capital up front to get the farm on its feet. Because of tax credits and cash flows from a farm's early operations, wind farms can make for attractive investments. For OwnEnergy and the landowner, though, earning interest is often deferred until the tax credits expire and the investor hits a hurdle rate of return.

"Our partnership will be structured in such a way that we and the landowner will receive a fee at the early stages of the project's operation so that we get something for our efforts up front," Susman said. "But the lion's share of what we and the landowner are going to split up is going to come after that outside provider of capital has hit their target return."

After that point, OwnEnergy and the landowner see their cash flow step up dramatically.

Susman would not disclose who the investors in OwnEnergy were or how much capital was needed to start up his business, but he characterized five of the 12 investors as a senior partner in a private equity firm; a CEO of a solar energy business; a large, publicly traded global IPP; the CEO of an oil and gas company; and a New York venture capital firm.

OwnEnergy currently has two projects under way. One wind farm, being developed on a rancher's farm in west Texas, will begin as a 10-MW project that will eventually ramp up to 70 MW. The other is a 50-MW wind farm, also in Texas, that will begin construction in 2008. Generally, power generated is contracted through a power purchase agreement to be sold into the wholesale market, Susman said.

Going where the wind blows him, Susman is investigating opportunities in Minnesota, Iowa, Michigan, Wisconsin, Ohio and the Pacific Northwest.

"A lot of this is driven by regulation, and particularly there's more and more regulation coming to market that's trying to incentivize local ownership in projects," Susman said. "Basically, people at the point where the resource exists are saying, 'I want to own a piece of the pie, too,' so we like markets that are driving that incentive."

OwnEnergy also opens up opportunities for utilities that are hesitant to purchase power from large wind projects to instead turn to smaller wind farms.

"There are relatively few who have the appetite to purchase the power from such large projects as the ones that are currently being developed," Susman said. "Since we tend to develop smaller projects

and we have this focus on being local and being in the community, it enables us to market to some of the smaller utilities who may not be able to purchase the power from a 300-MW wind farm but they might like to purchase the power from a 30 [MW wind farm].”

### **Owning future energy**

OwnEnergy is not limiting its business model to wind, nor is Susman limiting his horizons to North America. The company has solar, biomass, digesters and other smaller setups in renewable energy in mind, as well as stepping beyond U.S. borders.

“We have a strong interest in going international,” he said. “The trick, though, is we want to do that when it’s prudent for the business. We still have some milestones to hit before we do that ... I’d want to get a little further along on some adjacent technologies in addition to wind before I went international, both of which could easily happen within, say, the next three years.”

### **Realizing the potential of wind**

The idea for OwnEnergy began germinating while Susman worked in Spain for AES Corp., where he was responsible for both developing

a 1,200-MW combined-cycle fossil fuel plant and screening renewable energy opportunities for the company.

“The contrast was always very interesting, where we were this very sophisticated and savvy energy development team, and we had some relatively less sophisticated and certainly nonenergy professionals turn up and say, ‘Hey, I’ve been doing some wind measurements on my property, and I wrote a letter to the local utility, and they say they’ll hook me up to the grid ... I just need you guys to put some capital down and I can go buy the turbines,’” Susman recounted. “It was the first time that I started realizing that renewables by their nature are smaller, more modular and easier to develop than conventional power plants.”

He later worked on the business model for OwnEnergy at the University of Pennsylvania’s Wharton School, where it was one of the Great 8 finalists in the Wharton Business Plan Competition in 2003.

Susman said he was also inspired by the tech boom, by companies that revolutionized existing industries, such as Amazon and Dell.

“We think our company has the potential to do the same in renewable energy,” he said. *i*