



Office of the
CHURCHILL COUNTY COMMISSIONERS

Carl Erquiaga
Pete Olsen
Bus Scharmann

Ms. Angie Dykema
Director Governor's Office of Energy
755 N. Roop Street, Suite 202
Carson City, Nevada 89701

March 2, 2016

RE: ORNI 43 LLC/Ormat Nevada Inc. Tax Abatement Request AFN: 16-0125G

Dear Ms. Dykema,

Churchill County is in receipt of the Ormat's Tax Abatement Application for the geothermal Tungsten Project located in Churchill County. As noted in the application, Ormat is seeking to invest \$94,400,000 to build a power generating plant that is expected to deliver a generating capacity of 24 MW at design conditions with the geothermal resource located in Edwards Creek Valley in Churchill County. In exchange for making this investment and using a geothermal resource at a site specific location in Churchill County, Ormat is seeking sales and use tax and property tax abatement for the next 20 years as allowed in the Nevada Revised Statutes. Churchill County has reviewed the application and supports Ormat's abatement request as it appears to satisfy all the current statutory requirements. In doing so, however, we express concern over the policy of this state in providing such substantial tax incentives for this industry.

The amount of the requested abatement for this project is significant. Based on an analysis by the Department of Taxation, the sales and use tax abatement is projected at \$2,587,000 for the first year of construction. The Department's estimate of the property tax abatement for the 20 year period is \$9,247,377 for a total abatement of \$11,834,377 for this project. Based on the information submitted by Ormat, the construction of the Tungsten Project will create 66 FTE jobs during the one year construction period and 5 permanent jobs during the 20 year abatement period. The estimated Nevada construction wages are \$2,765,000, out of state construction wages are \$2,900,000. The 5 permanent employees will be paid a total estimated annual amount of \$349,440 per year or \$6,988,800 in Nevada wages over the 20 year period. Thus, a total of \$9,753,800 wages will be paid to Nevadans over the 20 year period of this plant. This compares to the total abatement amount of \$11,834,377 leaving an excess of abatement over wages in the estimated amount of \$2,366,875. However, the capital investment of over \$51,740,000 in taxable sales exceeds the total abatement amount requested in the application.

Churchill County is supportive of green energy. Geothermal power is a great base-load power that can provide low cost energy with a 90%+ capacity factor in a clean, safe and efficient manner. Our local geothermal industry is mature with several plants operating since the 1980's. Currently, we have seven plants generating renewable power that does not create any greenhouse gases, is combustion free and has limited impacts on the environment. We generate more green energy in our county than we use which gives us a new perspective to our High School mascot "Fallon GREENwave".

Churchill County and the related taxing entities will financially benefit from the Tungsten Project. When the abatement is approved, local governments will collect 45% of the property taxes over the next twenty

years. This amounts to an estimated \$7,566,036 over 20 years or an average of \$378,300 annually. Furthermore, they will employ 5 employees who will live locally in our community earning above average wages. Historically, our geothermal companies are socially responsible employers and their employees actively engage in our community and enjoy the rural lifestyle Churchill County has to offer.

Churchill County has concerns with the current public policy authorizing such a high level of tax abatements for an industry that must locate where the geothermal resource is located. We engaged Mr. Jeremy Aguero and Applied Analysis to perform an Economic and Fiscal Impact Analysis on the Geothermal Industry in September 2012. The report concluded that the Net Fiscal Benefit per Employee is \$56,000 over a twenty year period of time for a 20MW plant. Furthermore, the report indicated that the geothermal industry is relatively established in Churchill County. Geothermal energy is site-specific, and employees hired by a new project may not be from Churchill County. The new geothermal power may be exported out of state, thus Nevada's natural resource may be exported. This will add nothing to the in-state energy supply-even as the state provides significant tax abatements to encourage production. With continued abatements of major revenue resources, Churchill County's fiscal structure will be impacted. Lastly, given that some large geothermal operators are reporting stable profits, the concept of whether the abatements are necessary to ensure their existence in the state should be considered-especially given the site dependency of the industry. We believe this Economic and Fiscal Impact Analysis should be evaluated to determine the appropriate levels of tax abatements necessary for the geothermal industry.

In reviewing information on the Governor's Office of Energy web-site, Ormat has received over \$60,546,813 in tax abatements for five geothermal projects in the State of Nevada since 2012. These projects have been built and have been contributing to Ormat's successful operations. During their February 24, 2016 Earnings Call with financial analysts, Ormat Technologies, Inc. reports all-time record annual revenues of \$595 Million and adjusted EBITDA of \$291 Million for the calendar year 2015. Their gross margin increased to 36.7% in 2015 compared to 36.4% in 2014 while operating income grew 14.3% to \$164.1 Million in 2015 as their total book equity exceeded \$1 Billion. These numbers beg the question "Does this industry or company really need these substantial tax abatements to expand projects in the State of Nevada?" We believe this policy question needs to be evaluated by the State of Nevada in the very near future.

Churchill County has a long and successful partnership with Ormat as they operate their Brady Hot Springs and Desert Peak I & II geothermal plants in Churchill County. We are excited and supportive of their proposed Tungsten and Dixie Meadows Plants as they will be beneficial to all parties as they are developed over the next two years in Churchill County.

Thank you for allowing us to participate in this process. If you have any questions or need clarifications, please contact me at your earliest convenience.

Sincerely,

A handwritten signature in black ink, appearing to read "Pete Olsen", written over a horizontal line.

Mr. Pete Olsen
Chairman, Board of County Commissioners