

# An independent developer stands firm

A measure of agility, cunning and lots of patience have enabled one independent wind power developer to resist the encroachment of big, cash-rich competitors in a growing market dominated by huge corporations, writes [Mark Anderson](#)

As the new millennium dawned, independent wind power developers roamed the North American landscape in significant numbers. These small, nimble creatures grazed alongside the corporate behemoths and added significant megawatts to an exploding market that would soon become the biggest in the world.

But even before a storm overtook the economic landscape something became clear: The US federal production tax credit (PTC) was the lifeline for US wind project success — and that spelled the end for most independent developers. The independents, subject to federal tax burdens far smaller than those needed to fully realise the benefits of the PTC, needed partners with big tax appetites. Meanwhile, as the euro began trouncing US currency in the years before the world stumbled off the financial cliff in 2008, European giants cashed in on the cheap dollar and joined Wall Street players in snapping up independent US wind developers. The independents were driven almost to extinction.

Yet Cannon Power Group, a small independent with two-dozen employees, has kept itself off the endangered species list. The California-based developer is led by

**Big deal** At 500MW, Windy Point/Windy Flats it is one of the largest wind farms in the US

chairman Gerry Monkhouse, who founded the company in 1979, and president Gary Hardke, who signed on as legal counsel in 1982. Cannon has shepherded upwards of 30 North American and European projects into more than 4GW of development over the course of three decades.

Today, as the company finishes its 500MW Windy Point/Windy Flats project in Washington state, its near-term plans include 1GW in Mexico, up to 200MW in Colorado and a 250MW project in Croatia that appears about a year from breaking ground.

A US wind industry increasingly dominated by huge corporations risks the elimination of lean, resourceful operations and their uniquely homespun innovations. “I think it’s fair to say that Cannon is part of a dying breed,” says Tim Stephure, a senior analyst with Massachusetts-based IHS Emerging Energy Research. “That they’ve been able to survive alludes to their flexibility and willingness to think a bit outside the box.”

## Creative finance

Cannon’s multi-phase project in Washington furthers the idea of sending Pacific Northwest power to California, which has huge renewable energy mandates to meet. Cannon has also been behind the concept of prepay contracts, which allow electric utilities to provide low-interest bonds as project finance in exchange for the right to lock in on a low 20-year power price and an option to later buy the project. In a deal with the Southern

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BRUCE FORSTER/VIEWFINDERSNW

**Unusual** Cannon combined a government grant with a prepay agreement to finance Windy Point

California Public Power Authority (SCPPA), Cannon financed installation of 262MW — and more than 70% of the output is covered by a prepay arrangement. The remaining power is sold to SCPPA at market prices.

“Instead of going out and borrowing from a bank for a 20-year loan at regular project-finance interest rates, we substitute SCPPA’s 20-year prepayment,” says Hardke. “Their cost of capital is a lot less than ours, because they can issue tax-exempt bonds.”

### Cost-effective financing

Cannon combined the prepay structure with more than \$220 million from the US federal government’s Recovery Act grant programme to create cost-effective financing for Windy Point/Windy Flats without a tax-equity partner, as the PTC essentially requires. The grant money will help Cannon complete the final 100MW in Washington and then apply for another grant.

“What’s unique about their projects is that they’ve combined a prepay structure and a cash-grant structure to reduce the costs even more,” says Tom Trimble of Hunton and Williams, who serves as Cannon’s lead lawyer. “The prepay financing structure is unique — there’s probably only been about five of them closed and I’m the transaction attorney who’s closed four of the five.”

Cannon plans to harness the prepay scheme again. “It really shocks and surprises me that more utilities don’t look at this method to bring renewables into their portfolios,” Monkhouse says. “Basically, everybody wants two things — they want renewable energy and they want it cheap. And this is absolutely the best methodology to do that.”

Cannon’s survival strategy involves Mexico, where a project has been brewing since 1990. That year, the company began negotiating with the “ejidos” — groups of

200 or more Mexican landowners that collectively control massive tracts of barren land near the California border. The company’s negotiations, which required unanimous ejido consent, turned serious around 2004.

“It took so long because the ejidos are generally very sceptical of outsiders,” Hardke says. “They’ve had a series of bad experiences with people trying to take advantage of them in commercial transactions. Gerry and I probably made 40 or 50 trips to the various ejidos.”

Cannon eventually locked up 250 square kilometres — some of the best wind-resource property in North America — by signing a series of leases for 20 to 40 years or longer with the same basic contract offered in its Washington project. The company currently pays the ejidos a relatively modest monthly fee, expected to reach roughly \$1 million per 100MW, every year, when the project is complete.

“We received a lot of criticism from our competitors that we were ruining the market because we were offering leases that were too rich,” Hardke says. “But we wanted to bend over backwards to treat them really, really well and, in hindsight, it was a very good strategy to pursue.”

In addition to securing the land, Cannon also had to navigate the complications of Mexican governmental and electricity regulations, both local and national. The company is negotiating 20-year power purchase agreements (PPAs) to sell electricity directly to large Mexican corporations accustomed to paying exorbitant prices for power. “What we’ll be able to do is save these folks well over 10% per year with self-supply arrangements,” Monkhouse says. “So they really like it, because it will save them money now and it will save them money 5, 10, 20 years from now.”

Within a year, Cannon plans to begin the first Mexican phase of roughly 100MW to supply those domestic contracts. Gamesa is to supply turbines as part of a ten-year exclusivity deal for the overall project, while the bulk of the power — as much as 900MW — is expected to cross the border into California within three or four years.

### Transmission upgrades

Hurdles remain. “There is an amount of transmission in place that is available,” Hardke says. “But to export large amounts of power into the California market, it’s going to require transmission upgrades.” But in the works is a 200-kilometre US transmission project, the Sunrise Powerlink line, which by 2012 should provide additional wires near the border and into California. San Diego is about 100 kilometres to the north.

“You can’t find those large, available high-wind-resource areas close to load centres in the United States,” Hardke says. “And if you could find them, there would be too much local opposition. In Mexico, by contrast, the local stakeholders — whether it’s the local landowners or local government — are enthusiastic about building our projects.”

Two or three years from breaking ground, the Colorado development is in conjunction with a premier renewable energy research facility at Colorado State University (CSU). Monkhouse and Hardke consider it a pet project — but marginal power prices in the state suggest that it will not be easy. “Certainly, a prepay concept would be ideal over there,” Monkhouse says. “And we’re talking to the university about not just building a wind project, but about

**“We hope to put Cannon in the position of continuing as an independent renewables company for years to come”**

Gary Hardke, president, Cannon Power Group

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making them a green university with green campuses.”

Cannon is in discussions with CSU to formulate how best to leverage the partnership, which could eventually include the US Department of Energy’s Colorado-based National Renewable Energy Lab (NREL). “But that’s all mostly up to the university,” Hardke says.

### European footholds

Groundwork for Cannon’s upcoming project in Croatia was laid in the late 1980s, when wind developers were unable to convince utilities to offer PPAs to wind projects in the western US. “We wanted to expand, wanted to develop new projects,” Hardke says. “And the only place where new projects were occurring was in Europe.”

The Danish Ministry of Industry invited Cannon to Italy, which led to a relationship with turbine manufacturer Vestas and an introduction to Enel, the Italian government utility. “Enel was very, very receptive,” Monkhouse says. “In the US, we were used to getting kicked out of utilities’ offices. But over a very short period of time, Enel offered us a contract for a 250MW project.”

Cannon eventually built 450MW of Italian wind power — turbines that have long since been sold. “At the time, it was the biggest project ever built in Europe,” Monkhouse says. “Vestas actually put a manufacturing plant in southern Italy to support our project.”



**Brain trust** Chair Gerry Monkhouse (left), who founded the company in 1979, and president Gary Hardke

All the groundwork helped lay a foundation for more international opportunities. The company developed projects in India, Switzerland, Spain, Turkey and Greece. The upcoming 250MW Croatian project has been many years in the making and Cannon hopes to break ground in the next year or two.

Nevertheless, Cannon has continued to parlay its track record into new challenges. “A lot of the lessons that we learned working in Europe served us very well in Mexico,” Hardke says. “We’ve had to deal with so many different situations that Mexico, although very complicated, was not overwhelming to us.”

Cannon’s small staff is today developing solar projects along with wind. Monkhouse, 67, and Hardke, 61, are now transitioning into oversight roles as they move the next level of management into senior positions.

“We hope to put Cannon in the position of continuing as an independent renewables company for years to come — even if and when Gerry and I decide to step to the sideline,” Hardke says.

Hardke says that, at least once a week, somebody calls to ask if the company is ready to partner up ... or sell out. “It’s not for lack of opportunities that we haven’t done it,” he says. “But our feeling is that we love what we’re doing. And as long as it stays fun for us, we’re going to try to keep doing things the same way.”

An advertisement for DAVI Wind Towers Division. The background shows a large industrial facility with various pieces of machinery, including a large red roller and a crane. In the foreground, there are several large metal pipes. A red circular graphic on the right contains the text "MORE THAN 150 SYSTEMS SOLD IN THE LAST 6 YEARS!". The DAVI logo is in the top left, and contact information is in the bottom left. A website URL is visible on a red structure in the bottom right.

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