ENVIRONMENTAL POWER CORP
Form FWP
June 01, 2009

Summary Presentation
ENVIRONMENTAL
POWER
CORPORATION
(NASDAQ:
EPG)
Underwriter

B.C.
Ziegler
and
Company
Member SIPC and FINRA
Environmental
Power
Corporation
has
filed
a
registration
statement
(including
a
prospectus)
with
the
SEC
for
the
offering
to
which
this
communication
relates.
Before
you
invest,
you
should
read
the
prospectus
in
that
registration
statement
and
other
documents
Environmental
Power
has
filed
with
the
SEC

for more complete information about Environmental Power and this offering You documents for free by visiting EDGAR on the SEC Web site at www.sec.gov. Alternatively, Environmental Power and the underwriter will arrange to send you the prospectus if you request it by calling (888) 884-8339. A copy of the most

recent
prospectus
may
also
be
found
by
clicking
on
the
following
hyperlink:
Prospectus
Issuer Free Writing Prospectus
Filed Pursuant to Rule 433
Registration Statement on Form S-1 No. 333-158286

ENVIRONMENTAL POWER CORPORATION
SAFE HARBOR STATEMENT
The Private Securities Litigation Reform Act of 1995, referred to as the PSLRA, provides a "safe harbor" for forward-looking statements. Certain statements contained in this presentation, such as statements concerning planned manure-to-energy systems, our sales pipeline, our backlog, our projected sales and financial performance, statements containing the words "may," "assumes," "forecasts," "positions," "predicts," "strategy," "will," "expects," "estimates," "anticipates," "believes," "projects," "intends," "plans," "budgets," "potential," "continue," "targets" "proposed," and variations thereof, and other

statements contained in this presentation regarding matters that are not historical facts are forward-looking statements as such term is defined in the PSLRA. Because such statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to: uncertainties involving development-stage companies, including our ability to continue as a going concern; uncertainties regarding project financing, the lack of binding commitments and/or the need to negotiate and execute definitive agreements for the construction and financing of projects, the sale of project output, the supply of substrate and other requirements and for other matters; financing and cash flow requirements and uncertainties; inexperience with the development of multi-digester projects; risks relating to fluctuations in the price of commodity fuels like natural gas, and our inexperience with managing such risks; difficulties involved in developing and executing a business plan; difficulties and uncertainties regarding acquisitions; technological uncertainties; including those relating to competing products and technologies; risks relating to managing and integrating acquired businesses; unpredictable developments; including plant outages and repair requirements; the difficulty of estimating construction, development, repair and maintenance costs and timeframes; the uncertainties involved in estimating insurance and implied warranty recoveries, if any; the inability to predict the course or outcome of any negotiations with parties involved with our projects; uncertainties relating to general economic and industry conditions, and the amount and rate of growth in expenses; uncertainties relating to government and regulatory policies and the legal environment; uncertainties relating to the availability of tax credits, deductions, rebates and similar incentives; intellectual property issues; the competitive environment in which Environmental Power Corporation and its subsidiaries operate and other factors, including those described in the prospectus relating to the offering to which this presentation relates, well as in other filings we make with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date that they are made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

1

2
Proven Company

Environmental Power Corporation (EPC) owns and operates proven, commercial-scale renewable energy facilities producing a versatile methane-rich biogas from waste products consisting of agricultural livestock and other organic wastes.

EPC has a proven track record and is a leader in the biogas based renewable energy market and evolving carbon credit market.

Market Drivers

First-mover Status

Unique Offering

Projects Ready to Go

Unique opportunity to provide project dedicated funds at a market coupon rate and participate in equity upside.

High and volatile energy prices, growing renewable energy demand (RPS), increasing environmental concerns (carbon emissions) and increasing regulation of agricultural waste have led to increased interest in EPC s renewable product.

EXECUTIVE SUMMARY

PROCESS OVERVIEW
3

ADVANTAGES OF BIOGAS
Versatility
Biogas can be used to displace an array of conventional fuels
Infrastructure already exists compared to other renewables
Renewable
Waste to
Energy

Good for
Environment
High Economic
Efficiency
Output
Available 24/7
Security of
Support
Income
Alternative
Provides income diversification and cost savings for farmers
Reduces dependence on fossil fuels and is a domestic supply of energy
Produces energy when needed, unlike wind and solar, which are intermittent
Does not require government subsidies
Production efficiency is significantly higher than other biofuels
Addresses farms nutrient management concerns
Biogas process sequesters methane; 21x the effect of carbon dioxide as greenhouse gas
Waste products (manure and other organic wastes) are the feedstock and
not dependent on food crops
Non-depleting asset utilizing waste streams
4

CONFLUENCE OF AGRICULTURE AND ENERGY
Solutions that are clean, proven, cost-effective and operate at the confluence of the agriculture and energy markets.
5

Agriculture

Outsourcing of manure management issues

Alignment of long-term interest

Reduced farm operating/capital costs

Lease payment for the site of facilities

Project profit sharing with local farmers

By-products can be used as bedding for animals and liquid fertilizer add value to farm; potential third-party sales

Energy

Useful renewable energy product (Renewable Portfolio Standards, state mandates, Renewable Energy Credits, etc.)

Most projects expected to qualify for salable carbon credits
Environment

EPC
AS
A
RENEWABLE
E
&P
PLAY

EPC is essentially a renewable exploration and production natural gas company
with some key differences:

- No exploration risk
- No drilling risk
- No dry holes
- Non-depleting resources

Also an active participant in the evolving carbon credit market
6
EPC
produces
pipeline-quality
natural
gas
with
renewable
attributes.

OPERATING FACILITIES
Huckabay
Ridge

Largest
Renewable
Energy

Gas
®
(RNG
®
)
facility
of
its
kind
in
North
America

Commercial operation: January 14, 2008

635,000
MMBtu/year
RNG
®
production
target

Enough
natural
gas
to
heat
approximately
7,000
midwestern
homes
for
the
winter
7
Huckabay
Ridge
Stephenville, TX
Operational: Q1 2008
635,000 MMBtu/year
Norswiss
Facility
Rice Lake, WI
Operational: Q4 2005
850kw
Wild Rose Facility
La Farge, WI
Operational: Q2 2005
750kw
Five Star Facility

Elk Mound, WI
Operational: Q1 2005
750kw

STRATEGIC RELATIONSHIPS
8
Cargill Provider of food, agricultural and other products and services
Business Development Agreement to accelerate market penetration
PG&E Distributor of natural gas and electricity focused on renewable energy
Long-term purchase and gas distribution agreements
Provides off-take and pipeline access in critical markets

Dairyland Power Provider of electricity generation and transmission services
Biogas offtake on three initial facilities in Wisconsin (proven platform for biogas production and electric generation)
Xergi A/S - Danish contractor and O&M operator of energy and environmental plants
Provides EPC s anaerobic digestion technology
Texas Gas Service Third largest natural gas distribution company in Texas
Established agreement to purchase RNG
from Texas projects
Xcel Energy A leading electricity and natural gas energy company
Comprehensive portfolio of energy-related products and services with regulated operations in eight western and midwestern states
®

Micky
Thomas
Senior VP &
Chief Financial Officer
Dennis Haines
VP & General Counsel
Michael Hvisdos

Executive VP
Growth Team
Mike Newman
VP Operations
Rich Kessel
CEO and President
EPC and Microgy, Inc.
LEADERSHIP
TEAM
9
Finance
Accounting
Treasury
Human Resources
IT
Project Cost Control
Investor Relations
Public Relations
Corporate Secretary
Legal
Ethics
Risk Management
Insurance
E/H/S/Q
Government Affairs
Growth Team
Business Development
Market Development
Project Development
Project Execution
Strategic Alliances
Carbon Strategy
Operations
Plant Operations
Substrate
Logistics
Plant Betterment
Plant E/H/S

PROJECTS READY TO GO
10
Debt financing in place

To date, $130 million of tax-exempt debt financing has been raised from institutional lenders in support of construction of these projects.

Investors in the 2006 Texas bond issue purchased California bonds in September 2008 (Release of California and certain Texas bond proceeds remains subject to satisfaction of certain performance and further financing conditions).

Tax-exempt debt financing required analysis by independent third-party experts.

Economic
analysis

SJH,
a
leading
Ag
Consultant

Technical/operational
analysis

RW Beck, a leading independent engineering consulting firm
Permits in place

All necessary permits to begin construction are in place for identified Texas, California and Nebraska projects.
Revenue streams secured

Gas offtake
agreements are in place for stability of revenue streams reflecting premium,
green
attributes of our natural gas.

When these projects are operational, targeted 2010, EPC expects to have an annualized revenue stream of $40 million.

PROJECT PIPELINE
11
Facility
Location
Type
Annual Energy
Production

Notes
Mission
Texas
RNG
®
635,000
Project Debt Financing obtained; permitted
Rio Leche
Texas
RNG
®
635,000
Project Debt Financing obtained; permitted
Cnossen
Texas
RNG
®
635,000
Project Debt Financing obtained; permitted
Hanford Cluster
California
RNG
®
732,000
Project Debt Financing obtained; permitted
Bar 20
California
RNG
®
601,000
Permitted; in financing
Riverdale Cluster
California
RNG
®
621,000
Project Debt Financing obtained; permitted
Cargill 1
Idaho
RNG
®
550,000
Option Agreements executed
Cargill 2
Colorado
RNG
®
365,000
Option Agreements executed
Swift-Grand Island

Nebraska
Inside-
the-fence
235,000
Project Debt Financing obtained; permitted
Total Announced
Projects
5,009,000
Notes
1.
Additional
10,700,000
MMBtu
under
development
2.
All amounts in MMBtu/year sales

PROJECT ECONOMIC HIGHLIGHTS
12
Long/medium-term natural gas sales agreements

We
use
long/medium-term

gas
sales
agreements
with
fixed
prices
recognizing
green
value
of our gas to provide certainty of revenue streams.
Carbon credit revenue opportunity

In the current U.S. voluntary market, we see $2.00 to $7.00/metric ton depending on demand.
Utility executives are planning on $12.00 to $30.00/metric ton under proposed mandatory markets; market will dictate price.

Typical
lagoon-based
635,000
MMBtu
project
is
expected
to
produce
75,000

250,000
metric
tons of carbon offsets per year, depending upon final protocols.
Waste-based feedstocks
used to create biogas

Manure

We
typically
get
manure
for
free
from
the
farm
or
industry.

Substrate
(organic
materials)

We
pay
transport,
but
may
get
tipping
fee
for
partial
offset.
Potential by-product value

Solids
third-party discussions as a peat replacement or as an eco-friendly building product

Liquids
fertilizer without odors, seeds or pathogens and in more suitable form to meet
permit requirements

TARGETED PROJECT ECONOMICS
13

Subsidies
are
not
assumed

in
project
economic
forecasts
compared
to
other
industries,
such
as ethanol, biodiesel, etc.

Long/medium-term
off-take
RNG
®
agreements
recognizing
premium
value
of
RNG
®

Finance with combination of equity and debt

Cross-collateralization and revenue pooling to create portfolio diversification

Tax-exempt financing: target 80% debt / 20% equity

Long-term alignment of interest with project participants

Targeted project economics provide:

Attractive returns

Further
upside
potential
should
subsidies
be
established
similar
to
other
renewable
and
clean
energy sources

Fixed-rate tradeable
security
Fixed-rate debt fully registered with the SEC and unrestricted from
trading (though not listed and no developed trading market)
Senior to holding
company equity
Debt has seniority in the holding company capital structure, ahead of

the existing convertible preferred stock and common stock
Dedicated project
funding
With $130 million in project financing already raised, money raised in this offering will go to costs and expenses related to facility construction/operations
Contracts and permits
in place
Contractors pre-qualified, permits obtained and site arrangements secured for the next seven projects
Convertible equity at
2008 price
Debt convertible into common equity at a minimum conversion price achieved in summer 2008
Transition to operating
company
When construction of the seven permitted facilities is complete (anticipated to be in 2010), EPC annual revenues expected to be greater than $40 million
Carbon credit revenue
Likely transition to mandatory market could significantly increase EPC revenue opportunity
Substantial potential
market
U.S. dairy, cattle and hog farms can take advantage of this cost-effective environmental waste management solution
DEBT CONVERTIBLE INTO COMMON EQUITY
14

UPDATE TO SUMMARY PRESENTATION
Overall
Message:
We
believe
momentum
is

growing
for
our
business
model
more
certainty
as to key initiatives since six months ago.
15

UPDATE TO SUMMARY PRESENTATION (CONTINUED)
16

Huckabay
operating
performance:
Reliable

operations
being
experienced.
RNG
®
production
levels
are meeting expectations at volatile solid concentration levels.

National
emphasis
on
renewables
-
Political pressure has greatly increased at the federal level to
promote technologies that reduce carbon emissions, including an increased emphasis on the
production of renewable electricity.

Mandatory Cap and Trade program being pursued

National Renewable Electricity Standard (Replaces RPS program)

Renewable Fuel Standards: Increasing LNG/CNG marketplace demand

Federal support for Renewable Gas Incentive: Provides parity with other renewables

Federal stimulus funds being pursued

Xergi, our Danish technology partner, renegotiated the license agreement and acquired $3 million of
our 14% convertible notes of the type being offered.

We
believe
this
reflects
a
knowledgeable
party s
commitment
to
EPC s
business
model
and
growth.

Xcel
Energy,
an
electric

and gas utility operating in eight western and midwestern states, entered into an agreement to purchase 916,000 MMBtu per year of our RNG ® from a new Colorado facility, for a ten-year period renewable for an additional ten years, at a premium to the market.

We believe this reinforces the premium value of our RNG ® product; priced based on the cost of other alternative renewables.

Funds raised by Ziegler in March 2009 under similar terms as this offering are being deployed for Texas projects.

Marathon capital is being utilized to manage a parallel process, to complement funds raised by Ziegler.

OPERATING
PERFORMANCE
AT
HUCKABAY
RIDGE
17
Huckabay

is operating reliably with production levels at expectation based on
volatile solid concentrations.
Comprehensive upgrades complete

Consistent
operations
in
meeting
specifications
for
pipeline
grade
RNG
®
-
CO2

Less
than
10%
of
the
limit,
H2S

5%
to
15%
of
the
limit,
and
H2O

40%
to
50%
of
the
limit

Ability to manage fluctuations in biogas production, as well as varying ambient conditions
Reliability

Huckabay
Ridge has produced salable gas with a high degree of reliability since the beginning of April
Production

Production
levels

improving
with
reliable
operations;
RNG
®
production
equal
to
or
higher
than
expectations based on volatile solid concentrations being realized
Focus

Feedstock
being
optimized
to
achieve
maximum
RNG
®
production,
replacing
volatile
solid
feedstock
supply, temporarily affected by the recession:
-
New suppliers identified and being qualified
-
Environmental permit being expanded to allow for non-food based substrate feedstock
-
3
generation
design
criteria
for
all
new
projects
utilizes
lower
volatile
solid
concentration
as
baseline
(should

previous levels
be
experienced,
more
RNG
®
will
be
produced
for
same
design
volume)
rd

NATIONAL EMPHASIS ON RENEWABLE ENERGY
18

Mandatory
Cap
&
Trade

- Waxman-Markey Bill (HR 2454) approved by House Energy & Commerce Committee

Economy-wide program beginning in 2012, with a cap on emissions at 17% below 2005 levels by 2020 (83% by 2020). Senate version of bill in earlier committee stages.

Full vote on House bill expected this summer

Floor price on allowances of $10.00, with a 1st year ceiling of $28.00

Adds more certainty and definition to carbon offset market

National Renewable Electricity Standard

HR2454 requires utilities to produce 15% of electricity from renewable sources by 2020. Renewables broadly defined to include

biogas.
Senate version
in
earlier committee
stages.

Supplements
state
mandates
and
broadens
market
demand
for
our
RNG
®
product

Renewable
Fuels
Standard

2009
RFS
increased
to
10.21%
(at
least
11.1
billion
gallons
of renewable fuels to be blended into transportation gasoline). 2008 RFS was 7.76%.
By
2022, 36
billion gallons required (more than 3 times 2009 levels).

Potential
increases
in
demand
for
RNG
®
as
an
LNG/CNG
product

SIGNIFICANT LEGISLATIVE FUNDING POTENTIAL; TAX CREDIT OR INVESTMENT GRANT
19

Senate Bill S306 (Nelson, D-NE) and House Bill HR1158 (Higgins, D-NY) have been introduced into Congress, which if enacted will provide a $4.27 per MMBtu production

tax
credit
for renewable gas produced by manure-based projects such
as ours, for a period of ten years. Alternatively, a 30% investment grant may also
be available.

S306
Supporters

10:
Co-sponsors
including
Hatch
(R-UT),
Stabenow
(D-MI),
Wyden
(D-OR)

HR
1158
Supporters

22:
Co-sponsors
including
Lewis
(D-GA),
Radanovich
(R-CA),
Roskam
(R-IL)

Bi-partisan support of our production tax credit

A broad coalition has been formed, including such firms as Gas Technology
Institute, American Gas Association, Waste Management and utilities such as
PG&E and
Sempra,
to
support
this initiative.

We are also actively pursuing stimulus funds under a variety of federal programs
announced earlier this year in support of the development of the
renewable energy
sector.

XERGI $3 MILLION INVESTMENT
AND NEW COOPERATION AGREEMENT
20

EPC has renegotiated its licensing arrangement with Danish Biogas Technology, A.S. and its parent, Xergi. The new Cooperation Agreement better reflects the Company s build / own / operate business model and will provide substantial long-term savings in reduced license fees to EPC and Microgy, Inc.

Pursuant to the new Cooperation Agreement, Xergi acquired $3 million of EPC s 14% convertible notes, having the same terms as the $5 million of our convertible notes issued in March 2009, in payment of certain license fees.

We believe this reflects a knowledgeable party s commitment to EPC s business model and growth.

LONG-TERM PREMIUM PRICE AGREEMENTS WITH
MAJOR UTILITY SUPPORTS FUTURE PROJECTS
21
Our sales agreement with Xcel, like the comparable one with Pacific Gas & Electric, highlights that our RNG
®
product is sold and priced as RENEWABLE ENERGY,

not a natural gas substitute.

In March 2009, we announced a long-term RNG ® supply agreement to Xcel Energy (NYSE: XEL). The ten-year contract, which is renewable for an additional ten years, is for a fixed price reflecting the value of our green RNG ® versus other renewable alternatives.

Xcel will use our RNG ® product to generate carbon-neutral electricity.

The agreement will help Xcel continue to meet

its
mandates
under
the
Colorado s
Renewable Energy Standard and support the company s efforts to reduce carbon dioxide
emissions.

The Colorado PUC has approved the agreement.

RENEWABLE ENERGY MARKET-BASED PRICING
FOR RNG
®
PROJECT
22
Note: Biogas shown as least cost by California PUC

CAPITAL FUNDING SOURCES AND USES
23
Sources
Ziegler March Bond Offering
$5,000,000
Xergi
Bond Acquisition

$3,000,000
(non-cash -->
for license fees)
This Offering
$5,000,000
Marathon Process
Presently
evaluating
financing
proposals
and options
Federal Stimulus Funds
Q3/Q4
potential;
dependant
on
application
process and approval
Uses
We intend to prioritize the use of proceeds from this offering for projects that are furthest along in development and construction.

PROJECTS ARE PROFITABLE AND SCALABLE
24
Project portfolio build-out plan

Our
business
model

is to develop, build and own RNG ® and biogas facilities designed to be individually profitable and scalable in number, with the profitability of any one facility not dependent upon the number of facilities.

We are encouraged by the drop in prices for metals and other commodities, which is expected to lower construction costs on pending and planned projects.

Our rate of growth is dependent upon how quickly we can raise capital to construct our existing shovel-ready projects and further develop our pipeline of projects which we are ready to pursue.

Our debt service requirements, as well as our resources for debt service are expected to scale in proportion to the number of projects we pursue.

Therefore, Ziegler bond funds are focused on the next two Texas projects and Swift; projects for which bond financing is in place and accessible and construction is underway.

Marathon s process will determine what funds are initially available to complement Ziegler s efforts.

CALIFORNIA BOND TEST
25
What will be evaluated by bondholders on June 30, 2009:

Results of 60-day financial and operating performance test at Huckabay; and

Ability to raise new equity in the amount of $39 million ($45 million if Bar 20 had

been financed).
Discussion

The June 30
date is a point in time for bondholders to evaluate our performance against the criteria established in September 2008. The bondholders can then determine their course of action.

We intend to discuss our performance against these criteria with the bondholders and what, if any, accommodations we may require.

The tax-exempt bondholders are aware of the various initiatives to meet the criteria and ultimately may be satisfied with progress toward meeting the milestones. However, should they decide to call the bonds, we would focus the funds raised through Ziegler on the next two projects in the Texas portfolio and Swift, which are unencumbered by the test, and build out those projects.

We would then seek alternative financing for the California projects as the various contracts remain in place and only spend a limited amount of funds until greater certainty develops as to their financing.
th

GOING-CONCERN QUALIFICATION
26

As is typical for start-up growth companies, going-concern qualifications are an accounting disclosure requirement that results from the need to raise additional funding.
The
amount

of
our
funding
requirements
is
based
on
our
projected
build-out
plans,
as
well as our ongoing General and Administration (G&A) requirements. Sources of capital are expected to come from various initiatives discussed previously. Funds raised are to
be
focused
on
Texas,
California,
or
Swift
projects
projects
that
have
initiated
construction
or
are
shovel
ready.

We have implemented significant steps to reduce our G&A expenses, but will need to raise funds during the first half of 2009 in order to cover ongoing G&A, as well as interest and dividend requirements.

We are actively seeking additional sources of capital to meet these financing needs and requirements of our projects in development

Via this offering

Hired Marathon Capital in Q1 to assist us in identifying and managing discussions with entities interested in investing in our projects

Federal stimulus funds / State energy programs (potential support from CA & TX for our projects)

COMPELLING VALUE PROPOSITION
Unique offering
Projects
ready
to
go
that:

Have debt financing and permits in place

Have secure and stable revenue streams as gas offtake agreements are in place which reflect premium green attributes of our natural gas

Have multiple revenue streams

renewable natural gas, carbon credits, other by-products

Do not rely on subsidies, although we will seek parity with other renewables
Unique company

EPC holds market leadership position with first-mover status in the renewable biogas energy sector

Strong growing market for cost-effective renewable and domestic energy sources

Large, untapped market with announced projects and robust development pipeline
-
5 million MMBtu/year with an additional 10.7 million MMBtu/year in development

Target project long-term stable cash flow steams resulting in attractive returns

EPC can be viewed as an E&P company without exploration risks or depletion curve

Innovative, proven and scalable technology

Valuable strategic relationships

Leadership team with deep industry experience to execute the plan
Unique opportunity to participate in the renewable energy sector
27

FINAL THOUGHTS
Dominant player

We believe our unique product will be a key component in addressing the future
energy
and
environmental

needs of the U.S., because it addresses the environmental needs of the agricultural and food processing sectors while creating a versatile and renewable energy product with greenhouse gas offset credits.

Momentum swing

We believe momentum is swinging our way for our business model and growth.

Emphasis on renewable forms of energy, carbon awareness, transportation fuel options and pricing with other renewables

Huckabay proving itself as a reliable facility; lessons learned will be employed in future projects

Xergi investment confirms belief in our business model

Xcel agreement reinforces the value of our RNG®

Experienced leadership team

28

29
www.environmentalpower.com
Environmental Power Corporation has filed a registration statement (including a prospectus) with the SEC
for
the
offering
to

which this communication relates. Before you invest, you should read the prospectus in that registration statement and other documents Environmental Power has filed with the SEC for more complete information about Environmental Power and this offering. You may get these documents for free by visiting EDGAR on the SEC Web site at www.sec.gov. Alternatively, Environmental Power and the underwriter will arrange to send you the prospectus if you request it by calling 888 884 8339. A copy of the most recent prospectus may be found by clicking on the following hyperlink: Prospectus

29