

**CALIFORNIA ALTERNATIVE ENERGY AND
ADVANCED TRANSPORTATION FINANCING AUTHORITY**

Request to Approve Project for SB 71 Sales and Use Tax Exclusion (STE)¹

**ABEC NEW HOPE LLC
Application No. 12-SM009**

Tuesday, October 16, 2012

Prepared By: *Cheryl Ide*

SUMMARY

Applicant – ABEC New Hope LLC

Location – Galt (Sacramento County)

Industry – Dairy Biogas

Project – New Biogas Production Facility for an Existing Dairy

Value of Qualified Property – \$2,633,359

Estimated Sales and Use Tax Exclusion Amount² – \$213,302

Estimated Net Benefits - \$36,421

Application Score³ -

Fiscal Benefits Points:	979
<u>Environmental Benefits Points:</u>	<u>191</u>
Net Benefits Score:	1,171

<u>Additional Benefits Points:</u>	<u>15</u>
Total Score:	1,186

Staff Recommendation – Approval

¹ All capitalized terms not defined in this document are defined in the Program’s statute and regulations.

² This amount is calculated based upon the average statewide sales and use tax rate of 8.1%.

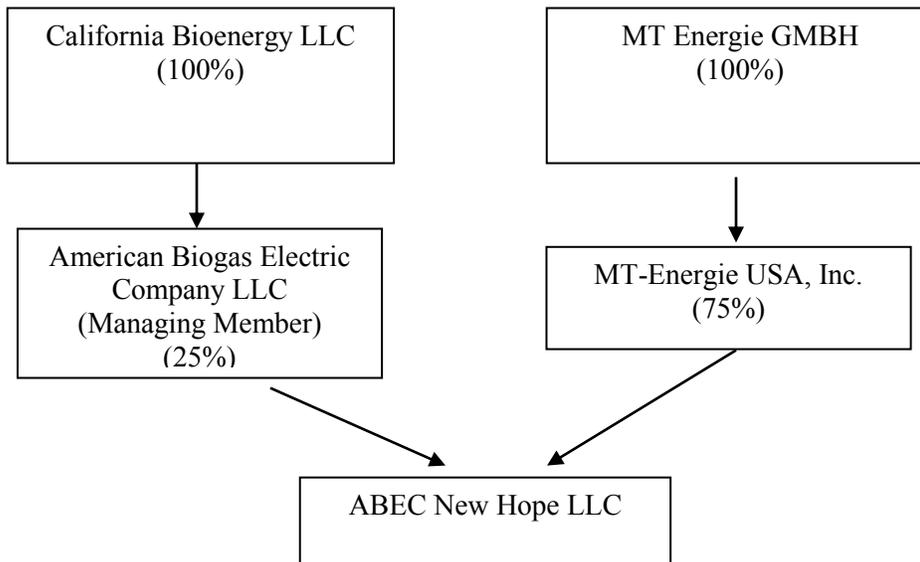
³ Point values in the staff summary may not add up correctly due to rounding in the Application worksheet.

THE APPLICANT

ABEC New Hope LLC (“ANH” or “Applicant”) was established in California in 2010 by California Bioenergy LLC (“CalBio”) to specifically develop a biogas capture plant on the New Hope dairy in Galt, California. In 2011, MT-Energie USA, Inc. joint ventured with CalBio to develop this biogas plan by investing equity capital to purchase 75% of ANH.

CalBio, the sole member of American Biogas Electric Company LLC (managing member of ANH), is a renewable energy company that partners with dairy farms to develop, own, and operate projects that capture methane produced from dairy cow manure. As a result, greenhouse gas emissions are reduced and biogas is turned into renewable energy. ANH’s Galt Facility will capture and produce methane rich biogas that will be converted into renewable electricity and sold to the grid.

Chain of Ownership of ABEC New Hope LLC is as follows:



ANH is 25% owned by CalBio and 75% owned by MT Energie GMBH (“Parent Companies”)

The major shareholders (10.0% or greater) of the Parent Companies are:

CalBio:
John Bidart
Unigy Holdings
GO Ventures

MR Energie GMBH:
Torben Brunckhorst

THE PROJECT

ANH’s Project is the installation of a Continuous Stirred Tank Reactor (“CSTR”) style anaerobic digester system (“AD”) and a 450kW combined heat and power unit (“CHP”). The CHP is an ultra-clean burning and - high efficiency low - NOx emissions biogas fueled - combined heat and power system. The Project intends to capture the biogas (methane) generated in the AD then use the CHP to convert that methane to energy, both in the form of heat for use in the plant, and as power to sell to the Sacramento Municipal Utility District (“SMUD”), preventing the methane from being released in to the atmosphere in the process. A power purchase agreement has been executed with SMUD. Heat produced by the CHP will used as essential process heat to maintain digester temperatures in the plant thus avoiding the use of propane and natural gas - fueled heaters.

There are two major technology components of the project: first the AD where in dairy cow manure is digested by bacteria, releasing biogas (~60% methane); and second, the CHP system which uses the biogas to generate heat and produce electricity. The Qualified Property (“QP”) will be used to capture and produce (or condition) dairy manure biogas into a fuel - grade energy source (or product). A portion of the QP has been prorated due to partial eligibility. The biogas produced by bacteria in this dairy’s existing open manure storage lagoon is currently being vented to the atmosphere, as the naturally occurring bacteria break down manure’s volatile solids suspended in the flush water. New Hope Dairy will scrape and divert its manure to the CSTR AD which is designed to destroy manure’s volatile solids and capture all the methane - rich biogas that would otherwise be vented to the atmosphere. The flush water volume at the dairy will also be greatly reduced as a result of the new manure collection process.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Collection Pits	\$49,289
Digester 24 X 8 M	487,198
Pipeline System And Pump Technology	29,972
Heat Exchanger	5,716
FE (II) CI Dosing Station	8,800
*CHP 2G450 Bg Bio-Tec (MWM)	265,093
Separator 1	54,886
Control System	67,576
Biogas Analyzer	5,290
Scrape System Mechanical	153,368
Shipping	34,807
Piping Material	35,387
Control Room Foundation	7,425
Separator 2	66,484
Electrical	65,596
Scrape System Concrete	131,945
Matting	58,432

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Construction Site Set-Up Equipment	25,833
*Engine Building Foundation	1,198
*Voltage Regulation Equipment	32,299
Design Engineering, Procurement And Construction	846,394
Permitting, Technical Management, Financing Cost	<u>200,371</u>
	<u>\$2,633,359</u>

Note: The Qualified Property purchases reported in the Application and shown here in staff's report are estimated costs. At the termination of the conveyance/reconveyance agreement a finalized Project equipment list will be prepared detailing the value of the Project equipment conveyed and reconveyed and detailing the actual tax benefit realized pursuant to Revenue and Tax Code Section 6010.8. Variations from the costs shown in the Application and in this report may occur prior to the closing due to increased costs of certain components of the Project from original estimates, and other reasons. In addition, such costs may vary after closing due also to increased costs, as well as common design and equipment modifications during construction, differences in equipment due to future changes in law or regulation, or for other reasons.

*The following line items have been prorated by 31.5% of their total cost due to a portion of their function being eligible Qualified Property under the Program, and the remaining 68.5% is used to generate electricity is ineligible under the Program.

TIMELINE

The project began construction in September 2012 and is expected to come on-line during the first half of 2013, after which plant optimization and performance testing may take an additional three to six months. ANH has completed the engineering designs of the AD system; and the proper air, water and county permits have been secured. A power purchase agreement has been signed with SMUD for the power sales.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$2,633,359 and the total net benefits are valued at an estimated \$36,421 for the Project. The Project received a Total Score of 1,186 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 193 points, which exceeds the 100 point threshold.

- A. Fiscal Benefits (978 points).** The net present value of the total fiscal benefits over the lifetime of the Qualified Property is derived from the Applicant's sales taxes, personal income taxes paid by the firm's employees, firm taxes on profits, property taxes and other indirect fiscal benefits of the Applicant which amounts to an estimated \$208,573 resulting in a Fiscal Benefits Score of 978 points for the Project.
- B. Environmental Benefits (193 points).** The Project will result in an estimated \$41,150 of total pollution benefits over the lifetime of the Qualified Property resulting in an Environmental Benefits Score of 193 points for the Project. These

benefits derive from the production of biogas, which offsets the need for use of fossil fuels and reduces the amount of methane released in the atmosphere.

- C. **Additional Benefits (15 of 200 points)**. Applicants may earn up to 200 additional points for their Total Score. The Applicant submitted information and received zero additional points.
1. **Permanent Jobs (0 of 40 points)**. The Applicant's Project will support a total of two permanent jobs at its Facility. CAEATFA estimates that these jobs are not attributable to a marginal increase in jobs created due to the approved STE. Zero points were awarded because the marginal increase in jobs does not meet the required threshold.
 2. **Construction Jobs (15 of 20 points)**. The Applicant's Project will support a total of 20 construction jobs at its Facility. CAEATFA estimates that approximately three jobs will be attributable to a marginal increase in jobs created due to the approved STE.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The project has received all Authority to Construct permits from Air, Water and Construction authorities. At completion of the project the relevant permitting agencies will approve and issue Permits to Operate the plant. SMUD has executed a Power Purchase Agreement and an Interconnect Agreement.

LEGAL QUESTIONNAIRE

Staff reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. The responses did not disclose any information that raises questions concerning the financial viability or legal integrity of this Applicant.

CAEATFA FEES

In accordance with CAEATFA Regulations,⁴ the Applicant has paid CAEATFA an Application Fee of \$1,430 and will pay CAEATFA an Administrative Fee of \$15,000.

RECOMMENDATION

Staff recommends approval of Resolution No. 12-SM009 for ABEC New Hope LLC's purchase of Qualified Property in an amount not to exceed \$2,633,359, anticipated to result in approximate sales and use tax exclusion value of \$213,302.

RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A TITLE CONVEYANCE AGREEMENT WITH ABEC NEW HOPE LLC

⁴ California Code of Regulations Title 4, Division 13, Article 2, Section 10036

October 16, 2012

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **ABEC New Hope LLC** (the “Applicant”), for financial assistance in the form of a conveyance/reconveyance of title agreement (the “Agreement”) regarding tangible personal property for the design, manufacture, production, or assembly of Advanced Transportation Technologies or Alternative Source products, components, or systems (“Qualified Property”) as more particularly described in the staff summary and in the Applicant’s Application to the Authority (collectively, the “Project”); and

WHEREAS, the Applicant has requested the Authority to enter into the Agreement transferring title of Project equipment with an estimated cost not to exceed \$2,633,359 over a period of three years; and

WHEREAS, the Agreement will provide that the Applicant will, prior to any use of the Qualified Property, transfer title at no cost to the Authority from time to time as purchases of Qualified Property are made and the Authority will then transfer title back to the Applicant without having taken possession of the Qualified Property; and

WHEREAS, the Applicant believes that this form of financial assistance will enable it to avail itself of the benefits of an exclusion from sales and use taxes relative to the Qualified Property pursuant to California Revenue and Taxation Code Section 6010.8; and

WHEREAS, approval of the terms of the Agreement and authority for the Executive Director, Deputy Executive Director, or Chair of the Authority to execute the necessary documents to effectuate the Agreement is now sought;

NOW, THEREFORE, BE IT RESOLVED by the California Alternative Energy and Advanced Transportation Financing Authority, as follows:

Section 1. The Project constitutes a “project” within the meaning of Public Resources Code Section 26003(g)(2).

Section 2. The requested conveyance agreement constitutes “financial assistance” within the meaning of Public Resources Code Section 26003(e)(2).

Section 3. The Applicant is a “participating party” within the meaning of Public Resources Code Section 26003(f).

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Section 4. The Executive Director, Deputy Executive Director, or Chair of the Authority (the “Authorized Signatories”) are hereby authorized for and on behalf of the Authority to approve any changes to the Project as the Executive Director shall deem appropriate, provided that the amount of the Qualified Property to be purchased may not be increased above the amount approved by the Authority.

Section 5. The proposed form of the Agreement between the Applicant and the Authority, as filed with the Authority prior to this meeting, is hereby approved. The Authorized Signatories are hereby authorized and directed, for and on behalf and in the name of the Authority, to execute, acknowledge and deliver to the Applicant the Agreement in substantially the form filed with or approved by the Authority, with such insertions, deletions or changes therein as the Authorized Signatory executing the same may require or approve, and with particular information inserted therein in substantial conformance with the staff summary and in the Applicant’s Application to the Authority, such approval to be conclusively evidenced by the execution and delivery thereof. The Authority understands and agrees that pursuant to the terms of the Agreement, the obligations of the Applicant may, under some circumstances, be carried out or assumed by a successor or assignee entity, or by an affiliate of the Applicant.

Section 6. Each of the Authorized Signatories, acting alone, is hereby authorized and directed to do any and all ministerial acts, including (without limitation) the execution and delivery of any and all documents and certificates they may deem necessary or advisable in order to consummate the Agreement and otherwise effectuate the purposes of this resolution.

Section 7. The Applicant shall assure CAEATFA that all Qualified Property conveyance pursuant to the Agreement shall be installed, maintained and operated in compliance with all applicable local, state and federal laws.

Section 8. The Agreement shall only apply to Qualified Property that the Applicant certifies will be installed, maintained and operated at facilities within the State of California.

Section 9. The adoption by the Authority of this Resolution for the Applicant shall not be referred to in any application before any governmental agency as evidence of the feasibility, practicality or suitability of the Project or in any application for any required permission or authority to acquire, construct or operate the Project.

Section 10. This Resolution is effective immediately and will remain in full force and effect unless the Regulatory Agreement, as defined in CAEATFA Regulations Section 10035(A), is not executed within thirty (30) days of the date of this Resolution. The Executive Director may extend the thirty days if necessary.