

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

***Consideration of BioFuels Point Loma, LLC's Request to Approve a Time Extension for the
Three Year Initial Term of the Title Conveyance Agreement***

Tuesday, November 19, 2013

Prepared By: *Noah Proser*

Applicant – BioFuels Point Loma, LLC

Location – Encinitas, San Diego County

Industry – Biogas

Project – Capture and clean biomethane gas from an existing wastewater treatment digester gas collection system

Value of Qualified Property – \$6,236,024

Estimated Sales and Use Tax Exclusion Amount¹ – \$567,478

Amount of Time Requested:

- 9 months (September 15, 2014) for the Term of the Title Conveyance Agreement (3 years and 9 months from the date of initial CAEATFA Board approval)

SUMMARY

In December 2010, the CAEATFA Board approved a sales and use tax exclusion (“STE”) for BioFuels Point Loma, LLC (“BioFuels” or the “Applicant”) for the purchase of \$6,236,024 of Qualified Property to capture and clean biomethane gas that was previously being flared by the Point Loma Wastewater Treatment Plant (“PLWTP”). BioFuels will transform the resulting gas into a biogas product that can be injected into the San Diego Gas & Electric natural gas distribution pipeline system (the “Project”). The Master Regulatory and Title Conveyance Agreement (“Agreement”) initial term provides the Applicant with three years from the date of Board Approval to utilize its STE award. The initial term of the Agreement can be extended by the Board upon a finding that an extension is in the public interest and advances the purposes of the Program.²

As of November 1, 2013, BioFuels has conveyed \$4,682,765.58 (75%) of Qualified Property. In July 2013, CAEATFA staff sent the Applicant a courtesy reminder of the end of the three-year Agreement. BioFuels responded by requesting a 9-month extension of the Agreement to

¹ As presented in the staff summary from December 15, 2010, equivalent to a sales tax rate of 9.1%.

² Regulation Section 10035(b)(1)(A)

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September 15, 2014 to accommodate ordering and upgrading equipment to meet National Fire Protection Association (“NFPA”) code requirements.

The Applicant has not made any previous waiver requests and met the initial requirement to purchase 25% of the approved Qualified Property within one year of Board approval.

About the Applicant

Based in Encinitas, California, BioFuels is a privately owned limited liability company. BioFuels will design and assemble skid mounted purification technology to capture and clean the wastewater treatment digester gas (biomethane) within the City of San Diego’s PLWTP.

Project Description

The Project will capture and clean biomethane gas from the PLWTP. A BioFuels blower system will take gas from the collection system and feed an initial filter bed designed to remove sulfur. The gas will then pass to a two-stage compressor, which in turn will feed a series of integrated refrigeration, drying and filter beds designed to remove the non-methane organic compounds and other impurities from the biomethane gas. The gas will then be heated and passed through a series of membrane systems for bulk CO₂ removal.

BioFuels will transform the resulting gas into a biogas product that can be injected into the San Diego Gas & Electric natural gas distribution pipeline system, producing approximately 288,000 MMBTU of biogas per year.

Agreement Term Extension Request

BioFuels has requested that the initial term of the Agreement be extended from December 15, 2013 to September 15, 2014 in order to comply with the City of San Diego’s requirements to install a new gas compressor motor and additional safety equipment according to NFPA code. The manufacturer of the motor requires 12 months of lead time for the order, which resulted in the delay of the project. Some piping and electrical equipment must also be upgraded to accommodate the new motor. The Applicant represents the project can be completed within the 9 month extension requested and still intends to utilize the full amount awarded in December 2010.

Staff Evaluation

BioFuels has indicated that the requested time extension will allow for the full purchase of Qualified Property as approved on December 15, 2010. Extending the initial term of the Agreement will allow BioFuels to purchase the remaining Qualified Property and to meet NFPA requirements. Based on the information presented, staff believes that extending the term of the Agreement is in the public interest and advances the purpose of the original award.

Staff Recommendation

Staff recommends that the Board approve BioFuel's request to extend the initial term of the Agreement to September 15, 2014 as it is in the public interest and advances the purpose of the original award.

Attachments

Attachment A: BioFuel's Letter Requesting Waiver on October 22, 2013

Attachment B: Staff Summary on December 15, 2010

**A RESOLUTION OF THE
CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED TRANSPORTATION
FINANCING AUTHORITY APPROVING A TIME EXTENSION FOR
BIOFUELS POINT LOMA, LLC'S INITIAL TERM FOR THE MASTER
REGULATORY AND TITLE CONVEYANCE AGREEMENT**

November 19, 2013

WHEREAS, on December 15, 2010 the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”), a public instrumentality of the State of California, approved a Sales Tax Exclusion (“STE”) in the amount of \$6,236,024 of Qualified Property for **BioFuels Point Loma, LLC** (the “Applicant”); and

WHEREAS, within three years of the approval by the Authority, the Applicant must make all purchases of the total amount of Qualified Property listed in the approval resolution (Regulations Section 10035(c)(1));

WHEREAS, upon a finding that it is in the public interest and advances the purposes of the Program, the Authority may waive the requirement that all purchases of Qualified Property be made within three years of Application approval (Regulations Section 10035(c)(1)(B));

WHEREAS, the Applicant has requested a waiver of the requirement to purchase all of the Qualified Property within three years, due to project equipment not meeting existing safety standards, and requests extension of the term from December 15, 2013 to September 15, 2014; and

WHEREAS, granting the waiver will allow the Project to proceed and the state to receive the anticipated environmental and economic benefits that justified the initial approval of the Project in accordance with the law, thereby advancing both the public interest and the purposes of the Program.

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

Section 1. The Authority finds that it is in the public interest and advances the purposes of the Authority to extend the initial term of the Agreement to September 15, 2014.

Section 2. This resolution shall take effect immediately upon its passage.

Attachment A: BioFuel's Letter Requesting Waiver



October 22, 2013

Saul Acosta Gomez
Executive Director
California Alternative Energy and Advanced
Transportation Financing Authority
915 Capitol Mall, Room 457
Sacramento, CA 95814

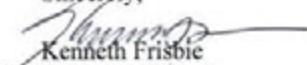
Dear Mr. Gomez,

BioFuels Point Loma, LLC ("BioFuels") hereby requests for a time extension until September 15, 2014 of its un-conveyed and approved Qualified Property which expires in December 15, 2013. We are requesting this extension because the City of San Diego, our landlord, has required us to implement various safety improvements and upgrade a major piece of equipment following a fire that occurred at our site. These improvements must be permitted which takes time and the major piece of equipment, a compressor package upgrade to meet NFPA code requirements, has a 12 month lead time. This unit was ordered in January of this year. All should be fully implemented by March/April 2014. We will then have testing and start up followed by commissioning. The additional extension will allow us to finish the full installation and enable us to utilize the full award per our application approval.

We appreciate your consideration of this request and can provide any further information as required.

Thank you,

Sincerely,


Kenneth Frisbie
Managing Director

Attachment B: Staff Summary at Board Approval

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

Request to Approve Project for SB 71 Sales and Use Tax Exclusion³(STE)

**BIOFUELS POINT LOMA, LLC
Application No. 10-SM026**

Wednesday, December 15, 2010

Prepared By: *Martha Alvarez*

SUMMARY

Applicant – BioFuels Point Loma, LLC

Location – San Diego, San Diego County

Industry – Biogas

Project – Capture and clean biomethane gas from an existing wastewater treatment digester gas collection system

Value of Qualified Property – \$6,236,024

Estimated Sales and Use Tax Exclusion Amount⁴ – \$567,478

Estimated Net Benefits – \$61,939

Application Score –

Fiscal Benefits Points:	897
Environmental Benefits Points:	212
Net Benefits Score:	1,109
Additional Benefits Points:	0
Total Score:	1,109

Staff Recommendation – Approval

³ All capitalized terms not defined in this document are defined in the Program's statute and regulations.

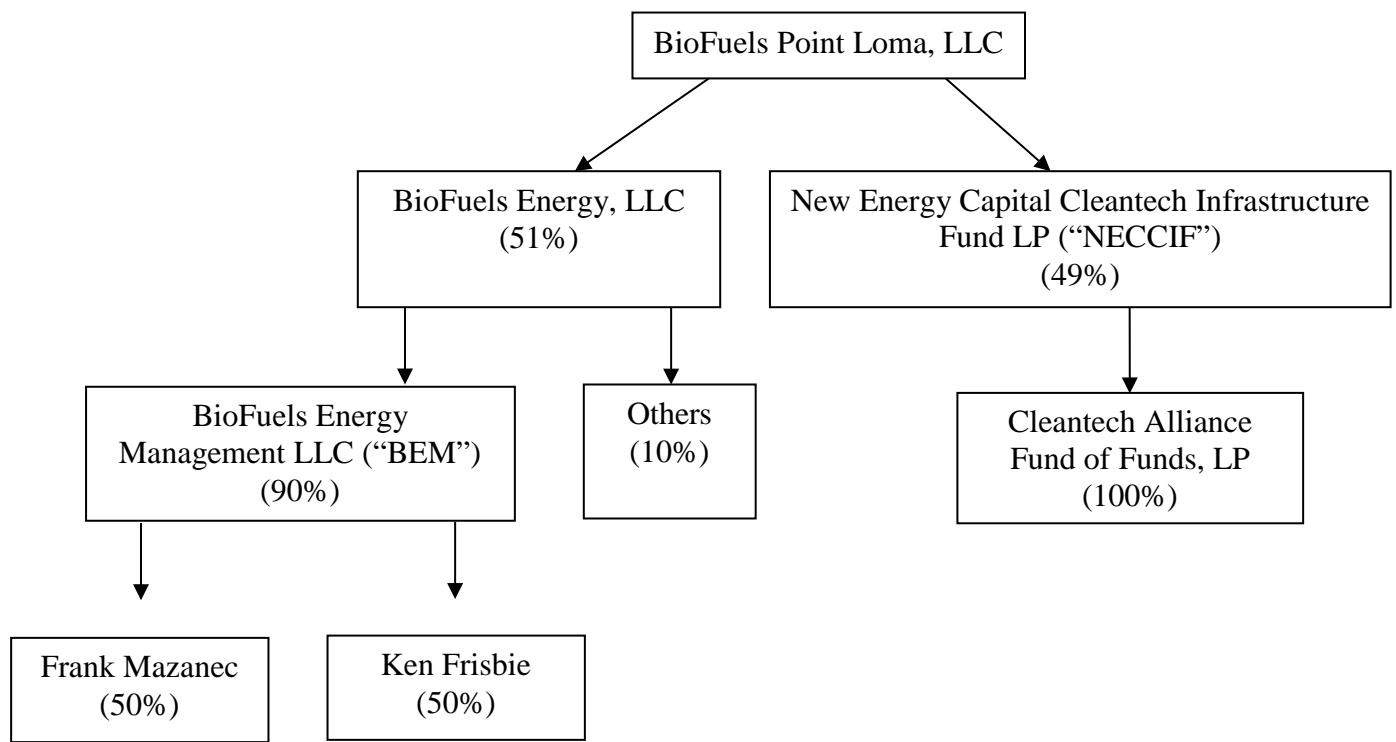
⁴ This amount is calculated based on the average statewide sales tax rate of 9.1%.

THE APPLICANT

BioFuels Point Loma, LLC (“BioFuels” or “Applicant”), based in Encinitas, California, is a privately owned limited liability company focused on renewable energy. BioFuels will design and assemble skid mounted purification technology to capture and clean the wastewater treatment digester gas (biomethane) within the property boundary of the City of San Diego’s Point Loma Wastewater Treatment Plant (“PLWTP”).

BioFuels will be capturing and producing renewable biogas at the PLWTP.

The ownership of BioFuels Point Loma, LLC is as follows:



THE PROJECT

The land is leased from the City of San Diego Metropolitan Wastewater Department (“MWWD”). According to the Applicant, the Facility capacity will be 1.6 million standard cubic feet of biogas per day and will utilize fuel cell technology to generate clean electrical energy from the flared gas to meet the parasitic energy requirements of the processing equipment. The end product will be approximately 288,000 mmBtu per year of biogas.

The Qualified Property will be used to capture and clean biomethane gas that is currently being flared. The biomethane gas feed will come from PLWTP’s existing digester gas collection system. A BioFuels blower system will take gas from the collection system and feed an initial

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filter bed designed to remove sulfur. The gas will then pass to a two-stage compressor, which in turn will feed a series of integrated refrigeration, drying and filter beds designed to remove the non-methane organic compounds and other impurities from the biomethane gas. The gas will then be heated and passed through a series of membrane systems for bulk CO₂ removal.

BioFuels will transform the resulting gas into a biogas product that can be injected into the San Diego Gas & Electric natural gas distribution pipeline system.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Biogas Membrane System	\$1,150,000
Discharge Air Cooler & Moisture Separation	446,000
Compression Sound Enclosure	121,800
Hydrogen Sulfide Removal	189,800
Mobile Office Trailer	25,000
Pad Mounted Transformer	30,000
MCC	150,000
Switchgear	75,000
Batteries and Charger Interties	10,000
Lube Oil Storage	10,000
Oil Water Separator	15,000
Valves and Fittings	75,000
Instrumentation	47,500
Inlet Sump	10,000
Water Pretreatment	75,000
Gas Infrared Spectrophotometer	30,000
Compressed Air Equipment	11,000
Power and Control Room	145,000
Condensate Pump	15,000
Electrical Supplies	422,500
Flare	135,000
Piping (Biogas, product, off-gas, water, sewer, flare pilot, condensate)	345,179
Below Grade Piping Upgrade	38,312
MSA Equipment	711,985
Control Hardware/Upgrade	149,600
Concrete, Rebar, Formwork	280,824
Fuel Cell for Gas Conditioning Parasitic Load	1,521,524
Total	<u>\$6,236,024</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

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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.

TIMELINE

BioFuels is currently undergoing a design review of the Project and expects to have the review completed in December 2010. Site preparation work and rough grading will begin in December 2010 and be completed by April 2011. Some foundation work will also begin in December 2010 with anticipated completion in June 2011. The Applicant anticipates that major mechanical and electrical equipment will be installed by September 2011, with the start-up and preliminary testing completed by early October 2011. The first biogas is expected to be produced in Fall 2011.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated at \$6,236,024 and the total net benefits are valued at \$61,939 for the Project. The Project received a Total Score of 1,109, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 212, which exceeds the 100 point threshold.

- A. Fiscal Benefits (897 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 \$509,292 resulting in a Fiscal Benefits score of 897 points for the Project.
- B. Environmental Benefits (212 points).** The Project results in \$120,126 total pollution benefits over the life of the Facility resulting in an Environmental Benefits Score of 212 points for the Project. These benefits derive from the production of biogas, which offsets the need for use of fossil methane. BioFuels provided additional documentation in which it asserts the Project will result in additional environmental benefits due to avoided pollutants since the methane will not be flared. However, CAEATFA staff has not evaluated this documentation further, as the Applicant has already obtained the minimum point threshold necessary to qualify.
- C. Additional Benefits (0 of 200 points).** Applicants may earn up to 200 additional points for their Total Score. The applicant submitted information and received 0 additional points.
 - 1. Permanent Jobs (0 of 40 points).** The Applicant's Project will support a total of 5 jobs at its Facility. CAEATFA estimates that approximately 1 of

these jobs will be attributable to a marginal increase in jobs created due to the approved STE. However, because the marginal increase is not significant, the Applicant received 0 points for this category.

2. **Construction Jobs (0 of 20 points)**. The Applicant's Project will support a total of 20 construction jobs at its Facility. CAEATFA estimates that approximately 2 of these jobs will be attributable to a marginal increase in jobs created due to the approved STE. However, because the marginal increase is not significant, the Applicant received 0 points for this category.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

BioFuels has obtained its air permit from the San Diego Air Pollution Control District, including the authority to construct and certificates of exemption from the CEQA requirements. The Applicant also received approval from the California Coastal Commission to proceed with the gas processing Facility.

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,⁵ the Applicant has paid CAEATFA an Application Fee of \$3,118 and will pay CAEATFA an Administrative Fee of up to \$24,944.10.

RECOMMENDATION

Staff recommends approval of Resolution No. 10-SM026 for BioFuels Point Loma, LLC's purchase of Qualified Property in an amount not to exceed \$6,236,024 anticipated to result in an approximate sales and use tax exclusion value of \$567,478.

⁵ California Code of Regulations Title 4, Division 13, Section 10036

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A TITLE
CONVEYANCE AGREEMENT WITH BIOFUELS POINT LOMA, LLC**

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **BioFuels Point Loma, 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 \$6,236,024 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).

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.

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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, practicability 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.