

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

Request to Approve Project for SB 71 Sales and Use Tax Exclusion¹

**ABEC BIDART-OLD RIVER LLC
Application No. 10-SM003**

Wednesday, November 17, 2010

Prepared By: *Martha Alvarez*

SUMMARY

Applicant – ABEC Bidart-Old River LLC

Location – Bakersfield, Kern County

Industry – Dairy Biogas

Project – New Biogas Production Facility

Value of Qualified Property – \$4,738,000

Estimated Sales and Use Tax Exclusion Amount² – \$431,158

Application Score –

Fiscal Benefits Points:	1,018
<u>Environmental Benefits Points:</u>	<u>7,145</u>
Net Benefits Score:	8,163

<u>Additional Benefits Points:</u>	<u>34</u>
Total Score:	8,197

Staff Recommendation – Approval

THE APPLICANT

ABEC Bidart-Old River LLC (“Bidart-Old River” or the “Applicant”) is a limited liability company that was formed on February 25, 2010 in California. The Applicant is managed and owned 100 percent by the American Biogas Electric Company LLC, the biogas electric company

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

² This amount is calculated based off of the average statewide sales tax rate of 9.1%.

subsidiary of California Bioenergy LLC (“CalBio”). CalBio, the sole member of American Biogas Electric Company LLC, 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.

CalBio’s process consists of four main steps: waste collection, greenhouse gas capture, carbon offset creation, and green energy production (although this latter step is not part of this Application). These activities are seamlessly integrated into a dairy’s current operations, providing minimum disruption and maximum value to the dairy while also benefiting the environment.

The principal shareholder of ABEC Bidart-Old River LLC is:
American Biogas Electric Company LLC 100 %

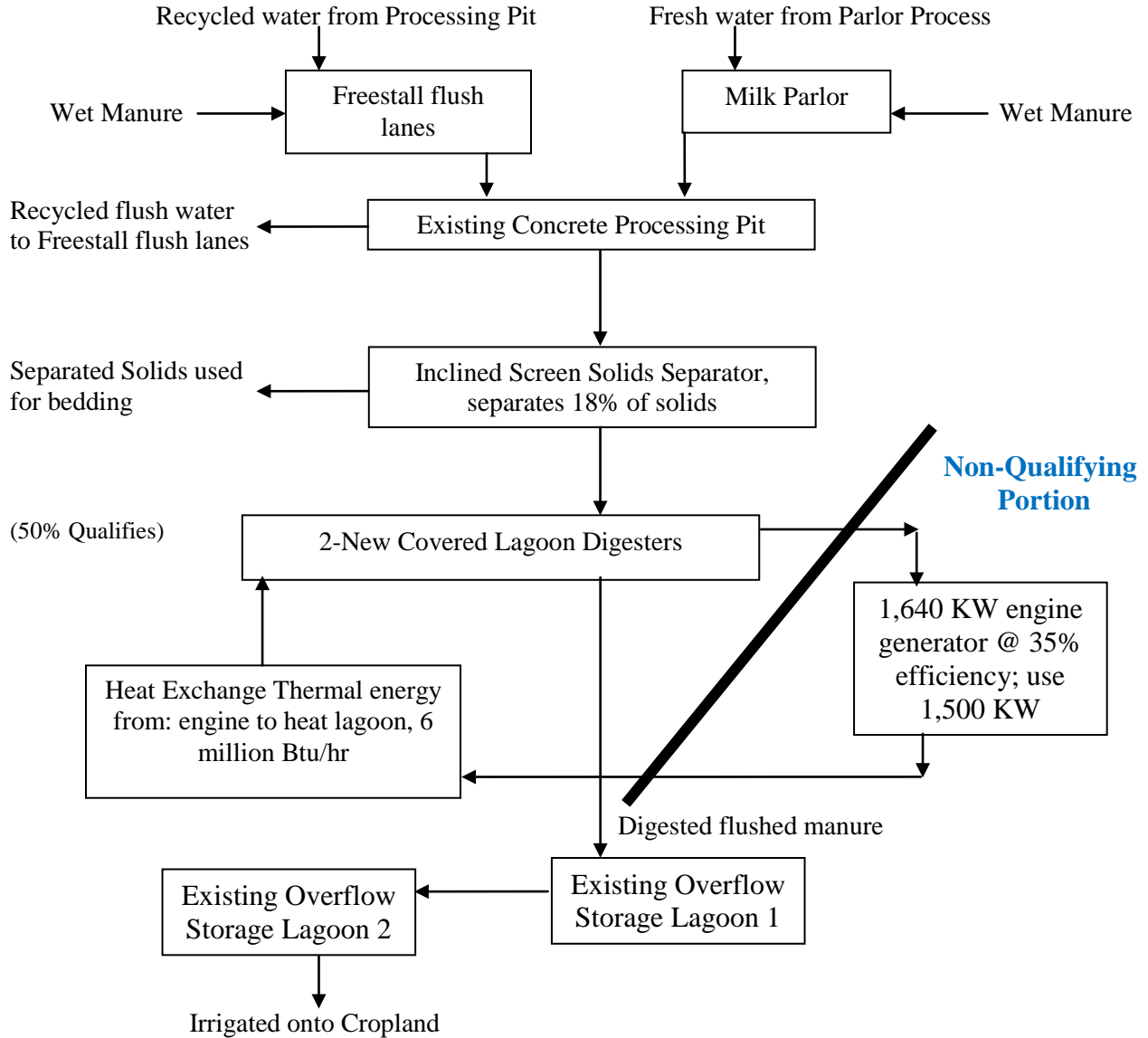
THE PROJECT

The Bidart-Old River Facility is a freestall dairy with flush lanes located in Barksfield, California. There are approximately 7,500 lactating cows housed in freestall barns which have flushed lanes and freestall lanes. The system is designed to handle any expansion in the dairy’s cow population within the dairy’s general order permit. The flushed manure from the flushed lanes along with the milking parlor wastewater flows by gravity to an existing concrete processing pit. In this pit, there is an agitation pump, a flushing pump, and a solids separator pump. The flushing pump takes the liquids near the top of the processing pit and sends this flow to the flushing lanes. The solids separator pump moves the excess flow into the processing pit over the inclined screen separators. The liquids from the screen separator flow to the existing storage lagoon(s).

There are two major technology components of the process; however, the sales and use tax exclusion would only be used to finance equipment for the first, an anaerobic digester where dairy cow manure is digested by bacteria and releases biogas comprised of approximately 70 percent methane. This stage is potentially eligible as Qualified Property under the SB 71 Program. The Qualified Property will be used to capture and produce (or condition) dairy manure biogas into a fuel grade source. The digester contains heating coils use heat generated in the second component discussed below from the combustion of the biogas to raise the temperature of the anaerobic digester. Fifty (50) percent of the biogas burned is used to generate heat for the digester, while the rest is used to generate electricity for sale.

The second component, not fully qualified for the sales and use tax exclusion, is a combined heat and power engine and generator that burns the biogas and produces electricity for export with waste heat captured to heat the digester. The raw biogas is transported by pipeline to the gas handling and treatment equipment. The biogas is dewatered and dried in a gas chiller, processed through an iron sponge scrubber to remove hydrogen sulfide (“H2S”) to less than 50ppm, then fed to the Greenguard engine-generators to produce electricity for export.

Qualifying Portion



Flow Diagram Covered Lagoon Digester System

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Anaerobic Digester Liner and Cover	\$2,227,000
Greenguard Biogas Destruction and Heating Equipment	764,000 ³
Solid Separator	649,500
Gas Treatment and Monitoring Equipment	632,600
Processing Pit and Lift Station	241,650
Building Equipment	104,750
Gas Vent Equipment	48,000
Overflow Weir Box	37,500
Flush Collection Equipment	33,000
Total	<u>\$4,738,000</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.

TIMELINE

As of September 2010, an initial scoping plan and a Basis of Design Study have been completed. The Project has obtained several permits and is under design with physical work on the construction expected to start before the end of 2010. The Project is expected to come on-line in the first half of 2013, taking approximately 18 months to design, build and commission.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated at \$4,738,000 and the total net benefits are estimated at \$3,088,491 for the Project. The Project received a Total Score of 8,197 which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 7,145 which greatly exceeds the 100 point threshold.

³ Total equipment price is \$1,528,000, but only 50 percent is Qualified Property.

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- A. Fiscal Benefits (1,018 points).** The net present value of the total fiscal benefits over the lifetime of the Qualified Property is derived from the company's projected sales taxes, personal income taxes paid by the firm's employees, corporation taxes on profits, property taxes and other indirect fiscal benefits of the Applicant which amounts to an estimated value of \$438,844 resulting in a Fiscal Benefits Score of 1,018 points for the Project.
- B. Environmental Benefits (7,145 points).** CAEATFA staff estimated that the Project will result in an environmental benefits value of \$3,080,806 over the life of the Facility resulting in an Environmental Benefits Score of 7,145 points for the Project. These benefits derive from the production of dairy biogas, which offsets the need for use of fossil methane. In addition, because the Project will trap methane (a toxic contributor of greenhouse gases), it is projected that the Project will reduce over 33,500 tonnes (36,850 short tons) of CO_{2e} greenhouse gas emissions every year.
- C. Additional Benefits (34 of 200 points).** Applicants may earn up to 200 additional points for their final score. The Applicant submitted information and received 34 additional points.
- 1) Permanent Jobs (0 of 40 points).** The Applicant's Project will support a total of 10 jobs at the Facility. CAEATFA staff estimated that approximately 1 of these jobs will be attributable to a marginal increase in jobs created due to the approved sales and use tax exclusion. Zero (0) points were awarded because the marginal increase in jobs created does not meet the required threshold.
 - 2) Construction Jobs (15 of 20 points).** The Applicant's Project will support a total of 40 construction jobs at the Facility. CAEATFA staff estimated that approximately 5 of these jobs will be attributable to a marginal increase in jobs created due to the approved sales and use tax exclusion. Therefore, the Applicant was awarded 15 points.
 - 3) Unemployment (19 of 40 points).** The Applicant's Project is located in Kern County, which has an unemployment rate of 16 percent. Since this is above 110 percent of the statewide unemployment average, the Project was awarded an additional 19 points.
 - 4) Process Improvement (0 of 40 points).** The Applicant provided documentation in which it certifies the Project had substantial process improvement in waterborne wastes. However, CAEATFA staff has not evaluated this documentation further, as the Applicant has already obtained the minimum point threshold necessary to qualify, and thus no additional points were awarded in this category.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

CalBio's Greenguard system has received ATC air permits from the San Joaquin Valley Unified Air Pollution Control District for both the digester and engine generators. The Kern County permit agency has issued the right ruling permitting the location of the Project as the host dairy. The Regional Water Quality Control Board ("RWQCB") has not yet issued its permits for the covered and lined digester. This permit is expected by June 2011 after a full engineering design has been submitted for the prescriptive double lined lagoon system preferred by the RWQCB.

The Project is also registered with the Climate Action Reserve to receive greenhouse gas reduction credits and with the Pacific Gas and Electric Company as a ClimateSmart partner for dairy based greenhouse gas credits.

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 paid CAEATFA an Application Fee of \$3,000 and will pay CAEATFA an Administrative Fee of up to \$18,952 if approved for a sales and use tax exclusion.

RECOMMENDATION

Staff recommends approval of Resolution No. 10-SM003 for ABEC Bidart-Old River LLC's purchase of Qualified Property in an amount not to exceed \$4,738,000, anticipated to result in an approximate sales and use tax exclusion value of \$431,158.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A TITLE
CONVEYANCE AGREEMENT WITH ABEC BIDART-OLD RIVER LLC**

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”) has received the Application of **ABEC Bidart-Old River 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 a cost not to exceed \$4,738,000 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

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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 conveyed 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.