

MINUTES

**California Alternative Energy and Advanced
Transportation Financing Authority
915 Capitol Mall, Room 587
Sacramento, California
December 17, 2013**

1. CALL TO ORDER & ROLL CALL

Bettina Redway, Chairperson, called the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA or Authority) meeting to order at 10:51 a.m.

Members Present: Bettina Redway for Bill Lockyer, State Treasurer
Alan Gordon for John Chiang, State Controller
Eraina Ortega for Michael Cohen, Director,
Department of Finance
Paul Clanon for Michael R. Peevey, President,
Public Utilities Commission
Sekita Grant for Robert B. Weisenmiller, Chair,
California Energy Commission

Staff Present: Saúl Acosta Gómez, Executive Director
Deana Carrillo, Treasury Program Manager II

Quorum: The Chairperson declared a quorum

Ms. Redway noted for the record that Mr. Clanon was participating from a remote location via telephone (505 Van Ness Avenue, Golden Gate Room, San Francisco, CA 94102).

Mr. Clanon noted that a member of the public was also in attendance at the remote location.

2. MINUTES

Ms. Redway asked if there were any questions or comments concerning the November 19, 2013 meeting minutes. There were none.

Ms. Redway asked if there was a motion.

Mr. Gordon moved for approval of the minutes; upon a second from Ms. Ortega, the minutes were unanimously approved.

3. EXECUTIVE DIRECTOR'S REPORT

Mr. Gómez informed the Board that at last month's board meeting he reported that the Department of Finance (DOF) submitted a Section 28 letter to the Joint Legislative Budget Committee (JLBC) requesting increased reimbursement expenditure authority for CAEATFA to serve as the administrator of the energy efficiency financing pilots being implemented by the state's electric and gas investor-owned utilities. Mr. Gómez reported that the JLBC informed DOF on November 27, 2013 that it did not concur with approving this request. The JLBC did not raise concerns with the substance of the proposed pilots, but it did question the need to commence the pilots during the current fiscal year. CAEATFA and the California Public Utilities Commission are working towards having the request be reconsidered. Mr. Gómez will provide an update to board members later this month or next if there is any progress.

Lastly, Mr. Gómez informed the board that, through use of delegated authority, he executed a contract with Zions Bank for trustee services. Zions Bank will hold funds related to the California Energy Commission's (CEC) California Ethanol Producer's Incentive Program. CAEATFA is contracted by the CEC to manage these funds on its behalf. The contract is for two years with an option to extend for an additional year, and will not exceed \$15,000.

Mr. Gómez then ended his report.

4. BUSINESS ITEMS

A. DISCUSSION AND CONSIDERATION OF APPLICATIONS FOR SALES AND USE TAX EXCLUSION

1) Tesla Motors, Inc.

Presented by: Alejandro Ruiz, Analyst

Staff introduced Daniel Witt, Senior Business Development and Policy Associate, Mark Olson, Domestic Transaction Tax Director, and Susan Repo, Vice President of Global Tax for Tesla Motors, Inc.

Mr. Ruiz stated that Tesla Motors, Inc. (Tesla) is requesting to purchase \$415 million of qualified property to expand the production and development of its Model S electric vehicle at project sites located in Fremont, Hawthorne and Palo Alto, California.

Tesla currently benefits from a Sales and Tax Exclusion awarded by CAEATFA in December 2009, prior to the establishment of the existing STE Program, for up to \$320 million for the equipment and tooling required for the production of its Model S sedan and for powertrain components it manufactures for Daimler AG and, previously, for the Tesla Roadster. To date, Tesla has submitted \$315 million to CAEATFA through the conveyance/reconveyance process. Tesla anticipates exhausting the remaining award amount by the end of 2013. The agreement will terminate on December 31, 2013.

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In addition, Tesla received a second STE award from CAEATFA in December 2011 under the existing STE Program for up to \$292 million for equipment and tooling required for the development and production of the Tesla Model X and the expansion of manufacturing activities for electric vehicle powertrain components, including those sold to Toyota. To date, Tesla has submitted \$24 million to CAEATFA through the conveyance/reconveyance process. Tesla anticipates using the remaining STE award by the end of 2015.

Staff recommended approval of the resolution for Tesla's purchase of Qualified Property in an amount not to exceed \$415 million anticipated to result in approximate sales and use tax exclusion value of \$34,735,500.

Ms. Redway noted that she appreciates the relationship between the State Treasurer's Office and Tesla. She stated that the two entities have been able to work well together over the past couple of years to advance the introduction of electrical vehicles.

Mr. Witt stated that he was grateful to the CAEATFA Board for considering Tesla's application. He said Tesla is a company in the midst of substantial growth. Mr. Witt said that when he began working for Tesla, the company had 1,400 employees and had just begun to refurbish the former NUMMI plant in Fremont, California. He continued to explain that within two years Tesla is producing Model S Sedans at a rate of over 20,000 vehicles a year (with more growth expected next year) and its employment now exceeds 5,000 employees worldwide. He added that Tesla continues to hire both abroad and in its home state of California. He noted that Model S Drivers have now driven over 100 million miles without a drop of gasoline and an additional 700,000 electric miles every day in 30 countries around the world.

Mr. Witt credited the benefits Tesla has received thus far from CAEATFA for assisting in positioning it for tremendous gains in the coming years. He anticipates that with the release of the Model X planned for the end of 2014 and a mass market vehicle destined for introduction in 2016 or 2017, Tesla Motors will continue to be a catalyst for the aggressive transition to electric vehicles in the broader automotive market. Mr. Witt stated that this will not only yield tremendous benefits in terms of job growth and emissions reduction within the State of California but also assist with meeting the Governor's stated goals of reaching 1.5 million electric vehicles by 2025.

Mr. Gordon mentioned that he had read that Tesla was considering manufacturing batteries for its electric vehicles. He asked if the battery manufacturing will take place at the Fremont facility.

Mr. Witt indicated that Tesla currently assembles batteries at its Fremont facility by ordering battery cells and inserting them into battery packs for the electric vehicles. Mr. Witt continued to explain that Tesla is considering manufacturing its own batteries, however, the entire process is very space intensive and requires a large footprint. Due to the size requirements, Tesla is considering a number of sites and

various options.

Mr. Gordon moved for approval and there was a second from Ms. Ortega.

Ms. Redway stated that there was a motion and a second, and asked if there were any comments from the public. There were none. The item was unanimously approved.

2) California Ethanol and Power Imperial Valley 1, LLC

Presented by: Alejandro Ruiz, Analyst

Staff introduced Steven Passantino, Vice President of Finance, and David Rubenstein, President of California Ethanol and Power Imperial Valley 1, LLC, and Stefan Unnasch, Managing Director of Life Cycle Associates.

Mr. Ruiz stated that California Ethanol and Power Imperial Valley 1, LLC (CE&P) is requesting approval for the purchase of Qualified Property with the value of \$444,811,275 to construct a facility that converts sugarcane and sweet sorghum into low-carbon, fuel-grade ethanol, bio-methane and electricity. The Applicant is eligible for the program under the advanced manufacturing definition due to its utilization of industrial bio-technology.

The Applicant represents that its Project will be more advanced than other ethanol production facilities due to its efficient use of resources. The Project will utilize the vinasse—the liquid residue left in the distillation of ethanol from sugarcane derivatives—in an advanced anaerobic digester to produce bio-methane gas to be placed in the local pipeline. Vinasse digestion is not a common practice among ethanol producers as it is normally used as fertilizer. The Applicant will also use bagasse, the leftover biomass, to generate electricity for the Project, which will result in a more sustainable production process by reducing greenhouse gas emissions compared to most ethanol facilities around the country that utilize natural gas for power.

Staff recommended approval of a resolution for CE&P's purchase of Qualified Property in an amount not to exceed \$444,811,275 anticipated to result in an approximate sales and use tax exclusion value of \$37,230,704.

Mr. Gordon indicated that the State Controller will abstain from voting on the item because of a concern that the Project's water supply might cause business problems for the Project at some point in the future. He stated that Southern California's water issues were significant, and referred to the recent Poseidon bond issuance, a desalination facility located in San Diego that will be paying approximately \$1,800 per acre-foot of water, and the ongoing discussion for the \$20 billion delta tunnel project. Mr. Gordon noted that he understood that the landowners currently have water rights to the Colorado River, but said that this water supply was oversubscribed. Mr. Gordon wanted to know how the water consumption for sugarcane and sweet sorghum will compare to the crops it is displacing.

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Ms. Redway asked if the Applicant wished to address Mr. Gordon's concerns.

Mr. Rubenstein said that he was aware of the water issues in California and shared the overall concern. He noted that the CE&P process is extremely sustainable. For every batch of ethanol fuel that it produced, approximately one million gallons from the sugarcane distillation process is recycled and used in the process which makes the process relatively water neutral. Also, the process is approximately 40% more efficient in its water use than the most advanced ethanol production plants in Brazil. Mr. Rubenstein said that the sugarcane will be replacing alfalfa, which consumes the same amount of water as sugarcane and sweet sorghum during the growth process. Mr. Rubenstein also indicated that the alfalfa is shipped primarily overseas to China and other parts of Asia as feedstock for horses and other show animals.

Ms. Redway mentioned that she had toured Brazil, and had a chance to visit a number of ethanol production facilities. She noted that CE&Ps production process was innovative and impressive given its ability to grow sugarcane in the Imperial Valley.

Ms. Ortega moved for approval and there was a second from Ms. Grant.

Ms. Redway stated that there was a motion and a second, and asked if there were any comments from the public. There were none. The item was approved with Mr. Gordon abstaining.

3) **Boxer Industries, Inc.**

Presented by: Noah Proser, Analyst

Staff introduced Robert Hanson, Chief Technology Officer for Boxer Industries, Inc.

Mr. Proser stated that Boxer Industries, Inc. (Boxer) is requesting approval of a sales and use tax exclusion for \$6,553,000 worth of qualified property for the construction of a carbon black manufacturing facility. This is an Advanced Manufacturing application, eligible due to the project's use of Advanced Materials. Boxer Industries' process produces significantly fewer emissions. Whereas traditionally heavy oils are combusted to produce carbon black, Boxer cracks natural gas in its production process, creating significantly fewer CO₂ and other smog-forming emissions.

Staff recommended approval of a resolution for Boxer's purchase of Qualified Property in an amount not to exceed \$6,553,000 anticipated to result in a sales and use tax exclusion of \$548,486.

Mr. Gordon asked for a brief explanation of Boxer's project.

Mr. Hanson stated that Boxer is a natural gas technology company. The plant under consideration today will be located in Redwood City, California and will convert pipeline grade natural gas directly into carbon black using advanced manufacturing

technology. Carbon black is a valuable petrochemical with a \$15 billion a year global market. The world's oldest commercial nano-material is composed of tiny carbon spheres aggregated together. It is mixed into polymers to create reinforcing, conductive, or absorptive networks. The most common use for carbon black is to reinforce rubber in automobile tires; however, specialty grades of carbon black are used to manufacture conductive materials used in cables, consumer electronics, visible displays, and high grade electrodes in new battery technologies. This project will help the environment with 77% reduction in CO₂, 95% reduction in NOX, and 99% reduction in SOX compared to the current manufacturing process for carbon black.

Mr. Gordon moved for approval and there was a second from Ms. Ortega.

Ms. Redway stated that there was a motion and a second, and asked if there were any comments from the public. There were none. The item was unanimously approved.

B. DISCUSSION AND CONSIDERATION OF APPLICANT'S REQUEST FOR WAIVER OF TIME REQUIREMENT TO PURCHASE REMAINING QUALIFIED PROPERTY UNDER THE SALES AND USE TAX EXCLUSION PROGRAM

1) Recology East Bay Corporation

Presented by: Alejandro Ruiz, Analyst

Staff introduced Minna Tao, General Manager of Recology East Bay Corporation.

Mr. Ruiz stated that Recology East Bay Corporation (Recology) requested that its 25% Purchase Requirement be extended to March 31, 2014 and that the initial term of the Agreement be extended to June 28, 2016. The extensions will provide Recology enough time to initiate and complete construction of the project. Recology has experienced significant delays in receiving various permits in Alameda County, specifically being included in the City of Oakland's Non-Disposal Facility Element. Staff noted that the project includes a pre-processing facility for a biomass processing facility by moving the activities from Vacaville to Oakland.

Staff recommended approval of Recology's request to extend the 25% Purchase Requirement to March 31, 2014 and the initial term of the Agreement to June 28, 2016 as it is in the public interest and advances the purpose of the original award.

Ms. Redway stated that she noticed the first phase of construction is going to occur under a registration permit that the applicant expects in December, 2013 and asked Ms. Tao about the status of the permit.

Ms. Tao indicated that Recology applied for its registration permit in early December and expects to receive the permit by January 8, 2014; and will apply for and receive its construction permit soon after.

Mr. Gordon moved for approval and there was a second from Ms. Ortega.

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Ms. Redway stated that there was a motion and a second, and asked if there were any comments from the public. There were none. The item was unanimously approved.

5. PUBLIC COMMENT

Ms. Redway asked if there were any comments from the public. There were none.

6. ADJOURNMENT

There being no further business, public comments, or concerns, the meeting adjourned at 11:14 a.m.

Respectfully submitted,

Saúl Acosta Gómez
Executive Director