

MINUTES

**California Alternative Energy and Advanced
Transportation Financing Authority
915 Capitol Mall, Room 587
Sacramento, California
May 20, 2014**

1. CALL TO ORDER & ROLL CALL

Michael Paparian, Chairperson, called the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA or Authority) meeting to order at 10:44 a.m.

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

Staff Present: Deana J. Carrillo, Executive Director
Sherri Kay Wahl, Deputy Executive Director

Quorum: The Chairperson declared a quorum

2. MINUTES

Mr. Paparian asked if there were any questions or comments concerning the March 18, 2014 meeting minutes. There were none.

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

3. EXECUTIVE DIRECTOR'S REPORT

Ms. Carrillo began the Executive Director's report by providing a mid-year report update on CAEATFA's program activity in 2014. So far in 2014, under the Clean Energy Upgrade Financing Program (CEUF Program) which is CAEATFA's statewide residential energy efficiency retrofit program, CAEATFA has enrolled 65 loans valued at nearly \$1,000,000, leveraging approximately \$3,900,000 over the life of the program. Under CAEATFA's Sales and Use Tax Exclusion Program (STE). 6 companies have conveyed nearly \$9,000,000 in

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equipment and machinery.

She continued her report by informing the Board that in regard to CAEATFA's Property Assessed Clean Energy (PACE) Loss Reserve Program, the Federal Housing Finance Agency (FHFA) had recently indicated it maintains its initial concerns with the PACE financing structure. Staff is continuing to work with the Governor's Office to continue discussion with FHFA on its concerns, and specifically on how California's program can assist in mitigating its issues. In addition, Staff expects to receive initial applications from the local PACE Programs in June 2014. This will give California the opportunity to collect some of the data that FHFA has been requesting for these types of financing structures.

Mr. Gordon asked Ms. Carrillo to elaborate on what problems FHFA had with the financing structure. In addition, Mr. Gordon asked if FHFA has changed its initial position at all.

Ms. Carrillo stated that FHFA has maintained its initial position regarding its concerns about PACE financing structures as it identified in its previous rulemaking (June 2012).

Mr. Gordon made a clarifying statement that the position is that you cannot have PACE as a priority lien. He continued by asking if that meant FHFA will not allow PACE loans under its programs.

Ms. Carrillo confirmed Mr. Gordon's understanding of FHFA's concern with the priority lien in the PACE structure, and indicated that she did not believe FHFA had provided any further guidance to its enterprises.

Ms. Carrillo continued her report with legislative updates, stating that CAEATFA's budget request to implement the California Public Utilities Commission's (PUC) energy efficiency financing pilot programs are continuing through the legislative budget process and was recently referred to the Budget Conference Committee. CAEATFA is continuing to meet with legislative staff and members to educate them on these efforts.

Ms. Carrillo concluded her report with an update on actions taken under the Executive Director's delegated authority by stating that CAEATFA extended the contract for trustee services under the CEUF Program for a one-year period to May 2015. The total contract amount is \$150,000. A second contract was extended for an additional year with Gilbert and Associates which provides the service for CAEATFA's bond audit that is required under SB99 of 2010, with a total contract amount of \$35,700. In addition, CAEATFA issued a Request For Proposal for trustee services for the PACE Loss Reserve Program. Staff hopes to have a trustee selected in June 2014. Staff is also reviewing proposals for a financial advisor for CAEATFA that should also be selected by June 2014.

Mr. Papanian asked if there were any comments or questions from the Board.

Mr. Clanon stated that he appreciates Ms. Carrillo's work with the PUC's Staff and on the legislative budgeting issues where there is overlap and coordination, and noted there have been good results to date.

Ms. Carrillo agreed and stated that CAEATFA remains optimistic and positive.

Mr. Paparian asked if there were any further comments or questions from the Board, there were none.

4. BUSINESS ITEMS

A. REQUEST TO AMEND STE RESOLUTION 14-SM002 TO CHANGE THE PARTICIPATING PARTY FROM CLEANWORLD TO CLEANWORLD SB BIODIGESTER, LLC

Presented by: Alejandro Ruiz, Analyst

Mr. Ruiz stated that CleanWorld is requesting an amendment to a resolution that was approved in March of 2014 to change the participating party from CleanWorld to CleanWorld SB Biodigestor, LLC.

Mr. Gordon moved for approval of item 4.A. and there was a second from Mr. Clanon.

Mr. Paparian stated there was a motion and a second, and asked if there were any questions or comments from the Board or public. There were none and the item was unanimously approved.

B. CONSIDERATION OF RECOLOGY EAST BAY'S REQUEST TO APPROVE A TIME EXTENSION FOR THE 25% PURCHASE REQUIREMENT AND THE THREE YEAR INITIAL TERM OF THE TITLE CONVEYANCE AGREEMENT

Presented by: Alejandro Ruiz, Analyst

Staff introduced Tim Daleiden, Engineering Manager for Recology, Inc.

Recology East Bay (Recology) has requested that the 25% Purchase Requirement be extended from March 31, 2014 to March 31, 2015 and that the initial term of the Master Regulatory and Title Conveyance Agreement be extended from June 28, 2016 to June 28, 2017 in order to allow enough time to complete construction of the Project. Recology represents it has experienced delays in commencing project construction due to unanticipated project design changes and the long review and permitting process associated with the multi-agency jurisdiction over the project site.

Mr. Gordon moved for approval of item 4.B. and there was a second from Mr. Clanon.

Mr. Daleiden stated that Recology is happy to work with the state of California on their projects.

Mr. Paparian stated there have been a motion and a second, and asked if there were any questions or comments from the Board or public. There were none and the item was unanimously approved.

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

- 1) Pixley Biogas, LLC
Presented by: Noah Proser, Analyst

Staff introduced Daryl Maas, Project Manager for Pixley Biogas, LLC.

Mr. Proser stated that Pixley Biogas, LLC (Pixley Biogas) is requesting approval of a sales and use tax exclusion for \$3,363,238 worth of qualified property for a dairy biogas production facility. The biogas produced will offset approximately 20 percent of the pipeline natural gas currently used by Pixley Biogas's partner to produce E100 ethanol vehicle fuel.

Mr. Proser stated that Staff recommended approval of a resolution for Pixley Biogas's purchase of qualified property not to exceed \$3,363,238 anticipated to result in a sales and use tax exclusion of \$325,130.

Mr. Paparian asked if Mr. Maas would like to add anything.

Mr. Maas stated that Pixley Biogas is happy to be here. He explained that this is the second project managed in California and the STE program has worked very well, and it is a good incentive to encourage businesses to invest in California.

Mr. Paparian asked if Pixley Biogas's other projects were co-located with ethanol.

Mr. Maas stated that the other project was a dairy power generator for the Sacramento Municipal Utilities District. He explained that this project is unique in that the ethanol plant just happens to have their own cogeneration turbine to allow them to run biogas instead of pipeline gas in Tulare County.

Mr. Gordon asked what feedstock Pixley Biogas uses for the ethanol.

Mr. Maas stated that almost all corn is used, but Pixley Biogas is trying to use more and more sorghum to address low carbon fuel standards. There are some incentives to use biogas and sorghum together, yet over 90 percent of the feedstock used is corn.

Mr. Clanon stated that he noticed this project received a sizable grant from the California Energy Commission three years ago and asked if Pixley Biogas had any difficulties with permitting.

Mr. Maas stated that the project was initially opposed by several neighbors which slowed down the permitting process. Pixley Biogas reached an accommodation with those neighbors and everything is currently moving forward.

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Mr. Gordon asked what the opposition was based on.

Mr. Maas stated that the opposition came from a major food processing facility that believed any kind of manure processing too close to them would create pollutants and contaminants.

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

Mr. Paparian stated there was a motion and a second, and asked if there were any questions or comments from the Board or public. There were none and the item was unanimously approved.

2) MSB Investors, LLC Presented by: Alejandro Ruiz, Analyst

Staff introduced John Dewey, Chief Executive Officer for MSB Investors, LLC.

Mr. Ruiz stated that MSB Investors, LLC (MSB) is requesting approval of a project to construct an anaerobic digestion facility in Santa Barbara for \$17,696,003 worth of qualified property. The project will also include a portion of the materials recovery facility that will be used to separate the organic waste from the municipal solid waste. This project will convert the organic waste into energy that will then be sold out to the state's electrical grid. The project will have a substantial impact on the local landfill by drastically extending the expected life by reducing the amount of waste that goes to the landfill.

Mr. Ruiz stated that Staff recommended approval of the resolution for MSB's purchase of qualified property in an amount not to exceed \$17,696,003 which is anticipated to result in an approximate sales and use tax exclusion value of \$1,490,003.

Mr. Paparian asked Mr. Dewey if he would like to add anything.

Mr. Dewey stated that MSB is hoping to get through the permitting process by the end of the year uncontested. This has been an exciting project even though it has taken over four years to get to this process. MSB believes they are heading towards financial close by the second quarter of 2015 and the project will be functional before the end of 2016. This is an exciting program and the incentives provided by CAEATFA, CPCFA, and CalCAP are all very useful for these types of projects. These projects can only be implemented at a reasonable tipping fee so any financial incentives created by these programs are very beneficial to the rate-payers and the implementation of projects that have huge greenhouse gas reduction benefits.

Mr. Paparian asked if there were any questions.

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Mr. Gordon stated that when California passed the Integrated Waste Management Act, one of the big controversies was that people were just using organic material as the daily cover and were getting credit for it. Mr. Gordon asked if this was an indication that everyone has met the 50 percent threshold and are not dumping as much organic waste onto the landfill because there are more valuable uses for it; or is this a special occasion where MSB is above industry standards on this project.

Mr. Dewey stated that CalRecycle has spent the last ten years trying to implement policies to get organics out of landfills. Assembly Bill 341 requires a 75 percent diversion, which has virtually eliminated the alternative daily credit and diversion credit for green waste. CalRecycle has incentives in place to keep the organics from decomposing in landfills. It has taken a while to get there; Europe is 15 to 20 years ahead of the United States, but California is a leader and moving in the right direction. It is challenging, however, because the composting infrastructure is not there to support the diversion. Even for projects that require follow-on composting, the technology has challenged businesses with permitting. To use a Harry Potter analogy, it is similar to playing Quidditch. One must be nimble, persistent, and patient to try and get to the goal because there are a lot of bludgers right in the way of the finish line.

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

Mr. Papanian stated there was a motion and a second, and asked if there were any questions or comments from the Board or public. There were none and the item was unanimously approved.

- 3) Recology, Inc.
Presented by: Alejandro Ruiz, Analyst

Staff introduced Tim Daleiden, Engineering Manager for Recology, Inc.

Mr. Ruiz stated that Recology, Inc. is requesting approval for a project to construct an anaerobic digestion facility in Vacaville for \$25,967,035 worth of qualified property. This project will convert municipal solid waste into biogas which will then be conditioned into renewable natural gas. This renewable natural gas will be used to fuel Recology, Inc.'s fleet of trucks and sold to other truck operators in the area. Eventually Recology, Inc.'s fleet of trucks will use the entire amount of renewable natural gas produced by this project.

Mr. Ruiz stated that Staff recommended approval of the resolution for Recology, Inc.'s purchase of qualified property in an amount not to exceed \$25,967,035 anticipated to result in an estimated sales and use tax exclusion of \$2,186,424.

Mr. Papanian asked if Mr. Daleiden wanted to add anything.

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Mr. Daleiden stated that Recology, Inc. is very pleased to work with the Board on this project. The company is excited for the opportunity to generate a new fuel source and to power its fleet of trucks.

Mr. Paparian stated that he assumed this project overlaps with the project approved by CPCFA.

Mr. Daleiden confirmed Mr. Paparian's assumption.

Mr. Paparian asked if there were any further comments or questions from the Board or public; there were none. He then asked if there was a motion.

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

Mr. Paparian stated there was a motion and a second, and the item was unanimously approved.

4) E&J Gallo Winery Presented by: Alejandro Ruiz, Analyst

Staff introduced Edward Jackson, Supervisor of Cost of Engineering for E&J Gallo Winery.

Mr. Ruiz stated that E&J Gallo Winery (E&J) is requesting approval of a project to construct an anaerobic digestion facility for \$17,592,381 worth of qualified property. This project will take grape pomace that is left over from the wine production process and convert it into biogas, which will then be converted into energy that will be used on site at E&J's facilities.

Mr. Ruiz stated that Staff recommended approval of the resolution for E&J to purchase qualified property in an amount not to exceed \$17,592,381 anticipated to result in an approximate sales and use tax exclusion value of \$1,481,278.

Mr. Paparian asked if there were any questions.

Mr. Gordon stated that this project uses a different process than he is accustomed to. His interpretation was that E&J takes 158,000,000 gallons of waste water and 47,000 tons of grape pomace, and uses this to make biogas. Mr. Gordon then asked what is the waste stream from that process.

Mr. Jackson stated that the spent pomace is returned as a fertilizer E&J can later sell.

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

Mr. Clanon stated that the net benefits for this project were close to the threshold and asked if the methodology used in evaluating projects like this do the project

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justice and account for the extra benefits it brings.

Mr. Ruiz stated that he believes it does. Often times when a project is close in terms of the net benefits, it largely has to do with the size of the project itself. It is more common for smaller biogas projects to come before the Board and often times those are able to produce substantial benefits in relation to the size of the exclusion. That is why this project has a score closer to the 1,000 point threshold. In addition, the evaluation process often captures extra benefits such as waste not going to a landfill, which is often captured as emissions avoided that are quantified in the environmental benefits score.

Mr. Paparian stated that there are net benefit points associated with avoidance of decomposition in the landfill and asked if there were any points given for diverting waste from the landfill by itself without regard to the emissions.

Mr. Ruiz stated that normally when waste is sent to a landfill, Staff relies on other state agency's analysis of the emissions associated with that. In the application review process for alternative source production the environmental benefits are largely based on the quantification of associated emissions. Often the most accurate way to apply a dollar value to benefits is by looking at the emissions that are associated with waste.

Mr. Gordon asked what happened to the waste water subsequent to using it in this process.

Mr. Jackson stated that the water was applied directly to the land. E&J is going to clean the water through this process and funnel it through their drip system back onto the vineyards. Previously the waste water was put on fallow land and was cycled through. E&J will be able to reclaim land for other purposes by implementing this process.

Mr. Gordon asked if E&J was previously putting the waste water on land which made it unsuitable for farming.

Mr. Jackson stated that was correct, but it was only unsuitable for a period of time.

Mr. Gordon asked if E&J was now going to use clean water for the crops, which would gain more water for the vineyards and free up land for productive purposes.

Mr. Jackson stated that was correct.

Mr. Gordon asked if Staff is capturing the water benefit as the applications are being scored.

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Mr. Ruiz stated he did not believe this was currently being quantified in the analysis process.

Mr. Clanon stated that it is worth keeping in mind if Staff gets a particular project that is close on the scoring threshold with the existing methodology but seems to bring more benefits than evaluated; he is interested in having a discussion about that.

Mr. Gordon stated that the scoring system should capture the benefit of saving water, particularly as water becomes scarcer. In this instance, E&J is able to reuse water that was previously contaminated and recycled through fallow land. By reusing the water, E&J has more water available to grow grapes, which should result in an economic benefit.

Ms. Carrillo stated that Staff will take a look at the statute and see what can be done under existing statute and with potential modifications to the program regulations.

Mr. Jackson stated that there are about 800 acres of land that will be able to be repurposed through this project.

Mr. Ruiz stated that he wanted to revise his previous statement regarding evaluating water use. There is an opportunity in the application for applicants to list certain efficiency gains in the manufacturing process. However, normally those are only analyzed if the applicant is not able to meet the threshold.

Mr. Gordon stated that it would seem that since Staff has traditionally evaluated industrial processes rather than an agricultural process – where one would be able to put more vineyards on land and use more water to give oneself more product – it would require a different calculation than normal. This project is a different kind of process than Staff is accustomed to and it does not seem like all the benefits were captured.

Mr. Paparian stated there was a motion and a second, and asked if there were any questions or comments from the Board or public. There were none and the item was unanimously approved.

5. PUBLIC COMMENT

Mr. Paparian 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 11:08 a.m.

Respectfully submitted,

Deana J. Carrillo
Executive Director