

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

*Request to Approve Project for Sales and Use Tax Exclusion (STE)<sup>1</sup>*

**Watonga RNG 1, LLC  
Application No. 19-SM003**

**February 19, 2019**

Prepared By: *Matthew Parsons, Program Analyst*

**SUMMARY**

**Applicant** – Watonga RNG 1, LLC.

**Location** – San Diego, San Diego County

**Industry** – Biogas Capture and Production

**Project** – Purchase of an Existing Biogas Capture and Production Facility (Alternative Source)

**Value of Qualified Property** – \$5,500,000

**Estimated Sales and Use Tax Exclusion Amount<sup>2</sup>** – \$459,800

**Estimated Quantifiable Net Benefits** – \$621,293

**Application Score** –

|                                       |              |
|---------------------------------------|--------------|
| Fiscal Benefits Points:               | 2,175        |
| <u>Environmental Benefits Points:</u> | <u>176</u>   |
| <b>Net Benefits Score:</b>            | <b>2,351</b> |
|                                       |              |
| <u>Additional Benefits Points:</u>    | <u>0</u>     |
| <b>Total Score:</b>                   | <b>2,351</b> |

**Staff Recommendation** – Approval

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<sup>1</sup> All capitalized terms not defined in this document are defined in the Program’s statute and regulations.  
<sup>2</sup> This amount is calculated based on the average statewide sales tax rate of 8.36%.

**THE APPLICANT**

Watonga RNG 1, LLC (“Watonga” or the “Applicant”), a wholly owned subsidiary of Trillium USA Company, LLC, is a California limited liability company established in October of 2018. Watonga produces renewable biogas from wastewater digesters.

The major shareholder (10.0% or greater) of Trillium USA Company, LLC is:

Trillium Acquisition California LLC

The major shareholders (10.0% or greater) of Trillium Acquisition California LLC are:

- TEL 1999 GST Trust – GML (25%)
- TEL 1999 GST Trust – JLM (25%)
- TEL 1999 GST Trust – FCL (25%)
- TEL 1999 GST Trust – LAL (25%)

The corporate officers of Watonga are:

- Tom E. Love, Chairman
- Gregory Love, Manager & Executive VP
- Frank C. Love, President & CEO
- Jennifer Meyer, Vice President
- Douglas J. Stussi, VP, Secretary & Treasurer
- Shane Wharton, Manager & VP
- Kris Rogers, Assistant Secretary

**THE PROJECT**

Watonga is requesting a sales and use tax exclusion to purchase equipment and assets from BioFuels Point Loma, LLC (“BioFuels”) that capture and clean the wastewater treatment digester gas (biomethane) at the City of San Diego’s Point Loma Wastewater Treatment Plant (“PLWTP”) (the “Project”). BioFuels was approved for a sales and use tax exclusion in December of 2010 to purchase up to \$6.2 million in Qualified Property to design and assemble skid-mounted purification technology to capture and clean biomethane at the PLWTP facility. BioFuels completed its project in May 2014, and operated the facility until February 2019. Watonga plans to recommence operations at the facility with an end product that will be approximately 288,000 MMBtu per year of biogas.

The biomethane gas feed will come from PLWTP’s existing digester gas collection system. Watonga’s 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.

Watonga 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 Capture and Production Equipment | \$3,777,363               |
| Building/Infrastructure                 | 1,142,065                 |
| Spares/Supplies                         | <u>580,572</u>            |
| <b>Total</b>                            | <b><u>\$5,500,000</u></b> |

*Note: The Qualified Property purchases reported in the Application and shown here in staff's report are estimated costs. At the termination of the master regulatory agreement a finalized project equipment list will be prepared detailing the value of the Project equipment acquired and detailing the actual tax benefit realized pursuant to Revenue and Tax Code Section 6010.8. Variance 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) over 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**

According to the Applicant, upon finalizing the asset transaction with BioFuels Point Loma, LLC, which is expected in February of 2019, Watonga will take possession of all contracts related to the operation of the facility, including the biogas sale agreement and site lease with the wastewater facility, the operations and maintenance agreement with the on-site operator, and the interconnect agreement with the local utility for injection of the finished product. Watonga anticipates that there will be no interruption of the business related to the contract assignments.

**PROJECT EVALUATION**

**NET BENEFITS**

The total cost of the Qualified Property purchases is anticipated to be \$5,500,000 and the total quantifiable net benefits are valued at \$621,293. The Project received a Total Score of 2,351 points, which exceeds the required 1,000 point threshold, and a total Environmental Benefits Score of 176 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (2,175 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 \$1,000,104, resulting in a Fiscal Benefits score of 2,175 points for the Project.
  
- B. Environmental Benefits (176 points).** The Project will result in \$80,989 of total pollution benefits over the life of the Project, resulting in an Environmental Benefits Score of 176 points for the Project. These benefits derive from the production of biogas, which offsets the need for use of fossil methane.

C. **Additional Benefits (0 points)**. Applicants may earn additional points for their Total Score. The Applicant submitted information and received 0 additional points.

1. **Production Jobs (0 of 75 points)**. The Applicant represents that the Project will support no production-related jobs at its Facility. The Applicant plans to pay a firm to operate the facility. Zero points were awarded because the marginal increase in jobs does not meet the required threshold.
2. **Construction Jobs (0 of 75 points)**. The Applicant represents that the Project will support no construction jobs at its Facility. Zero points were awarded because the marginal increase in jobs does not meet the required threshold.

## **STATUS OF PERMITS/OTHER REQUIRED APPROVALS**

Following the close of the asset transaction with BioFuels Point Loma, LLC, Watonga intends to apply for and hold all required environmental permits by the end of February 2019, including but not limited to air permit, coastal development permit, and pressure vessel permit.

## **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,<sup>3</sup> the Applicant has paid CAEATFA an Application Fee of \$2,750 and will pay CAEATFA an Administrative Fee up to \$22,000.

## **RECOMMENDATION**

Staff recommends approval of Resolution No. 19-SM003 for Watonga RNG 1, LLC's purchase of Qualified Property in an amount not to exceed \$5,500,000, anticipated to result in an approximate sales and use tax exclusion value of \$459,800.

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<sup>3</sup> California Code of Regulations Title 4, Division 13, Section 10036

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER  
REGULATORY AGREEMENT WITH WATONGA RNG 1, LLC**

February 19, 2019

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Watonga RNG 1, LLC** (the “Applicant”), for financial assistance in the form of a master regulatory agreement (the “Agreement”) regarding tangible personal property utilized in an Advanced Manufacturing process or 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 to acquire Project equipment with an estimated cost not to exceed \$5,500,000 over a period of three years; 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(a)(8)(B).

Section 2. The requested master regulatory agreement constitutes “financial assistance” within the meaning of Public Resources Code Section 26003(a)(6).

Section 3. The Applicant is a “participating party” within the meaning of Public Resources Code Section 26003(a)(7).

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.

**Agenda Item - 4.A.2**  
**Resolution No. 19-SM003**  
**Application No. 19-SM003**

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 listed in the semi-annual reports 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.