

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

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

**Lakeside Pipeline LLC  
Application No. 19-SM034**

**Tuesday, July 16, 2019**

Prepared By: *Matthew Parsons, Program Analyst*

**SUMMARY**

**Applicant** – Lakeside Pipeline LLC

**Location** – Hanford, Kings County

**Industry** – Dairy Biogas

**Project** – New Cluster of Dairy Biogas Production Facilities (Alternative Source)

**Value of Qualified Property** – \$16,508,315

**Estimated Sales and Use Tax Exclusion Amount<sup>2</sup>** – \$1,380,095

**Estimated Quantifiable Net Benefits** – \$6,935,818

**Competitive Criteria Score** – 9.7

**Application Score** –

Fiscal Benefits Points:	5,699
<u>Environmental Benefits Points:</u>	<u>327</u>
<b>Net Benefits Score:</b>	<b>6,026</b>

<u>Additional Benefits Points:</u>	<u>70</u>
<b>Total Score:</b>	<b>6,096</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**

Lakeside Pipeline LLC (“Lakeside” or the “Applicant”), a California limited liability company formed in 2017, captures dairy biogas and converts it into renewable biomethane.

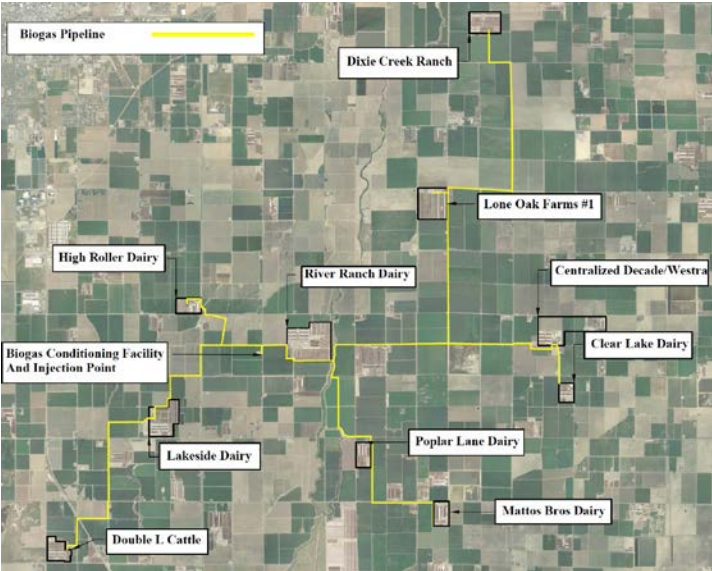
The major shareholders (10.0% or greater) of Lakeside Pipeline LLC are:  
Daryl Maas (33.3%)  
Bernard te Velde (33.3%)  
Jacob de Jong (33.3%)

The corporate officers of Lakeside Pipeline LLC are:  
Daryl Maas, Manager

**THE PROJECT**

Lakeside is requesting a sales and use tax exclusion to build a new dairy biogas production facility located in Hanford (the “Project”). According to the Applicant, the Project is part of the Lakeside Pipeline Dairy Digester Cluster, which consists of three sections: dairy digesters, a private biogas pipeline, and a biogas conditioning facility.

Lakeside states that it has contracted with 11 neighboring dairy facilities in Kings County to build covered lagoon digester systems on each farm to capture methane emissions from dairy manure. The captured biogas will be scrubbed to remove Hydrogen Sulfide (H<sub>2</sub>S), and compressed and chilled to remove excess water. Lakeside further states that the dry biogas from each dairy will then be injected into the private biogas pipeline. The Project includes Qualified Property for the on-dairy biogas conditioning equipment and the private biogas pipeline, but does not include the dairy digesters, which will be paid for by the dairies directly and are not included in this Application.



*Figure 1 - Map of Participating Dairies and Pipeline Route for Lakeside Pipeline Dairy Digester Cluster*

According to the Applicant, the private biogas pipeline will entail approximately 30 miles of low-pressure, underground pipeline that connects the covered lagoon digesters to the centralized biogas conditioning facility. The pipeline will be buried below grade and constructed of non-metallic high-density polyethylene on private land or in the public right-of-way. Lakeside states that at the centralized conditioning facility, the biogas will undergo further H<sub>2</sub>S removal, and a chilling, reheating and desiccant moisture removal process. The biogas will then be compressed to remove carbon dioxide. The resulting purified renewable biomethane will then be injected into the Southern California Gas Company’s natural gas pipeline for use in California vehicles under an executed biogas offtake agreement with Clean Energy Fuels.

According to the Applicant, the Project will increase the supply of local compressed natural gas vehicle fuels with an estimated 4.3M diesel gallons equivalent of renewable fuel and also reduce greenhouse gas emissions in the central valley by an estimated 207,909 MTCO<sub>2e</sub> each year.

The Applicant states the Lakeside Pipeline Dairy Digester Cluster was selected by the California Public Utilities Commission (“CPUC”) as an SB 1383 pilot project. SB 1383 (Lara, Ch. 395, Stats. of 2016) requires the CPUC to implement at least five dairy biomethane pilot projects to demonstrate interconnection to the common carrier pipeline system. As an SB 1383 pilot project, the CPUC will fund the private biogas pipeline, utility interconnection, and on-dairy biogas conditioning equipment.

#### **ANTICIPATED COSTS OF QUALIFIED PROPERTY**

The anticipated Qualified Property purchases are listed below:

On-Dairy Biogas Conditioning Equipment	\$ 4,295,236
Biogas Piping	6,299,600
Centralized Biogas Conditioning Facility (Materials for Foundation)	452,500
Biogas Conditioning Equipment and Controls for Centralized Facility	<u>5,460,979</u>
<b>Total</b>	<b><u>\$16,508,315</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, each participating dairy has already secured the necessary land use California Environmental Quality Act permits, which are required before construction is to begin. Lakeside filed for a building permit through Kings County, and plans to begin purchasing equipment in July 2019 and start construction in August of 2019. According to Lakeside, the first digester should begin producing biogas by September 2020, and all digesters should be in production by October 2022.

## **COMPETITIVE CRITERIA SCORE**

In the event that requested STE of all Applications to be heard in a month exceeds the remaining available STE cap amount, projects will be brought before the Authority based on ranking of competitive criteria. The Applicant received 9.7 competitive criteria points. The Applicant received points in the following categories:

1. **Unemployment (2.7 of 5 points)**. The Applicant's Project is located in Kings County, which has an average annual unemployment rate of 7.7%. This is above 110% of the statewide average annual unemployment rate, which was 5.2% in 2018, the dataset used in the application, resulting in a competitive criteria score of 2.7 points for this Project.
2. **Corporate Headquarters (1 point)**. The Applicant has verified that it has a corporate headquarters located in California and that any parent company with an ownership interest larger than 50% also has a corporate headquarters in California.
3. **Small Business (1 point)**. The Applicant has verified that it is classified as a small business under U.S. Small Business Administration guidelines (Title 13 of the Code of Federal Regulations) and has fewer than 500 employees, and that any parent company with an ownership interest greater than 50% is also classified as a small business under U.S. Small Business Administration guidelines and has fewer than 500 employees.
4. **New Applicant (5 points)**. The Applicant has not previously been approved for an STE award, and no parent company with an ownership interest greater than 50%, or affiliate or subsidiary of a parent company with an ownership interest greater than 50%, has been previously approved for an STE award.

**PROJECT EVALUATION**

**NET BENEFITS**

The total cost of the Qualified Property purchases is anticipated to be \$16,508,315 and the total quantifiable net benefits are valued at \$6,935,818 for the Project. The Project received a Total Score of 6,096 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 327 points, which exceeds the 20-point threshold.

- A. **Fiscal Benefits (5,699 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 \$7,864,837, resulting in a Fiscal Benefits score of 5,699 points for the Project.
  
- B. **Environmental Benefits (327 points)**. The Project will result in \$451,076 of total pollution benefits over the life of the Project resulting in an Environmental Benefits Score of 327 points for the Project. These benefits derive from the production of dairy biogas, which offsets the need for use of fossil methane.
  
- C. **Additional Benefits (70 points)**. Applicants may earn additional points for their Total Score. The Applicant submitted information and received 70 additional points.
  - 1. **Production Jobs (0 of 75 points)**. The Applicant represents that the Project will support a total of six production-related jobs at its Facility. CAEATFA estimates that none of these jobs will be attributable to the marginal increase in jobs created due to the approved STE. Zero points were awarded because the marginal increase in jobs does not meet the required threshold.
  
  - 2. **Construction Jobs (20 of 75 points)**. The Applicant represents that the Project will support a total of 25 construction jobs at its Facility. CAEATFA estimates that approximately two of these jobs will be attributable to a marginal increase in jobs created due to the approved STE, resulting in a Construction Jobs Score of 20 points for the Project.
  
  - 3. **Unemployment (50 of 50 points)**. The Applicant’s Project is located in Kings County, which has an average annual unemployment rate of 9.6%. This is above 110% of the statewide average annual unemployment rate, which was 5.1% in 2017, the dataset used in the application. This results in an Unemployment Score of 50 points for this Project.

**STATUS OF PERMITS/OTHER REQUIRED APPROVALS**

According to the Applicant, it has applied for a permission to operate permit through the San Joaquin Valley Air Pollution Control District and anticipates approval by the end of July 2019, and a waste discharge permit through the Central Valley Regional Water Quality Control Board, which will be in place in by July 2019 as well. Additionally, the Applicant will also be filing for additional permits as necessary.

**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 \$8,254.16 and will pay CAEATFA an Administrative Fee up to \$66,033.26.

**RECOMMENDATION**

Staff recommends approval of Resolution No. 19-SM034 for Lakeside Pipeline LLC’s purchase of Qualified Property in an amount not to exceed \$16,508,315, anticipated to result in an approximate sales and use tax exclusion value of \$1,380,095.

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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 LAKESIDE PIPELINE LLC**

July 16, 2019

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Lakeside Pipeline 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 \$16,508,315 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.1**  
**Resolution No. 19-SM034**  
**Application No. 19-SM034**

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.