

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

Request to Approve Project for Sales and Use Tax Exclusion (STE)¹

**Merced Pipeline LLC
Application No. 20-SM005**

Tuesday, January 21, 2020

Prepared By: *Ashley Emery, Program Manager*

SUMMARY

Applicant – Merced Pipeline LLC

Location – Merced, Merced County

Industry – Dairy Biogas Production

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

Value of Qualified Property – \$31,922,542

Estimated Sales and Use Tax Exclusion Amount² – \$2,668,725

Estimated Quantifiable Net Benefits – \$5,603,974

Application Score –

| | |
|---------------------------------------|--------------|
| Fiscal Benefits Points: | 2,936 |
| <u>Environmental Benefits Points:</u> | <u>164</u> |
| Net Benefits Score: | 3,100 |
| | |
| <u>Additional Benefits Points:</u> | <u>80</u> |
| Total Score: | 3,180 |

Staff Recommendation – Approval

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

THE APPLICANT

Merced Pipeline LLC (“Merced Pipeline” or the “Applicant”), a wholly owned subsidiary of Maas Energy Works Inc., is a California limited liability company that formed in 2018 to capture dairy biogas and convert it into renewable biomethane.

The major shareholders (10.0% or greater) of Maas Energy Works Inc. are:
Daryl Maas

The corporate officers of Maas Energy Works Inc. are:
Daryl Maas, Chief Executive Officer
Stephen Hatley, Chief Financial Officer

THE PROJECT

Merced Pipeline is requesting a sales and use tax exclusion to build a dairy digester cluster in Merced County (the “Project”). The Applicant has contracted with 11 neighboring dairy facilities to build covered lagoon digester systems on each farm to capture the methane emissions from the dairy manure. The captured biogas will be scrubbed to remove H₂S and compressed and chilled to remove excess water. The Applicant explains that the dry biogas from each dairy will then be injected into a private pipeline to be constructed as part of the Project, and sent to a centralized biogas conditioning facility to produce renewable biomethane that will be injected into the Pacific Gas & Electric natural gas pipeline for use as transportation fuel.

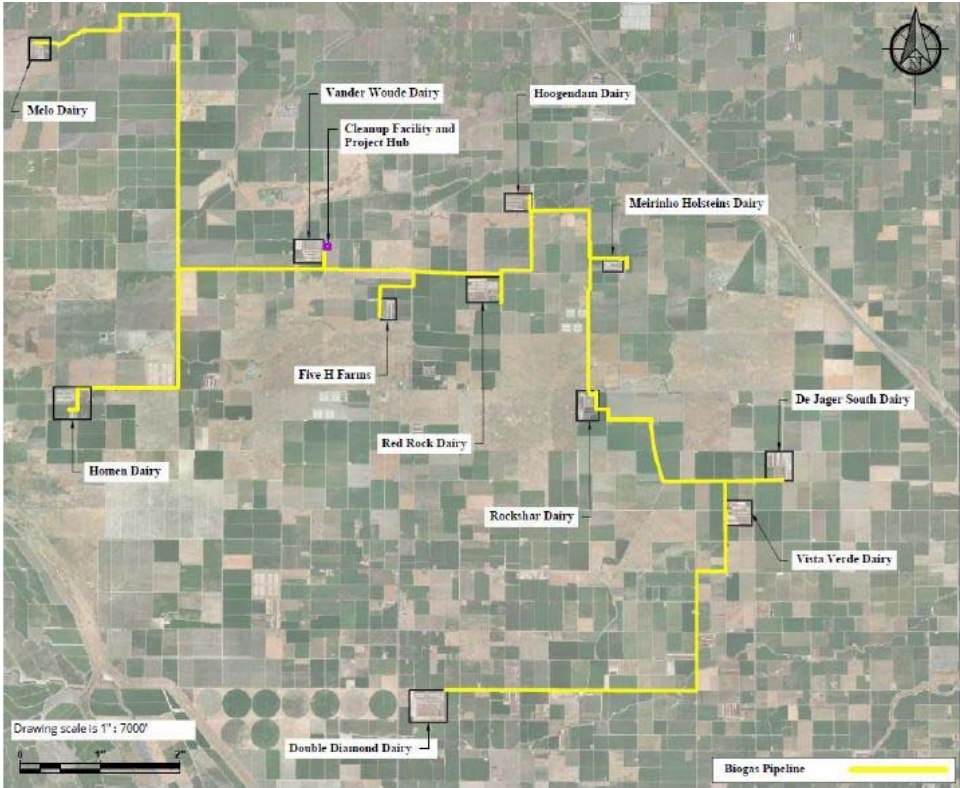


Figure 1: Merced Pipeline Dairy Digester Cluster Map

The Project has received grant funding through the California Department of Food and Agriculture’s Dairy Digester Research and Development Program for the dairy digesters. The Applicant was selected by the California Public Utilities Commission as an SB-1383 pilot project for biomethane injection, which will fund the private pipeline and utility interconnection. The Applicant has also applied for grant funding under the California Energy Commission’s Low-Carbon Fuel Production Program (GFO-19-601).

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

| | |
|--|----------------------------|
| Digester Liners, Covers, and Mixers | \$10,356,523 |
| Manure Piping, Pumps, and Separation Equipment | 2,346,804 |
| On-Dairy Biogas Conditioning Equipment | 3,675,698 |
| Biogas Piping Materials | 9,000,000 |
| H2S Scrubbers, CO2 Scrubber, and Gas Compression Equipment | 5,430,000 |
| Concrete and Earth Work Equipment | <u>1,113,517</u> |
| Total | <u>\$31,922,542</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 master regulatory agreement a finalized project equipment list will be prepared detailing the value of the Project equipment acquired and 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

The Applicant states the design for each digester has been completed and is being engineered. The Applicant plans to begin purchasing long-lead time equipment beginning February 2020 and commencing construction in May 2020. The Applicant anticipates to begin production with the first digester in March 2021 and with the final digester to be online and producing in February 2022.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$31,922,542 and the total quantifiable net benefits are valued at \$5,603,974 for the Project. The Project received a Total

Score of 3,180 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 164 points, which exceeds the 20-point threshold.

- A. **Fiscal Benefits (2,936 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 \$7,835,465, resulting in a Fiscal Benefits score of 2,936 points for the Project.

- B. **Environmental Benefits (164 points)**. The Project will result in \$437,234 of total pollution benefits over the life of the Project, resulting in an Environmental Benefits Score of 164 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 (80 points)**. Applicants may earn additional points for their Total Score. The Applicant submitted information and received 80 additional points.
 1. **Production Jobs (0 of 75 points)**. The Applicant represents that the Project will support a total of eight production-related jobs at its Facility. Zero points were awarded because the marginal increase in jobs does not meet the required threshold.

 2. **Construction Jobs (30 of 75 points)**. The Applicant represents that the Project will support a total of 65 construction jobs at its Facility. CAEATFA estimates that approximately five 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 30 points for the Project.

 3. **Unemployment (50 of 50 points)**. The Applicant’s Project is located in Merced County which has an average annual unemployment rate of 10.0%. 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

The Applicant states it plans to apply for building permits with Merced County in March 2020, and anticipates receiving permits by May 2020. The Applicant states several digesters have already received Authority to Construct from the San Joaquin Valley Air Pollution Control District, and it anticipates having all air permits by February 2020 and Permission to Operate for each phase of the project upon commission. The Applicant anticipates to obtain the first set of water permits in February 2020, and the remaining by September 2020.

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,³ the Applicant has paid CAEATFA an Application Fee of \$10,000 and will pay CAEATFA an Administrative Fee of up to \$127,690.17.

RECOMMENDATION

Staff recommends approval of Resolution No. 20-SM005 for Merced Pipeline LLC’s purchase of Qualified Property in an amount not to exceed \$31,922,542, anticipated to result in an approximate sales and use tax exclusion value of \$2,668,725.

³ California Code of Regulations Title 4, Division 13, Section 10036

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH MERCED PIPELINE LLC**

January 21, 2020

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Merced 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 \$31,922,542 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.4
Resolution No. 20-SM005
Application No. 20-SM005

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.