

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

***Request to Approve a Time Extension for the
Initial Term of the Master Regulatory Agreement¹***

**Ontario CNG Station, Inc.
Application No. 17-SM061**

Tuesday, October 20, 2020

Prepared By: *Matthew Jumps, Program Analyst*

SUMMARY

Applicant – Ontario CNG Station, Inc.

Location – Ontario, San Bernardino County

Industry – Renewable Hydrogen Project

Project – New Renewable Hydrogen Production Facility (Alternative Source)

Total Amount Qualified Property Approved– \$2,000,000

Estimated Sales and Use Tax Exclusion Amount at Approval² – \$168,400

Amount of Time Requested –

- Three years, until November 14, 2023, for the Initial Term of the Master Regulatory Agreement (three years from the date of initial CAEATFA Board approval).

Staff Recommendation – Approval

¹ All capitalized terms not defined in this document are defined in the Program’s statutes and regulations.

² This amount is calculated based on the average statewide sales tax rate at the time of approval, which was 8.42%.

REQUEST

On November 14, 2017, the CAEATFA Board approved a sales and use tax exclusion (“STE”) for Ontario CNG Station, Inc. (“Ontario CNG” or the “Applicant”) for the purchase of up to \$2,000,000 in Qualified Property to construct a hydrogen production facility in Ontario, where the Applicant will produce renewable hydrogen fuel for trucks and passenger vehicles (the “Project”). The Master Regulatory Agreement (“Agreement”) initial term provided the Applicant with three years from the date of Board Approval to utilize its STE award. The initial term of the Agreement can be extended by the Board upon a finding that an extension is in the public interest and advances the purposes of the program.

As of June 30, 2020, Ontario CNG has used the STE to purchase \$1,827,000 of Qualified Property (91% of the total Qualified Property approved) and began production in April 2018. The Applicant is requesting to extend the Agreement initial term by three years to accommodate delays in securing cost effective solar technology for Ontario CNG’s commercial purposes.

Ontario CNG received a grant from the California Energy Commission to construct a renewable hydrogen fueling station. The Applicant explains the station generates up to 65 kilograms per day of 100 percent renewable hydrogen using an onsite electrolyzer with renewable electricity as feedstock,³ and that the station currently has the capacity to dispense 100 kilograms per day of renewable hydrogen, but it must receive additional renewable hydrogen from a nearby vendor. The Applicant intends to produce additional renewable hydrogen using onsite solar. However, according to the Applicant, current solar panel technology does not yet offer Ontario CNG a cost-effective and reliable solution for the scale needed at its station. The Applicant believes that within three years, solar technology will have developed to a point where it will be technically and financially feasible to install at the Project site. Within the requested extension period, Ontario CNG expects to find newer and cost-effective solar technologies deployable at a commercial scale, and to find more available government grants and financing options to make the solar installation feasible. The Applicant believes that with California’s recently reiterated goals to reach zero emissions, including Governor Newsom’s Executive Order N-79-20 setting a goal of requiring newly sold cars to produce zero emissions by 2035, additional incentives will become available within the next three years to complete the last stage of its Project.

THE APPLICANT

Ontario CNG Station, Inc. is a California corporation that plans to construct and operate a hydrogen production and fueling station in Ontario, California. According to the Applicant, the station will be unique in that it will provide other amenities, such as a carwash, convenience store, restrooms, and a 24-hour attendant.

The major shareholders (10.0% or greater) of Ontario CNG Station, Inc. are:
Ay Irrevocable Trust - 68%
Dikran Arabian - 16%

The corporate officers of Ontario CNG Station, Inc. are:
Natalie Danesh, President
Atabak Youssefzadeh, Project Manager

³ The electrolysis unit uses electricity that is the link to renewable energy credits.

Wruir Arabian – 16%

Dikran Arabian, Chief Financial Officer
Wruir Arabian, Secretary

THE PROJECT

Ontario CNG plans to construct a hydrogen production facility in Ontario, where the Applicant will produce renewable hydrogen fuel for trucks and passenger vehicles.

The Project will use an electrolyzer powered by renewable electricity from onsite solar generation to produce the renewable hydrogen. The Applicant represents the Project will have the capacity to produce 70,544 kilograms of hydrogen fuel per year. Ontario CNG plans to use the water produced as a byproduct of the hydrogen production process to operate a carwash and irrigate landscaping on site at the fueling station.

According to the Applicant, the Project has received a \$1,750,000 grant from the California Energy Commission and \$200,000 from the South Coast Air Quality Management District.

AGREEMENT INITIAL TERM EXTENSION REQUEST

Ontario CNG has requested that the initial term of the Agreement be extended from November 14, 2020 to November 14, 2023 in order to accommodate delays in securing cost-effective solar technology for Ontario CNG’s commercial purposes.

Staff Evaluation

According to the Applicant, the delay in the Project and the full use of the STE award is due to the unavailability of a cost effective and technologically feasible solar panel solution for its hydrogen production and refueling station in order for it to produce enough renewable hydrogen fuel to reach maximum capacity.

Ontario CNG has already used 91% of its STE and first began operation at its station in April 2018. Ontario CNG is requesting an additional three years to ensure that it can make the Project as cost-effective and sustainable as possible, to bring an even cleaner approach to a green fuel source. With California’s committed mandate to reach a greener climate and economy, allowing Ontario CNG the time to seek a cost-effective solution to its solar technological needs is appropriate and in line with the State’s climate goals.

Based on this information, Staff believes extending the term of the Agreement will allow for the Project to be completed, and is, therefore, in the public interest and advances the purposes of the program.

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,⁴ the Applicant has paid an additional fee of \$500 because extending the initial term qualifies as a modification to the Applicant’s Master Regulatory Agreement.

RECOMMENDATION

Staff recommends that the Board approve Ontario CNG’s request to extend the initial term of the Agreement by three years to November 14, 2023 as it is in the public interest and advances the purpose of the program.

Attachments

Attachment A: Ontario CNG, Inc.’s letter requesting waiver (August 12, 2020)

Attachment B: Ontario CNG, Inc.’s staff summary at the time of approval

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

**RESOLUTION APPROVING A TIME EXTENSION FOR
ONTARIO CNG, INC.’S INITIAL TERM FOR
THE MASTER REGULATORY AGREEMENT**

October 20, 2020

WHEREAS, on November 14, 2017 the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”), a public instrumentality of the State of California, approved a Sales Tax Exclusion (“STE”) in the amount of \$2,000,000 of Qualified Property for Ontario CNG, Inc. (the “Applicant”); and

WHEREAS, within three years of the approval by the Authority, the Applicant must make all purchases of the total amount of Qualified Property listed in the approval resolution (Regulations Section 10035(b)(1)); and

WHEREAS, upon a finding that it is in the public interest and advances the purposes of the Program, the Authority may waive the requirement that all purchases of Qualified Property be made within three years of Application approval (Regulations Section 10035(b)(1)(B)); and

WHEREAS, the Applicant has requested a waiver of the requirement to purchase all of the Qualified Property within three years by November 14, 2020, due to unexpected delays in the Project timeline, extending the term by three years to November 14, 2023; and

WHEREAS, granting the waiver will allow the Project to proceed and the state to receive the anticipated environmental and economic benefits that justified the initial approval of the Project in accordance with the law, thereby, advancing both the public interest and the purposes of the Program.

NOW THEREFORE BE IT RESOLVED by the California Alternative Energy and Advanced Transportation Financing Authority, as follows:

Section 1. The Authority finds that it is in the public interest and advances the purposes of the Program to extend the initial term of the Agreement to November 14, 2023.

Section 2. This resolution shall take effect immediately upon its passage.

Attachment A: Ontario CNG, Inc.'s Letter Requesting Waiver (August 12, 2020)



Ontario CNG Station, Inc.

1815 E. Holt Blvd.,
Ontario, CA 91761
Tel: 909-467-1809

August 12, 2020

Dear Sir or Madam,

Ontario CNG Station, Inc. (the Company) is hereby requesting an extension to purchase the remainder of the Qualified Property in the amount of \$173,000 until November 14, 2023. Since the initial approval, the Company has purchased \$1,827,000 which calculates to 91% of the total Qualified Property approved by CAEATFA. The remaining phase is the implementation of solar panels to make the facility more energy efficient and ultimately providing cleaner energy. The solar technology for this magnitude of operation is still in its infancy and we are working on finding the most efficient way to implement it. The sales tax break on the remaining \$173,000 would be of a great help to us in order to complete the final phase of our project. We have consultants who are seeking government and private resources to implement this aspect of our project. We feel with the current international crisis and the commercial solar technology still in its infancy, it would take about 3 years to implement and complete this portion of our project. Please feel free to contact me if you need further explanation.

Natalie Danesh
CEO
nataliedanesh@yahoo.com
Cell: 310-722-7712



Attachment B: Ontario CNG, Inc.’s Staff Summary at the Time of Approval

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

Request to Approve Project for Sales and Use Tax Exclusion (STE)⁵

**Ontario CNG Station, Inc.
Application No. 17-SM061**

Tuesday, November 14, 2017

Prepared By: *Matthew Newman, Blue Sky Consulting Group with Ashley Bonnett, Program Manager*

SUMMARY

Applicant – Ontario CNG Station, Inc.

Location – Ontario, San Bernardino County

Industry – Renewable Hydrogen Production

Project – New Renewable Hydrogen Production Facility (Alternative Source)

Value of Qualified Property – \$2,000,000

Estimated Sales and Use Tax Exclusion Amount⁶ – \$168,400

Estimated Net Benefits – \$96,136

Application Score –

Fiscal Benefits Points:	1,549
<u>Environmental Benefits Points:</u>	<u>22</u>
Net Benefits Score:	1,571
<u>Additional Benefits Points:</u>	<u>96</u>
Total Score:	1,667

Staff Recommendation – Approval

⁵ All capitalized terms not defined in this document are defined in the Program’s statute and regulations.

⁶ This amount is calculated based on the average statewide sales tax rate of 8.42%.

THE APPLICANT

Ontario CNG Station, Inc. (“Ontario CNG” or the “Applicant”) is a California corporation that plans to construct and operate a hydrogen production and fueling station in Ontario, California. According to the Applicant, the station will be unique in that it will provide other amenities, such as a carwash, convenience store, restrooms, and a 24-hour attendant.

The major shareholders (10.0% or greater) of Ontario CNG Station, Inc. are:
 Ay Irrevocable Trust - 68%
 Dikran Arabian - 32%

The corporate officers of Ontario CNG Station, Inc. are:
 Natalie Danesh, President
 Atabak Youssefzadeh, Project Manager

THE PROJECT

Ontario CNG plans to construct a hydrogen production facility in Ontario, where the Applicant will produce renewable hydrogen fuel for trucks and passenger vehicles (the “Project”).

The Project will use an electrolyzer powered by renewable electricity from onsite solar generation to produce the renewable hydrogen. The Applicant represents the Project will have the capacity to produce 70,544 kilograms of hydrogen fuel per year. Ontario CNG plans to use the water produced as a byproduct of the hydrogen production process to operate a carwash and irrigate landscaping on site at the fueling station.

According to the Applicant, the Project has received a \$1,750,000 grant from California Energy Commission and \$200,000 from the Southern California Air Quality Management District.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Hydrogen plant	\$1,837,000
Solar panels	<u>163,000</u>
Total	<u>\$2,000,000</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 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

The Facility is scheduled to be operational in January 2018. Construction began in October 2016, and all permits for the Project have granted by the City of Ontario.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$2,000,000 and the total net benefits are valued at \$96,136 for the Project. The Project received a Total Score of 1,667 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 22 points, which exceeds the 20 point threshold.

- A. **Fiscal Benefits (1,549 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 \$260,821 resulting in a Fiscal Benefits score of 1,549 points for the Project.
- B. **Environmental Benefits (22 points)**. The Project will result in \$3,715 of total pollution benefits over the life of the Project, resulting in an Environmental Benefits Score of 22 points. These benefits derive from the production of renewable hydrogen, which offsets the need for use of fossil fuels.
- C. **Additional Benefits (96 points)**. Applicants may earn additional points for their Total Score. The Applicant submitted information and received 96 additional points.
 1. **Permanent Jobs (30 of 75 points)**. The Applicant represents that the Project will support a total of three permanent jobs at its Facility. CAEATFA estimates that approximately one of these jobs will be attributable to a marginal increase in jobs created due to the approved STE resulting in a Permanent Jobs Score of 30 points for the Project.
 2. **Construction Jobs (55 of 75 points)**. The Applicant represents that the Project will support a total of 10 construction jobs at its Facility. CAEATFA estimates that approximately one 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 55 points for the Project.
 3. **Unemployment (11 of 50 points)**. The Applicant's Project is located in Ontario which has an average annual unemployment rate of 8.4 percent. This is above 110 percent of the statewide average annual unemployment rate which was 7.5% in 2014, the dataset used in the application. This results in an Unemployment Score of 11 points for this Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

According to the Applicant, all relevant permits have been obtained.

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,⁷ the Applicant has paid CAEATFA an Application Fee of \$1,000 and will pay CAEATFA an Administrative Fee of \$15,000.

RECOMMENDATION

Staff recommends approval of Resolution No. 17-SM061 for Ontario CNG Station, Inc.’s purchase of Qualified Property in an amount not to exceed \$2,000,000 anticipated to result in an approximate sales and use tax exclusion value of \$168,400.

⁷ California Code of Regulations Title 4, Division 13, Section 10036

RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER REGULATORY AGREEMENT WITH ONTARIO CNG STATION, INC.

November 14, 2017

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Ontario CNG Station, Inc.** (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 \$2,000,000 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.

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.