

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

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

**Sunergy California LLC
Application No. 17-SM044**

Tuesday, June 16, 2020

Prepared By: *Stefani Carruth, Program Analyst*

SUMMARY

Applicant – Sunergy California LLC

Location – McClellan, Sacramento County

Industry – Solar Photovoltaic Manufacturing

Project – New Solar PV Manufacturing Facility

Total Amount Qualified Property Approved– \$7,823,286

Estimated Sales and Use Tax Exclusion Amount at Approval² – \$658,721

Amount of Time Requested –

- Three years and 10 days, until June 30, 2023, for the Initial Term of the Master Regulatory Agreement (six years and 10 days 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 statute and regulations.

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

REQUEST

On June 20, 2017, the CAEATFA Board approved a sales and use tax exclusion (“STE”) for Sunergy California LLC (“Sunergy California” or the “Applicant”) for the purchase of up to \$7,823,286 in Qualified Property to build two automatic solar PV module production lines at its headquarters in McClellan, with a total production capacity of approximately 400MW (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.

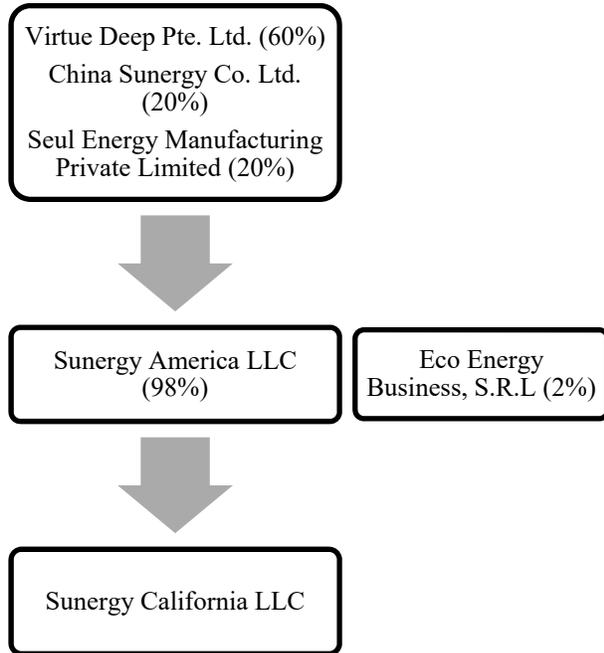
As of April 20, 2020 Sunergy California has used the STE to purchase \$3,816,156 of Qualified Property (49% of the total Qualified Property approved) and began initial production in August 2018. The Applicant is requesting to extend the Agreement initial term by three years and 10 days to accommodate recent technological advances in the solar industry which will require additional time to upgrade current equipment lines and other necessary machinery, as well as delays related to the COVID-19 pandemic.

According to the Applicant, in order to keep up with recent developments in the solar industry, more specifically with regard to solar wafers, solar cells, and manufacturing machinery, Sunergy California is upgrading its existing equipment to meet the requirements for high performance solar panels in today’s market, which has delayed the timeline for overall build-out. Sunergy California also states that the recent COVID-19 pandemic has adversely affected its supply chain, vendors, and contractors. The Applicant explains that the solar manufacturing component supply chain is centered outside the U.S., and its overseas vendors have been directly impacted by COVID-19, resulting in delays to the equipment line upgrades. Additionally, once equipment deliveries are made, its vendors must send engineers for installation and testing, but given current travel bans, this is not possible at this time. The Applicant anticipates signing purchase agreements for new equipment in August of 2020. The Applicant expects to have all equipment and components installed in its Sacramento facility by January 2022, and to begin mass production of their solar panels by July of 2022 after calibration and test runs of the equipment.

THE APPLICANT

Sunergy California is a California Limited Liability Company formed in 2017 for the purpose of manufacturing solar photovoltaic (“PV”) modules. Its parent company, Sunergy America LLC is partly owned by China Sunergy Co. Ltd. (“CSUN”), a Chinese-based solar PV manufacturer formed in 2004. CSUN’s research and development is headed by Dr. Jianhua Zhao and Dr. Aihua Wang who fabricated the crystalline silicon solar cell with the current world record efficiency rate of 25% over 20 years ago.

The ownership chain of Sunergy California LLC is as follows:



The sole company officer of Sunergy California LLC is:

Zhou Xiao Li, CEO

THE PROJECT

Sunergy California is building two automatic solar PV module production lines at its headquarters in McClellan, with a total production capacity of approximately 400MW. The Project will produce passivated emitter rear contact (“PERC”) solar modules, Black Silicon solar modules, and bifacial double-glass modules for residential and commercial rooftop projects, as well as conventional polycrystalline modules and conventional monocrystalline modules for utility-scale projects.

The Applicant represents the Project will utilize most up-to-date fully automatic production techniques and equipment to substantially optimize costs, time, and product quality. For example, the Applicant anticipates the automated production line will have a less than 0.0001% product defect rate and an average equipment repair time of less than 30 minutes. The Project will also incorporate manufacturing execution systems (“MES”) to provide dynamic data collection, storage, analysis and reporting.

AGREEMENT INITIAL TERM EXTENSION REQUEST

Sunergy California has requested that the initial term of the Agreement be extended from June 20, 2020 to June 30, 2023 in order to accommodate recent technological advances in the solar industry, as well as equipment and contractor delays as a result of the COVID-19 pandemic.

Staff Evaluation

Due to improvements in the solar industry, and its desire to remain competitive in that industry, Sunergy California has experienced delays as a result of upgrades being made to their equipment lines in order to utilize the most recently available technology. Additionally, Sunergy California is experiencing significant delays due to the COVID-19 pandemic, which Staff recognizes is a reality for all manufacturers at this time, particularly for companies that rely on a global supply chain. In August of 2020, the Applicant expects to have purchase agreements signed for new equipment. By October of 2021, it anticipates equipment and components being received at its Sacramento facility, with calibration and fine tuning of the equipment being done in February of 2022. The Applicant plans to complete production line tests by June 2022, and finally to begin mass production in July of 2022.

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 purpose of the program.

LEGAL QUESTIONNAIRE

Staff has reviewed the Applicant’s responses to the questions contained in the Legal Status portion of the Application. The Executive Director, in consultation with legal counsel, has determined that the legal issues disclosed do not affect the financial viability or legal integrity of the Applicant.

CAEATFA FEES

In accordance with CAEATFA Regulations,³ the Applicant has paid an additional fee of \$500 because extending the initial term requires a modification to the Applicant’s Master Regulatory Agreement.

RECOMMENDATION

Staff recommends that the Board approve Sunergy California LLC’s request to extend the initial term of the Agreement by three years and 10 days to June 30, 2023 as it is in the public interest and advanced the purpose of the program.

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

Attachments

Attachment A: Sunergy California LLC’s letter requesting waiver (April 20, 2020)

Attachment B: Sunergy California LLC’s staff summary at the time of approval

**RESOLUTION APPROVING A TIME EXTENSION FOR
SUNERGY CALIFORNIA LLC’S INITIAL TERM FOR
THE MASTER REGULATORY AGREEMENT**

Tuesday, June 16, 2020

WHEREAS, on June 20, 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 \$658,721 of Qualified Property for **Sunergy California LLC** (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)(A)); and

WHEREAS, the Applicant has requested a waiver of the requirement to purchase all of the Qualified Property within three years due to unexpected delays in the Project timeline, extending the term by three years and 10 days to June 30, 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 Authority to extend the initial term of the Agreement to June 30, 2023.

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

Attachment A: Sunergy California LLC’s Letter Requesting Waiver (April 20, 2020)



*Sunergy California, LLC
4741 Urbani Ave.
McClellan, CA 95652*

April 20, 2020

Executive Director
California Alternative Energy and Advanced Transportation Financing Authority
915 Capital Mall, Room 457
Sacramento, California 95814

RE: Request for an Extension of the Purchase Requirement

Dear Sir/Madam:

On June 30, 2017, the CAEATFA Board approved our application for the qualified property purchase in the amount of \$7,823,286 under the Sales and Use Tax Exclusion Program. We have to date made purchases of Qualified Property (“QP”) in the amount of \$3,816,156 (which represents 49% of the total QP approved by the Board) and would like to request an extension of three (3) years to make the remaining purchases of QP.

With your support, we have thus far successfully installed and commenced operations of the current production lines. Please note that the 49% completed QP purchases amount includes only the payments made to date. In accord with the corresponding production line purchase contract with the equipment supplier, a remaining balance of \$1,599,243.83 will be paid pursuant to the installment contract payment terms, with such payments scheduled to be completed in 2022.

The remaining QP purchases forecasted in our original plan are scheduled to be made during the extension period requested in this letter. Based on recent technological developments in the solar industry, specifically as to solar wafers, solar cells and manufacturing machinery, we are continuing our work on upgrading the current equipment lines. This work includes but is not limited to upgrades on solar cell soldering machines, automatic busbar soldering machines, and testing machines. Our short term goal is to complete our system upgrades so as to produce bifacial solar panels and 160mm/210mm solar cell size panels, in order to meet the requirements for high performance solar panels in accord with the increasing demand from our domestic customers and projects. In April 2020, the Office of the U.S. Trade Representative published the Determination on the Exclusion of Bifacial Solar Panels from the Safeguard Measure on Solar Products, encouraging U.S. producers to (i) expand existing monofacial production to include bifacial

production or (ii) open new bifacial production lines. Our plan coincides with this recent government regulatory scheme.

Additionally, due to the unprecedented COVID-19 pandemic emerging from the end of 2019, equipment component and global supply chain endeavors have been materially affected. As the solar manufacturing component supply chain is centered outside the U.S., the pandemic has delayed solar manufacturing and assembly on a world-wide basis. In our case, our overseas supply chain vendors have been directly impacted, resulting in delays in our program to upgrade the equipment lines. This has caused the correlating components and materials deliveries and our project to be placed into a “pending” status.

Currently, all foreign visa holders are not allowed to enter the U.S., which may also impact our completion schedule. After the deliveries of the needed equipment are eventually made, the relevant foreign vendors will still require three additional months to send engineers for installation and testing phases. Moreover, after the installation of the upgraded production lines, several agencies, such as the Air Quality Department and the Building and Safety Department, as well as third party contractors such as Intertek, etc., will need to perform inspections on-site. These factors have caused, and are continuing to cause, delays in our originally forecasted timeline and will necessarily require additional time to complete.

In summary, we have to date made significant progress in obtaining, installing, and operating the initial production lines as forecasted, but are still in the process of building the upgraded automatic solar PV module production lines in McClellan, Sacramento. The delay of QP equipment purchases is chiefly due to the unexpected pandemic that is affecting the economy and solar manufacturing industry’s global supply chain. Furthermore, we would very much like to upgrade and utilize the most up-to-date automatic production techniques and equipment so as to substantially optimize our products’ quality and performance. If helpful, we would be happy to provide documentation relating to all of the aforementioned relevant negotiations with vendors, which are still in progress.

It would be greatly appreciated if the Board could extend the deadline to complete our scheduled QP purchases to June 30, 2023, so as to allow us sufficient time to continue our negotiations with the overseas vendors and perform the necessary tasks as outlined above in readying the production lines.

Best Regards,

SUNERGY CALIFORNIA LLC

By: Xiaoli Zhou
XIAOLI ZHOU, Executive Chairperson

Attachment B: Sunergy California LLC’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)⁴

**Sunergy California, LLC
Application No. 17-SM044**

Tuesday, June 20, 2017

Prepared By: *Ashley Bonnett, Analyst*

SUMMARY

Applicant – Sunergy California, LLC

Location – McClellan, Sacramento County

Industry – Solar Photovoltaic Manufacturing

Project – New Solar PV Manufacturing Facility

Value of Qualified Property – \$7,823,286

Estimated Sales and Use Tax Exclusion Amount⁵ – \$658,721

Estimated Net Benefits – \$5,980,298

Application Score –

Fiscal Benefits Points:	5,710
<u>Environmental Benefits Points:</u>	<u>4,369</u>
Net Benefits Score:	10,079
<u>Additional Benefits Points:</u>	<u>130</u>
Total Score:	10,209

Staff Recommendation – Approval

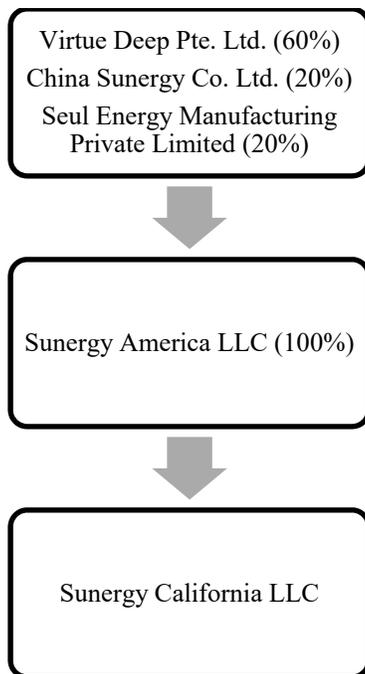
⁴ All capitalized terms not defined in this document are defined in the Program’s statute and regulations.

⁵ This amount is calculated based on the average statewide sales tax rate of 8.42%.

THE APPLICANT

Sunergy California LLC (“Sunergy California” or the “Applicant”), a California Limited Liability Company, is a wholly owned subsidiary of Sunergy America LLC formed in 2017 for the purpose of manufacturing solar photovoltaic (“PV”) modules. Sunergy America LLC is partly owned by China Sunergy Co. Ltd. (“CSUN”), a Chinese-based solar PV manufacturer formed in 2004. CSUN’s research and development is headed by Dr. Jianhua Zhao and Dr. Aihua Wang who fabricated the crystalline silicon solar cell with the current world record efficiency rate of 25% over 20 years ago.

The ownership chain of Sunergy California LLC is as follows:



The sole corporate officer of Sunergy California LLC is:

Zhou Xiao Li, CEO

THE PROJECT

Sunergy California is building two automatic solar PV module production lines at its headquarters in McClellan, with a total production capacity of approximately 400MW (the “Project”). The Project will produce passivated emitter rear contact (“PERC”) solar modules, Black Silicon solar modules, and bifacial double-glass modules for residential and commercial rooftop projects, as well as conventional polycrystalline modules and conventional monocrystalline modules for utility-scale projects.

The Applicant represents the Project will utilize most up-to-date fully automatic production techniques and equipment to substantially optimize costs, time, and product quality. For example, the Applicant anticipates the automated production line will have a less than 0.0001%

product defect rate and an average equipment repair time of less than 30 minutes. The Project will also incorporate manufacturing execution systems (“MES”) to provide dynamic data collection, storage, analysis and reporting.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Glass feeding machine	\$ 57,143
EVA Automatic lay up and cutting machine	60,571
Automatic placing template unit	53,143
Automatic lay up string machine	414,000
EVA/TP Automatic cutting and punching machine	60,571
EVA/TP Automatic lay up manipulator	88,571
Storage and stack machine	108,571
Automatic Rotary table	96,000
Automatic Edge trimmer	85,714
90° Rotary tester	21,429
Automatic frame placing and framing machine	108,571
Solidition manipulator	72,000
Plate Solidification line	32,000
Module Rotary Unit	42,857
Unidirectional transmission unit	190,714
Bidirectional transmission unit	192,857
Electroluminescent tester	177,143
Palletization Robot	102,857
Cell soldering machine	1,100,000
Automatic Busbar soldering machine	714,286
Automatic taping machine	128,571
Laminating machine	850,000
Insulation Withstand voltage tester	2,857
IV tester	62,857
Equipment Lines Testing, Shipping, Installation and Site Works	1,800,000
Building Improvement	<u>1,200,000</u>
Total	<u>\$7,823,286</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 Applicant represents the production line equipment testing began in March 2017 and facility improvements and renovation have already commenced. The Applicant anticipates installing equipment in August 2017, with testing taking place in November 2017, and production beginning in December 2017.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$7,823,286 and the total net benefits are valued at \$5,980,298 for the Project. The Project received a Total Score of 10,209 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 4,369 points, which exceeds the 20 point threshold.

- A. **Fiscal Benefits (5,710 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 \$3,761,032 resulting in a Fiscal Benefits score of 5,710 points for the Project.
- B. **Environmental Benefits (4,369 points)**. The Project will result in \$2,877,987 of total pollution benefits over the life of the Project resulting in an Environmental Benefits Score of 4,369 points for the Project. These benefits derive the capacity of solar PV modules to generate electricity from alternative sources, thereby reducing the need for traditionally generated electricity.
- C. **Additional Benefits (130 points)**. Applicants may earn additional points for their Total Score. The applicant submitted information and received 130 additional points.
 1. **Permanent Jobs (60 of 75 points)**. The Applicant represents that the Project will support a total of 180 permanent jobs at its Facility. CAEATFA estimates that approximately 11 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 60 points for the Project.
 2. **Construction Jobs (30 of 75 points)**. The Applicant represents that the Project will support a total of 15 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 30 points for the Project.
 3. **Non-CA Environmental Benefits (40 of 40 points)**. The Applicant's total value of out-of-state non-greenhouse gas pollution benefits are valued at

\$367,214.18 resulting in a Non-CA Environmental Benefits Score of 40 points for the Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant represents construction work permits for the building improvements have already been obtained and equipment permits are anticipated by the end of June 2017.

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,⁶ the Applicant has paid CAEATFA an Application Fee of \$3,911.64 and will pay CAEATFA an Administrative Fee of up to \$31,293.

RECOMMENDATION

Staff recommends approval of Resolution No. 17-SM044 for Sunergy California LLC's purchase of Qualified Property in an amount not to exceed \$7,823,286 anticipated to result in an approximate sales and use tax exclusion value of \$658,721.

⁶ California Code of Regulations Title 4, Division 13, Section 10036

RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER REGULATORY AGREEMENT WITH SUNERGY CALIFORNIA LLC

June 20, 2017

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Sunergy California 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 \$7,823,286 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.