

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

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

**Hat Creek Bioenergy, LLC
Application No. 20-SM018**

Tuesday, March 17, 2020

Prepared By: *Matthew Newman, Blue Sky Consulting Group, on Behalf of CAEATFA, with
Ashley Emery, Program Manager*

SUMMARY

Applicant – Hat Creek Bioenergy, LLC

Location – Burney, Shasta County

Industry – Biomass Processing and Fuel Production

Project – New Biomass Processing and Fuel Production Facility (Alternative Source)

Value of Qualified Property – \$12,680,000

Estimated Sales and Use Tax Exclusion Amount² – \$1,060,048

Estimated Quantifiable Net Benefits – \$1,899,124

Competitive Criteria Score – 152 points

Application Score³ –

Fiscal Benefits Points:	1,945
<u>Environmental Benefits Points:</u>	<u>847</u>
Net Benefits Score:	2,792

<u>Additional Benefits Points:</u>	<u>37</u>
Total Score:	2,828

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%.

³ Point values in the staff summary may not add up correctly due to rounding in the Application worksheet.

THE APPLICANT

Hat Creek Bioenergy, LLC (“Hat Creek” or the “Applicant”) is a California limited liability company formed in 2017 to convert sustainably sourced wood to into a renewable gaseous fuel (termed producer gas) that can be used to produce heat and electricity at the Hat Creek Bioenergy facility. The facility is a partnership between Hat Creek Construction & Materials, which will lease the facility to Hat Creek, and West Biofuels, LLC, which will provide the equipment and technology for the gasification and fuel production process.

The major shareholders (10.0% or greater) of Hat Creek Bioenergy, LLC are:
Peter Paul Living Trust (100% owner)

The company officers of Hat Creek Bioenergy, LLC are:
Peter T. Paul, Manager

THE PROJECT

Hat Creek is requesting a sales and use tax exclusion to build a new biomass processing and fuel production facility in Burney (the “Project”). The Hat Creek bioenergy facility will convert raw forest biomass to a gaseous alternative source fuel—producer gas—that can ultimately be used for renewable heat and electricity. The Project will use gasification to extract the gaseous fuel from biomass feedstock collected from nearby forest restoration projects. Specifically, Hat Creek plans to obtain the biomass feedstock from nearby forest restoration projects, including dead trees resulting from years of drought and the related bark beetle infestation in fir and pine trees throughout the California Sierra Nevada and 11 nearby states. According to the Applicant, the biomass feedstock would otherwise be piled and burned or chipped and left to decay in forests.

The facility will utilize approximately 32,000 bone dry tons (“BDT”) of woody biomass per year to produce 546,000 MMBtu of producer gas. The Applicant states that a feedstock supply study conducted by the Watershed Research and Training Center of Hayfork, California, identified an annual available feedstock supply of 363,000 BDT of woody biomass harvested within a 50-mile radius of the plant site, confirming a significant excess supply of forest feedstock in the region. The facility will procure its biomass feedstock from both public and private landowners.

In addition to producer gas, the facility can be operated to generate biochar as a value-added co-product. Biochar is a material with high levels of fixed carbon that can be used as a soil amendment or for filtration media. According to the Applicant, biochar enhances the soil’s biological productivity and its water-holding and fertilizer-holding capacity, which provides crop nutrition and improves plant growth.

The producer gas created at the facility will be used to generate 3,600 kW of electricity, of which 600 kW will be used to power the facility and 3,000 kW will be exported to Pacific Gas & Electric (“PG&E”) through the Bioenergy Market Adjusting Tariff (“BioMAT”) program. The Applicant has already secured a power purchase agreement with PG&E. The portion of the electricity generating equipment needed to prepare the biomass and operate the gasification process is included in the Application.

The Project received a \$5 million competitive EPIC grant from the California Energy Commission in 2017.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Biomass Unloading, Storage and Conveyance	\$ 2,500,000
Gasifier and Integrated Thermal Oil Heater	3,480,000
Organic Rankine Cycle Generator	750,000
Biochar Hopper and Conveyance	300,000
Flue Gas Cleanup Hardware	1,200,000
Structures	1,450,000
Base of Plant Equipment (Electrical, Plumbing, Insulation)	<u>3,000,000</u>
Total	<u>\$12,680,000</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 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 has completed the preliminary engineering for the project, including a construction timeline. The Applicant plans to begin purchasing equipment in June 2020 and begin site construction in October 2020. Equipment installation is anticipated to begin in March 2021, and commercial operation is expected to begin in January 2022.

COMPETITIVE CRITERIA SCORE

In the event that CAEATFA receives Applications in excess of the statutory \$100 million cap for that calendar year, the order in which the Applications shall be considered in the same month will be ranked based on five Competitive Criteria.

The Applicant received 152 Competitive Criteria points as follows:

1. **Environmental Benefits (100 points)**. The Applicant's Project earned more than zero Total Pollution Benefits points (i.e. had environmental benefits that could be

monetized and scored pursuant to the Program’s regulations⁴), therefore 100 points are awarded.

2. **Unemployment (17 of 50 points)**. The Applicant’s Project is located in Shasta County, which has an average annual unemployment rate of 4.7%. When compared to the statewide average annual unemployment rate, which was 4.1% in 2019, the dataset used in the Application, the Project location earned the Applicant an Unemployment Score of 17 points.
3. **Job Creation (20 of 75 points)**. The Applicant represents that the Project will support a total of 10 production-related 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 STE. Based on the amount of STE per estimated number of jobs created, the Applicant earned 20 points.
4. **California Headquarters (15 points)**. The Applicant has a California Corporate Headquarters, therefore 15 points are awarded.
5. **Natural Disaster Relief (0 points)**. The Project is not to rebuild or relocate the Applicant’s Facility due to a fire, flood, storm, or earthquake identified in the state of emergency proclamation made by the California State Governor within two years of the time of application, therefore zero points are awarded.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$12,680,000 and the total quantifiable net benefits are valued at \$1,899,124 for the Project. The Project received a Total Score of 2,828 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 847 points, which exceeds the 20-point threshold.

- A. **Fiscal Benefits (1,945 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 \$2,061,725, resulting in a Fiscal Benefits score of 1,945 points for the Project.
- B. **Environmental Benefits (847 points)**. The Project will result in \$897,448 of total pollution benefits over the life of the Project resulting in an Environmental Benefits Score of 847 points for the Project. These benefits derive from the production of

⁴ California Code of Regulations Title 4, Division 13, Section 10033(c)(4)

producer biogas, which can be used to generate electricity, and offsets the need for use of fossil-fuel produced electricity

C. **Additional Benefits (37 points)**. Applicants may earn additional points for their Total Score. The Applicant submitted information and received 37 additional points.

1. **Production Jobs (20 of 75 points)**. The Applicant represents that the Project will support a total of 10 production-related 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 STE. Based on the amount of STE per estimated number of jobs created, the Applicant earned 20 points.
2. **Construction Jobs (0 of 75 points)**. The Applicant represents that the Project will support a total of 5 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 STE. Based on the amount of STE per estimated number of jobs created, the Applicant earned zero points.
3. **Unemployment (17 of 50 points)**. The Applicant's Project is located in Shasta County, which has an average annual unemployment rate of 4.7%. When compared to the statewide average annual unemployment rate, which was 4.1% in 2019, the dataset used in the Application, the Project location earned the Applicant an Unemployment Score of 17 points.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

According to the Applicant, Shasta County approved a Conditional Use Permit (CUP) in August 2019. The CUP application triggered CEQA, and a CEQA review was completed as an Addendum to an existing Environmental Impact Report. The Applicant expects the Shasta County Air Quality Management District to issue an air permit based upon the air quality impact analysis performed as part of the CEQA analysis. The Applicant expects to submit an application to the Shasta County Air Quality Management District for an Authority to Construct permit in March 2020. The Applicant further expects approval of its Permit to Construct application in June 2020 and of its Permit to Operate in February 2022.

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,⁵ the Applicant has paid CAEATFA an Application Fee of \$7,500 and will pay CAEATFA an Administrative Fee of up to \$50,720.

RECOMMENDATION

Staff recommends approval of Resolution No. 20-SM018 for Hat Creek Bioenergy, LLC's purchase of Qualified Property in an amount not to exceed \$12,680,000, anticipated to result in an approximate sales and use tax exclusion value of \$1,060,048.

⁵ California Code of Regulations Title 4, Division 13, Section 10036

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH HAT CREEK BIOENERGY, LLC**

March 17, 2020

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Hat Creek Bioenergy, 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 \$12,680,000 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.F.9
Resolution No. 20-SM018
Application No. 20-SM018

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.