

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

*Request to Approve a Time Extension for the  
Initial Term of the Regulatory Agreement<sup>1</sup>*

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

**Tuesday, January 17, 2023**

Prepared By: *Stefani Wilde, Program Analyst*

**SUMMARY**

**Applicant** – Merced Pipeline LLC

**Location** – Merced, Merced County

**Industry** – Dairy Biogas Production

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

**Total Amount Qualified Property Approved**– \$31,922,542

**Estimated Sales and Use Tax Exclusion Amount at Approval<sup>2</sup>** – \$2,668,725

**Amount of Time Requested** –

- Requesting a one-year extension, until January 21, 2024, for the Initial Term of the Regulatory Agreement (a total of four years from the date of initial CAEATFA Board approval of January 21, 2020)

**Staff Recommendation** – Approval

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<sup>1</sup> All capitalized terms not defined in this document are defined in the Sales and Use Tax Exclusion Program’s statutes and regulations.

<sup>2</sup> This amount is calculated based on the average statewide sales tax rate at the time of initial approval, which was 8.36%.

**REQUEST**

On January 21, 2020, the CAEATFA Board approved a Sales and Use Tax Exclusion (“STE”) award for Merced Pipeline LLC (the “Applicant”) for the purchase of up to \$31,922,542 in Qualified Property to build a dairy digester cluster in Merced County (the “Project”). The Regulatory Agreement (“Agreement”) initial term provided the Applicant with three years from the date of CAEATFA Board approval to utilize its STE award.<sup>3</sup>

As of September 2022, the Applicant has used the STE award to purchase approximately \$22 million of Qualified Property (69% of the total Qualified Property approved). The Applicant requests an extension to the Agreement’s initial term by one year to accommodate pandemic related supply chain delays and labor shortages.

The Applicant states that since the approval of the award in January 2020, before the full extent of the pandemic was known, it has been plagued by numerous pandemic related delays. The Applicant explains that it experienced regulatory, construction, and supply chain delays that derived from labor shortages because of mandatory increased safety protocols. Despite the challenges, the Applicant was able to complete Phase 1 of the Project.

The CAEATFA Board can extend the initial term of the Agreement upon a finding that an extension is in the public interest and advances the purposes of the STE Program.<sup>4</sup>

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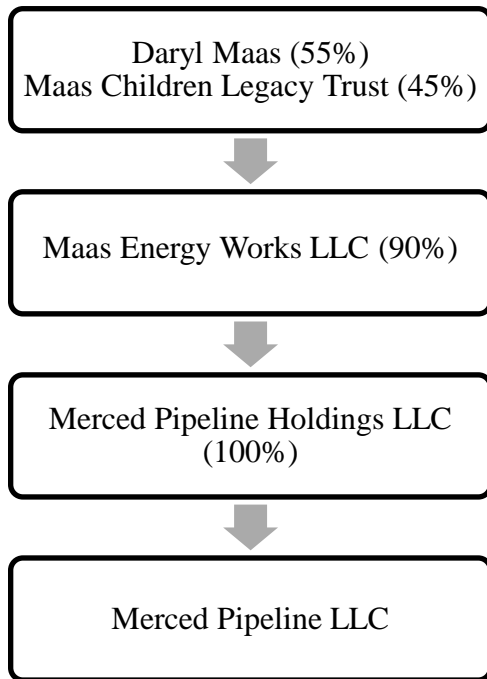
<sup>3</sup> California Code of Regulations Title 4, Division 13, Section 10035(b)(1)

<sup>4</sup> California Code of Regulations Title 4, Division 13, Section 10035(b)(1)(B)

**THE APPLICANT**

Merced Pipeline LLC is a California limited liability company that formed in 2018 to capture dairy biogas and convert it into renewable biomethane.

The ownership structure of the Applicant is as follows:



The company officers of the Applicant are:

Daryl Maas, CEO  
Stephen Hatley, CFO

**THE PROJECT**

Merced Pipeline LLC received an STE to build a dairy digester cluster in Merced County. 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.

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).

**AGREEMENT INITIAL TERM EXTENSION REQUEST**

The Applicant requests that the initial term of the Agreement be extended from January 21, 2023 to January 21, 2024, to accommodate pandemic related supply chain delays and labor shortages.

**STAFF EVALUATION**

According to the Applicant, it experienced significant pandemic related delays. Some of the delays experienced by the Applicant include regulatory issues, construction, and supply chain delays caused by labor shortages felt across many industries. However, the Applicant states despite incredible delays, it was able to complete Phase 1 of its buildout, which includes nine digesters and 26 miles of pipeline. According to the Applicant, all equipment with long lead times has already been ordered, all construction contracts are complete, and the majority of required permits have either been secured or are already in process.

Based on this information, Staff believes extending the initial 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 STE 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 STE Program regulations,<sup>5</sup> the Applicant has paid an additional fee of \$2,000 because extending the initial term qualifies as a modification to the Applicant’s Agreement.

**RECOMMENDATION**

Staff recommends that the Board approve the Applicant’s request to extend the initial term of the Agreement by one year to January 21, 2024, as it is in the public interest and advances the purposes of the STE Program.

**ATTACHMENTS**

- Attachment A: Merced Pipeline LLC’s letter requesting waiver (December 29, 2022)
- Attachment B: Merced Pipeline LLC’s staff summary at the time of approval

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<sup>5</sup> California Code of Regulations Title 4, Division 13, Section 10036(c)(1)(B)

**RESOLUTION APPROVING A TIME EXTENSION FOR  
MERCED PIPELINE LLC’S INITIAL TERM FOR  
THE REGULATORY AGREEMENT**

January 17, 2023

WHEREAS, on January 21, 2020, 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 \$31,922,542 of Qualified Property for **Merced Pipeline LLC** (the “Applicant”); and

WHEREAS, within three (3) years of approval by the Authority, the Applicant must make all Qualified Property purchases (STE Program 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 (3) years of Application approval (STE Program 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 (3) years, due to unexpected delays in the Project timeline, extending the term by one (1) year to January 21, 2024; 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 Applicant’s initial term of the Regulatory Agreement to January 21, 2024.

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

Attachment A: Merced Pipeline LLC’s Letter Requesting Waiver (December 29, 2022)



1730 South Street  
Redding, CA 96001  
www.maasenergy.com

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California Alternative Energy and Advanced  
Transportation Financing Authority (CAEATFA)  
915 Capitol Mall, Room 538  
Sacramento, CA 95814

RE: Merced Pipeline LLC – Sales and Use Tax Exclusion Program

CAEATFA Board,

Merced Pipeline LLC (The Company) received notification indicating that our sales and use tax exclusion for the purchase of up to \$31,922,542 in Qualified Property is due to expire on January 21, 2023. According to the program regulation section 10035(b)(1)(B), the CAEATFA Board may extend the initial term upon a finding that the extension is in the public interest and advances the purposes of the program. This letter is in response to the notification and expresses our desire to formally request an extension. The Company believes that this extension is in the public interest and advances the purposes of the program.

**Specific amount of time requested:**

The Company is requesting a one-year extension in order to purchase the remainder of the Qualified Property. This one-year extension would cause the exemption to expire on January 21<sup>st</sup>, 2024.

**An explanation of why the extension is necessary (i.e. why the initial term deadline will not be met):**

The project was approved by the CAEATFA Board on January 21<sup>st</sup> 2020, which was right before the COVID pandemic began. This pandemic caused numerous regulatory, construction and supply chain delays, due to labor shortages caused by increased safety protocols. While the project was able to complete Phase 1 of its buildout which includes nine digesters, 26 miles of pipeline, and a 2,000 SCFM biogas conditioning facility; the remaining two digesters, 16 miles of pipeline, and increased capacity of the biogas facility to 3,400 SCFM is still underway and requires an additional year to complete.

**An explanation of what assurances there are that the new timeline will be met:**

After detailed conversations with vendors, regulatory agencies, and construction management personnel, the project team is confident that all remaining aspects of the project can be completed with a one-year extension. All long lead time equipment has been ordered, all construction contracts have been executed, and the majority of regulatory permits have been obtained or are in process.

DECEMBER 29, 2022



1730 South Street  
Redding, CA 96001  
www.maasenergy.com

**Amount of Qualified Property purchased to date:**

Through June 2022, the Company has reported \$22,082,083 of the approved Qualified Property of \$31,922,542. Since June 2022, the Company purchased an additional \$295,854.40 of Qualified Property through September 2022, and these additional purchases will be included in the next reporting cycle.

Anticipated schedule to purchase the remaining Qualified Property and report to CAEATFA is shown by reporting period in the table below:

	7/1/22 – 12/31/22	1/1/23 – 6/30/23	7/1/23 – 12/31/23	Total
<b>Amount</b>	\$1,500,000	\$5,000,000	\$3,340,459	\$9,840,459

**Information on whether the scope of the project has changed:**

The scope of the project has not changed.

Merced Pipeline LLC is very grateful for the support of the CAEATFA Board and appreciates the consideration of this extension request. The Legal Status Questionnaire, and ownership information is being provided with this request for extension, and a \$2,000 fee check has also been mailed on November 18<sup>th</sup> 2022.

Sincerely,

A handwritten signature in black ink, appearing to read "Stephen Hatley", written over a light blue horizontal line.

Stephen Hatley  
CFO of Maas Energy Works, Manager

DECEMBER 29, 2022

**Attachment B: Merced Pipeline LLC’s Staff Summary at the Time of Approval**

Agenda Item – 4.A.4  
Resolution No. 20-SM005  
Application No. 20-SM005

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

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

**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 Amount<sup>2</sup>** – \$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>
<b>Net Benefits Score:</b>	<b>3,100</b>

<u>Additional Benefits Points:</u>	<u>80</u>
<b>Total Score:</b>	<b>3,180</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**

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 H<sub>2</sub>S 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*

**Agenda Item – 4.B.4  
Resolution No. 20-SM005-01**

**Agenda Item – 4.A.4  
Resolution No. 20-SM005  
Application No. 20-SM005**

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>
<b>Total</b>	<b><u>\$31,922,542</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 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

**Agenda Item – 4.B.4**  
**Resolution No. 20-SM005-01**

**Agenda Item – 4.A.4**  
**Resolution No. 20-SM005**  
**Application No. 20-SM005**

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.

**Agenda Item – 4.B.4  
Resolution No. 20-SM005-01**

**Agenda Item – 4.A.4  
Resolution No. 20-SM005  
Application No. 20-SM005**

**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 \$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.

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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 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.B.4**  
**Resolution No. 20-SM005-01**

**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.