Challenges to Expediting Commercial RNG Production:

A Developer’s Perspective

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Meet the Presenter

Evan Williams – President of Cambrian Energy Development LLC

- Developer of 50 LFG-to-energy projects and 3 RNG Projects; co-developer of largest RNG production project in U.S. at McCommas Bluff Landfill in Dallas, Texas
- Chairman and co-founder of Coalition for Renewable Natural Gas
- Major equity holder and manager of North American Repower and its affiliated group of companies that cost-effectively convert existing medium and heavy duty diesel vehicle engines to CNG/RNG using remanufactured to like-new repowered engines.
Evan’s Political Qualifications

Rhys Williams – Actor
(Evan’s Father)

How Green Was My Valley (Best Film 1941)
Mrs. Miniver (Best Film 1942)

Kiss Tomorrow Goodbye (1950)
Walter Pidgeon & Greer Garson

James Cagney

The World in His Arms (1952) Gregory Peck
California Political Office Qualification Standards

➢ **Actor =**
  - Governor
    • Ronald Reagan
    • Arnold Schwarzenegger
  - U.S. Senator
    • George Murphy

➢ **Son of Actor =**
  - Lieutenant Governor
  - Member of the Legislature
Overview

- RNG Developer’s Essential Requirement – Secret Formula
- Required Engineering for Project Development
- Financing Fundamentals for RNG Projects
- Impediments to Development of RNG projects
- Demand Constraints to RNG Market Growth
- Critical Math Lesson
What is Largest Challenge to Development of an RNG Project?

- Making Money!
- For an RNG project to be successful it must meet the requirements of the Secret Formula.
What is the Secret Formula?

- Revenues > Expenses
- Predictably
For a Successful RNG Project All Essential Forms of Project Engineering Must Be Completed

- Technical Engineering
- Financial Engineering
- Political Engineering
RNG Financing 101

- Debt is less costly than Equity
- RNG projects are typically financed with both equity and debt
Essentials for RNG Transportation Fuel Use Project

**Transportation Fuel Market**
- Access to Pipeline or other delivery method needed
- CNG/LNG Vehicles to Use RNG Fuel needed

**Technology to Produce RNG**
- Proven, Warranted & Affordable Equipment to convert biogas to RNG

**Financing**
- Available & Affordable Financing Essential
- Predictability of Term of Supporting RNG Fuel Sale Agreement must match term of debt financing
- Government guarantee of debt helps
- Tax credits help
- Grants help

**Economics**
- Must Make Money
- Environmental Attribute Value and/or tax credit or grant support essential

**Supportive Policies**
- Air permitting policies
- Land Use policies
- Economic & Financing Support policies
- Reduced Operating Expense policies
Project Finance Lenders and the Secret Formula

- Debt payments (principal and interest) are Expenses in the Secret Formula
- Project Finance Lenders require minimum Debt Service Coverage Ratio
- Debt Service Coverage Ratio ("DSCR")
  - Amount of Cash Flow (Revenues – Expenses other than debt) available to meet annual interest and principal payments on debt
  - DSCR is typically a minimum of 1.2:1, but usually is higher for RNG other renewable raw gas—to-higher value energy projects
- Debt Service Coverage Ratio is contractual requirement to meet Secret Formula with a margin of safety to pay debt
- Duration of RNG Sale Agreement with creditworthy counterparty and Predictable Revenues must be at least equal to term of Debt or debt must be guaranteed by creditworthy party irrespective of term of RNG Sales Agreement
Revenues – Elements Needed

- RNG Prices must be high enough to allow Revenues to exceed Expenses (and meet DSCR)

- Access to Markets
  - Without this, there are no Revenues

- Duration of RNG Sale Agreement at least equal to Term of Debt
## Typical Costs for LFG to Pipeline Quality RNG Project Outside of California

<table>
<thead>
<tr>
<th>Cost</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2.50</td>
<td>Plant Capital Amortization (Debt)</td>
</tr>
<tr>
<td>$2.20</td>
<td>O&amp;M for Processing Plant</td>
</tr>
<tr>
<td>$0.38</td>
<td>Collection System Expansion Per Year</td>
</tr>
<tr>
<td>$0.61</td>
<td>Collection System O&amp;M Per Year</td>
</tr>
<tr>
<td>$0.49</td>
<td>Initial Collection System and Flare Capital Amortization</td>
</tr>
<tr>
<td>$0.78</td>
<td>Royalty to Landfill Owner</td>
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<tr>
<td><strong>$6.18</strong></td>
<td>Total Cost Per MMBtu</td>
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</tbody>
</table>
Index Price of Natural Gas

- Henry Hub Natural Gas Prices Quoted
- July 14, 2018 by EIA per MMBtu

- Jan 2018: $3.87
- Feb 2018: $2.67
- Mar 2018: $2.69
- Apr 2018: $2.80
- May 2018: $2.80
- Jun 2018: $2.97
If RNG costs $6.18/MMBtu to produce and Natural Gas Commodity Price is <$3.87/MMBtu, how does an RNG producer make money?

- Additional value realized from sale of environmental attributes associated with RNG
  - RNG is sold as a low carbon intensity transportation fuel to meet EPA Renewable Fuel Standard 2 federal requirements and state Low Carbon Fuel Standard requirements
    - Commodity price of Natural Gas + RINS + LCFS credits
    - 11.727 RINS per MMBtu of RNG
    - D-3 RIN recent market price = $2.50; value of RINS = $29.32/MMBtu
    - LCFS Credit recent market price = ~ $2.70/MMBtu
    - Natural Gas NYMEX recent commodity price = $2.97/MMBtu
    - Total price for RNG = $34.99
    - Other parties share in this value (obligated parties, CNG station owners)

- Financial engineering for RNG projects is more critical than technical engineering in achieving success
How Has California’s Adoption of Mandated Diversion of Organics Out of Landfills Changed the Landfill Gas Industry in California?
What is the Good News and Bad News About RINS and LCFS Credits?

- **Good News**
  - Very high value
  - A Pathway to approve RNG used to produce electric power used in electric vehicles is under consideration by the EPA

- **Bad News**
  - The uncertainty as to whether the Renewable Fuel Standard will remain in effect in its current form to impose requirement for obligated parties to meet their renewable transportation fuel mandates has led to unwillingness of obligated parties to enter into long-term (i.e., longer than 5 years) agreements to purchase RINS.
    - Shorter term of agreements won’t support most debt financing
    - Note: some longer-term, but lower priced RNG purchase agreements may become available
  - February 28, 2017 press release, which turned out to be false, that the White House had reached an agreement to shift the obligated party responsibility from the refiners to fuel blenders caused chaos in the RINs market.
  - California is aware of this issue and CARB is considering changes to LCFS program to provide both higher prices and certainty of term to help support financing of RNG projects.
Access to Markets
California Barriers to Natural Gas Pipeline Access

- Typically no Revenues for RNG project are realized unless RNG project is located near to and can meet pipeline quality specifications for injection into natural gas pipeline.

- In California, the standards for pipeline quality RNG (biomethane) now apply to all sources of RNG:
  - Landfills, WWTP, anaerobic digesters, gasified organics-to-syngas-to-RNG.
Current California Regulatory Standards That Are Barriers to the In-State Production and Distribution of Biomethane (RNG)

- **990 Btus/standard cubic foot minimum heating value in southern part of state**
  - Commonly 950 Btus/scf in other states
  - SB 840 – expect CPUC to lower standard to 974 btus/scf

- **Testing of large amount of Constituents**
  - Frequent and costly with opportunity for outside lab errors that could result in loss of all Revenues

- **Maximum allowable Siloxane content that approaches non-detect levels**
  - Gas processing equipment and siloxane removal equipment suppliers won’t provide guarantee that their equipment will meet current California siloxane standard – hence no financing
  - Remains a problem in California; not in most other states

- **Pipeline interconnection costs**
  - Range of $1,500,000 - $5,000,000 in California vs $71,000 - $1,000,000 in other states
Pending Solution in California to Key Pipeline Access Issues

- SB 840 – required study by California Council on Science and Technology of heating value and siloxanes standard pipeline access issues
  - Recommended heating value of approximately 970 btus/scf
  - Left open siloxane standard adopted by CPUC in 2014 order in AB 1900 proceedings
- Stanford University, one of the universities that belongs to the CCST, is undertaking that study
- The California Public Utilities Commission is directed to give strong consideration to the results of the study by the CCST and must adopt new regulations within 6 months following completion of such study
- Bonus Offer: copy of filing made March 11, 2016 by the Coalition for Renewable Natural Gas with the California Public Utilities Commission titled: Revisiting AB 1900 Biomethane Pipeline Injection Regulations to Remove Barriers Preventing Biomethane Project Development in California – 487 pages with exhibits
  - Provide me with an e-mail address to send a link to my Dropbox account to download the report
Single Most Important Impediment to Growth of RNG Market
RNG Market Needs More of These...

CNG VEHICLES
Barriers to Increase in Number of Medium Duty & Heavy Duty CNG/LNG Trucks

- **Cost**
- New CNG truck is $30,000 to $100,000 more than comparable diesel truck
- Until diesel prices increase, fuel savings alone won’t provide payback on increased price
- **Solution**: repower of existing diesel trucks to CNG with remanufactured CNG engines
  - Total conversion costs are less than cost of new diesel truck and approximately one-third to one-half cost of new CNG truck
Predictability
Predictability is an Issue for RNG Transportation Fuel Projects

- RNG sold for transportation fuel provides potentially higher Revenues than RNG sold to utilities to produce renewable electric power.
- Uncertainty of duration of RFS2 and California LCFS programs result in obligated parties unwillingness to commit to firm pricing for purchase of RNG and value for RINS and LCFS credits beyond 2022 and for a long-term.
- Short duration of RNG Sale Agreement with predictable pricing will not support needed project finance debt for RNG project.
Development of RNG Projects is a Delicate Numbers Game

- Usually only works at larger landfills, WWTPs and anaerobic digester projects due to fixed costs of development and O&M
- Must meet Secret Formula
- Cannot engage in Fuzzy Math as to prospective financial outcome of project
What is Fuzzy Math?
That’s a Wrap!
Thanks for Listening!!

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