RE: Response to Texas Comptroller of Public Accounts Comments, dated May 5, 2021, regarding the Application for Appraised Value Limitation on Qualified Property, Nacero Inc., Penwell, Texas

Dear Mr. Muri,

Nacero TX 1 LLC (Nacero) has prepared this response to the Texas Comptroller of Public Accounts (TxCPA) comments, dated May 5, 2021, regarding the Application for Appraised Value Limitation on Qualified Property (Tax Code, Chapter 313, Subchapter B or C) (Application) for the Nacero Penwell, Texas Project.

The purpose of this letter is to provide Nacero’s responses to the specific comments made by the above-referenced. Each comment is presented below in bold italics, followed by Nacero’s response:

**TxCPA Comment No. 1**

**Tab 5: Please include the following announcements and explain how Chapter 313 is a Determining Factor.**

Nacero’s Response:

The comment is noted and Tab 5 has been updated to include that Chapter 313 has been key to the company’s economic evaluation of the Penwell location throughout the entire site selection process, continues to be vital, and will always be integral to a decision to locate in Penwell and all future investment decisions.

**TxCPA Comment No. 2**

**Tab 5: Please remove “alternate location” wording.**

Nacero’s Response:

The commented is noted and per conversations with the comptroller’s office the wording will remain as submitted.
TxCPA Comment No. 3

Tab 5: Please update and provide more information on agreements, contracts or letters of intent (Regarding “Yes” on Section 8. Question 2).

Nacero’s Response:

The comment is noted, the only two obligations that Nacero has are the two contingent agreements referenced in the original Application under Tab 5 and are listed below for your convenience:

A) Option and Purchase Agreement and Joint Escrow Instructions dated October 19, 2020, between Odessa Industrial Development Corporation (OIDC) (Optionor) and Nacero TX 1 LLC (Optionee) for approx. 666 acres in unincorporated Ector County, Texas.

B) Option Agreement dated November 6, 2020 between Betty Moss Dean and C.A. Betty Moss Dean FLP (Optionors) and Nacero TX 1 LLC (Optionee) for approx. 1,869 acres in unincorporated Ector County, Texas.

TxCPA Comment No. 4

Section 8. Question 4: Please revise as this project has not been certified by our office and public statements have now been made.

Nacero’s Response:

The comment is noted and per conversations with the comptroller’s office the document will remain as submitted.
TxCPA Comment No. 5

A) Tabs 7 & 8:

Trains 5 and 6 cannot be included “contingently” (see below language)

Phase 2 which is contingent on a successful Phase 1 will include Trains 5 & 6 with associated common process areas as well as the associated utility & offsite block.

B) Please clarify the following about “Air Separation Unit.” You cannot include Air separation unit you don’t own or operate as Qualified Investment or Qualified Property. You can if it’s a capitalized lease, but you need to specify what the plans are.

Nacero’s Response:

A) The comment is noted and Tabs 7 and 8 have been updated to six trains.

B) The ASU’s will be owned and operated by a third party for the benefit of Nacero. The ASU’s will produce high purity oxygen for the Autothermal Reformer and is integral to our process for production of methanol. Our facility cannot operate without an ASU. The ASU’s will be treated by Nacero as an owned asset and will be recorded on our balance sheet as a capital asset and accounted for with identical accounting as a capital lease. Nacero will have the right to purchase the ASU’s at a predetermined reduced rate at the end of the term of the agreement. The ASU’s will produce nitrogen, instrument air and plant air which are also critical and required for our plant’s operation.

Thank you for your assistance and please find the pages requiring corrections and a new original signature page.

Please contact the undersigned at (832) 729-4452 should you have any questions.

Sincerely,

Christopher Micklas
Chief Financial Officer
ATTACHMENT 5

Tab 5 – Documentation to Assist in Determining if Limitation is a Determining Factor

Submission Date: May 7, 2021
Limitation as a Determining Factor

Over the past year, the Nacero and GLS team evaluated properties across the Marcellus, Utica, and Permian regions as well as locations with large quantities of natural gas (nine total states) to identify properties with suitable natural gas feedstock and other site requirements.

Initial screening criteria included:
• Proximity to natural gas lines
• Rail infrastructure on site or in proximity
• Large site size and/or adjacent expansion opportunities

The process included:
• GLS site identification
  • Site identification resulted in identification of 130 sites and full assessment of 87 sites
• Shortlist of locations for Request for Information
• Virtual site visits
• Field site visits

As a result of this analysis, Project Watson has focused on finalist locations in Texas (Penwell Site) and Arizona.

The Chapter 313 limitation considerably enhances the long-term financial sustainability of selecting the Penwell site. During the initial period of the project, while managing the project financing costs, it is necessary to minimize costs and provide a return to project’s investors. In a highly capital intense project, such as Penwell, property taxes represent a large portion of the operating costs and alleviating these costs enables the project to move forward.

Not receiving the Chapter 313 limitation would greatly hurt the attractiveness of the Penwell Site compared to the other competing locations. Pending the outcome of the final negotiations and due diligence, this could result in Nacero selecting an alternate location for our flagship manufacturing location.

The Chapter 313 has been key to the company’s economic evaluation of the Penwell location throughout the entire site selection process, continues to be vital, and will always be integral to a decision to locate in Penwell and any future growth.
ATTACHMENT 7

Tab 7 – Description of Qualified Investment

Submission Date: May 7, 2021
**Submission Date: May 7, 2021**

**REQUIREMENT:**

Attach a description of the qualified investment, which must include:

a. A specific and detailed description of the qualified investment you propose to make within the project boundary for which you are requesting an appraised value limitation.

b. A description of any new buildings proposed, new improvements, or personal property which you intend to include as part of your minimum qualified investment.

**NACERO RESPONSE:**

Below, please find a description of the physical and functional aspects of the final constructed and delivered facility consistent with the level of detail defined at the project’s conceptual engineering phase.

The specific and detailed description of the qualified investment which is proposed within the project boundary, along with any new buildings or prosed improvements have been split into sections describing the different parts of the facility, such as, Inside Battery Limits (ISBL), Outside Battery Limits (OSBL), Tank Storage, Truck and Rail Operations, etc.

The Penwell facility includes the following configuration:

- 6 SynCOR Methanol™ / TIGAS™ trains (3 sets of two trains)
- 6 Air Separation Units (ASU), one for each train
- 6 Flare units, one for each train
- 3 Sets of process common units (hydrocracker unit, isomerization, condensate stripping)
- 3 Utility and Offsite blocks (CO2 recovery unit, thermal oxidizer, Boiler Feed Water/steam/Auxiliary Boiler, condensate treatment, power generation, raw and wastewater treatment, cooling water)
- 1 Carbon capture sequestration Compressor Station
- 1 Hydrogen Generation Unit (HGU)
- 1 Gasoline Post Treatment Unit
- 1 common tankage area, 1 back-up instrument air and nitrogen unit, 1 firewater system, 1 gasoline blending facility, railcar loading/unloading area and truck loading areas.

This project will include Trains 1 through 6 with associated common process areas as well as associated utility & offsite blocks.

**ISBL – Natural Gas Processing and Gasoline Manufacturing**

The ISBL facilities below are licensed by Haldor Topsoe and their Design Packages are provided by HT except where noted. Natural gas feed, plus recycled liquefied petroleum gas (LPG) and C5 recycle, are converted to raw gasoline in each of the six processing trains.

Each train includes the following primary Process sections:

- Natural Gas Reforming (Unit 110, 210, 310, 410, 510, 610)
- Syngas Process Condensate (Unit 111, 211, 311, 411, 511, 611)
ATTACHMENT 7
Tab 7 – Description of Qualified Investment
Penwell, Texas

Submission Date: May 7, 2021

- Methanol Synthesis (Unit 120, 220, 320, 420, 520, 620)
- Gasoline Reactor (Unit 130, 230, 330, 430, 530, 630)
- Catalyst Regeneration System (Unit 131, 231, 331, 431, 531, 631)
- Gasoline Fractionation (Unit 140, 240, 340, 440, 540, 640)
- Hydrogen Recovery Unit (Units 171, 271, 371, 471, 571, 671)
- Cooling Water System (Unit 841, 842, 843) – Design not provided by HT.
- Flare System (Unit 160, 260, 360, 460, 560, 660) – Each Train will have a dedicated ground flare, Knock Out (KO) drum and KO drum pump. However, for redundancy and reliability, the Flare systems for each set of Trains (1 and 2, 3 and 4, 5 and 6) will be cross-tied and each Flare system will be designed to support two parallel trains. Each set of cross-tied flares will be connected to process commons (i.e. hydrocracker unit, isomerization unit) dedicated to their corresponding trains. Design not provided by HT.
- Hydrocracking and Isomerization (Units 711, 712, 713) – The raw gasoline product from each train is sent to a Hydro-processing unit, which includes Isomerization and mild Hydrocracking sections for octane improvement and distillation point control. These units are common for each set of two trains.

OSBL – Balance of Plant

OSBL Per Train Set – One System per Two Trains

The following is a description of the systems supporting each set of two trains. Ultimately, 3 sets of these blocks will be provided to support all 6 trains at the Penwell facility.

- Gasoline Synthesis Process Condensate (Unit 731, 732, 733) – HT is providing the Design Package for these units.
- Power Generation (Unit 741, 742, 743) – 2 Steam Turbine Generators (STGs) per Unit will generate power from the excess steam from ISBL.
- Fuel Gas CO2 Removal (Unit 751, 752, 753)
- Boiler Feed Water (BFW)/Condensate System (Unit 811, 812, 813)
- Auxiliary Boiler (Unit 821, 822, 823)
- Raw Water Treatment (Unit 831, 832, 833) – Scope is to be confirmed based on raw water analysis and plant water balance. Utility and fire water to be supplied from raw water.
- Wastewater Treatment (Unit 851, 852, 853) – Options being considered are a Water Treatment Plant, Disposal Wells, Evaporation Ponds or a combination of the above
- Storm Water/Drainage System (Unit 861, 862, 863) Closed Drain System – Hydrocarbon drain drum with pumps and slop oil tank with pumps to service the closed hydrocarbon drain system from ISBL. Methanol drain drum with pumps and slop methanol tank with pumps to service the closed methanol drain system from ISBL
- Plant Instrument Air and Nitrogen Distribution system (Unit 881, 882, 883)

The natural gas and gasoline production process will require high quality demineralized water. This process will generate steam and water condensate that may be reused within the proposed facility. Raw water treatment and wastewater treatment are anticipated as part of the proposed Project to meet the industrial water demand, which effectively results in an internal recycling of water. In addition
Submission Date: May 7, 2021

to the recycled water internal to the process, the industrial water supply will be supplemented by water piped in from the Colorado River Municipal Water District.

OSBL Common Utilities - One Set for the Facility

The following is a description of the common systems supporting all 6 trains.

- Hydrogen Generation Unit (Unit 930) – Will produce hydrogen to meet the entire plant hydrogen demand. The HGU will be oversized to provide 100MMTPD of Hydrogen to allow for an excess of Hydrogen. Which will also be sold as full for heavy haul over the road vehicles. Storage and loading facilities for Hydrogen are planned.
- Carbon Capture Sequestration (Unit 931)
- One Gasoline Post Treatment Unit (Unit 932) – Will upgrade gasoline product to meet California gasoline specifications. Size of the unit is to be determined. HT is providing the Design Package for this Unit.
- Backup Instrument/Plant Air Compressor – Used as a backup to instrument/plant air supply from ASU. Unit will be used for startup requirements of one train.
- Fire Fighting Unit (Unit 950) – Fire water to be supplied from treated raw water, or utility water, with raw water as backup supply.
- Storm Water Retention – Twenty-four hour, 100-year storm or six hours of maximum fire water application during fire water events used for volume design.

OSBL - Storage and Terminal Operations

Storage facilities, tanks will be provided for the following:

- Raw Methanol Storage (Unit 910)
- LPG Storage (Unit 911)
- Gasoline Storage (Unit 912)
- Gasoline Blend Component Storage (Unit 913)
- Finished Gasoline Additives Storage (Unit 914)
- Finished Gasoline Storage (Unit 915)

Truck loading, the following products will be loaded by truck:

- Pump Ready Gasoline Product
- Nitrogen Hydrogen

Where necessary, internal roads, truck loading areas and designated parking areas will be a paved surface capable of supporting heavy truck traffic.

- Rail Loading and Unloading

The proposed facility will have inbound rail movements of gasoline blend components (ethanol, alkylate and naphtha) and outbound rail movements of LPG product and finished gasoline component.
The following products will be loaded by rail:

- LPG
- Finished Gasoline Component
- Argon

The following products will be unloaded by rail:

- Ethanol
- Alkylate
- Naphtha

**Air Separation Unit (ASU)**

The ASU’s will be owned and operated by a third party for the benefit of Nacero. The ASU’s will produce high purity oxygen for the Autothermal Reformer and is integral to our process for production of methanol. Our facility cannot operate without an ASU. The ASU’s will be treated by Nacero as an owned asset and will be recorded on our balance sheet as a capital asset and accounted for with identical accounting as a capital lease. Nacero will have the right to purchase the ASU’s at a predetermined reduced rate at the end of the term of the agreement. The ASU’s will produce nitrogen, instrument air and plant air which are also critical and required for our plant’s operation.

**Buildings**

Below, please find a list of the buildings that will be located on the property:

- 992-BLDG-01 Central Control Room / Operations Office Building (including 480V MCC room) - 2 stories
- 992-BLDG-04 Warehouse Maintenance/Workshop Extension
- Maintenance and workshop extension (included with 101a building)
- 992-BLDG-06 Main QC & R&D Lab
- 992-BLDG-07 Chemical Storage Building
- 992-BLDG-08 Catalyst Storage Building
- 992-BLDG-09 Hazardous Waste Handling & Storage
- 992-BLDG-10 Fire / Medic Station
- 992-BLDG-14 Rail Car Loading Control Room
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- 992-BLDG-20 Locomotive Maintenance Building
- 891-BLDG-01 Blast Resistant Operator Building (Trains 1 & 2) - Design only one and replicated three times for trains 3 & 4, 5 & 6.

**Transmission Line and Switchyard**

Oncor has 138KV transmission lines that currently run through the northern side of the site. Oncor will be providing a power drop to their own new switchyard.
ATTACHMENT 8

Tab 8 – Description of Qualified Property

Submission Date: May 7, 2021
REQUIREMENT:

a. A specific and detailed description of the qualified property for which you are requesting an appraised value limitation as defined by Tax Code §313.021.

b. A description of any new buildings proposed new improvements or personal property which you intend to include as part of your qualified property.

NACERO RESPONSE:

Below, please find a detailed description of the qualified property and any new buildings, proposed new improvements of the final constructed and delivered facility consistent with the level of detail defined at the project's conceptual engineering phase. The detailed description of the qualified property is included in Attachment 9.

The specific and detailed description of the qualified investment which is proposed within the project boundary, along with any new buildings or prosed improvements have been split into sections describing the different parts of the facility, such as, Inside Battery Limits (ISBL), Outside Battery Limits (OSBL), Tank Storage, Truck and Rail Operations, etc.

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SECTION 16: Authorized Signatures and Applicant Certification

After the application and schedules are complete, an authorized representative from the school district and the business should review the application documents and complete this authorization page. Attach the completed authorization page in Tab 17.

NOTE: If you amend your application, you will need to obtain new signatures and resubmit this page, Section 16, with the amendment request.

1. Authorized School District Representative Signature

   I am the authorized representative for the school district to which this application is being submitted. I understand that this application is a government record as defined in Chapter 37 of the Texas Penal Code.

   Print Name (Authorized School District Representative)

   Signature (Authorized School District Representative)

2. Authorized Company Representative (Applicant) Signature and Notarization

   I am the authorized representative for the business entity for the purpose of filing this application. I understand that this application is a government record as defined in Chapter 37 of the Texas Penal Code. The information contained in this application and schedules is true and correct to the best of my knowledge and belief.

   I hereby certify and affirm that the business entity I represent is in good standing under the laws of the state in which the business entity was organized and that no delinquent taxes are owed to the State of Texas.

   Print Name (Authorized Company Representative (Applicant))

   Signature (Authorized Company Representative (Applicant))

   Title: Chief Financial Officer

   Date: 05/07/2021

   GIVEN under my hand and seal of office this, the 7th day of May, 2021.

   Notary Public - Seal for the State of Texas

   My Commission expires: 10-11-2024

   If you make a false statement on this application, you could be found guilty of a Class A misdemeanor or a state jail felony under Texas Penal Code Section 37.10.