

S U S A N

C O M B S

TEXAS COMPTROLLER *of* PUBLIC ACCOUNTS

P.O. Box 13528 • AUSTIN, TX 78711-3528



July 22, 2014

Tom Kelley  
Superintendent  
Yoakum Independent School District  
P.O. Box 737  
Yoakum, Texas 77995

Dear Superintendent Kelley:

On Jun. 11, 2014, the Comptroller issued written notice that HEYCO LNG, LLC (the applicant) submitted a completed application (Application #1005) for a limitation on appraised value under the provisions of Tax Code Chapter 313<sup>1</sup>. This application was originally submitted in May 2014 to the Yoakum Independent School District (the school district) by the applicant.

This presents the results of the Comptroller's review of the application and determinations required:

- 1) under Section 313.025(h) to determine if the property meets the requirements of Section 313.024 for eligibility for a limitation on appraised value under Chapter 313, Subchapter C; and
- 2) under Section 313.025(d), to issue a certificate for a limitation on appraised value of the property and provide the certificate to the governing body of the school district or provide the governing body a written explanation of the comptroller's decision not to issue a certificate, using the criteria set out in Section 313.026.

**Determination required by 313.025(h)**

- |                   |  |
|-------------------|--|
| Sec. 313.024(a)   | Applicant is subject to tax imposed by Chapter 171.  |
| Sec. 313.024(b)   | Applicant is proposing to use the property for an eligible project.  |
| Sec. 313.024(d)   | Applicant has committed to create the required number of new qualifying jobs and pay all jobs created that are not qualifying jobs a wage that exceeds the county average weekly wage for all jobs in the county where the jobs are located. |
| Sec. 313.024(d-2) | Not applicable to Application #1005.   |

Based on the information provided by the applicant, the Comptroller has determined that the property meets the requirements of Section 313.024 for eligibility for a limitation on appraised value under Chapter 313, Subchapter C.

**Certificate decision required by 313.025(d)**

Determination required by 313.026(c)(1)

The Comptroller has determined that the project proposed by the applicant is reasonably likely to generate tax revenue in an amount sufficient to offset the school district maintenance and operations ad valorem tax revenue lost as a result of the agreement before the 25th anniversary of the beginning of the limitation period. See Attachment B.

<sup>1</sup> All statutory references are to the Texas Tax Code, unless otherwise noted.

Determination required by 313.026(c)(2)

The Comptroller has **not been able** to determine that the limitation on appraised value is a determining factor in the applicant's decision to invest capital and construct the project in this state. See Attachment C.

Based on these determinations, the Comptroller **does not** issue a certificate for a limitation on appraised value. Per 313.025 (d-1), the governing body of the school district may not approve an application without a certificate from this office.

The Comptroller's review of the application assumes the accuracy and completeness of the statements in the application.

Should you have any questions, please contact Robert Wood, director of Economic Development & Analysis Division, by email at [robert.wood@cpa.state.tx.us](mailto:robert.wood@cpa.state.tx.us) or by phone at 1-800-531-5441, ext. 3-3973, or direct in Austin at 512-463-3973.

Sincerely,

A handwritten signature in black ink, appearing to read "Martin A. Hubert", written in a cursive style.

Martin A. Hubert  
Deputy Comptroller

Enclosure

cc: Robert Wood

### Attachment A – Economic Impact Analysis

This following tables summarizes the Comptroller’s economic impact analysis of HEYCO LNG, LLC (the project) applying to Yoakum Independent School District (the district), as required by Tax Code, 313.026 and Texas Administrative Code 9.1055(d)(2).

**Table 1** is a summary of investment, employment and tax impact of HEYCO LNG, LLC.

Applicant	HEYCO LNG, LLC
Tax Code, 313.024 Eligibility Category	Manufacturing
School District	Yoakum ISD
2011-12 Enrollment in School District	1,619
County	Lavaca
Proposed Total Investment in District	\$90,976,795
Proposed Qualified Investment	\$80,306,433
Limitation Amount	\$25,000,000
Number of new qualifying jobs committed to by applicant	10
Number of new non-qualifying jobs estimated by applicant	0
Average weekly wage of qualifying jobs committed to by applicant	\$925
Minimum weekly wage required for each qualifying job by Tax Code, 313.021(5)	\$925
Minimum annual wage committed to by applicant for qualified jobs	\$48,116.20
Minimum weekly wage required for non-qualifying jobs	
Minimum annual wage required for non-qualifying jobs	
Investment per Qualifying Job	\$9,097,680
Estimated M&O levy without any limit (15 years)	\$12,494,014
Estimated M&O levy with Limitation (15 years)	\$7,438,054
Estimated gross M&O tax benefit (15 years)	\$6,003,335

**Table 2** is the estimated statewide economic impact of HEYCO LNG, LLC (modeled).

Year	Employment			Personal Income		
	Direct	Indirect + Induced	Total	Direct	Indirect + Induced	Total
2014	52	84	136	\$9,844,346	-\$1,844,346	\$8,000,000
2015	52	94	146	\$9,844,346	-\$844,346	\$9,000,000
2016	10	45	55	\$481,160	\$4,518,840	\$5,000,000
2017	10	43	53	\$481,160	\$4,518,840	\$5,000,000
2018	10	45	55	\$481,160	\$4,518,840	\$5,000,000
2019	10	41	51	\$481,160	\$3,518,840	\$4,000,000
2020	10	39	49	\$481,160	\$3,518,840	\$4,000,000
2021	10	41	51	\$481,160	\$4,518,840	\$5,000,000
2022	10	43	53	\$481,160	\$4,518,840	\$5,000,000
2023	10	37	47	\$481,160	\$4,518,840	\$5,000,000
2024	10	39	49	\$481,160	\$4,518,840	\$5,000,000
2025	10	39	49	\$481,160	\$5,518,840	\$6,000,000
2026	10	39	49	\$481,160	\$5,518,840	\$6,000,000
2027	10	45	55	\$481,160	\$6,518,840	\$7,000,000
2028	10	49	59	\$481,160	\$6,518,840	\$7,000,000
2029	10	43	53	\$481,160	\$6,518,840	\$7,000,000
2030	10	47	57	\$481,160	\$6,518,840	\$7,000,000
2031	10	43	53	\$481,160	\$6,518,840	\$7,000,000

Source: CPA, REMI, HEYCO LNG, LLC

**Table 3** examines the estimated direct impact on ad valorem taxes to the region if all taxes are assessed.

Year	Estimated Taxable Value for I&S	Estimated Taxable Value for M&O	Tax Rate <sup>1</sup>	Yoakum ISD I&S Tax Levy	Yoakum ISD M&O Tax Levy	Yoakum ISD M&O and I&S Tax Levies	Lavaca County Tax Levy	Yoakum Hospital District Tax	Estimated Total Property Taxes
			0.1140		1.0400	0.0000	0.4419	0.1615	
2014	\$91,093,795	\$91,093,795		\$103,847	\$947,375	\$1,051,222	\$402,543	\$147,116	\$1,600,882
2015	\$96,341,475	\$96,341,475		\$109,829	\$1,001,951	\$1,111,781	\$425,733	\$155,591	\$1,693,105
2016	\$93,484,740	\$93,484,740		\$106,573	\$972,241	\$1,078,814	\$413,109	\$150,978	\$1,642,901
2017	\$91,580,251	\$91,580,251		\$104,401	\$952,435	\$1,056,836	\$404,693	\$147,902	\$1,609,431
2018	\$89,675,761	\$89,675,761		\$102,230	\$932,628	\$1,034,858	\$396,277	\$144,826	\$1,575,962
2019	\$86,819,027	\$86,819,027		\$98,974	\$902,918	\$1,001,892	\$383,653	\$140,213	\$1,525,758
2020	\$85,866,782	\$85,866,782		\$97,888	\$893,015	\$990,903	\$379,445	\$138,675	\$1,509,023
2021	\$83,962,293	\$83,962,293		\$95,717	\$873,208	\$968,925	\$371,029	\$135,599	\$1,475,553
2022	\$82,057,803	\$82,057,803		\$93,546	\$853,401	\$946,947	\$362,613	\$132,523	\$1,442,084
2023	\$80,153,314	\$80,153,314		\$91,375	\$833,594	\$924,969	\$354,197	\$129,448	\$1,408,614
2024	\$78,248,824	\$78,248,824		\$89,204	\$813,788	\$902,991	\$345,782	\$126,372	\$1,375,145
2025	\$76,344,335	\$76,344,335		\$87,033	\$793,981	\$881,014	\$337,366	\$123,296	\$1,341,675
2026	\$72,535,356	\$72,535,356		\$82,690	\$754,368	\$837,058	\$320,534	\$117,145	\$1,274,736
2027	\$65,869,642	\$65,869,642		\$75,091	\$685,044	\$760,136	\$291,078	\$106,379	\$1,157,593
2028	\$61,108,419	\$61,108,419		\$69,664	\$635,528	\$705,191	\$270,038	\$98,690	\$1,073,919
2029	\$57,299,440	\$57,299,440		\$65,321	\$595,914	\$661,236	\$253,206	\$92,539	\$1,006,980
					Total	\$13,863,550	\$5,308,754	\$1,940,176	\$21,112,480

Source: CPA, HEYCO LNG, LLC

<sup>1</sup>Tax Rate per \$100 Valuation

**Table 4** examines the estimated direct impact on ad valorem taxes to the school district, Lavaca County and the Yoakum Hospital District, with all property tax incentives sought being granted using estimated market value from the application. The project has applied for a value limitation under Chapter 313, Tax Code and tax abatement with the county and hospital district.

The difference noted in the last line is the difference between the totals in Table 3 and Table 4.

<b>Table 4 Estimated Direct Ad Valorem Taxes with all property tax incentives sought</b>										
Year	Estimated Taxable Value for I&S	Estimated Taxable Value for M&O		Yoakum ISD I&S Tax Levy	Yoakum ISD M&O Tax Levy	Yoakum ISD M&O and I&S Tax Levies	Lavaca County Tax Levy	Yoakum Hospital District Tax Levy	Estimated Total Property Taxes	
			Tax Rate <sup>1</sup>	0.1140	1.0400		0.4419	0.1615		
2014	\$91,093,795	\$91,093,795		\$103,847	\$947,375	\$1,051,222	\$402,543	\$147,116	\$1,600,882	
2015	\$96,341,475	\$96,341,475		\$109,829	\$1,001,951	\$1,111,781	\$0	\$0	\$1,111,781	
2016	\$93,484,740	\$93,484,740		\$106,573	\$972,241	\$1,078,814	\$0	\$0	\$1,078,814	
2017	\$91,580,251	\$25,000,000		\$104,401	\$260,000	\$364,401	\$40,469	\$0	\$404,871	
2018	\$89,675,761	\$25,000,000		\$102,230	\$260,000	\$362,230	\$59,442	\$0	\$421,672	
2019	\$86,819,027	\$25,000,000		\$98,974	\$260,000	\$358,974	\$95,913	\$0	\$454,887	
2020	\$85,866,782	\$25,000,000		\$97,888	\$260,000	\$357,888	\$94,861	\$0	\$452,749	
2021	\$83,962,293	\$25,000,000		\$95,717	\$260,000	\$355,717	\$148,412	\$0	\$504,129	
2022	\$82,057,803	\$25,000,000		\$93,546	\$260,000	\$353,546	\$181,307	\$0	\$534,853	
2023	\$80,153,314	\$25,000,000		\$91,375	\$260,000	\$351,375	\$177,099	\$0	\$528,474	
2024	\$78,248,824	\$25,000,000		\$89,204	\$260,000	\$349,204	\$172,891	\$0	\$522,094	
2025	\$76,344,335	\$25,000,000		\$87,033	\$260,000	\$347,033	\$337,366	\$123,296	\$807,694	
2026	\$72,535,356	\$25,000,000		\$82,690	\$260,000	\$342,690	\$320,534	\$117,145	\$780,369	
2027	\$65,869,642	\$65,869,642		\$75,091	\$685,044	\$760,136	\$291,078	\$106,379	\$1,157,593	
2028	\$61,108,419	\$61,108,419		\$69,664	\$635,528	\$705,191	\$270,038	\$98,690	\$1,073,919	
2029	\$57,299,440	\$57,299,440		\$65,321	\$595,914	\$661,236	\$253,206	\$92,539	\$1,006,980	
						<b>Total</b>	<b>\$8,911,437</b>	<b>\$2,845,159</b>	<b>\$685,165</b>	<b>\$12,441,761</b>
					<b>Difference</b>	<b>\$6,003,335</b>	<b>\$2,866,139</b>	<b>\$1,402,127</b>	<b>\$10,271,602</b>	
Assumes School Value Limitation and Tax Abatements with the County.										

Source: CPA, HEYCO LNG, LLC

<sup>1</sup>Tax Rate per \$100 Valuation

**Disclaimer:** This examination is based on information from the application submitted to the school district and forwarded to the comptroller. It is intended to meet the statutory requirement of Chapter 313 of the Tax Code and is not intended for any other purpose.

### Attachment B – Tax Revenue over 25 Years

This represents the Comptroller’s determination that HEYCO LNG, LLC (project) is reasonably likely to generate, before the 25th anniversary of the beginning of the limitation period, tax revenue in an amount sufficient to offset the school district maintenance and operations ad valorem tax revenue lost as a result of the agreement. This evaluation is based on an analysis of the estimated M&O portion of the school district property tax levy directly related to this project, using estimated taxable values provided in the application.

	Tax Year	Estimated ISD M&O Tax Levy Generated (Annual)	Estimated ISD M&O Tax Levy Generated (Cumulative)	Estimated ISD M&O Tax Levy Loss as Result of Agreement (Annual)	Estimated ISD M&O Tax Levy Loss as Result of Agreement (Cumulative)
<b>Limitation Pre-Years</b>	2014	\$947,375	\$947,375	\$0	\$0
	2015	\$1,001,951	\$1,949,327	\$0	\$0
	2016	\$972,241	\$2,921,568	\$0	\$0
<b>Limitation Period (10 Years)</b>	2017	\$260,000	\$3,181,568	\$692,435	\$692,435
	2018	\$260,000	\$3,441,568	\$672,628	\$1,365,063
	2019	\$260,000	\$3,701,568	\$642,918	\$2,007,980
	2020	\$260,000	\$3,961,568	\$633,015	\$2,640,995
	2021	\$260,000	\$4,221,568	\$613,208	\$3,254,203
	2022	\$260,000	\$4,481,568	\$593,401	\$3,847,604
	2023	\$260,000	\$4,741,568	\$573,594	\$4,421,198
	2024	\$260,000	\$5,001,568	\$553,788	\$4,974,986
	2025	\$260,000	\$5,261,568	\$533,981	\$5,508,967
	2026	\$260,000	\$5,521,568	\$494,368	\$6,003,335
<b>Maintain Viable Presence (5 Years)</b>	2027	\$685,044	\$6,206,612	\$0	\$6,003,335
	2028	\$1,248,983	\$7,455,596	\$0	\$6,003,335
	2029	\$1,169,756	\$8,625,352	\$0	\$6,003,335
	2030	\$1,110,336	\$9,735,688	\$0	\$6,003,335
	2031	\$1,070,723	\$10,806,411	\$0	\$6,003,335
<b>Additional Years as Required by 313.026(c)(1) (10 Years)</b>	2032	\$1,031,110	\$11,837,521	\$0	\$6,003,335
	2033	\$971,690	\$12,809,211	\$0	\$6,003,335
	2034	\$932,076	\$13,741,287	\$0	\$6,003,335
	2035	\$892,463	\$14,633,749	\$0	\$6,003,335
	2036	\$852,849	\$15,486,599	\$0	\$6,003,335
	2037	\$813,236	\$16,299,835	\$0	\$6,003,335
	2038	\$773,623	\$17,073,457	\$0	\$6,003,335
	2039	\$734,009	\$17,807,467	\$0	\$6,003,335
	2040	\$694,396	\$18,501,863	\$0	\$6,003,335
	2041	\$654,782	\$19,156,645	\$0	\$6,003,335

\$19,156,645 is greater than \$6,003,335

<b>Analysis Summary</b>	
Is the project reasonably likely to generate tax revenue in an amount sufficient to offset the M&O levy loss as a result of the limitation agreement?	Yes

NOTE: The analysis above only takes into account this project's estimated impact on the M&O portion of the school district property tax levy directly related to this project.

Source: CPA, HEYCO LNG, LLC

**Disclaimer:** This examination is based on information from the application submitted to the school district and forwarded to the comptroller. It is intended to meet the statutory requirement of Chapter 313 of the Tax Code and is not intended for any other purpose.

## Attachment C – Limitation as a Determining Factor

Tax Code 313.026 states that the Comptroller may not issue a certificate for a limitation on appraised value under this chapter for property described in an application unless the comptroller determines that “the limitation on appraised value is a determining factor in the applicant's decision to invest capital and construct the project in this state.” This represents the basis for the Comptroller’s determination.

### Methodology

Texas Administrative Code 9.1055(d) states the Comptroller shall review any information available to the Comptroller including:

- the application, including the responses to the questions in Section 8 (Limitation as a Determining Factor);
- public documents or statements by the applicant concerning business operations or site location issues or in which the applicant is a subject;
- statements by officials of the applicant, public documents or statements by governmental or industry officials concerning business operations or site location issues;
- existing investment and operations at or near the site or in the state that may impact the proposed project;
- announced real estate transactions, utility records, permit requests, industry publications or other sources that may provide information helpful in making the determination; and
- market information, raw materials or other production inputs, availability, existing facility locations, committed incentives, infrastructure issues, utility issues, location of buyers, nature of market, supply chains, other known sites under consideration.

### Determination

The Comptroller is **unable to determine** that the limitation on appraised value is a determining factor in the HEYCO LNG LLC’s decision to invest capital and construct the project in this state. This is based on the information available, including information provided by the applicant. Specifically, the comptroller notes the following:

- According to the company and numerous media reports, the applicant announced in October 2013 that it intended to build this facility at this site.
- Per the company in media reports, the applicant entered into a letter of intent in February 2014 to market 100 percent of the output of “the plant located in Lavaca County...”
- Per the applicant, sites in Peru are also under consideration however, a media report dated Feb. 6, 2014 states, “HEYCO’s 150,000 gallon-per-day plant... had been planned for deployment to Peru. However, the modules were retained in the U.S. after the Peruvian venture failed.”
- Except as noted in the bullet above, only the Lavaca County site has been publicly discussed by the company, prior to the Chapter 313 application.
- The Return on Investment calculations provided by the applicant are insufficient to show a competitive advantage to locating the plant elsewhere.

### Supporting Information

- a) Section 8 of the Application for a Limitation on Appraised Value
- b) Attachments provided in Tab 5 of the Application for a Limitation on Appraised Value
- c) Additional information provided by the Applicant or located by the Comptroller

**Disclaimer:** This examination is based on information from the application submitted to the school district and forwarded to the comptroller. It is intended to meet the statutory requirement of Chapter 313 of the Tax Code and is not intended for any other purpose.

# **Supporting Information**

**Section 8 of the Application for  
a Limitation on Appraised Value**

# Application for Appraised Value Limitation on Qualified Property

## SECTION 6: Eligibility Under Tax Code Chapter 313.024

1. Are you an entity subject to the tax under Tax Code, Chapter 171?  Yes  No
2. The property will be used for one of the following activities:
  - (1) manufacturing  Yes  No
  - (2) research and development  Yes  No
  - (3) a clean coal project, as defined by Section 5.001, Water Code  Yes  No
  - (4) an advanced clean energy project, as defined by Section 382.003, Health and Safety Code  Yes  No
  - (5) renewable energy electric generation  Yes  No
  - (6) electric power generation using integrated gasification combined cycle technology  Yes  No
  - (7) nuclear electric power generation  Yes  No
  - (8) a computer center that is used as an integral part or as a necessary auxiliary part for the activity conducted by applicant in one or more activities described by Subdivisions (1) through (7)  Yes  No
  - (9) a Texas Priority Project, as defined by 313.024(e)(7) and TAC 9.1051  Yes  No
3. Are you requesting that any of the land be classified as qualified investment?  Yes  No
4. Will any of the proposed qualified investment be leased under a capitalized lease?  Yes  No
5. Will any of the proposed qualified investment be leased under an operating lease?  Yes  No
6. Are you including property that is owned by a person other than the applicant?  Yes  No
7. Will any property be pooled or proposed to be pooled with property owned by the applicant in determining the amount of your qualified investment?  Yes  No

## SECTION 7: Project Description

1. In **Tab 4**, attach a detailed description of the scope of the proposed project, including, at a minimum, the type and planned use of real and tangible personal property, the nature of the business, a timeline for property construction or installation, and any other relevant information.
2. Check the project characteristics that apply to the proposed project:
 

<input checked="" type="checkbox"/> Land has no existing improvements	<input type="checkbox"/> Land has existing improvements ( <i>complete Section 13</i> )
<input type="checkbox"/> Expansion of existing operation on the land ( <i>complete Section 13</i> )	<input type="checkbox"/> Relocation within Texas

## SECTION 8: Limitation as Determining Factor

1. Does the applicant currently own the land on which the proposed project will occur?  Yes  No
2. Has the applicant entered into any agreements or contracts for work to be performed related to the proposed project?  Yes  No
3. Does the applicant have current business activities at the location where the proposed project will occur?  Yes  No
4. Has the applicant made public statements in SEC filings or other official documents regarding its intentions regarding the proposed project location?  Yes  No
5. Has the applicant received any local or state permits for activities on the proposed project site?  Yes  No
6. Has the applicant received commitments for state or local incentives for activities at the proposed project site?  Yes  No
7. Are you submitting information to assist in the determination as to whether the limitation on appraised value is a determining factor in the applicant's decision to invest capital and construct the project in Texas?  Yes  No
8. Has the applicant considered or is the applicant considering other locations not in Texas for the proposed project?  Yes  No
9. Has the applicant provided capital investment or return on investment information for the proposed project in comparison with other alternative investment opportunities?  Yes  No
10. Has the applicant provided information related to the applicant's inputs, transportation and markets for the proposed project?  Yes  No

If you answered "yes" to any of the questions in Section 8, attach supporting information in Tab 5.

# **Supporting Information**

**Attachments provided in Tab 5  
of the Application for a  
Limitation on Appraised Value**

**Documentation to assist in determining if limitation is a determining factor** (Tab 5)  
*Information as to whether the limitation on appraised value is a determining factor in the applicant's decision to invest capital and construct the project in Texas.*

HEYCO LNG, LLC plans to build a liquefied natural gas (LNG) facility that will greatly impact the economic and environmental landscape of Texas. First, the facility will catalyze the local and state economy by bringing an influx of jobs, both direct and indirect, to the region. Furthermore, HEYCO is dedicated to selling its entire supply of energy domestically, which advances energy independence. And finally, HEYCO is committed to providing a cleaner, lower-emission fuel to the region and state of Texas, thereby contributing to a cleaner environment.

Economically speaking, the County and State will greatly benefit from those jobs created by HEYCO. The facility's first stage of production will employ approximately 10 direct, plant laborers at competitive wages of approximately \$49,000 annually. Additionally, the facility will create at least 70 indirect jobs in the form of truck drivers and LNG field service workers during its first stage of production. And these numbers will double once the facility enters its second stage of production.

Also, HEYCO's facility will advance one of the nation's most important goals, which is gaining energy independence. Currently, our country is attempting to become less reliant on foreign imported fuel sources. HEYCO will support this mission. HEYCO's plant is dedicated exclusively to the energy sector, specifically drilling rigs and hydraulic fracturing units, on the Southern Gulf Coast. As a growing percentage of drilling rigs and hydraulic fracturing units convert from diesel to natural gas, HEYCO will have the capacity to serve this demand with its domestically-produced energy source.

Finally, HEYCO will produce an energy source with a significantly smaller environmental footprint than its diesel counterpart. Compared to diesel, liquefied natural gas has significantly lower NOx, greenhouse gas and particulate emission levels. In the United States, the case for natural gas is further enhanced by the supportive political and regulatory environment, which focuses on clean energy.

As energy costs continue to rise there is an movement to find alternative fuels, such as LNG. HEYCO is tapping into this burgeoning market. LNG is a clean and cost-efficient energy source. Further, HEYCO has access to an abundant supply of this gas; an estimated 100 year supply. This puts HEYCO in a unique position to provide energy consumers with a lower-cost, lower-emission fuel in the middle of the largest drilling boom the United States has seen in years.

Notwithstanding these benefits, the HEYCO facility does come with its share of risks. The success of the LNG project is dependent on the equipment of the energy sector converting from diesel to LNG. A switch that will likely take time. This potential delay in HEYCO's profits thus makes local and state financial incentives, such as the limitation on appraised value, necessary to the feasibility of HEYCO's LNG project. The financial incentives will be crucial to HEYCO's survival during its developmental years.

Because financial incentives are so important to the project, HEYCO is still considering other locations for its LNG facility outside of Texas. Initially, the facility was to be built in Peru. This project location still remains a serious possibility, seeing as this region has large natural gas reserves coupled with high-growth markets. Additionally, HEYCO is considering the Permian Basin; the portion located in southeastern New Mexico. This is a regulatory friendly environment that is rich in natural gas as well. Finally, HEYCO has the option to sell the LNG facility equipment to various interested buyers.

For these reasons, HEYCO believes it has an exceptionally competitive project. The company is in the process of exploring the incentives presented by each region. Tax incentives, such as the limitation on appraised value, would be a determinative, if not the sole factor in its decision to construct the project in Lavaca County, Texas.

Capital Investment or Return on Investment Information for the Proposed Project in Comparison  
with other Alternative Investment Opportunities

See attached.

**HEYCO LNG, LLC (Proposed Project) Return on Investment**

2013-2024 Cash Flows from Operations	\$148,017,511
Investment	\$91,130,793
ROI	62.45%

**HEYCO LNG, LLC (Alternative Investment) Return on Investment**

2013-2024 Cash Flows from Operations	\$148,017,511
Investment	\$91,130,793
ROI	62.45%

Applicant's Inputs, Transportation and Markets for the Proposed Project

See attached.



# Target Markets

Potential Markets		
Factors	Off Road - Energy	Marine
Energy Usage Per Vehicle	Medium (1,000 to 1,500 gpd)	High (5,000 to 15,000) gpd
Demand	Less Predictable	More Predictable
Geographic Area	Concentrated - Remote locations	Concentrated - Return to Base
Distribution / Fueling Network	Limited network of distribution and mobile fueling/re-gas units	Early stages of development
Other	Early adopter of blending/dual fuel technology. Where available, field gas is a cheaper substitute for LNG.	Requires significant investment in new vehicles or conversion. Subject to emission control standards that will require use of cleaner fuels; LNG is the fuel of choice.
	On Road Long Haul Transportation	
Energy Usage Per Vehicle	Low (60 to 80 gpd)	
Demand	More Predictable	
Geographic Area	Broad -Nationwide & Distribution Corridors	
Distribution / Fueling Network	Established and growing network of distribution and fueling infrastructure	
Other	Industry is still waiting on higher horsepower dual fuel engines. EPA approved blending and dual fueled conversion kits will accelerate adoption.	

Source: HEYCO

Strategize. Explore. Succeed.

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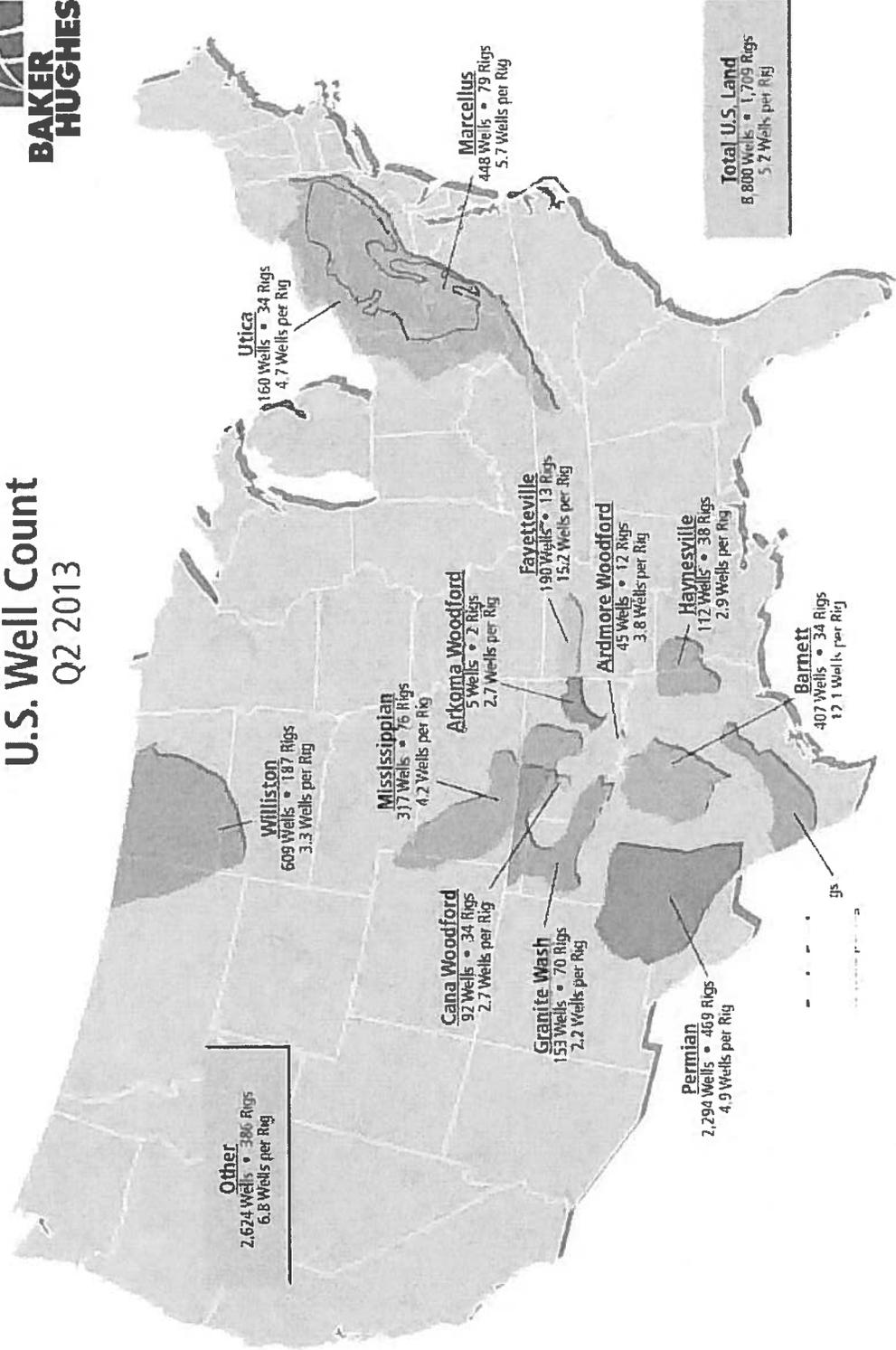




# ENERGY MARKET: Rig & Well Count



## U.S. Well Count Q2 2013



Source: Baker Hughes Incorporated

# **Supporting Information**

Additional information  
provided by the Applicant or  
located by the Comptroller



**Company News**

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Heyco will build \$91 million plant to convert Eagle Ford gas to alternative fuel

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HEYCO: HEYCO and Nadel and Gussman Announce Joint Venture

Lone Star Steel: Oil, Gas Industry's Highest Award Goes to New Mexico Executive

**HEYCO: HEYCO Energy Group to Install First LNG Facility Dedicated to Energy Market**

October 2, 2013

Dallas, Texas — HEYCO Energy Group, Inc. (HEYCO) announced today that it will install the first liquefied natural gas (LNG) facility dedicated to the energy sector and Southern Gulf Coast. The plant — located in Lavaca County to serve the Eagle Ford shale play — should be producing by the 4<sup>th</sup> Quarter of 2014.

"The economic and environmental benefits of LNG will transform the drilling and completion business in the coming years as more and more companies convert from diesel," said George M. Yates, CEO of HEYCO. "We are in a unique position to provide our customers with a lower-cost, lower-emission fuel in the middle of the largest drilling boom our country has seen in years."

The facility's first stage production capacity will be 150,000 gallons per day, and expandable to 300,000 gallons per day within six to eight months as demand dictates.

"With a growing percentage of rigs converting from diesel to natural gas, and a small percentage of hydraulic fracturing units converting as well, it is apparent that many companies are eager to switch to LNG once they have a source," said Christopher Coleman, President of HEYCO's LNG division. "We are excited to have the capacity to serve that demand."

HEYCO's plant will target dual-fuel applications in the energy sector, specifically drilling rigs and hydraulic fracturing units as well as marine applications in the Southern Gulf Coast. The plant uses a Kryopak PreCooling Mixed Refrigerant (PCMR) process and was manufactured by Salof Refrigeration Co., Inc. in New Braunfels, Texas.

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HEYCO Energy Group, Inc., is a U.S. holding company with subsidiaries and affiliates active in upstream oil and gas operations in the United States and Europe. HEYCO is a private company owned by members of the Yates family of Southeastern New Mexico, who have been active in the upstream oil and gas business since the 1920s. Visit [www.heycoenergy.com](http://www.heycoenergy.com) to learn more.

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Lauren Yates

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703.593.3184

## **HEYCO Develops Lavaca County LNG Facility Targeting the Energy Sector**

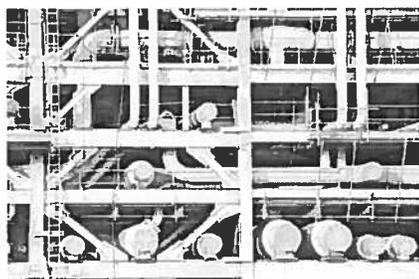
**The new facility will supply LNG fuel for the exploration and production market.**

HEYCO Energy Group announced October 2 that it will build a merchant LNG facility dedicated to the energy market. The new facility will be located in Lavaca County in Texas with a production capacity of 150,000 gallons per day. This capacity can be expanded to 300,000 gallons per day within six to eight months, based on demands. The facility will begin production by the fourth quarter of 2014 and supply LNG fuel for markets including drilling rigs, hydraulic fracturing units and marine applications in the Southern Gulf Coast.

Submitted on December 17th, 2013 08:56 AM by fsiow

# Heyco Energy to install first LNG plant in Lavaca county, US

3 October 2013



US-based Heyco Energy Group is ready to commence installation of the first liquefied natural gas (LNG) facility on the Southern Gulf Coast.

The company will set up the plant in Lavaca county, Texas in a bid to serve the Eagle Ford shale play. It hopes to produce gas by the

fourth quarter of 2014.

The new facility will target dual-fuel applications in the Southern Gulf Coast's energy sector, specifically drilling rigs and hydraulic fracturing units and marine applications.

Heyco Energy CEO George Yates said that as more and more companies convert from diesel, LNG's economic and environmental benefits will transform the drilling and completion business going forward.

"We are in a unique position to provide our customers with a lower-cost, lower-emission fuel in the middle of the largest drilling boom our country has seen in years," Yates added.

Using a Kryopak pre-cooling mixed refrigerant (PCMR) process, manufactured by Salof Refrigeration based in New Braunfels, Texas, the facility will initially produce 150,000 gallons per day.

Based on demand, the production can be expanded to 300,000 gallons per day within six to eight months.

Heyco Energy LNG division president Christopher Coleman said: "With a growing percentage of rigs converting from diesel to natural gas, and a small percentage of hydraulic fracturing units converting as well, it is apparent that many companies are eager to switch to LNG once they have a source."

Heyco's subsidiaries and affiliates are active in upstream oil and gas operations in the US and Europe.

*Image: Heyco's LNG plant in Lavaca County uses a Kryopak PreCooling Mixed Refrigerant process. Photo: courtesy of Vichaya Kiatying-Angsulee / FreeDigitalPhotos.net.*

## Join the conversation



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## HEYCO Energy Group to build LNG plant in Texas' Eagle Ford shale region

Wed, 2014-02-19 11:40

HEYCO Energy Group Inc announced it has executed a letter of intent with IPC (USA) Inc for 150,000 gallons per day of liquefied natural gas (LNG), or HEYCO's entire first stage of production. The plant--located in Texas' Lavaca County to serve the Eagle Ford shale play--should be producing by the fourth quarter of 2014.

"We are extremely excited to be partnering with a major wholesale fuel supplier," said George M Yates, HEYCO chief executive officer. "IPC has intimate knowledge of the fuel distribution requirements of the E&P sector in South Texas, and has the foresight to expand their line of fuels to include cleaner, more affordable LNG."

IPC will offer dual fuel supply options of both LNG and ULSD to its Eagle Ford basin customers. IPC supplies gasoline, diesel, jet fuel, and other refined petroleum products to several customer types including distributors, retail stations, trucking companies and industrial end-users. The company has contracts with more than 60 suppliers throughout the country.

"Our customers are looking for LNG fuel supply solutions today, and our relationship with HEYCO will provide us with long-term, high-quality LNG to meet that need," said Oscar Okinaga, IPC chief executive officer. "By combining our fuel supply expertise and HEYCO's long-standing relationships in the E&P sector, we expect to be a significant player in the domestic LNG market, starting in South Texas."

HEYCO announced in late 2013 that it will install the first LNG facility dedicated to the energy sector and the southern Gulf Coast. The facility's first-stage production capacity will be 150,000 gallons per day, and expandable to 300,000 gallons per day within six to eight months as demand dictates. Under the letter of intent, IPC will have exclusive use of HEYCO's first-stage LNG capacity, with additional rights to HEYCO's expansion capacity. IPC intends to provide dual fuel service options to its existing diesel customers, as well as other fuel distribution companies and industrial users.

**Source URL:** <http://bulktransporter.com/green-trends/heyco-energy-group-build-lng-plant-texas-eagle-ford-shale-region>



## HEYCO Announces LNG Marketing Alliance with Itochu Subsidiary - Zeus LNG-Fueled Vehicle Report

### HEYCO Announces LNG Marketing Alliance with Itochu Subsidiary

February 06, 2014

IPC will distribute 150,000 gallons daily to customers near the Eagle Ford shale.

HEYCO Energy Group announced on February 6 that it has executed a letter of intent with Irvine, Calif.-based IPC (USA), Inc., for the distribution of 150,000 gallons of LNG daily from its Lavaca County, Texas facility. IPC is a major U.S. wholesale distributor of diesel, gasoline, jet fuel, and other petroleum products. Founded by Itochu Corporation, IPC assumed the US operations of Itochu Petroleum Japan in March, 2004.

HEYCO's 150,000 gallon-per-day plant, which was built by Salof Engineering (now part of GE) in 2007, had been planned for deployment to Peru. However, the modules were retained in the U.S. after the Peruvian venture failed. Comprised of six modules, it is expandable from 150,000 to 300,000 gallons per day in as little as eight months, according to company officials. Production is expected to start by Q4 2014.

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###

**About IPC (USA), Inc.**

IPC is an independent wholesale petroleum distributor, headquartered in Irvine, California, with offices throughout the U.S. IPC has contractual relationships with over 60 suppliers; this includes both refiners and trading companies throughout the U.S. IPC can deliver minimal volumes, to over a million gallons at a time in local markets and throughout the U.S. Learn more at [www.usipc.com](http://www.usipc.com).

**About HEYCO Energy Group**

HEYCO Energy Group, Inc., is a U.S. holding company with subsidiaries and affiliates active in oil and gas operations in the United States and Europe. HEYCO is a private company owned by members of the Yates family of Southeastern New Mexico, who have been active in the upstream oil and gas business since the 1920s. Visit [www.heycoenergy.com](http://www.heycoenergy.com) to learn more.

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703.593.3184

From the San Antonio Business Journal

<http://www.bizjournals.com/sanantonio/blog/eagle-ford-shale-insight/2014/05/heyco-will-build-91-million-plant-to-convert-eagle.html>

May 1, 2014, 2:28pm CDT

## Heyco will build \$91 million plant to convert Eagle Ford gas to alternative fuel



[Sanford Nowlin](#)

Reporter- San Antonio Business Journal

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A unit of Dallas-based Heyco Energy Group will to build a \$91 million plant east of San Antonio that will produce liquefied natural gas, or LNG, for use by operators in the [Eagle Ford Shale](#) oil-and-gas play, officials say.

Heyco Energy's Heyco LNG subsidiary expects to break ground in May or June on the facility, which will convert natural gas extracted from the shale into LNG that can fuel drilling rigs and hydraulic fracturing equipment used there, company president [Chris Coleman](#) says. The site will employ eight to 12 people.

"Producers have figured out that it takes a lot of energy to find and produce energy," he says. "They're recognizing that LNG is less expensive than diesel fuel and has lower emissions."

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An increasing number of South Texas oil and gas [producers are using cleaner fuels](#) to both to cut costs and reduce their contribution to greenhouse gas creation.

Heyco's plant will be located on alternate U.S. Highway 77 about an hour and a half east from San Antonio in Lavaca county, near one of the busiest swaths of the Eagle Ford. The company will purchase gas from a nearby **Enterprise Products Partners** pipeline, Coleman says.

The facility's location near Interstate 10 eventually will enable the facility to serve the transportation sector, Coleman adds.

An increasing number of businesses [use LNG in their vehicle fleets](#), and some experts expect consumer acceptance of the fuel to grow over time. Companies including California's Clean Energy Fuels Corp. have [opened Texas filling stations](#) that offer the fuel.

The company plans to complete its plant in eight to 11 months. Initially the facility process 150,000

gallons of LNG daily, but that capacity could be doubled with eventual upgrades, according to Coleman. It will sell to fuel distributors, not directly to the public or LNG users.

Lavaca County commissioners earlier this week voted to create an investment zone at the plant site and offer tax breaks to facilitate the project, according to a report in the Victoria Advocate newspaper.

Lavaca County Judge Tramer Woytek was unavailable for comment on the project at press time.

Heyco primarily manages domestic and international oil and gas exploration and production projects. The Lavaca plant would be its first LNG processing facility.

Sign up for the Eagle Ford Shale Insight newsletter for more breaking news and in-depth industry coverage.

Sanford Nowlin covers energy/utilities, transportation/aviation and manufacturing.