

GRANTS/CONTINGENT AWARD REQUEST



To: Grants and Loans Office

Date: 08 / 28 / 2012

Project Manager: Charles Smith Phone Number: (916) 654-4770 ext.
Office: Emerging Fuels and Technology Division: Fuels and Transportation MS- 27
Project Title: Model X Manufacturing Line

Type of Request: (check one)

New Agreement: (include items A-F from below) Agreement Number: ARV-12-008
Program: Alternative and Renewable Fuels and Vehicle Technology Program
Solicitation Name and/or Number: PON-11-604 Advanced Vehicle Technology Manufacturing
Legal Name of Recipient: Tesla Motors, Inc.
Recipient's Full Mailing Address: Tesla Motors, Inc.
45500 Fremont Boulevard, Fremont, California 94358
Recipient's Project Officer: Diarmuid O'Connell Phone Number: (650) 681-5312 ext.
Agreement Start Date: 11 / 1 / 2012 Agreement End Date: 4 / 30 / 2015

Amendment: (Check all that apply) Agreement Number: _____
 Term Extension – New End Date: _____ / _____ / _____
 Work Statement Revision (include Item A from below)
 Budget Revision (include Item B from below)
 Change of Scope (include Items A – F as applicable from below)
 Other: (Specify) _____

ITEMS TO ATTACH WITH REQUEST:

- A. Work Statement
- B. Budget
- C. Recipient Resolution, if applicable. (Resolution may be requested in Special Conditions if not currently available.)
- D. Special Conditions, if applicable.
- E. CEQA Compliance Form
- F. Other Documents as applicable
 - Copy of Score Sheets
 - Copy of Pre-Award Correspondence
 - Copy of All Other Relevant Documents

California Environmental Quality Act (CEQA)

CEC finds, based on recipient's documentation in compliance with CEQA:
 Project exempt: Class 1 Categorical Exemption - Existing Facilities NOE filed: 8 / 31 / 2012
 Environmental Document prepared: _____ NOD filed: _____ / _____ / _____
 Other: _____
 CEC has made CEQA finding described in CEC-280, attached

Funding Information:

*Source #1: ARVFT Amount: \$ 10,000,000.00 Statute: _____ FY: FY11 Budget List #: _____
*Source #2: _____ Amount: \$ _____ Statute: _____ FY: _____ Budget List #: _____
*Source #3: _____ Amount: \$ 0.00 Statute: _____ FY: _____ Budget List #: _____

If federally funded, specify federal agreement number: _____
* Source Examples include ERPA, PIER-E, PIER-NG, FED, GRDA, ARVFT, OTHER.

Business Meeting Approval: (refer to Business Meeting Schedule)

Proposed Business Meeting Date: 10 / 10 / 2012 Consent Discussion
Business Meeting Participant: _____ Time Needed: (10 minutes)

Agenda Notice Statement: (state purpose in layperson terms)

Possible approval of a Grant / Contingent Award to...
Provide \$10,000,000 to Tesla Motors, Inc. for the expansion of Tesla's manufacturing capacity in Fremont, CA and Introduction of new equipment specifically designed for the manufacture of components of the Model X and for final assembly of the finished vehicle.

Project Manager _____ Date _____ Office Manager _____ Date _____ Deputy Director _____ Date _____

EXHIBIT A SCOPE OF WORK

TECHNICAL TASK LIST

Task #	CPR	Task Name
1	N/A	Administration
2	X	Production Line Equipment Purchasing and Installation

GLOSSARY

Specific terms and acronyms used throughout this scope of work are defined as follows:

Term/ Acronym	Definition
ARFVT	Alternative and Renewable Fuel and Vehicle Technology
CEC	California Energy Commission
CPR	Critical Project Review
EPA	Environmental Protection Agency
EV	Electric Vehicle
FTD	Fuels and Transportation Division
SUV	Sport Utility Vehicle
Recipient	Tesla Motors, Inc.

Background:

Assembly Bill 118 (Núñez, Chapter 750, Statutes of 2007), created the Alternative and Renewable Fuel and Vehicle Technology (ARFVT) Program. The statute, subsequently amended by AB 109 (Núñez, Chapter 313, Statutes of 2008), authorizes the Energy Commission to develop and deploy alternative and renewable fuels and advanced transportation technologies to help attain the state's climate change policies. The Energy Commission has an annual program budget of approximately \$100 million and provides financial support for projects that:

- Reduce California's use and dependence on petroleum transportation fuels and increase the use of alternative and renewable fuels and advanced vehicle technologies
- Produce sustainable alternative and renewable low-carbon fuels in California
- Expand alternative fueling infrastructure and fueling stations
- Improve the efficiency, performance and market viability of alternative light-, medium-, and heavy-duty vehicle technologies
- Retrofit medium- and heavy-duty on-road and non-road vehicle fleets to alternative technology or fuel use
- Expand the alternative fueling infrastructure available to existing fleets, public transit, and transportation corridors

- Establish workforce training programs and conduct public outreach on the benefits of alternative transportation fuels and vehicle technologies

The statute requires the Energy Commission to adopt and update annually an investment plan to determine funding priorities and opportunities and describe how program funding will be used to complement other public and private investments. The Energy Commission adopted its most recent investment plan on May 9, 2012. A link to the *2012-2013 Investment Plan Update for the Alternative and Renewable Fuel and Vehicle Technology Program* (CEC-600-2012-001-CMF) can be found at <http://www.energy.ca.gov/2012publications/CEC-600-2012-001/CEC-600-2012-001-CMF.pdf>.

On February 6, 2012, the California Energy Commission issued solicitation PON-11-604 entitled "Advanced Vehicle Technology Manufacturing" under the ARFVT Program. This competitive grant solicitation was an offer to cost-share the development of manufacturing and/or assembly facilities in California that produce alternative fuel vehicles, advanced technology vehicles, and/or eligible vehicle components. To be eligible for funding, under PON-11-604, the projects must also be consistent with the Energy Commission's AB 118 Investment Plan updated annually. In response to PON-11-604, the Recipient submitted application #13 which was proposed for funding in the Energy Commission's Notice of Proposed Awards on June 20, 2012. The solicitation PON-11-604 and the Recipient's application are both incorporated by reference to this Agreement in their entirety.

Problem Statement:

With the Electric Vehicle (EV) industry still in its infancy, alternative fuel vehicles have yet to establish widespread credibility. The automotive industry has faced significant technological, manufacturing, and cost barriers in introducing EVs that have limited its ability to attain market success.

The most significant technical challenge for electric vehicles has been the technological hurdles surrounding the production of a high energy density battery, which forced most EV manufactures to compromise on vehicle range. Publically available EVs officially tested by the Environmental Protection Agency (EPA) have failed to yield ranges greater than 88 miles on a single charge. The designs of EV power electronics and electric motors have also proven to be barriers to the success in the EV market. Additionally, traditional vehicle design and manufacturing technology have limited the EV offerings by automakers. With the added complexities presented by creating a Sport Utility Vehicle (SUV)/crossover vehicle structure, no company has been able to bring forward a mass-production electrified SUV/crossover. In order to meet California's broader goals for reduced greenhouse gas emissions, increased alternative fuel use, and improved air quality, these barriers will need to be addressed. By combining California Energy Commission (CEC) funding with Tesla's innovations, this project will accelerate the production of the Model X in order to facilitate the rapid electrification of the automotive industry.

Goals of the Agreement:

The goal of this Agreement is to rapidly advance the electrification of the automotive industry in a new SUV/crossover segment. This will be accomplished with joint Tesla and CEC funds to expedite the purchase of Model X manufacturing equipment.

Objectives of the Agreement:

The objective of this Agreement is to fully purchase capital equipment known at the time of application and contained within the processes outlined in the budget for the production of Model X, to install the equipment at the existing production facility, and to validate the installed equipment.

The completion of this project will contribute to the following policy objectives:

- Accelerate the adoption of electric vehicles through the introduction of a new model that meets the needs of consumers considering a vehicle purchase in two of the largest segments in the industry
- Continue to bring a significant amount of jobs to the state of California
- Generate economies of scale to lower the price of Electric Vehicles to provide widespread access

TASK 1 – ADMINISTRATION**Task 1.1 Attend Kick-off Meeting**

The goal of this task is to establish the lines of communication and procedures for implementing this Agreement.

The Recipient shall:

- Attend a “Kick-Off” meeting with the Commission Project Manager, the Grants Officer, and a representative of the Accounting Office. The Recipient shall bring its Project Manager, Agreement Administrator, Accounting Officer, and others designated by the Commission Project Manager to this meeting. The administrative and technical aspects of this Agreement will be discussed at the meeting. Prior to the kick-off meeting, the Commission Project Manager will provide an agenda to all potential meeting participants.

The administrative portion of the meeting shall include, but not be limited to, discussion of the following:

- the terms and conditions of the Agreement
- Critical Project Review (Task 1.2)
- Match fund documentation (Task 1.6).
- Permit documentation (Task 1.7)
- Discussion of subcontracts needed to carry out project (Task 1.8)

The technical portion of the meeting shall include, but not be limited to, discussion of the following:

- The Commission Project Manager's expectations for accomplishing tasks described in the Scope of Work
- An updated Schedule of Products
- Progress Reports (Task 1.4)
- Technical Products (Product Guidelines located in Section 5 of the Terms and Conditions)
- the Final Report (Task 1.5)

The Commission Project Manager shall designate the date and location of this meeting.

Recipient Products:

- Updated Schedule of Products
- Updated List of Match Funds
- Updated List of Permits

Commission Project Manager Product:

- Kick-Off Meeting Agenda

Task 1.2 Critical Project Review (CPR) Meetings

The goal of this task is to determine if the project should continue to receive Energy Commission funding to complete this Agreement and to identify any needed modifications to the tasks, products, schedule or budget.

CPRs provide the opportunity for frank discussions between the Energy Commission and the Recipient. The Commission Project Manager may schedule CPRs as necessary, and CPR costs will be borne by the Recipient.

Participants include the Commission Project Manager and the Recipient and may include the Commission Grants Officer, the Fuels and Transportation Division (FTD) team lead, other Energy Commission staff and Management as well as other individuals selected by the Commission Project Manager to provide support to the Energy Commission.

The Commission Project Manager shall:

- Determine the location, date, and time of each CPR meeting with the Recipient. These meetings generally take place at the Energy Commission, but they may take place at another location.
- Send the Recipient the agenda and a list of expected participants in advance of each CPR. If applicable, the agenda shall include a discussion on both match funding and permits.
- Conduct and make a record of each CPR meeting. One of the outcomes of this meeting will be a schedule for providing the written determination described below.
- Determine whether to continue the project, and if continuing, whether or not modifications are needed to the tasks, schedule, products, and/or budget for the remainder of the Agreement. Modifications to the Agreement may require a formal amendment (please see section 8 of the Terms and Conditions). If the Commission Project Manager concludes that satisfactory progress is not being made, this conclusion will be referred to the Transportation Committee for its concurrence.
- Provide the Recipient with a written determination in accordance with the schedule. The written response may include a requirement for the Recipient to revise one or more product(s) that were included in the CPR.

The Recipient shall:

- Prepare a CPR Report for each CPR that discusses the progress of the Agreement toward achieving its goals and objectives. This report shall include recommendations and conclusions regarding continued work of the projects. This report shall be submitted along with any other products identified in this scope of work. The Recipient shall submit these documents to the Commission Project Manager and any other designated reviewers at least 15 working days in advance of each CPR meeting.
- Present the required information at each CPR meeting and participate in a discussion about the Agreement.

Commission Project Manager Products:

- Agenda and a list of expected participants
- Schedule for written determination
- Written determination

Recipient Product:

- CPR Report(s)

Task 1.3 Final Meeting

The goal of this task is to closeout this Agreement. The Energy Commission Project Manager will determine the appropriate meeting participants.

The Recipient shall:

- Meet with Energy Commission staff to present the findings, conclusions, and recommendations. The final meeting must be completed during the closeout of this Agreement.

This meeting will be attended by, at a minimum, the Recipient, the Commission Grants Office Officer, and the Commission Project Manager. The technical and administrative aspects of Agreement closeout will be discussed at the meeting, which may be two separate meetings at the discretion of the Commission Project Manager.

The technical portion of the meeting shall present an assessment of the degree to which project and task goals and objectives were achieved, findings, conclusions, recommended next steps (if any) for the Agreement, and recommendations for improvements. The Commission Project Manager will determine the appropriate meeting participants.

The administrative portion of the meeting shall be a discussion with the Commission Project Manager and the Grants Officer about the following Agreement closeout items:

- What to do with any equipment purchased with Energy Commission funds (Options)
- Energy Commission's request for specific "generated" data (not already provided in Agreement products)
- Need to document Recipient's disclosure of "subject inventions" developed under the Agreement
- "Surviving" Agreement provisions
- Final invoicing and release of retention
- Prepare a schedule for completing the closeout activities for this Agreement.

Products:

- Written documentation of meeting agreements
- Schedule for completing closeout activities

Task 1.4 Monthly Progress Reports

The goal of this task is to periodically verify that satisfactory and continued progress is made towards achieving the research objectives of this Agreement on time and within budget.

The objectives of this task are to summarize activities performed during the reporting period, to identify activities planned for the next reporting period, to identify issues that may affect performance and expenditures, and to form the basis for determining whether invoices are consistent with work performed.

The Recipient shall:

- Prepare a Monthly Progress Report which summarizes all Agreement activities conducted by the Recipient for the reporting period, including an assessment of the ability to complete the Agreement within the current budget and any anticipated cost overruns. Each progress report is due to the Commission Project Manager within 10 days of the end of the reporting period. The recommended specifications for each progress report are contained in Section 6 of the Terms and Conditions of this Agreement.
- In the first Monthly Progress Report and first invoice, document and verify match expenditures and provide a synopsis of project progress, if match funds have been expended or if work funded with match share has occurred after the notice of proposed award but before execution of the grant agreement. If no match funds have been expended or if no work funded with match share has occurred before execution, then state this in the report. All pre-execution match expenditures must conform to the requirements in the Terms and Conditions of this Agreement.

Product:

- Monthly Progress Reports

Task 1.5 Final Report

The goal of the Final Report is to assess the project's success in achieving its goals and objectives, advancing science and technology, and providing energy-related and other benefits to California.

The objectives of the Final Report are to clearly and completely describe the project's purpose, approach, activities performed, results, and advancements in science and technology; to present a public assessment of the success of the project as measured by the degree to which goals and objectives were achieved; to make insightful observations based on results obtained; to draw conclusions; and to make recommendations for further projects and improvements to the FTD project management processes.

The Final Report shall be a public document. If the Recipient has obtained confidential status from the Energy Commission and will be preparing a confidential version of the Final Report as well, the Recipient shall perform the following activities for both the public and confidential versions of the Final Report.

The Recipient shall:

- Prepare an Outline of the Final Report.
- Prepare a Final Report following the approved outline and the latest version of the Final Report guidelines which will be provided by the Commission Project Manager. The Commission Project Manager shall

provide written comments on the Draft Final Report within fifteen (15) working days of receipt. The Final Report must be completed at least 60 days before the end of the Agreement Term.

- Submit one bound copy of the Final Report with the final invoice.

Products:

- Draft Outline of the Final Report
- Final Outline of the Final Report
- Draft Final Report
- Final Report

Task 1.6 Identify and Obtain Matching Funds

The goal of this task is to ensure that the match funds planned for this Agreement are obtained for and applied to this Agreement during the term of this Agreement.

The costs to obtain and document match fund commitments are not reimbursable through this Agreement. Although the Energy Commission budget for this task will be zero dollars, the Recipient may utilize match funds for this task. Match funds shall be spent concurrently or in advance of Energy Commission funds for each task during the term of this Agreement. Match funds must be identified in writing and the associated commitments obtained before the Recipient can incur any costs for which the Recipient will request reimbursement.

The Recipient shall:

- Prepare a letter documenting the match funding committed to this Agreement and submit it to the Commission Project Manager at least 2 working days prior to the kick-off meeting. If no match funds were part of the proposal that led to the Energy Commission awarding this Agreement and none have been identified at the time this Agreement starts, then state such in the letter. If match funds were a part of the proposal that led to the Energy Commission awarding this Agreement, then provide in the letter a list of the match funds that identifies the:
 - Amount of each cash match fund, its source, including a contact name, address and telephone number and the task(s) to which the match funds will be applied.
 - Amount of each in-kind contribution, a description, documented market or book value, and its source, including a contact name, address and telephone number and the task(s) to which the match funds will be applied. If the in-kind contribution is equipment or other tangible or real property, the Recipient shall identify its owner and provide a contact name, address and telephone number, and the address where the property is located.
 - Provide a copy of the letter of commitment from an authorized representative of each source of cash match funding or in-kind contributions that these funds or contributions have been secured.

For match funds provided by a grant a copy of the executed grant shall be submitted in place of a letter of commitment.

- Discuss match funds and the implications to the Agreement if they are reduced or not obtained as committed, at the kick-off meeting. If applicable, match funds will be included as a line item in the progress reports and will be a topic at CPR meetings.
- Provide the appropriate information to the Commission Project Manager if during the course of the Agreement additional match funds are received.
- Notify the Commission Project Manager within 10 days if during the course of the Agreement existing match funds are reduced. Reduction in match funds must be approved through a formal amendment to the Agreement and may trigger an additional CPR.

Products:

- A letter regarding match funds or stating that no match funds are provided
- Copy(ies) of each match fund commitment letter(s) (if applicable)
- Letter(s) for new match funds (if applicable)
- Letter that match funds were reduced (if applicable)

Task 1.7 Identify and Obtain Required Permits

The goal of this task is to obtain all permits required for work completed under this Agreement in advance of the date they are needed to keep the Agreement schedule on track.

Permit costs and the expenses associated with obtaining permits are not reimbursable under this Agreement. Although the Energy Commission budget for this task will be zero dollars, the Recipient shall budget match funds for any expected expenditures associated with obtaining permits. Permits must be identified in writing and obtained before the Recipient can make any expenditure for which a permit is required.

The Recipient shall:

- Prepare a letter documenting the permits required to conduct this Agreement and submit it to the Commission Project Manager at least 2 working days prior to the kick-off meeting. If there are no permits required at the start of this Agreement, then state such in the letter. If it is known at the beginning of the Agreement that permits will be required during the course of the Agreement, provide in the letter:
- A list of the permits that identifies the:
 - Type of permit
 - Name, address and telephone number of the permitting jurisdictions or lead agencies
 - The schedule the Recipient will follow in applying for and obtaining these permits.
- Discuss the list of permits and the schedule for obtaining them at the kick-off meeting and develop a timetable for submitting the updated list,

schedule and the copies of the permits. The implications to the Agreement if the permits are not obtained in a timely fashion or are denied will also be discussed. If applicable, permits will be included as a line item in the Progress Reports and will be a topic at CPR meetings.

- If during the course of the Agreement additional permits become necessary, provide the appropriate information on each permit and an updated schedule to the Commission Project Manager.
- As permits are obtained, send a copy of each approved permit to the Commission Project Manager.
- If during the course of the Agreement permits are not obtained on time or are denied, notify the Commission Project Manager within 5 working days. Either of these events may trigger an additional CPR.

Products:

- Letter documenting the permits or stating that no permits are required
- A copy of each approved permit (if applicable)
- Updated list of permits as they change during the term of the Agreement (if applicable)
- Updated schedule for acquiring permits as changes occur during the term of the Agreement (if applicable)

Task 1.8 Manage Subcontracts

The goal of this task is to ensure quality products and to procure subcontracts required to carry out the tasks under this Agreement consistent with the terms and conditions of this Agreement and the Recipient's own procurement policies and procedures. It will also provide the Energy Commission an opportunity to review the subcontracts to ensure that the tasks are consistent with this Agreement, that the budgeted expenditures are reasonable and consistent with applicable cost principles.

The Recipient shall:

- Manage and coordinate subcontractor activities.
- Submit a draft of each subcontract required to conduct the work under this Agreement to the Commission Agreement Manager for review.
- Submit a final copy of the executed subcontract.
- If Recipient decides to add new subcontractors, it shall notify the Commission Agreement Manager.

Products:

- Draft subcontracts
- Final subcontracts

TECHNICAL TASKS

TASK 2 – PRODUCTION LINE EQUIPMENT PURCHASE, INSTALLATION AND VALIDATION

The goal of this task is to initiate the build of the Model X manufacturing line through the purchase of manufacturing equipment, the installation of vendor-sourced manufacturing equipment, and the validation of the system's performance and assess readiness for production. ARFVT Program funding for this task will be limited specifically to the cost of the equipment itself and will not include any other uniquely identifiable activities related to the design or purchase process.

The Recipient shall:

- Place orders for capital equipment from vendors
- Verify equipment's initial design
- Perform a preliminary buyoff of equipment at vendor
- Receive equipment at Tesla Motors
- Prepare Tesla Motors facilities for installation of equipment
- Install equipment in appropriate location on line layout and integrate with manufacturing systems
- Perform initial equipment power-on
- Perform initial functional verification
- Perform initial equipment safety buy-off
- Perform equipment dry-run
- Verify equipment performance to Tesla Motors' requirements
- Confirm process and product adherence to Tesla Motors' engineering specifications
- Build first pre-production vehicle
- Produce a Task 2 Summary Report, documenting the completion of all of the above items

Products:

- Task 2 Draft Summary Report
- Task 2 Final Summary Report

[CPR will be held during this Task. See Task 1.2 for details.]