



CERTIFICATION AND FINANCING PROPOSAL

BALI EXPRESS FLEET RENOVATION IN SOUTHERN CALIFORNIA

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EXECUTIVE SUMMARY

BALI EXPRESS FLEET RENOVATION IN SOUTHERN CALIFORNIA

Project Summary:

Project Name:	Bali Express Fleet Renovation in Southern California.
Project Sector (Type):	Mobility (air quality).
Objective:	To provide financing for substituting diesel-fueled freight trucks with vehicles that use cleaner technologies, supporting State regulatory compliance and displacing criteria pollutants and greenhouse gases (GHG).
Expected Outcomes:	<p>The Project is expected to generate environmental and human health benefits related to substituting diesel-fueled freight trucks with trucks powered by cleaner technologies, as described by the following Project outcomes:¹</p> <ul style="list-style-type: none">▪ GHG emissions avoided with a target of approximately 5,530 metric tons of CO₂/year.▪ NO_x emissions avoided with a target of approximately 47 metric tons of NO_x/year.▪ SO₂ emissions avoided with a target of less than one metric ton of SO₂/year.
Population to Benefit:	Community wide. ²
Sponsor:	Bali Express Services, Inc. (Bali)
Borrower:	Bali Express Services, Inc.
Lender:	North American Development Bank (NADBank)
NADBank Loan Amount:	<p><u>Bridge loan</u>: Up to US\$30.0 million, to be disbursed in three tranches.</p> <p><u>Long-term loan</u>: Up to US\$12.5 million, to be disbursed in three tranches.</p>

¹ CO₂, NO_x and SO₂ calculations are based on the potential emissions avoided as a result of comparing the Project emissions (75 electric and 22 natural gas trucks) with the emissions from an equal number of diesel-fueled trucks. More details on the calculations are presented in Section 3.2.1.B.

² The Project will displace greenhouse gases and criteria pollutant emissions within the San Diego/Tijuana border area. Therefore, the population benefitted is described as community-wide, since a specific number of persons cannot be defined.

CERTIFICATION AND FINANCING PROPOSAL

BALI EXPRESS FLEET RENOVATION IN SOUTHERN CALIFORNIA

1. PROJECT OVERVIEW AND EXPECTED OUTCOMES

The Project consists of financing the substitution of up to 97 diesel-fuel based freight trucks with a combination of 75 electric vehicles (EV) and 22 natural gas (NG) based vehicles (the "Project"). The Project will be implemented over the next two years, starting with 25 EV for drayage operations in November 2024, and expecting the substitution of the remaining fossil fueled freight trucks with a mix of EV and NG vehicles during 2025 and 2026. The Sponsor will purchase the vehicles with the NADBank funds along with grants from two existing programs in California for heavy-duty EVs: 1) Clean Truck and Bus Vouchers (HVIP), and 2) Statewide Volkswagen Environmental Mitigation Trust (VW). HVIP grants were already authorized and the activities to access VW grants are in process with funding expected to be obtained by October 2024. Grant determinations for NG vehicles are currently on hold and expected to resume in 2025.

The Project will reduce criteria pollutants and greenhouse gases (GHG) generated by the Sponsor's current trucking fleet operating in the San Diego/Tijuana region. The cleaner technology vehicles are expected to avoid an estimated 5,530 metric tons/year of carbon dioxide (CO₂), 47 metric tons/year of nitrogen oxides (NO_x) and less than one metric ton/year of sulfur dioxide (SO₂).

Alternatively, if grants for NG vehicles do not become available, the Sponsor will use the proposed funds to purchase a total of 85 trucks, all of which will be EVs, substituting an equal number of diesel fueled trucks from its existing fleet instead of the 97 trucks originally considered for the Project. The alternative scenario results in an increased reduction of CO₂ emissions but a slight decrease in the displacement of NO_x and SO₂ emissions. The final vehicle count and calculated emission reductions will be documented during Project close-out.

2. ELIGIBILITY

2.1. Project Type

The Project falls within the eligible category of mobility.

2.2. Project Location

The Project vehicles will be purchased in California and will perform drayage operations in the San Diego-Tijuana area where the Sponsor provides services among other areas throughout California. Figure 1 illustrates the geographic location of the area where the Project will be implemented.

Figure 1
PROJECT LOCATION MAP



2.3. Project Sponsor and Legal Authority

The private-sector project sponsor is Bali Express Services (the "Sponsor"), which has the legal authority to obtain the necessary funding to acquire vehicles with cleaner technologies for the Project implementation. Bali Express Services, Inc, is a California-based company established in May 2015.

3. CERTIFICATION CRITERIA

3.1. Technical Criteria

3.1.1. General Community Profile

The California/Baja California region represents the largest economic area along the U.S./Mexico border. Since 1994, when the North America Free Trade Agreement was signed, trade between U.S. and Mexico has increased by more than 225%. With the signing of the United States-Mexico-Canada Agreement, the California/Baja California region (CBCR) cross-border

trade increased to more than US\$68 billion, which represents over US\$1 million of goods and services traded per minute.³

Land ports of entry (POEs) in the CBCR are the main infrastructure for freight movements. POEs in the immediate region include Otay Mesa, Otay Mesa East - currently under construction, and Tecate in San Diego County, and Calexico East in Imperial County. Major commodities transported between California and Mexico through the POE include plastic; rubber; pulp; paper; allied products; electronics; electrical machinery, equipment, and supplies; automobiles and light duty trucks; food; grain products; and farm products.⁴ The Otay Mesa POE is the third busiest commercial land border POE on the U.S./Mexico border by trade value and the busiest commercial land port in California.⁵ As reported by the California Chamber of Commerce, Mexico became the U.S.' top trading partner in 2019.⁶

The San Diego region has a large portion of binational trade operations serviced by heavy-duty vehicles, with more than two million trucks crossing bidirectionally through Otay Mesa and Tecate POEs, as one measure in 2019. Most of these trucks are diesel-powered and contribute to emissions of greenhouse gases and other pollutants.⁷

The state of California has enacted regulations and provides incentives in order to promote the use of cleaner technologies for heavy-duty vehicles, which contribute to improve air quality for all residents, especially for those communities heavily impacted by air pollution. For example, the Advanced Clean Fleets (ACF) regulation is a complement to the California Air Resources Board's (CARB) recently adopted Advanced Clean Trucks regulation, targeted to advance the introduction of zero-emission technologies into California's truck and bus fleets. With the ACF, it is expected to introduce 1,690,000 electric vehicles in the California fleet by 2050.

As part of the incentives for electric trucks available in California, grants from the Clean Truck and Bus Vouchers (HVIP), and the Statewide Volkswagen Environmental Mitigation Trust (VW) are two options that the Sponsor will use to replace its fleet with electric vehicles.

The Sponsor has demonstrated a strong environmental commitment to upgrade its fleet with cleaner technologies. The current Bali's fleet has a total of 397 trucks of which 374 are diesel, 22 natural gas and 1 electric truck. Bali will continue its goal to substitute its diesel trucks in order to comply with regulations in California such as the ACF. With support from the Transportation Electrification Advisory Services (TEAS)⁸ launched by San Diego Gas & Electric, Bali initiated actions towards the acquisition of EVs to comply with California's regulations. In

³ California Department of Transportation. California Freight Mobility Plan, 2023
<https://dot.ca.gov/-/media/dot-media/programs/transportation-planning/documents/cfmp/cfmp-july-2023-final-v1-a11y.pdf>

⁴ Idem.

⁵ Idem.

⁶ San Diego Association of Governments. Goods Movement Planning and 2021 San Diego and Imperial Counties Freight Gateway Study Update, 2023
<https://www.sandag.org/-/media/SANDAG/Documents/PDF/projects-and-programs/goods-movement-planning/freight-gateway-study/goodsmovementplanningand2021sandiegoandimperialcountiesfreightgatewaystudyupdateappendix20211201.pdf>

⁷ Idem.

⁸ TEAS offers planning services for the transition to electric vehicles and charging infrastructure.

April 2024, Bali was the first company to perform commercial crossings between Mexico and the United States with its first electric truck.

3.1.2. Project Scope

The Project consists of a gradual substitution of Bali's diesel-fuel based freight trucks with cleaner technologies such as electric and natural gas-powered vehicles. The Project will be implemented starting with 25 EVs in November 2024 with additional EV and NG trucks expected to be purchased during 2025 and 2026 to substitute an equal number of trucks in the existing diesel-fuel based fleet. The characteristics of the electric and NG truck models that will be acquired for the Project are presented below:

Table 2
KENWORTH ELECTRIC VEHICLE SPECIFICATIONS



Make/model	Kenworth/T680 
Gross combined weight	82,000 lbs.
Electrification level	BEV (Battery Electric Vehicle)
Battery energy	396 kWh
Charging	Level 3 DC Charger or fast charger (up to 400A, up to 600V DC, up to 240kW)

Table 3
VOLVO ELECTRIC VEHICLE SPECIFICATIONS

Make/model	Volvo/VNRE62T 
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Gross combined weight	Up to 82,000 pounds
Electrification level	BEV (Battery Electric Vehicle)
Battery energy	565 kWh
Charging	Up to 250KW DC charge rate with CCS1 or CCS2

**Table 4
 PETERBILT ELECTRIC VEHICLE SPECIFICATIONS**

Make/model	Peterbilt/579 EV 
Gross combined weight	82,000 lbs.
Electrification level	BEV (Battery Electric Vehicle)
Battery energy	400 kWh
Charging	Level 3 Charger or fast charger (up to 150kW)

**Table 5
 KENWORTH NATURAL GAS VEHICLE SPECIFICATIONS**

Make/model	Kenworth/T680 
Gross combined weight	80,000 lbs.
Engine	Cummins ISX12G
Engine displacement	6 cylinders – 12 liters

The technology used by each of the three suppliers is considered reliable and will provide flexibility for the sponsor to gain experience with each model as they acquire five Kenworth, ten Volvo, and ten Peterbilt electric trucks in 2024. For vehicle acquisitions in 2025 and 2026, the Sponsor expects to narrow the choice of EVs to the Volvo model and the NG trucks offered by Kenworth.

3.1.3. Technical Feasibility

The Sponsor evaluated trucks from various suppliers in order to determine the vehicles best suited to the conditions existing for transport operations within the border area. The technology evaluation process included an analysis of the truck's characteristics, reliability, specifications and performance, among other factors. Additionally, the purchase of the Project vehicles will be supported with existing programs and incentives available in California for this purpose and the selected vehicles must comply with all of the requirements set forth in such programs. The Sponsor determined that the Project trucks supplied by Volvo, Kenworth and Peterbilt all meet operational requirements and comply with the California regulations and incentive programs.

To improve operational capacity for the new EVs, although as a separate action, not part of the Project, the Sponsor will install a total of ten charging stations in 2025 for the Project electric vehicles. Each station will have the capacity to service two vehicles at the same time. Four chargers with a capacity of 360 kilowatt-hour (kWh) and six 240 kWh chargers will be installed in the Otay Mesa and Tijuana locations, respectively. The Sponsor will be supported by San Diego Gas & Electric for the installation of the charging stations at Otay Mesa. The installation of the charging stations in Tijuana will be completed in coordination with the Mexican National Electromobility Center.

3.1.4. Land Acquisition and Right-of-Way Requirements

There are no land acquisition and right-of-way requirements for the proposed Project.

3.1.5. Project Milestones

Milestones for the Project include completing necessary activities to obtain grants for the acquisition of the EV and NG vehicles and to determine the final number and type of vehicles to be purchased for the Project. Upon receiving the new vehicles, the substituted diesel-fuel trucks will need to be scrapped, a process that is estimated to take up to 5 months. The Project is anticipated to be complete by year-end 2026.

3.1.6. Management and Operation

Founded in San Diego, California in 2015, Bali Express Services, Inc. is a logistics company that provides various services including: i) cross-border operations between Tijuana, Baja California, and San Diego, California, ii) intermodal operations in Los Angeles and iii) domestic services within California. As part of Bali's business strategy focused on offering a wider variety

of products, in 2023, the Sponsor expanded its operations across the United States and launched its first third party logistics (3PL) warehouse⁹ operation in Tijuana, Baja California.

With offices in the Otay Mesa region in California and offices in Tijuana, Bali staff perform preventive and corrective maintenance for the existing fleet. The hazardous waste generated by these activities is disposed of by authorized contractors.

For the new electric and NG trucks, maintenance activities will be performed at the dealership, for the first 2 years, as part of warranties for the vehicles. Thereafter, the Sponsor will perform maintenance of the Project trucks at its own workshops. All hazardous waste generated by maintenance activities will be disposed of by authorized contractors.

3.2. Environmental Criteria

3.2.1. Environmental and Health Effects/Impacts

A. Existing Conditions

In 2021, the California Air Resources Board (CARB) reported that statewide on-road mobile sources emitted a total of 133 million metric tons of carbon dioxide (CO₂), with heavy-duty transportation accounting for approximately 20% of those emissions.¹⁰ Regarding criteria pollutants, according to CARB's estimations, in 2023, on-road mobile sources emitted a total of 104,062 metric tons/year of nitrogen oxides (NO_x) and 1,317 metric tons/year of sulfur dioxide (SO₂). Heavy-duty vehicles represented 44% of the total NO_x emissions and 15% of the total SO₂ emissions. At the county level, on-road mobile sources emitted 6,919 metric tons/year of NO_x, and 112 metric tons of SO₂, of which heavy-duty vehicles accounted for 30% of NO_x emissions and 8% of SO₂ emissions.¹¹

Air quality conditions at the border are particularly affected by freight truck operations performed at POEs close to residential neighborhoods and "last mile" deliveries using local road networks. As a result, communities near commercial districts experience more exposure to air pollution due to commercial vehicle idling and long wait times. SANDAG's 2023 report describes that these environmental conditions have a history of disproportionately affecting disadvantaged and low-income communities.¹²

⁹ Facility that provides storage and distribution services to companies that outsource their logistics and supply chain management functions. The types of 3PL services a warehousing and fulfillment partner can provide vary depending on the specialization and expertise.

Source: <https://www.warehousequote.com/resources/3pl-warehousing-guide/>

¹⁰ Source: California Air Resources Board, (<https://ww2.arb.ca.gov/>).

¹¹ Source: California Air Resources Board, (<https://ww2.arb.ca.gov/>).

¹² San Diego Association of Governments. Goods Movement Planning and 2021 San Diego and Imperial Counties Freight Gateway Study Update, 2023

<https://www.sandag.org/-/media/SANDAG/Documents/PDF/projects-and-programs/goods-movement-planning/freight-gateway-study/goodsmovementplanningand2021sandiegoandimperialcountiesfreightgatewaystudyupdateappendixy20211201.pdf>

B. Project Impacts

The Project vehicles are expected to provide drayage services in the San Diego-Tijuana area which will help reduce harmful emissions in a region that has high volumes of gas- and diesel-fueled vehicle traffic. By substituting diesel-powered trucks with cleaner technologies, the emissions of the Project vehicles will contribute to improved air quality conditions in the area.

The calculations of the Project impacts are based on comparing the Project vehicles emissions and the emissions from diesel trucks at average speeds during cruising and border crossing operations of 55 miles per hour (mph) and 2.5 mph, respectively, for three 74-mile round trips per day during six days per week and 52 weeks per year. In the case of EVs, emissions are calculated based on the energy required to charge the batteries to operate for an equal distance traveled per year. The estimated emission reductions for the Project are presented in Table 6:

**Table 6
 CALCULATED EMISSION REDUCTIONS**

Emissions (metric tons/year)				
Number of Trucks	Vehicle Type	CO ₂	NO _x	SO ₂
Baseline				
97	Total Estimated Emissions: Diesel trucks	10,330	51	0.097
Project trucks				
22	NG vehicles	2,658	3.9	Not Available
75	EVs battery recharging	2,142	Less than 1	0.055
Total Estimated Emissions: (metric tons/year)		4,800	4	0.055

Based on the above, the Project is expected to generate environmental and human health benefits related to substituting diesel-fueled freight trucks with trucks powered by cleaner technologies, as described by the following Project outcomes:

- GHG emissions avoided with a target of approximately 5,530 metric tons of CO₂/year.
- NO_x emissions avoided with a target of approximately 47 metric tons of NO_x/year.
- SO₂ emissions avoided with a target of less than one metric ton of SO₂/year.

Furthermore, as part of the requirements to access funds from the VW incentives for the EVs and other grants for NG vehicles, the substituted trucks must be scrapped to ensure that the vehicle will no longer be in use and the improved emission conditions are achieved.

If grants for NG vehicles do not become available, the Sponsor will use the proposed funds to purchase a total of 85 trucks, all of which will be EVs, substituting an equal number of diesel fueled trucks from its existing fleet instead of the 97 trucks originally considered for the Project. The alternative scenario results in an increased reduction of CO₂ emissions but a slight

decrease in the displacement of NO_x and SO₂ emissions. The final vehicle count and calculated emission displacements will be documented during the Project close-out process.

C. Transboundary Impacts

The proposed Project will substitute diesel-fueled freight trucks with commercial vehicles powered by cleaner technologies, reducing CO₂, SO_x, and SO₂ emissions. With frequent cross-border trips and transportation routes in and around the metropolitan areas, this Project is expected to positively impact the San Diego/Tijuana border area by contributing to improved air quality on both sides of the U.S.-Mexico border. No negative transboundary impacts are expected as a result of the Project implementation.

3.2.2. Compliance with Applicable Environmental Laws and Regulations

The California Air Resources Board (CARB) is the regulatory agency that determines and enforces policy to preserve the state's air quality. In order to meet California's health-based air quality standards and emissions reduction goals, CARB has enacted regulations to achieve 100% zero-emission transportation by 2035 (drayage trucks and off-road transport refrigeration units), and 2045 for all other heavy-duty vehicles. Among California's regulations for this purpose is the Advanced Clean Fleets Regulation, which aims to phase-in medium- and heavy-duty zero-emission vehicles (ZEV) into their California fleets through 2042.

All vehicles purchased by the Project will meet applicable standards and support emission goals set by the state.

A. Environmental Clearance

No environmental clearance is anticipated for the purchase of electric trucks.

B. Mitigation Measures

To catalyze the achievement of emission reductions targeted by CARB's policies to transition the truck fleets doing business in the state to zero emission vehicles, substituted vehicles should be removed from operations and scrapped in accordance with proper disposal methods.

C. Pending Environmental Tasks and Authorizations

No environmental authorizations are pending for Project implementation.

3.2.3. Environmental and Social (E&S) Due-diligence Review

A. Project E&S Risk Category

In accordance with NADBank's Environmental, Social and Governance (ESG) policy, which establishes guidelines for the assessment and categorization of potential ESG risks in its financial operations, NADBank determined that the proposed Project falls within the "B"

category (medium risk), corresponding to transactions with few adverse environmental and social impacts that are generally site-specific, largely reversible and easily addressed through mitigation measures, and that follow international best practices.¹³

B. E&S Due Diligence Conclusions

NADBank reviewed the Sponsor's organizational structure and environmental policy and concluded that Bali has the tools and resources to comply with the environmental and social obligations related to the Project, including compliance with applicable regulations and annual compliance reports.

C. Summary of Proposed Mitigation Measures

No additional mitigation measures are needed since Bali's current organizational structure, processes, and use of funds support compliance with commitments set forth in its E&S policy.

3.3. Financial Criteria

The purpose of this section is to support the authorization to complete the Project's financing requested by Bali Express Services Inc. in the form of a NADBank loan. The total cost of the project includes the acquisition of up to 97 freight trucks powered by clean technologies complying with California's policies to eliminate fossil fuel cargo trucks by 2035, as well as other Project costs, including legal, technical, reserve funding and financial expenses associated with the loan.

The source of repayment will be the revenue generated by the Borrower, primarily through logistics services, including border crossing, intermodal transportation, OTR, as well as any other services provided by the company. The revenue is estimated to be sufficient to i) pay the debt service of the loan; ii) fund the debt service reserve; iii) comply with debt service coverage requirements; and iv) cover scheduled operation and maintenance (O&M) expenses.

Based on the Project's characteristics and the financial and risk assessments performed by NADBank, the proposed Project is considered financially feasible and presents an acceptable level of risk. Therefore, NADBank proposes providing a market rate loan for the proposed Project.

4. PUBLIC ACCESS TO INFORMATION

4.1. Public Consultation

On September 30, 2024, NADBank published the draft certification and financing proposal for a 30-day public comment period.

¹³ Source: NADBank Environmental, Social and Governance (ESG) Policy, ([https://www.nadb.org/uploads/content/files/Policies/NADBank%20ESG%20Policy%20\(Eng\).pdf](https://www.nadb.org/uploads/content/files/Policies/NADBank%20ESG%20Policy%20(Eng).pdf)).

4.2. Outreach Activities

NADBank conducted a media search to identify potential public opinion or publications regarding the Sponsor and its operations. References on Bali's efforts to use electric vehicles for its operations were found on the following websites:

- *Freight Waves*. (April 12, 2024) "Borderlands Mexico: Carrier makes history using electric truck to haul cross-border freight"
<https://www.freightwaves.com/news/borderlands-mexico-carrier-makes-history-using-electric-truck-to-haul-cross-border-freight>
- *Smart Energy Decisions*. (April 15, 2024) "Bali Express Adds Electric Freight Trucks to Fleet"
<https://www.smartenergydecisions.com/energy-management/2024/04/15/bali-express-adds-electric-freight-trucks-to-fleet>
- *Mexico Now*. (April 19, 2024) "Electric truck makes maiden voyage to Mexico"
<https://mexico-now.com/electric-truck-makes-maiden-voyage-to-mexico/>
- *Spectrum News 1*. (May 1, 2024) "New SDGE program helps fleets transition to electric"
<https://spectrumnews1.com/ca/la-west/transportation/2024/04/29/new-sdge-program-helps-fleets-transition-to-electric>
- *American Journal of Transportation*. (July 22, 2024) "The challenge to electrify California-Mexico truck traffic"
<https://www.ajot.com/premium/ajot-the-challenge-to-electrify-california-mexico-truck-traffic>
- *El Heraldo de Agascalientes*. (July 22, 2024) "Va a EU primer camión eléctrico [First electric truck travels to U.S.]"
<https://www.heraldo.mx/va-a-eu-primer-camion-electrico/>