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ARFVTP: 3103 Regulation Response Form

1. What are the possible impacts for your project with the credit discount provision and the timeframe for when you expect to generate credits.

PLEASE SEE ATTACHED DOCUMENT – ADDENDUM A

2. We would also like to provide you the opportunity to provide a statement for our record.

Given California's stated desire to increase the use of biodiesel throughout the transportation fleet, it is counterproductive to make CEC grant recipient's costs higher than those of non-grant winners. Essentially such a practice identifies potentially successful technologies and business models and then significantly handicaps their operating performance. In the energy business, units are priced in hundredths of a cent. Profits are slim, and taxes onerous. A CEC "grant tax" will not advance the state of alternative fuels in CA.

Addendum A:

In 2012 Springboard Biodiesel was awarded a $758,200 grant to help commercialize its proprietary, zero waste, closed loop, multi-feedstock biodiesel processing system, the CLL 1500. As part of the contract the company signed with the California Energy Commission (CEC), Attachment 10, Exhibit D, Special Terms and Conditions contained funding restrictions that are extremely detrimental to Springboard Biodiesel and the entire biodiesel industry.

The language contained in Exhibit D 1c. states that grant recipients must discount the value of their "credits" to reflect the fact that CEC provided financing for the project that is producing credits. Springboard Biodiesel was aware of the language in exhibit D, but read the language to pertain only to the LCFS credits that are administered by CARB and the State of CA. While highly detrimental to Springboard's financial health, management believed - at the time - that the benefits of the grant would outweigh the negatives of potential LCFS discounting (at the time LCFS credits were a smaller part of a biodiesel producer's financial health). Recently, the CEC has suggested that the language in Exhibit D, 1c. also pertains to the federally administered Renewable Fuel Standard - 2 and the RINs that are generated by accredited RFS-2 facilities.

Springboard Biodiesel does not interpret Exhibit D 1c. to pertain to the ***federally*** administered RINs program.

In both cases, the CEC position creates extreme financial hardship for Springboard Biodiesel, and if followed, will create abnormal, detrimental and artificial price volatility to the entire LCFS program.

Currently the price of biodiesel as tracked by Starfuels (http://www.starfuels.com/) is $3.25/gallon on the West Coast. This price includes the value of RINs - (53¢/RIN x 1.5 equivalence value = $0.80/gallon) and LCFS credits ($0.27/gallon). This implies a base price for a gallon of biodiesel to be $2.18/gallon. Obviously, this means that the "credits" associated with biodiesel production are fundamentally critical to the financial viability of any biodiesel producer. It should also be noted that the profit per gallon of biodiesel sold at $3.25/gallon is slim to non-existent.

The CEC is suggesting that any grant recipient discount the value of the LCFS credit AND the RINs, and they want that done for 3 years. Below is the potential financial penalty to Springboard Biodiesel, if the CEC current approach is followed:

1. Discount factor applied to Springboard Biodiesel "credits" = 30% (so Springboard will only realize 70% of the credits due the company based on quarterly and annual production
2. Fuel produced by Springboard over 36 months: 1,050,000 gallons
3. Value today of credits associated with planned production - $1,123,500.00
4. Value of the discount penalty because of CEC - $337,050.00, or 32¢/gallon of production

In addition to penalizing Springboard Biodiesel, by forcing the company to discount it's LCFS credits and its RINs, Springboard's pricing will disrupt the market, as we can only sell for less than the stated market price. This will negatively impact all of the participants in the biodiesel industry. So, if a large company needs to sell a large number of LCFS credits or RINs, there will always be CEC-sponsored sellers who have at least a 30% cheaper price.

Given that the goal of the CEC's grant was to proliferate biodiesel throughout California, it makes no sense to then penalize the recipients who have succeeded. It is highly unlikely that Springboard Biodiesel will continue to make fuel, if it is forced to discount its credits per the CEC guidelines. Management believes this will have a negative impact on the local economy and job market.