

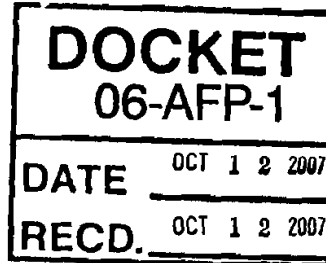
NGVAMERICA

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Mr. Tim Olson
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**RE: Docket # 06-AFP-1; Comments on Draft State Alternative Fuels Plan
(CEC-600-2007-0111-CTD, October 2007)**

I. Introduction

NGV America appreciates the opportunity to provide the following comments to the California Energy Commission (CEC) with respect to the draft "State Alternative Fuels Plan" ("Draft Plan"). NGV America is a national organization representing more than 100 member companies, including: vehicle manufacturers; natural gas vehicle (NGV) component manufacturers; natural gas distribution, transmission, and production companies; natural gas development organizations; environmental and non-profit advocacy organizations; state and local government agencies; and fleet operators.

II. Comments

The CEC and state of California are to be commended for their efforts to accelerate the use of alternative transportation fuels. These efforts will result in greater fuel diversity, improved energy security, reduced greenhouse gas emissions, reduced criteria pollutants, and economic growth for the state and the country. Furthermore, we applaud California's leadership in addressing climate change and energy security issues. Efforts underway in California likely will impact the entire country given California's leadership role and the penchant for other states to follow its regulatory programs. We, therefore, believe that the measures proposed in the Draft Plan will have a major impact on the market for natural gas vehicles not only in California but also in the rest of the country. Moreover, California will more likely achieve its ambitious objectives to the extent that it succeeds in getting other states and the federal government to join with it in pursuing the initiatives outlined in the Draft Plan.

The economic and policy reasons for advancing alternative fuels have never been better. But supplanting gasoline and diesel fuel with alternative transportation fuels requires a compelling case, not simply a strong economic case given uncertainties about the future. The transition or shift away from petroleum motor fuels will be a long, difficult path, one that must include strong and sustained federal and state support. Government at all levels can and must play an important role in assisting the market transition to greater alternative fuel use.

From NGVA's perspective, several aspects of the plan are of critical importance: 1) the need for the federal government to continue to provide incentives for alternative fuels; 2) the need for continued research and development to advance alternative fuel technologies; and 3) providing regulatory incentives that will allow utilities to step up efforts to provide alternative transportation fuels. As the report notes, these efforts must be sustained over a long period of time to ensure success. In addition, new funding mechanisms must be identified to provide the needed financial support for new initiatives. CEC has advocated that the state support a "Clean Alternative and Renewable Fuel, Vehicle and Advanced Technology Initiative" with funding in the range of \$100 - \$200 million per year. NGVA agrees with the need for such a program. A comparable federal program also is needed. Currently, there is no single source of federal funding for alternative fuel initiatives and there is no assurance that the sources of funding that do exist will be maintained over the long term. NGVA has advocated that a portion of the funding for the federal Congestion Mitigation and Air Quality Improvement Program be dedicated to funding alternative fuel initiatives. This program has a steady funding source and has been in place for almost two decades. Something like this program or a portion of the program should be dedicated to funding alternative fuel projects. Moreover, it is likely that additional funding in the form of new fees or increased taxes on traditional transportation fuels will be required in order fund the large effort contemplated in the Draft Plan.

NGVA also has advocated the extension of the current federal tax incentives for alternative fuel use, alternative infrastructure and alternative fuel vehicles. Congress has proposed extending them beyond their current timeframes, 2009 for the alternative fuel credit and 2010 for alternative fuel vehicles and infrastructure, but has not enacted the proposed extensions. It is imperative that Congress extend these incentives and also fix problems with these incentives. NGVA has made recommendations to Congress on the types of fixes that are necessary and would be happy to provide additional details to CEC. To summarize, the ability to take the vehicle and infrastructure credits adopted in EPAct 2005 essentially is very limited. As a result, businesses that buy AFVs generally are not benefiting from the incentives and state and local governments similarly receive little benefit from these incentives. It would be helpful to have CEC and California support for changing how these tax incentives are structured. At the same time, extending the credits and modifying them would be very helpful to California's alternative fuel initiatives.

The Role of NGVs

The Draft Plan acknowledges the strong role that natural gas can play in the state's effort to advance alternative fuel use. In particular, the plan anticipates that natural gas will capture an increasing share of the heavy-duty fuel market, including use in some off-road vehicle

applications. This planned use of natural gas is consistent with the state's focus on "maximize[ing] alternative fuels in early adopter market niches, such as heavy duty vehicles, fleets, off-road vehicles, and ports in the near and mid term." This also fits in well with the natural gas vehicle industry's current emphasis on heavy-duty, high fuel use fleets. We believe that policy makers can further encourage the use of natural gas in such applications by encouraging that all public transport vehicles be alternatively fueled, particularly transit buses but also school buses. As noted below, we think these efforts can and should be combined with efforts to introduce electric-battery technologies into heavy-duty applications.

The Draft Plan anticipates a much more limited role for natural gas with respect to the light duty vehicle market despite the economic advantages of natural gas. CEC is correct that the current market for NGVs in light duty applications is limited. However, given the major initiatives underway it is unrealistic to assume that this will continue to be the case. We strongly agree with the California Natural Gas Vehicle Coalition's comment that the Draft Plan underestimates the contribution that could be made by light-duty natural gas vehicles. If the initiatives set out in the plan are undertaken, there is every reason to believe that automakers will re-enter the light duty natural gas vehicle market. In Europe and elsewhere, OEM automakers now offer a wide selection of light-duty natural gas vehicles. NGVs are advancing in these markets because there is a compelling economic case for their use and governmental policy supports their greater use. These same forces appear to be taking shape in the U.S. market as well.

Another major concern that we have with the Draft Plan and policy is the emphasis on hybrid and plug-in electric drive technology. We believe that these efforts have a lot of merit but should not be implemented in such a way that marginalizes the potential role of natural gas vehicles. Efforts to advance electric-drive vehicles, including plug-in hybrid electric vehicles, should include using natural gas as the source of power for engines used in such vehicles. We think it would be particularly helpful if California came out strongly in favor of using natural gas and hybrid applications in heavy-duty markets. This would signal to manufacturers that they should incorporate natural gas into their future vehicle offerings. Today, natural gas penetration in the transit bus market has been a tremendous success. It is perhaps the best example of how an alternative fuel can be successfully introduced into a niche market application. But a number of transit agencies are considering switching away from natural gas and going with diesel electric hybrids. While the latter encourages more fuel-efficient use of petroleum supplies, it undermines the effort to transition away from petroleum use and it detracts from the market penetration and success that has been achieved to date. If we are serious about moving away from petroleum, then we should maximize the use of alternative fuels in those markets where they currently are succeeding. Moreover, policies that pit electric hybrids against natural gas buses should be discouraged. Policy makers should instead encourage the development and use of hybrid electric natural gas buses and other heavy-duty vehicles. This will ensure the future growth of both technologies and maximize the benefits provided by public transportation.

Greenhouse Gas Emission Benefits

The report appears to downplay the potential greenhouse gas emission reductions provided by natural gas, particularly in comparison with heavy-duty diesel vehicles. We think that reductions on the order of 20 percent are not insignificant. Moreover, the analysis that has been conducted to date appears to assume that heavy duty diesel vehicles will achieve future requirements for criteria pollutants without further efficiency penalties. This analysis might be too optimistic regarding the potential impact of more demanding emission regulations on diesel fueled vehicles. We are optimistic that further improvement in natural gas vehicle technology will further close the gap on diesel efficiency. The analysis also does not appear to evaluate the potential benefits of renewable natural gas, e.g., natural gas produced from landfills and other waste sources. It would be helpful if the CEC analysis included estimates of the benefits of biomethane. This would help businesses and fleets interested in natural gas projects to more fully understand its potential benefits and role in contributing to the climate change solution. We also believe greater emphasis should be put on encouraging increased production of renewable natural gas for transportation use. It is mentioned in the Draft Plan but does not appear to have a major role. Even without the additional benefits described here, a twenty percent reduction relative to diesel fuel is not an insignificant contribution given the other benefits of natural gas, e.g., petroleum reductions, fuel diversity, energy security, reduced toxic emissions, and pathway to hydrogen.

The Role of the Federal Government

The Draft Plan contemplates a strong role for the federal government, including extension of federal tax incentives and financial incentives, modification of the renewable fuels standard (RFS) to include alternative fuels, and expanded federal research and development. We agree with all of these recommendations. We have provided comments above on the need for federal incentives. NGVA strongly agrees with the need to expand the current RFS program to include alternative fuels. We believe the current program is too narrowly structured and could potential have very negative consequences if expanded in the future without allowing non-renewable fuels a chance to participate. We have supported Congressional proposals to modify the program accordingly and welcome California's support. We also agree with the recommendation that the federal government increase its research and development into alternative fuels. This effort should include expanding efforts to develop medium and heavy duty natural gas engines/vehicles. Natural gas RD&D programs have assisted manufacturers in developing a number of engine applications. However, as of late these programs have not been supported by the Department of Energy because it believes natural gas to be a mature technology. While we appreciate the confidence in natural gas and the recognition of what has been achieved, we believe that manufacturers continue to need the federal government to support such efforts given the low production volumes that exist today and the risk associated with bringing new applications to market.

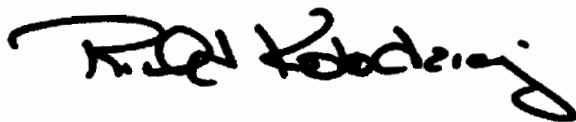
The Role of Public Utilities

The report includes the recommendation that the state's utility commission provide utilities with preferential or special rates and allow utilities to rate-base efforts that contribute to the use of natural gas as a transportation fuel. NGVA strongly endorses the recommendations concerning utilities. CEC and state officials should encourage utilities to be an active part of the effort to promote alternative transportation fuels. This should include providing attractive or favorable rates of returns on such investments. And such investments should not be viewed as conflicting with policies that are designed to encourage or require utilities to reduce demand for electricity or gas consumption since in this case such increased demand helps reduce greenhouse gas emission and encourages energy diversity.

III. Conclusion

NGVAmerica appreciates the opportunity to provide these comments and looks forward to providing assistance to CEC as it implements the Alternative Fuels Plan.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard Kolodziej". The signature is fluid and cursive, with a large initial "R" and a long, sweeping tail.

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