

DOCKET

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Comments for CEC Docket # 08-OIR-1 – Committee Workshop

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Pearson Fuels and the Regional Transportation Center have been involved in retail alternative fuel infrastructure since 1997. Pearson opened in 2003 as the nation's first Alternative Fuel Station. Located in the center of San Diego and specializing in bringing alternative fuels to the public, Pearson Fuels was the first facility of its kind. From day one, this station has offered a number of firsts in what most thought was an already-mature retail fueling industry. In addition to selling gasoline, Pearson pioneered the first public Ethanol station in the State of California, the first Biodiesel filling point in San Diego, San Diego's largest electric vehicle (EV) charging facility, and opened San Diego County's first dual-pressure Natural Gas station. Since we have been doing this in California longer than most, we feel that we may be able add something to the debate about how best to approach the challenges that are to be addressed with AB 118.

Any government program with such expansive goals must be not only visionary, but also not lose sight of the lessons learned by the early adopters and trailblazers of yesterday. In 2001, I personally met with bankers and convinced them that California's ZEV mandate required 10% of all the new vehicles sold in California in 2003 would be zero emission vehicles. I assured them that these mandates would guarantee a market for the products at the new Regional Transportation Center in San Diego. They believed me, and we built a \$15 million dollar facility to showcase alternative fuel vehicles (AFV), fuel them, convert them, repair them and teach children about them at the adjoining EcoCenter. The day we opened in July of 2003, we were able to sell to the public 13 different models of AFV's that burn Ethanol, CNG and Propane, as well as two Electric Vehicles.

Shortly thereafter, CARB's policy shifted, and all of the major automakers stopped or greatly scaled back their AFV programs. One year later, we did not have a single AFV we could sell from either of our two franchises. In fact, one of the franchises, THINK, was sold at a reported loss to Ford of \$110 million dollars. Somebody had killed the electric car.

Five years later, the AFV showroom and the repair/conversion shop is vacant. They have been vacant since the beginning of 2008. The building is a big beautiful monument to misplaced hopes and dreams. It was built for a government induced market and the government changed its mind. The EcoCenter has prospered and fulfilled its mission by educating over 28,000 school children about alternative fuels but it has never been more than 12 months from financial collapse. Pearson Fuels has weathered the escalating gas prices and, until recently ran in the red for over 24 months in a row.

Most people without this historical perspective think that today's alternative fuel industry is the strongest it has ever been. They do not know that today's AFV industry is a shell of its former self from 5 years ago. I could fill a trashcan with business cards I have received over the years from people whose company cancelled their AFV project or went out of business altogether.

With great power comes great responsibility. An awareness of that responsibility is required as AB 118 sets out with the full intention to, "...transform California's fuel and vehicle types to help meet the state's alternative fuel use, and petroleum reduction goals..". It is our opinion that that responsibility should be reflected in consistency and should reflect the goals of the legislation's intentions and the work of many state employees who have spent many thousands of hours trying to bring together a workable plan.

CEC adopted the State Alternative Fuel Plan at its October 31, 2007 business meeting. The Plan presents findings and recommendations to increase the use of alternative fuels in California with an emphasis on near-term to mid-term actions. The Plan presents clear strategies and steps California must take to increase the use of alternative fuels by recommending a combination of policy measures, regulations, incentives, and market investments to achieve increased utilization of alternative and non-petroleum fuels. The Plan is the result of two years of work in the state of California and is the current blueprint for the state's future with respect to alternative fuels.

Here are some of its particular recommendations:

Actions Needed by Fuel Type

Ethanol - Immediate Actions (Years 2007 through 2015)

- Develop 30-60 ethanol production plants in California using imported corn feed stocks initially, but transition to production from agricultural, forestry, and urban wastes; producing biomethane and biogas; using purpose-grown crops such as sugar cane.
- Complete a cellulosic ethanol proof of concept production plant.
- Facilitate/resolve automaker certification of flex fuel vehicles (FFVs) to meet California air emission standards.
- Facilitate automaker commitments to produce FFVs as a portion of all alternative fuel vehicles sold in California each year. This would be a sizeable portion of a total of 750,000 alternative fuel vehicles added per year over 5 years.
- **Expand installation of higher blends of ethanol (E85) pumps in 2,000 stations over the next 10 years based on geographic distribution of FFVs within the state.**

When it describes government incentives, the Plan states that it is essential to sustain consistent and transparent government mandates and incentives over a 20 to 30 year timeframe and to stimulate a moderate growth rate of alternative fuels. As referenced in the Plan, the Governor signed AB 118 on October 14, 2007.

I want to take this opportunity to strongly suggest that the AB 118 Advisor Committee not focus entirely on long-range projects. Ten years ago I used to ask the most competent hydrogen engineers I ran into how long it would take before a consumer could actually buy or lease a real hydrogen car. As if they had practiced the answer, most would respond, "at least ten years". Now, ten years later, when you ask them the same question they will usually say something like, "at least ten years". I hope they are wrong and I hope they get some funding from AB 118 in order to speed up that time line but it is very important to create some short-term successes too.

In early 2003, the Bush administration announced that it would be demphasizing most alternative fuel incentives so that they could more fully support hydrogen development. Five years ago, San Diego had one hydrogen station and one hydrogen car. Today, there are no hydrogen cars and one unused hydrogen station. The beauty of funding programs like hydrogen, cellulosic ethanol, algae, or anything with the term "demonstration program" in the proposal is that no one really expects anything to come out of it in the short run. Their expectations are always met. In order to build some momentum and real market change, you need some short-term goals and some short-term successes.

California is the largest vehicle market in the world behind the United States and there are well over 500,000 ethanol flexible fuel vehicles (FFV's) on the roads in the state. General Motors alone has 19 different models available this model year and the vehicles cost the same as their non-FFV competitors. As of July 2008, California has 4 public E85 stations. Minnesota has about 330. By June of 2009 there are supposed to be 40 public E85 stations in California, but I will go on record right now saying there won't be. People often underestimate the expense and even more so, the permitting required to build an E85 station. To my knowledge, not one E85 station has ever been built in California without government financial assistance. Since I have built more of them than anybody, I can tell you that there is inherent risk in building a station and no reliable measure of financial return for potential investors. If an investor asks me if it is a good investment to build E85 stations, without subsidies, in California I have to tell them no. They ask me all the time.

The State Alternative Fuel Plan, adopted less than 1 year ago says that California needs to expand installation of higher blends of ethanol (E85) pumps in 2,000 stations over the next 10 years. In 2003 California had 1, today there are 4, next year, without AB 118 support, there will be less than 40. Only 9,960 to more to go!

When private investors are successful in building E85 refueling then the state has done its job and it should stop subsidizing their construction. It is my opinion that we will never get there without government support, support that is available through AB 118. I can state with confidence that our company alone could build 20-30 retail dispensers a year for the foreseeable future. Our plan requires no administration costs from the state and we take no percentage of the awards. We pour 100% of the funds into the infrastructure. The ultimate owner of the infrastructure, the station owner, pays us through a wholesale fuels supply contract. There is nothing approaching this kind of overhead ratio and short-term measurable results in long-range incentives. Remember no one really expects anything to come out of them in the short run so their expectations are always met.

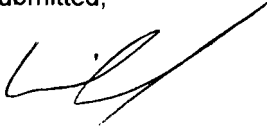
It is known fact that ethanol from corn as a feedstock is not the best way to produce ethanol. A commitment from the State to ethanol retail infrastructure will give some reassurance to the potential cellulosic producers that California is in it for the long run. Constant shifting of long term goals sends mixed messages to the industry. Industry leaders are afraid of the priorities changing every year and they will be left holding the bag. One example of this could be the \$15 million dollar empty facility that I sit in to write this document!

One more point regarding E85 fleet locations. I cannot think of a single scenario where the government should fund another part of the government to build an E85 tank and dispenser beside their existing gasoline dispenser just to meet a mandate. This is an excellent way to waste a tremendous amount of time and money and accomplish something with marginal benefit in the most expensive way possible. The last thing Californians need is another E85 station on the map that they are not allowed to get near. Any longer run fuel cost savings are eaten up by overhead expense, land opportunity costs, liability exposure, hazardous waste exposure, administration expense, training, fleet manager conferences, etc. etc. etc.

If there is a fleet of government FFV's, then the government should support the building of an E85 dispenser in an existing public gas station nearby and thereby get most of the benefits of having their own dispenser for the price of a Voyager card and a few pennies per gallon. In that scenario, the public would have full access to the facility as well and the government funds are further leveraged for public benefit. In anticipation of the objection that government fleets need their own fuel supply in the event of an emergency, I say: they are flexible fuel vehicles, in a real emergency burn gasoline if you have to.

In closing, we are supporters of the comments submitted by Clean Fuel USA under separate cover and we support in particular the concept of a Bridging Strategy and recommended PHASE-IN approach. We will end with a comment borrowed from them: Change must be fostered to take place early and often to gain the needed momentum to accomplish goals over a 42-year period and " a long race is won at the beginning".

Respectfully submitted,

A handwritten signature in black ink, appearing to be 'Mike Lewis', written over a horizontal line.

Mike Lewis

General Manager

Pearson Fuels

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