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Docket # 11-ALT-1

California Energy Commission
1516 Ninth Street
Sacramento, California

Dear Commissioner Peterman and Members of the Alternative Fuel and Vehicle Technology Program Advisory Committee,

I would like to express my appreciation to the Committee for allowing me to testify on the revised draft of the 2012-2013 Investment Plan. In addition to my comments during the public comment period of the meeting, I wish to offer the following thoughts on the importance of the CEC's support for E85, as well as encourage an increase in the proposed funding levels for 2012-2013.

Propel Fuels is a Redwood City-based retailer of high-blend ethanol (E85) and biodiesel with 20 fueling sites currently in operation in California and an additional 6 sites in Washington State. In partnership with the California Department of General Services, Propel is building 85 stations in Sacramento, San Francisco, Los Angeles, and San Diego. As you may know, this expansion is funded in part by the Energy Commission through the AB 118 program. We are currently busy completing the newest addition to the Propel network in Fullerton, which is scheduled to open mid-May. I hope that some of you will be able to attend our grand opening.

With this rapid expansion and an innovative marketing approach, Propel has built one of the nation's leading clean fuel brands in a short period of time. We calculate that Propel stations currently serve over 10,000 California drivers. Our CEC-funded sites averaged over 192,000 gallons of E85 per site in 2011. These volumes are far above the national average for E85 stations, even in states like Iowa and North Dakota, which have considerably higher concentrations of E85 retail stations. As I will explain shortly, Propel's volumes have grown on a monthly basis in 2012, reflecting continued consumer demand.

Propel has spent the last several months preparing to meet this growth in demand. With an estimated 1 million Flex Fuel vehicles soon to be on California's roads, and many more projected as automotive manufacturers ramp up production to meet 50% FFV goals, we see the opportunity for a large network of alternative fuel retail sites to make a significant contribution toward the State's petroleum reduction goals. To prepare to meet the growing market for E85, Propel has built a pipeline of station sites for development, hired a team experienced in fuel management and retail expansion, and secured private funding to match the contributions of the Energy Commission, and the US Department of Energy. With our newest term sheet for $20 million in private investment, along with $25 million in site development capital and $5 million in debt financing, we are advancing our plan to build 200 sites across California. We have also built strong relationships with traditional fuel retail site operators, including Pacific Convenience & Fuels, Circle K, and 7-11, who we will work with to install and operate alternative fuel infrastructure at existing gasoline stations.

Part of Propel's growth plan is to offer clean fuel options to a broader customer base. With a new model, called the Clean Mobility Center, Propel will control all fuel operations at a site, adding E85 and biodiesel to the existing fuel options at the site. This will reduce redundant costs, creating a more economic station model, while also offering customers amenities like carbon offsets, recycling, air pumps, public transportation information, and bike repair stations. The Clean Mobility Centers also offer the potential to include multiple alternative fuel types. Propel's goal has always been to be a clean transportation platform, and as hydrogen filling, fast electric charging stations, and other alternative fuel types become viable, we plan to include them at our stations.

While hydrogen, electric charging, and other alternative fueling technologies show great potential to reduce our dependence on foreign oil and cut back on greenhouse gas emissions, I believe that cutting back on investment in E85 in favor of these other fuel types would be a serious mistake. **E85 is available today at commercial volumes, using existing**

production, transportation, storage, and blending infrastructure. Priced at a discount to gasoline, it is also is an affordable option for all Californians. In a recent customer survey, we found that Propel customers come from many different demographic groups, not just those who can afford the high price tag of other alternative fuel vehicles.

Market Conditions

At Propel, we are determined to keep E85 an affordable option at the pump. Due to its lower energy content, E85 is typically priced at a discount reflective of its mpg loss to gasoline. With the expiration of the VEETC at the end of 2011, E85 lost a 38-cent tax credit. There was much concern that retailers would no longer be able to price the fuel at a competitive cost and that sales would drop as a result. We have actually found that following the loss of VEETC, market conditions have become even more favorable for E85 sales, and Propel has been able to provide good consumer discounts. E85 at our stations has been consistently priced between 35 and 40 cents per gallon below regular unleaded gasoline. Depending on the price of gasoline, this allows us to offer E85 at a target discount range between 11 and 19 percent.

While sales do tend to decrease when E85 reaches the lower end of the price discount range, we have generally seen consumer demand continue to grow. Propel experienced record-breaking sales volume across our station network in March. Volumes averaged over 16,000 gallons per month at our CEC-funded sites. Overall, E85 volumes were up 59% versus December 2011.

E85 will continue to be available and affordable in upcoming months. National ethanol stocks continue to grow, along with an ongoing drop in demand for gasoline. Corn futures indicate price decrease ahead, further reducing costs of ethanol to retailers. For the corn ethanol industry, E85 is an attractive outlet for excess ethanol until higher blends are introduced into the market. For the next generation of cellulosic ethanol producers, E85 is of critical importance, as it is currently the only way to expand the market for ethanol, which new entrants desperately need. The current oversupply of ethanol should keep ethanol prices low and has allowed

Propel to negotiate favorable supply terms with producers.

Like many states, California has an imbalance of vehicles that can run on E85 and infrastructure to provide that fuel. With little additional cost to add FlexFuel capacity (and zero additional cost to consumers), FFVs make up the largest share of alternative fuel vehicles in California. This creates a huge opportunity for E85 sales, as well as carbon reduction. If all FFVs in California today filled with E85 100% of the time, demand would exceed 696 million gallons per year. That translates to a reduction of 2.2 million tons of carbon. With California-sourced lower carbon-score ethanol, that reduction will be far greater.

The major barrier to achieving these volumes and emission reductions has been consumers' lack of access to E85. California currently has only 48 publicly accessible E85 retail sites. Propel's station expansion plans will add another 200 to that number in the next few years. With continued support from the CEC, Propel and other E85 retailers will increase California's concentration of E85 retail sites.

Another hurdle that Propel has overcome is the lack of consumer education about FFVs and E85. Surveys demonstrate that a majority of FFV owners do not know that their vehicle is capable of running on E85. Propel has developed a very effective marketing program to educate FFV drivers about E85 and introduce them to the fuel. Elements of this program include outreach to drivers through car dealerships and repair shops, free fuel days, and targeted direct mailings. Each station also features clear signage and lists of E85-compatible vehicles.

Proposed Funding Levels

I'd also like to address the draft Investment Plan's proposed levels of funding and suggest that changes be considered for the grant allocations. The proposed funding across all categories may have been calculated based on multi-year program goals, thus this year's allocations may not be considered an ordering of the CEC's priorities. However, with large disparities between fuel types ($11 million for hydrogen fueling versus $1 million for E85 stations) investors will undoubtedly look at the budget as an indication of the State's priorities.   A more equitable distribution would assure investors that the State is truly interested in funding all types of alternative and renewable fuel.

There is currently a mismatch between spending and impact, with categories with the largest number of vehicles, greatest emission reduction, and broadest customer base receiving the least amount of funding. Dollar for dollar, E85 infrastructure supports the largest number of existing vehicles, results in significant GHG emissions, and is socially equitable to a degree unattainable by other fuels in the near future. As an experienced alternative fuels retailer, we know that investing in E85 makes sense for both our customers and for the State. Like the Energy Commission, we are interested in supporting other types of alternative fuels, including electric charging stations and hydrogen fueling. Promising as these technologies are, there are not nearly enough vehicles on the road today to significantly contribute to the CEC's petroleum and CO2 reduction goals. While it is important to provide support for transportation types that may have significant demand in the future, it is imperative that we continue to fund projects that are deploying fueling infrastructure that meets existing, untapped demand. For this reason, we believe that E85 infrastructure spending should take priority over other categories, but in any event, should at least enjoy equivalent treatment.

This is a pivotal moment for E85 in California.   While market economics for E85 are promising, the value proposition for new E85 retail sites isn't high enough to spur sufficient private investment in new construction without additional government support.   Investors have shown interest in supporting E85, but want to see a commitment from the State that funding for infrastructure will continue to be a priority. Without a signal of continued support, the capital markets will fear that the State's E85 project will terminate before E85 becomes a viable business in its own right. **Any decrease in funding levels (as proposed in the current draft) will create insufficient incentive for new construction, and will stall the implementation of an E85 network in the State.**

We understand that the Energy Commission has experienced less demand for this funding category than for some other categories. This is largely a result of the funding limitation on a per station basis. Current grant support covers less than one-third of the costs of a new station installation and only covers part of the costs of equipment, providing no funding for the significant cost of construction, design and engineering or permitting fees. Increasing the per-station funding level to cover $150,000 or more would generate much more interest in this program. As we've seen with proposed Hydrogen funding, the more of the cost that the CEC covers, the more interest there is in deploying the infrastructure. The relative lack of interest in the category is the market's signal that the per-station funding levels are not high enough; therefore, the appropriate response should be to increase the per station funding levels, not to cut the size of the program.

An 80% cut to E85 funding levels will guarantee a drop-off in future deployments of the infrastructure, but it doesn't have to be that way. With the Energy Commission's continued grant support at or near the levels of previous years, an expanded network of retail infrastructure can meet the proven consumer demand for this domestic, renewable fuel, while creating a pathway for large-scale emission reductions. **I urge you to continue investing in E85 infrastructure in California, and to adjust the 2012-2013 Investment Plan funds to $5 million or higher, a level that will continue to incentivize construction.** This investment will send a clear signal to investors that the State supports a real change in the fuel market and is serious about expanding consumer options at the pump. Without this support, the construction of new sites is likely to come to a halt.

Thank you for the opportunity to provide these comments. I am available to provide additional information or to respond to any questions that you may have about Propel and E85.

Sincerely,

Matt Horton, CEO
Propel Fuels