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California Energy Commssion
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Docket # 12-ALT-02

December 18th, 2012

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 Propel to testify on the revised draft of the 2013-2014 Investment Plan. In addition to our comments during the public comment period of the meeting, I wish to offer the following thoughts on the importance of maintaining funding for E85.

Propel Fuels is a Redwood City-based retailer of high-blend ethanol (E85) and biodiesel with 25 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 expanding its network to nearly 200 sites throughout the state. This expansion is funded in part by the Energy Commission through the AB 118 program, using funds from several previous Investment Plans. We recently began work on an expedited construction schedule; three sites are under construction as of December 12th, and we will break ground on another three in the first two weeks of January. Funds from this Investment Plan will be critical in maintaining the growth of the E85 network beyond those funds that are currently being deployed from prior years' allocations.

Propel has been instrumental in increasing access to E85 in California. Since 2008, when we opened our first station in Sacramento, we have nearly doubled the number of biofuel stations in California. We calculate that Propel stations currently see over 50,000 fills per month. Propel's volumes have continue to grow on a monthly basis in 2012, reflecting continued consumer demand. Our CEC-funded sites are projected to average over 249,000 gallons of E85 per site in 2012, up from 192,000 in 2011. These volumes are far above the national average for E85 stations, even in Midwestern states, which have considerably higher concentrations of E85 retail stations.

As volumes grew this year, Propel customers reached impressive carbon reduction milestones. According to our CleanDrive program, which tracks emission reductions from Propel drivers, our customers have displaced over 6 million gallons of petroleum by purchasing biofuels. By filling with E85 and biodiesel instead of traditional petroleum products, they have saved over 60 million pounds of $C0_2$. We expect these numbers to grow when we calculate the additional impact of our trial run of SoladieselBD™, a new algae-based based biodiesel product produced in partnership with Solazyme. This partnership was the first of its kind in the nation, introducing algal fuel at retail for the first time. Initial analysis of the sale indicates that it was a well-received product and that drivers are eager to use advanced biofuels.

Selling advanced biofuels is just one way that we are working toward our company goal of offering new clean fuel options to a broader customer base. We continue to build partnerships with companies that are focused on making options like hydrogen, CNG, and EV fast charging viable. We hope to offer these options and more at stations funded through the Investment Plan.

However, while the Propel station of the future may offer additional alternative fueling technologies like hydrogen, CNG and fast charging, we believe that E85 will continue to be our most popular product for many years to come. Consequently, we believe that cutting back on investment in E85 in favor of these other fuel types would be a serious mistake.

Affordable and Available

At Propel, we are determined to keep E85 an affordable option at the pump. As noted in the Investment Plan, E85 is typically priced at a discount reflective of its mpg loss to gasoline due to its lower energy content. While some vehicles may experience up to a 25% mpg loss using E85 versus petroleum (as reported in the Investment Plan), many newer models are considerably more efficient (a Propel-sponsored 2011 vehicle test by the LA County Sheriff's Department indicated that their most popular vehicle models experienced between 8% and 17% loss per gallon). Based on extensive surveying of Propel's customer, we find that real-world driving experience approximates the LA Sheriff's testing. Regardless of their vehicle, our customers are sensitive to this difference, so we work to ensure that our prices maintain good consumer discounts. E85 at our stations has been consistently priced between 26 and 93 cents (averaging 59 cents in recent months) 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. We have found that this discount, in addition to enhanced vehicle performance and the associated environmental benefits, is sufficient to draw demand.

In addition, 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 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. Even as seasonality increases national ethanol prices over the winter months, Propel is able to ensure affordable prices to our customers.

E85 Infrastructure: The missing piece

Unlike many other fuels funded through the Investment Plan, E85 already has most of the pieces in place for wide-scale adoption. FFVs already represent the largest alternative fuel vehicle market in the state. 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, not only the wealthiest. Our growing sales indicate that demand is strong in diverse communities across the state. The only missing piece is retail infrastructure.

Previous Investment Plans have highlighted access to retail infrastructure as a key challenge. The 2011-2012 Investment Plan notes that "the Energy Commission expects that the retail presence and sales of E85 will need to expand if the state is to meet its fair share of RFS2 compliance. Depending on the average quantity of fuel sold by a typical E85 dispenser, California could require between 4,400 and 30,900 E85 dispensers by 2022." However, the current Investment Plan intends to pause funding due to "the potential for new sites to undercut the market viability of previously funded stations". While we think that the State can be adequately served by fewer than 4,400 stations, our calculations show that the state could use hundreds more E85 stations without undercutting existing stations. It would be helpful to understand the reasoning of the draft Investment Plan and why it differs from previous projections.

Our view of the infrastructure opportunity is supported by the continued growth of the FFV market. We estimate that the total number of FFVs in California is now approaching 1 million. That number has increased dramatically since 2010, in large part because the big three automakers are making great progress toward meeting their commitment to have 50% of their vehicle models converted to flex fuel. In fact, in the current model year, 55% of Chrysler, 50% of GM, and 26% of Ford vehicle models are now FFVs. However, due to the lack of infrastructure, it is estimated that only 5% of FFVs are filled with E85 in California. We see this as a huge market opportunity for E85 sales.

Continuing expansion of the State's E85 network is also an opportunity to make a significant contribution toward the State's petroleum reduction goals. 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. These reductions are critical to helping California meet its GHG targets.

Proposed Funding Levels

This year's draft investment levels represent 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, CNG 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. **We recommend reallocating funding from the hydrogen category to return $3M to E85 infrastructure.** For the same investment as 2 hydrogen stations (for which there is little current demand), the State can fund 30 E85 stations and continue building momentum.

While Propel has seen an impressive growth in sales in 2012, 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 an ongoing 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. **Eliminating funding will create insufficient incentive for new construction, and will stall the implementation of an E85 network in the State.**

I urge you to continue investing in E85 infrastructure in California. Investing in infrastructure is a well-recognized solution to increasing access to renewable fuels (E85 and biodiesel products, as well as advanced biofuels). There is proven, growing demand for E85, and it 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.

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, Inc.