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California Energy Commission
1516 9th St,
Sacramento, CA 95814

CC: Andre Freeman, California Energy Commission

Re: Integrated Energy Policy Report

California Energy Commission

**DOCKETED
13-IEP-1A**

TN 72315

OCT. 31 2013

Dear Commissioners:

Thank you for the opportunity to comment on the draft of the 2013 Integrated Energy Policy Report. Propel appreciates all of the hard work and effort that goes into this bi-annual report. We were pleased to be invited to partake in the workshops that have comprised portions of the findings and strongly support the energy commission's efforts to lead our State towards a more sustainable energy future.

Executive Summary

Propel agrees with the statements regarding biofuels in the executive summary. We support funding research and development for advanced biofuels. The Energy Commission should continue supporting research and development needed to reduce the cost of algal-based and other advanced biodiesel fuels.

Ch. 3, Bioenergy Status and Issues

The chapter reports on the status of the industry and challenges to operating and developing bioenergy production facilities in California. As stated, a report by the California Council of Science and Technology (p. 37) found that *substantial amounts of low-carbon biofuels* are needed to reduce greenhouse gas emission 80 percent below 1990 levels by 2050, even with optimistic assumptions about efficiency, electrification, and use of other renewable energy sources. We strongly agree with this statement and believe that further investment is required to guarantee that the goals of the Low Carbon Fuel Standard, as well as the Bioenergy Action Plan are met.

The report acknowledges the ethanol market in CA has grown to 1.5 billion gallons in 2012, an increase of 0.5 billion gallons since 2008, and with ethanol "dominating" the biofuels market in the state. However, we agree that while this growth is mainly due to an increase in ethanol blends in gasoline from 5.7 percent to 10 percent in 2008, we feel that E85 sales have played a significant role as well.

Propel Fuels is the leading renewable fuel retailer on the West Coast. We are focused on building alternative fuel filling stations and selling flex-fuel E85 ethanol and B20 biodiesel blends through our network of stations in California and Washington. In the 2013 IEPR, E85 is referred to as a "small portion" of sales.

"In 2012, 6.5 mil gallons of E85 were sold in CA." All things considered, we agree that 6.5 million gallons is a small portion of sales in comparison to the 1.5 billion gallons of ethanol blended into conventional gasoline.

However, we feel it is important to point out that significant strides have been made in building the alternative fuel retail infrastructure in the State. In 2013 alone, Propel will have installed over 15 new E85 locations, and will continue to do so for the foreseeable future. Our experience leads us to believe that while volumes of E85 sales to date remain modest as compared to gasoline volumes, both the percentage of market share and total volumes have been steadily increasing and will continue to do so in the future.

Biodiesel

The report states that biodiesel blends for light-duty and passenger vehicles have been limited to 5% because equipment “manufacturers and companies offering extended warranties on their products are reluctant to guarantee their products using higher biodiesel blends.”

“Biodiesel can be safely used at various 5 percent blend levels, and a new ARB alternative diesel fuel regulation being developed will guide the use of this fuel in California” – p. 192. Propel believes that education remains a key component in educating customers about the biodiesel’s compatibility with diesel vehicles and the viability of higher blend levels in vehicles.

Estimates regarding the number of biodiesel facilities, capacity & production vary. The Commission notes that while 80 million gallons of biodiesel and renewable diesel production capacity exists in California, there has been only 19.5 million gallons of actual production annually. We generally agree with these estimates and believe this is consistent with what we have seen in the marketplace.

We believe that the Energy Commission should continue to invest in supporting biodiesel efforts in the State – both the production and use of the fuel. It is one of the most affordable drop-in replacements for petroleum available today. Propel has invested significant capital into biodiesel compatible equipment in order to sell this advanced biofuel we would urge the Energy Commission to support investments in retail infrastructure for biodiesel blends. As future diesel vehicle sales grow as a percentage of the total vehicle market, we believe that efforts to support the production and blending of biodiesel will ultimately be passed down to the customer. By making biodiesel more competitive against conventional diesel, it will aid in the adoption of the fuel, consumer acceptance, and therefore greater GHG emission reductions and in-state production. Furthermore, Propel sees increased biodiesel blending and usage as the most readily available and lowest cost option to lower the carbon intensity (CI) of California’s diesel fuel pool.

Advanced ethanol

We agree with the Commission in acknowledging that in-state ethanol producers face challenges competing with Midwest corn ethanol & Brazilian cane ethanol.

Ethanol producers are looking for alternative fuel sources with lower Carbon Intensities and less feedstock competition; i.e. grain sorghum & biogas. Milo or grain sorghum, which recently qualified as Advanced Biofuel feedstocks under RFS2, are now being used at many plants in California and the economics are enhanced by the presence of additional value from RIN credits. However, for ethanol retailers, there is not a clear benefit to introduce these lower CI fuels to the customers. Essentially the credits are already “priced into the fuel”, embedded in the retailer’s cost, with the benefit being held by the producer. So while the credits can provide a revenue stream, it adds risk to the retailer and reduces value to the consumer.

Flex-Fuel E85

In the only paragraph on E85 in Chapter three (p. 64), the Commission states that E85 stations have increased from 20 in 2009, to 83 stations in 2013. We would like to remind the commission that according to the Low Carbon Fuel Standard the state could support up to 1,000 E85 stations.

We generally agree with the industry characterization that “high construction costs coupled with uncertainty in demand have hindered additional development in California, despite continuing investments through the Alternative and Renewable Fuel and Vehicle Transportation Program (ARFVTP) though our experience in the market suggests that demand for renewable fuels is strong and growing.”

High construction costs have definitely played a role in inhibiting the growth of the E85 infrastructure in the state. While the investments through the ARFVTP have helped mitigate the costs, the fact remains that companies must first raise private capital, and then spend all of the capital before receiving any reimbursement. This structure, while mitigating risk of compliance for the Commission, also makes it very difficult for banks for smaller private companies to continue development at a rapid pace, as they are often required to wait for lengthy periods of time to receive reimbursements. Furthermore, with regard to sales, we agree that while sales have grown many developers and operators remain concerned about the profitability of new fueling stations and their return on investment. The commodities markets have a history of turning against investors, particularly those without sufficient scale to capture more value or weather difficult periods. So while consumers have demonstrated their strong acceptance of E85, investors in this area will continue to face risk and only time will show how attractive renewable fuel investments have been.

We agree that the price of ethanol must remain competitive with gasoline. Although, the definition of competitive is open for interpretation. We have seen retail prices for E85 range from a 10% discount, to 20% discount to conventional fuels. We believe that prices will remain within this range, and therefore competitive.

CH 8 (Transportation Energy)

We agree with the characterization that policies to “improve efficiency, increase the development and use of alt fuels, reduce air pollutants and GHG emissions from the transportation sector have shown initially modest progress, but new circumstances are posed to push significant advances.”

We applaud the legislature’s September 2013, reauthorization of the AB 118 program via AB 8. We are delighted that Assembly member Parea’s bill passed, extending funding through Jan 2024. The ARFVTP’s \$100m / year budget is absolutely required in order to continue to develop and deploy vehicle technology and alternative and renewable fuels in the marketplace.

Propel is content with the fact that the California Energy Commission has invested one third (\$127.6 mil) of the ARFVTP’s budget in biofuel production and development to date. However, while \$100m of funding has gone to 36 fuel production projects of low carbon intensity values (75% below gas and diesel), only \$16.5m has been invested in E85 ethanol and B20 biodiesel fueling stations.

We wish to highlight that while investing in the production of new fuels is important, significant investment in alternative fuel infrastructure will still be required to bring these future fuels to market. Reductions in the amount of required private match share could significantly speed deployment of new station infrastructure.

The future fuels will have to be transported via truck to terminals for blending, stored in above and below-ground storage tanks, and retailed through piping and dispensers. There needs to be continued investment in upgrading and replacing infrastructure in order to ensure that these fuels have a home, if and when they do reach the commercial scale.

As the goal of the State Alternative Fuels Plan is to maximize the use of alternative fuels in internal combustion engines, up to the level of an 11 % alternative fuel use by 2017, we believe that further actions could be taken by the Commission to ensure these goals are met. Above and beyond investing in new programs through the ARFVTP.

In fact, the California Air Resources Board's "Reducing California's Petroleum Dependence" report, recommends increasing the use of alternative fuels to 20% of on road transport fuel by 2020 (4 Billion gallons) and 30% by 2030. In addition, the Bioenergy action plan targets the use of 1.6 billion gallons of biofuels use in 2020.

Propel Fuels supports the strategic goals for the ARFVT program – to establish the foundation for a ZEV & near ZEV transportation future. The "early establishment of alternative fueling networks signals California's commitment to the long-term transition to alternative fueled and powered vehicles. This in turn should boost early market sales of alternative vehicles in California." Through our development efforts and strong marketing, we are starting to see this transition first hand.

We understand the Commission is focused on shifts in medium and heavy duty truck fleets from diesel to natural gas. We also believe it is a priority for the Commission to ensure commercial production of advanced technology biofuels in California. Our feedback would be that biodiesel can also aid in the reduction of diesel emissions in heavy duty fleets.

E85 retail environment

The 2014 IEPR Acknowledges that alternative technology vehicles (such as flex-fuel vehicles) represent small fractions of the total fleet of over 26 mil vehicles and that 10,000 retail gasoline fueling stations in California (p. 179).

We strongly agree that the growth of key alternative fuel, vehicle and infrastructure sectors are an early indicator California fuel and vehicle markets are beginning to shift towards alternative, renewable and advanced vehicle technologies. We are excited to be taking part in this transition, and helping to lead the way in developing this infrastructure.

We are pleased to have seen E85 funding increase from enough to build 39 fueling stations in 2009-10 baseline funding levels to 205 fueling stations through June 30, 2013. However, we believe that further investment is needed in this area in order to reduce the average drive time between E85 stations.

The Commission states that there has been a 6% decline in gas consumption since 2008, which reflects the effect of national economic downturn, and vehicle efficiency improvements. Also, there is the duplicative effect of the CAFÉ requirements which have mandated auto manufacturers to increase average mpg from 27.5 to 35.5 in 2016, and to 54.5 in 2025.

Based on the CEC's estimates California should experience a 2 billion gallon decline in gas consumption, from 14.6 billion gallons per year in 2012 to 12.7 billion gallons per year by 2022. This is significant not only in that

it will affect production levels at refineries, but will also severely impact the retail fueling segment of the industry. As customers fill up less often, and fill with fewer gallons each time, gasoline station operators bear the brunt of reduced revenues and therefore declining profits.

With continued program support, E85 has been proven to be one way that fuel retailers can replace their declining conventional fuel revenue with new revenue from renewable fuels. For many, adding an E85/B20 station also allows them to welcome a new customer to their site who would not have normally shopped there.

As discussed, California experienced modest but notable increases in the use of alternative fuels in recent years. We at Propel feel that we have helped contribute to this growth and are bullish on the future of renewable fuels in the State going forward.

Sincerely,

Adam Walter
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