

Energy - Docket Optical System

From: Mike Lewis <mlewis@pearsonfuels.com>
Sent: Friday, January 09, 2015 10:16 AM
To: Scott, Janea@Energy
Cc: Butler, John@Energy; McKinney, Jim@Energy; Smith, Charles@Energy; Freeman, Andre@Energy; Energy - Docket Optical System
Subject: Additional Comments to Docket 14-ALT-01
Attachments: Docket 14-ALT-01 by Pearson Fuels 2.pdf

In addition to previously submitted comments please also accept these comments to the docket.

Sincerely,

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California Energy Commission

DOCKETED

14-ALT-01

TN # 7426J

JAN 09 2015





Commissioner Janea Scott, ARFVTP Lead Commissioner
California Energy Commission
1516 Ninth Street
Sacramento, California 95814

January 8, 2015

Subject: Comments to the Docket-14-ALT-01

Dear Commissioner Scott:

I am Mike Lewis, co-founder and General Manager of Pearson Fuels in San Diego. As you know, Pearson Fuels built the first E85 fuel dispensing system on the west coast back in 2003, and it still operates today, having dispensed over 1.7 million gallons of E85 to the public. Since then, we have worked with the Air Resources Board (ARB) and the California Energy Commission (CEC) to establish seventeen E85 retail fueling facilities at many existing gasoline stations around the state. Because of the CEC's previous support, we will open another seventeen E85 sites within the next 12 months. We also distribute biodiesel and bulk ethanol, and have spent considerable time siting retail hydrogen stations. We are a California company, and we only do business in California.

I want to bring to your attention, and to the attention of the Alternative and Renewable Fuels and Vehicle Technology Program (ARFVTP) Advisory Committee, an issue that greatly impacts the state's ability to attain its goals of utilizing ever-larger volumes of low-carbon biofuels, especially cellulosic and other forms of ultra low-carbon ethanol. According to recent CEC staff reports, the ARFVTP investments will not be enough to meet even the 2020 GHG goals (let alone those for 2050). They have also reported that California is producing only 22% of the annual ethanol demand in California and that LCFS credits generated from ethanol increased almost 40 percent in 2013 compared to 2012, rewarding the industry's substantial shift to producing lower-carbon intensity ethanol. These facts bring to the forefront an opportunity for the ARFVTP program that may not have been identified or considered.

The most recent Draft Investment Plan proposes \$20 million in funding for Biofuels Production and Supply. Obviously this funding can be used to enhance existing plants operations to make them cleaner and to get small plants off the ground, as it has in the past.

However, due to the Prevailing Wage requirements, this money will likely not legally be used to build a large new in-state plant because the grant would trigger Prevailing Wages for the whole plant construction which would increase labor costs beyond the value of the grant. If the funding is used to make existing plants cleaner, and to develop little plants, the program is turning a blind-eye to literally 78% of the ethanol that will continue to be imported into the state. All of this estimated 780 million gallons a year is either railed in from the other states or imported by ship from other countries, and is the equivalent of 27,000 rail cars of ethanol per year, or 2,249 per month.

The great majority of this fuel comes in by rail in "unit trains" of 96 rail cars or more. There are five unit train facilities in California that can offload these trains. Every one of these facilities is either owned or

controlled by either a major petroleum company or an exceptionally large fuel marketer. This puts literally all of the market power with these five petroleum companies that are using the ethanol as a gasoline blend stock, and not for E85 fuel for existing Fuel Flexible Vehicles (FFVs).

In order to comply and better compete in the new LCFS California market, there are many smaller ethanol plants throughout the United States who have made significant investments to lower the Carbon Intensity (CI) scores for their produced ethanol. However, if such a small, progressive plant is not equipped for loading these large unit trains bound for California, it can be very difficult for them to get those cars to the California market. As a result, their production can suffer or the fuel may be directed elsewhere, thereby removing their ability to capture the critical LCFS market incentive, negatively impacting the overall future economic viability of these very ultra-low carbon ethanol production plants that will be urgently needed.

There is, however, a viable and practical alternative to the unit train dilemma. Pearson Fuels is a trans-loader of ethanol in both Northern and Southern California. This means Pearson Fuels buys single rail cars of ethanol from the Midwest and then imports them into California. We then transload the ethanol from the rail cars to fuel trucks that deliver it to its final destination. This is a much smaller scale off-loading operation than a unit train facility, and as a result, we bring manifest cars in one at a time, or a few cars at a time, as necessary. As a result, we can provide a market outlet to these smaller plants that have much lower CI, and allow them to bring that lower CI product to the California market, as the legislation intended, while supporting the goals of the ARFVTP.

One of the difficulties for the smaller sub unit train size facilities is that the unit train facilities are able to purchase ethanol at approximately a \$0.04-0.05 per gallon price advantage so it is very hard for these smaller facilities to compete. The facilities need funding for tankage and other upgrades that will facilitate the offloading thereby increasing their ability to compete with the five large and well established petroleum companies that currently control the California ethanol market.

I am convinced that this will be a more cost effective solution to reducing GHGs as well as displacing petroleum and achieving the goals of the LCFS. I propose that you carefully focus the funding in the Production and Supply category, to address the current market inequity by directing the funding to be used for the expansion and improvement of existing trans-load and sub unit-train sized importation facilities. As a longstanding participant, stakeholder, and partner with the CEC, I can attest that it is the most cost-efficient and cost-effective way of meeting the combined goals of the state, and the ARFVTP program, and I pledge to work hard, in partnership with the CEC and other agencies, to assure we have a viable, pragmatic and cost-efficient pathway to achieve our Climate Change Goals for California.

Your time and consideration are appreciated.

Sincerely,



Mike Lewis
General Manager, Pearson Fuels

cc. John Butler
Charles Smith
Jim McKinney
Andre Freeman