Michelle Buffington
California Air Resources Board
Sent via Email Only

July 15, 2011

Dear Michelle:

During the last LCFS Advisory Panel meeting, the panel discussed the availability of alternative fuels to which the federal government might attribute 50% or greater greenhouse gas reductions from specified baselines. ARB asked for comment on that subject and how the availability of such fuels might affect compliance with the Low-Carbon Fuel Standard ("LCFS") regulation.

There have been significant technological advances in biofuel development, as a result of initiatives at the federal level and independent of the LCFS program. For example, this month the U.S. Department of Energy announced a significant loan guarantee for POET's Project Liberty in Iowa that, if completed in accordance with current plans, could produce 25 million gallons of cellulosic ethanol annually from a process that includes corn stover. Nevertheless, advanced biofuels are not yet being produced at the necessary scale to achieve compliance with the LCFS regulation. Just a few weeks ago, the U.S. EPA announced its proposed targets for cellulosic ethanol production under the Renewable Fuels Standard for 2012. Instead of a target of 500 million gallons of cellulosic ethanol expected in 2012 when Congress enacted the 2007 Energy Act, the upper-level target for 2012 has been reduced to 15.7 million gallons. (76 Fed. Reg. 38,844, 38847 (July 1, 2011).)

EPA's assessment is consistent with our opinion that despite the industry's efforts being supported at the federal level, compliance strategies for the LCFS regulation based in large part on liquid fuels and current price points will not permit year-by-year compliance with the LCFS regulation after 2012, and that any accumulated credit surplus would be consumed in early 2015. I have attached several charts that depict what may happen in the market. I would be glad to discuss the assumptions used in the analysis shown in the charts if that would be helpful.

We continue to believe that in order to maintain compliance under the LCFS, there is going to have to be some leeway given to regulated parties in order to comply. We believe that significant changes in the LCFS regulation that would allow corn ethanol from the Midwest to qualify into California over the long term would help attain ARB's goals and it would parallel what has been done the past two years at the federal level to meet the overall renewable fuel volumes of EPA's Renewable Fuels Standard. Organizations like POET cannot survive in the marketplace in California under the current regulation, and that limits resources to help bring advanced biofuels to the market. At a minimum, CARB needs to act soon to allow the regulated parties to carry deficits over longer periods or delay the current compliance schedule. Otherwise, the gasoline market in California is headed for supply shortages or sharp price increases at the retail level, as regulated parties pass on the price of alternative fuels other than corn ethanol to the motoring public.

Thank you in advance for your consideration of these comments.

Sincerely,

Bob Whiteman
CFO
Poet Ethanol Products
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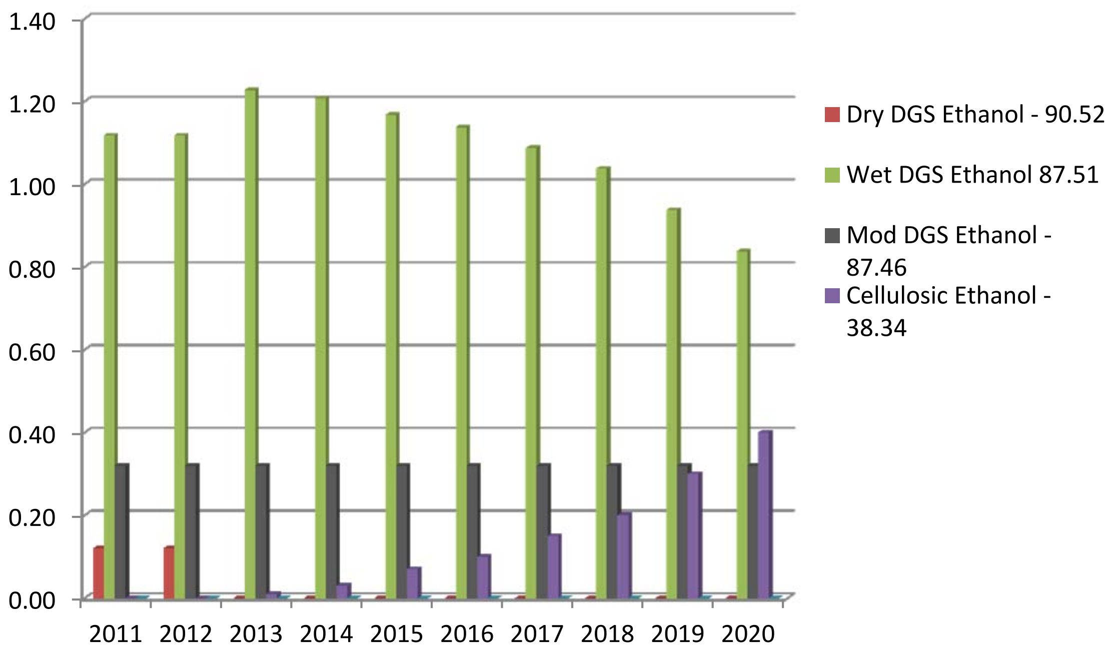
CA Ethanol Availability Forecast
(in billion gallons)



•Assumptions

•EPA waives the Advanced Renewable Fuel requirements in 2013 to effectively match the domestic biomass-based diesel production (reference 2011 NOPRM), negating the need to import Brazilian ethanol from sugarcane.

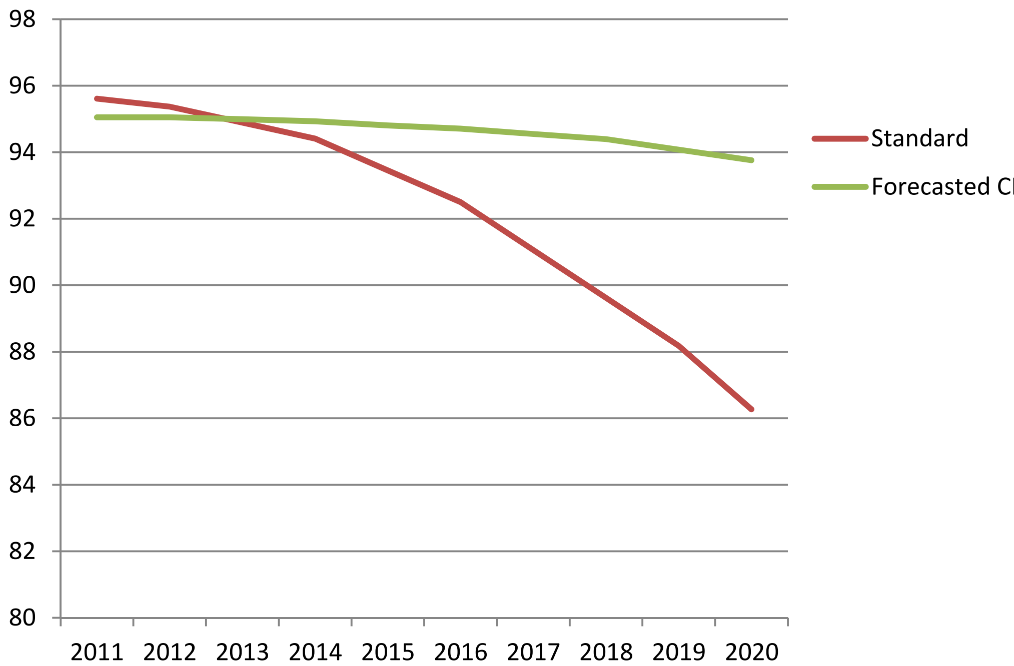
•This analysis evaluates likely shipping patterns of existing registrants, assuming that CA refiners do not begin paying more for credits than they already are.

•Carbon Intensities are derived from weighted averages of registered pathways and forecasted shipments the registered producers.

•No implementation of E-15 in CA.

•Cellulosic ethanol is first available in 2013 and the ramp up in production from plants strategically positioned to ship to CA is slower than forecasted by ARB.

CA Forecasted Compliance Schedule Based on Ethanol Availability



•Assumptions

•This forecast does not consider credits generated from non-ethanol sources, however it seems unlikely that sufficient quantities of alternative sources of credits will be available at today's prices before 2015 when the forecasted surplus from '11 and '12 is fully consumed.

•While additional gallons are available, other wet distillers grain ethanol and Brazilian ethanol from sugarcane, it will require a higher price than is currently being paid today in order to attract them to CA.