



Linda S. Adams
Secretary for
Environmental Protection

Air Resources Board

Robert F. Sawyer, Ph.D., Chair
1001 I Street • P.O. Box 2815
Sacramento, California 95812 • www.arb.ca.gov



Arnold Schwarzenegger
Governor

September 11, 2006

To: Public, Interested Community Members, Government Officials, and Industry Representatives

The California Air Resources Board (ARB/Board) staff would like to invite you to participate in a public workshop to discuss potential incentives and funding for alternative transportation fuels. Pursuant to Assembly Bill (AB) 1811, the ARB is to develop a joint plan with the California Energy Commission (CEC) to spend \$25 million for the purposes of incentivizing the use and production of alternative fuels. AB 1811 requires the funds to be encumbered by June 30, 2007.

The workshop will be held at the following time and place:

PLACE: Air Resources Board
1927 13th Street
Sacramento, California 95814
Monitoring and Laboratory Division-Conference Room
DATE: Thursday - September 21, 2006
TIME: 1:30 p.m. – 3:30 p.m.

Please contact ARB's Disability Coordinator at (916) 323-4916 by voice or through the California Relay Services at 711, to place your request for disability services. If you are a person with limited English and would like to request interpreter services, please contact ARB's Bilingual Manager at (916) 323-7053.

This public workshop will have teleconference capabilities. To participate by teleconference, dial (800) 988-0490 and give the participant code: 42222 and leader name: Dean Simeroth. For international calls, dial +1-210-795-2680.

More detailed information on this public workshop can be found at ARB website: <http://www.arb.ca.gov/fuels/altfuels/incentives/incentives.htm>. Please see the agenda (Attachment A) for this workshop.

There are a number of recent state policy directives that call for substantial expansion of the use and production of alternative fuels made from biomass and to reduce dependence on petroleum-based fuels. These include the Climate Action Plan,

The energy challenge facing California is real. Every Californian needs to take immediate action to reduce energy consumption. For a list of simple ways you can reduce demand and cut your energy costs, see our website: <http://www.arb.ca.gov>.

California Environmental Protection Agency

Public, Interested Community Members, Government Officials, and
Industry Representatives

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Executive Order S-06-06, and the Bioenergy Action Plan for California. To support these policy directives, AB 1811 (Attachment B) provided the \$25 million to incentivize and fund:

- Market-based incentives for high efficiency, high mileage, alternative fuel light, medium, and heavy duty vehicles, both individual and public fleets, in California.
- Production incentives for alternative fuel production in California;
- Market-based incentives for the construction of both publicly accessible alternative fuel retail refueling stations and fleet fueling facilities; including E-85.
- Funding for research, development, and testing of alternative fuels and vehicle technology.
- Incentives to replace the current state vehicle fleet with clean, high mileage alternative fuel vehicles.

These concepts and proposed funding levels are discussed further in Attachment C.

This workshop provides an opportunity for the public to help identify and discuss potential priorities and incentives for alternative fuel vehicles and infrastructure. We are encouraging the broadest possible range of public participation to provide the greatest opportunities for exchanging ideas on alternative fuels. Staff plans to present conceptual proposals to the Board for approval at the October 19-20, 2006, meeting in Sacramento. Staff tentatively plans to release Request for Proposals in the December/January timeframe.

If you have questions about the upcoming public workshop, please feel free to contact Mr. Dean C. Simeroth, Chief, Criteria Pollutants Branch at (916) 322-6020.

Sincerely,


Robert D. Fletcher, Chief
Stationary Source Division

Attachments

cc: Dean C. Simeroth, Chief
Criteria Pollutants Branch

ATTACHMENT A

AGENDA

Public Workshop to Discuss
Potential Incentives for Alternative Fuel Vehicles and Infrastructure

Air Resources Board
1927 13th Street, Sacramento, California 95814
Monitoring and Laboratory Division - Conference Rooms

Dial-In #: (800) 988-0490
Dial-In # for International Calls: +1-210-795-2680
Participant Code: 42222, Leader Name: Dean Simeroth

Thursday – September 21, 2006 – 1:30 p.m. – 3:30 p.m.

INTRODUCTIONS AND BACKGROUND

DISCUSSION OF:

- Provisions of AB 1811.
- Process to be used.
- Possible categories for funding:
 - E-85 and Other Alternative Fuels: Fuel Infrastructure and Price Parity Incentives
 - Biofuels: Production Facility Incentives (e.g., biodiesel, digesters,)
 - Zero Emission and Near Zero Emission Alternative Fuel Vehicle Incentives
 - Research, Development, and Testing of Alternative Fuels and Vehicles.
- Other potential categories including other fuels.
- Proposals by others.

NEXT STEPS AND CLOSING REMARKS

ATTACHMENT B

AB 1811 – Chapter 48 – Pages 30-31 (June 2006)

6. \$25 million shall be expended in the budget year pursuant to an expenditure plan jointly developed by the State Air Resources Board and the Energy Conservation Resources and Development Commission for all of the following purposes:
 - (a) Market-based incentives such as buydowns, rebates, credits, or other incentives for purchasers of high efficiency, high mileage, clean alternative fuel light, medium, and heavy duty vehicles, both individual and public fleet, in California.
 - (b) Production incentives such as loans, loan guarantees, and credits for clean alternative fuel production in California.
 - (c) Market-based incentives such as loans and loan guarantees for the construction of publicly accessible, clean alternative refueling stations, including refueling stations that sell ethanol blends consisting of at least 85 percent ethanol E-85, sufficient in number to match the existing and anticipated supply of E-85 vehicles in California.
 - (d) Grants for research and development of clean and zero emission fuels and vehicle technology to assist in making those technologies affordable in the marketplace.
 - (e) Incentives to replace the current state vehicle fleet with clean, high mileage alternative fuel vehicles.
7. None of the funds appropriated pursuant to Provision 6 shall be used for incentives, grants, or any other form of state support for the development of fuels derived from petroleum, petroleum coke, or coal.
8. In approving the funding and positions pursuant to this item, it is the intent of the Legislature to ensure that the specific measures to reduce air pollution and greenhouse gas emissions be undertaken and completed by the State Air Resources Board in the fiscal year. Accordingly, the board shall submit quarterly reports on the expenditure of these funds, and the status of the development and adoption of the measures.

ATTACHMENT C
“CONCEPTUAL” PROPOSAL
\$25 MILLION TO ARB FOR CLEAN ALTERNATIVE FUELS

BACKGROUND

The fiscal year 2006-2007 ARB budget contains \$25 million¹ for the purposes of incentivizing biofuels and high efficiency, low emitting vehicle technology. It is the intent of the legislature that these funds be used for assisting in the development of specific measures to reduce air pollution and greenhouse gas emissions. These funds are to be awarded in the current fiscal year, or by June 30, 2007, pursuant to an expenditure plan jointly developed by the Air Resources Board (ARB) and the California Energy Commission (CEC). These funds are available for expenditure until June 30, 2009.

The Climate Action Plan, Executive Order S-06-06, the Bioenergy Action Plan for California, and detailed implementation plans for biofuel use under development by ARB and CEC, pursuant to AB 1007, call for substantial expansion of the use and production of alternative fuels made from biomass. These are principally E-85 (15 percent gasoline, 85 percent ethanol blends), biogases, and diesel fuel produced from crops or waste materials. The Climate Action Plan also calls for the greater use of electricity as a substitute for petroleum based transportation fuels.

California has more than 250,000 vehicles capable of running on E-85 right now. However, E-85 can only be dispensed from dedicated nozzles and tanks so infrastructure is a crucial prerequisite. Also, E-85 is not currently price competitive with gasoline so consumers need some inducement to purchase it. The Plan has also calls for the use of up to four percent biodiesel in California diesel fuel. Like E-85, biodiesel is more costly than standard diesel. It is also expensive to produce and in relatively limited supply. Incentives are needed to meet California's biodiesel penetration objectives from in-state production.

On the light-duty vehicle side, most alternative fuel options are cost-competitive (e.g., standard hybrids and natural gas pick-ups). For heavy-duty vehicles, cost is a significant barrier. Natural gas options are 30-40 percent more expensive than diesel options, while electric-hybrids run two to six times more. Buy down incentives would speed introduction of these cleaner alternatives into the fleet.

A conceptual proposal for expending the \$25 million for alternative fuels is attached, as is a timeline for developing a final plan and expending the funds. The relative weight of any single option can be adjusted. The ARB and CEC are seeking comments on the proposal.

¹ The FY 2006-07 ARB budget contains \$31.5 million (MVA) for the purposes of incentivizing alternative fuel vehicles and alternative fuel infrastructure. Of that total, \$6.5 million is allocated for the Governor's budget hydrogen highway activities. The remaining \$25 million is provided for this effort.

**PRELIMINARY CONCEPTS FOR EXPENDITURE PLAN FOR \$25 MILLION
FOR DEMONSTRATION OF CLEAN ALTERNATIVE FUELS AND VEHICLES
September 2006 ***

\$10M

**E-85 AND POTENTIALLY OTHER ALTERNATIVE FUELS:
FUEL INFRASTRUCTURE AND PRICE PARITY INCENTIVES**

FLEET USE OF E-85 AND POTENTIALLY OTHER ALTERNATIVE FUELS

- Provide incentives to install E-85 and potentially other alternative fuel infrastructure, including vapor recovery systems at an estimated 20 fleet locations throughout California. Funding amount site-specific, not to exceed \$50 thousand per site. (~10 percent)
- Provide funds to offset the additional cost of purchasing E-85 and potentially other alternative fuels at each fleet site (20 sites) for 2 years. Fund amount based on price parity correction between regular unleaded gasoline and E-85 and potentially other alternative fuels - \$50 thousand per site. (~10 percent)

**GENERAL PUBLIC USE OF E-85 AND POTENTIALLY OTHER
ALTERNATIVE FUELS**

- Provide incentives to retrofit 20 retail stations with E-85 and potentially other alternative fuel dispensing equipment. Stations could be either concentrated in Sacramento Area or in another geographic area where at least 4,000 registered FFV owners reside. ARB and CEC to determine area after evaluating interested applications. Funding amount site-specific, proposed not to exceed \$100 thousand per site. (~40 percent)
- Provide purchase incentives for E-85 and potentially other alternative fuels ** (~40 percent)

\$5M

**BIOFUELS – STARTUP OF SMALL PRODUCTION FACILITIES IN
CALIFORNIA**

- Provide grant to reimburse of up to \$1 million each in construction support for new, in-state biofuels facilities (e.g., biodiesel, digesters)
- Reimburse facility owner through a \$0.50 per gallon payment for each gallon of biofuel produced at the newly constructed plant using California materials, credit reduced in half if plant uses feedstocks imported from outside California.
- Require at least 50 percent of the construction cost be funded from other sources.

* Note that all numbers are subject to change.

** For example, debit cards for subsidizing the purchase of E-85 could be provided to owners of FFVs. These provide a subsidy of the purchase. Maps showing locations of E-85 facilities would be provided.

\$2M PORTABLE HYDROGEN REFUELING STATIONS

Provide grants for lower-cost “drop and swap” portable hydrogen fueling systems.

\$1.5M PLUG-IN HYBRID ELECTRIC VEHICLE (PHEV) DEMONSTRATIONS

Provide grants for PHEV programs aimed at: (1) support for demonstration of light-and medium-duty PHEVs, (2) evaluation of consumer acceptance of, and usage patterns for PHEVs, and (3) development of test and certification procedures for PHEVs.

\$2M TRANSIT BUS PROJECTS

Make grants available to transit districts demonstrating buses using zero emissions or zero emissions-enabling technology. Battery electric and fuel cell buses would be an example of the former; hydrogen ICE, or hydrogen/compressed natural gas fuel blend buses would be an example of the latter.

\$1.5M INCENTIVES FOR AT PZEVs AND ZEVs

Encourage the near zero and zero emission vehicle market by providing purchase or lease incentives for alternative fuel advanced technology partial zero emission vehicles (AT PZEVs), and zero emission vehicles (ZEVs).

\$2M ALTERNATIVE FUEL VEHICLE RESEARCH

Support emission and performance testing of alternative fuel-powered vehicles (E-85 and biodiesel blends) and PHEVs.

\$1M FUNDING FOR CONSUMER EDUCATION AND OUTREACH

Provide education necessary to promote the mass commercialization of alternative fuels and infrastructure. Educate public and vehicle dealers and mechanics about benefits and characteristics of alternative fuels and vehicles.