



Propel Fuels, Inc.
690 Broadway
Redwood City, CA 94063
(800) 871-0773

June 24th, 2013

To: Alexander "Lex" Mitchell
California Air Resources Board, stationary source division
916.327.1513
amitchel@arb.ca.gov

Re: Draft regulation, Alternative Diesel Fuels

Dear Lex,

Firstly Propel would like to thank the staff of the Air Resources Board for all your hard work and leadership to date on drafting new regulations addressing alternative diesel specifications. We appreciate the opportunity to comment on the proposed regulations.

Propel is the leading renewable fuel retailer on the West Coast, operating over 40 stations in California and Washington. In California, we sell millions of gallons per year of E85 flex-fuel ethanol and B20 biodiesel directly to the public as customers fill up at our growing network of dispensers both co-located on major-oil branded stations and at our own flagship Propel filling stations.

As a long time advocate of biodiesel and innovator in bringing new fuels to market we wish to inform the CARB of our position regarding the proposed new regulations.

As acknowledged in the alternative diesel workshop materials, the potential of NOx emissions "mitigation affects biodiesel competitiveness and availability." Furthermore, in the white paper discussion of the approach to this regulation, staff acknowledges the "significant cost of creating an emissions neutral B100."

While we understand that any NOx increase from biodiesel use is "untenable," we must have a regulation that does not negatively impact consumers, thus reducing the rate of market adoption and use of the fuel.

Propel is:

- Supportive of the B5 provisions. (exempt)
- Supportive of the hydrocarbon-based diesel fuel substitutes provisions, like renewable and synthetic diesels (meet all applicable petroleum diesel fuel quality regulations under 13 CCR 2281-2285).

On

- Specifications – we support using ASTM specifications.
- Engines – we agree that ARB should use a more modern engine in its testing program; 2010 is fine.

The proposed regulatory language states that compliance obligation will be limited to biodiesel producers, fuel blenders and refiners. Propel, as a retailer, would not be subject to the obligations directly. However as a blender of B20 biodiesel, we would be subject to the negative consequences of having to source different spec blendstocks (B20 ready CARB diesel), likely at a premium to other comparable fuels. Our experience is that biodiesel consumers are quite sensitive to the price at the pump when choosing between B20 and

regular diesel. Regulations that add even several cents per gallon of cost to biodiesel vs. CARB diesel will reduce retailers' incentive to offer the fuel and motorists' incentive to purchase the fuel.

For both B100 & B20, the current ARB proposal is to require NOx mitigation to levels anticipated for CARB diesel produced in compliance with 13 CCR 2281-2285. To do this, CARB proposes a new spec for "neat production biodiesel," which will provide for a B20 in-spec product.

Propel does not have any issues with the proposed B100 specifications. We are however concerned about the prospect of a "formal certification process, described later." This process, depending on the complexity, could take many months, in the meantime blenders / retailers may not have fuel to sell.

We prefer the "de minimus use" exemption as referenced by the ARB, as this would provide fuel to the consumer at a lower cost and thus continue to further the development of the alternative fuel industry.

Emissions Neutrality for B20

Staff has proposed three regulatory compliance paths in order produce an emissions neutral B20 blend:

1. **Additive** – This option may work, although at a cost currently estimated at \$0.05 – \$0.15 / gal of biodiesel. As noted this would represent a significant price increase that would have to be passed directly down to the consumer and could place biodiesel blended fuel at a competitive disadvantage to CARB diesel and inhibit market adoption.
2. **Use of certified ADF (i.e., biodiesel) formulation** – Propel supports this approach as it allows for maximum flexibility for qualified parties. However, since candidate fuels would be tested to demonstrate emissions equivalence, and assuming successful completion, CARB issues an Exec Order certifying their blend as neutral; we would be concerned with the possible delay of CARB issued approval providing market distortion as some parties may find themselves waiting for months to receive approvals while other formulation may already have them.
3. **Blending biodiesel with "B20-ready" CARB diesel** – This is Propel's preferred option. As a leader in the adoption of new renewable fuels we are already working with the California Waterboard on the alternate-compatibility option to ensure the compliance of our equipment with future diesel fuel blends. Their regulations however are not at the point yet to be able to allow these fuels to be stored in even the latest-technology underground storage tanks. Their work will need to be completed consistent with the ARB's regulations.

We would have one issue if our blend-stock fuel suppliers were required to provide us with lower-emitting versions of CARB diesel ("B20-ready"). If this product were of a low volume relative to the overall CARB diesel pool, that it would effectively be a 'boutique fuel'. It is easy to envision such a case leading to high production, transport and storage costs relative to CARB diesel. And in turn to envision a higher likelihood of supply disruption due to the generally low importance of this fuel to producers. And thus lead to a *significant* price increase of the blend-stocks relative to CARB diesel. If companies are required to produce a product specifically for biodiesel blending, since it is such a small portion of the market, it will undoubtedly come at a premium, and the end-users (customers)



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would ultimately have to pay the difference. This would result in lower volumes and lower adoption rates of the fuel.

A further risk exists that the compliance burden may also result in reduced market access as certain refiners may choose to “opt-out” and not produce any “B20 ready” blendstock diesel, thus reducing supply.

Path to commercialization

Stage 1 – based on Propel’s experience with the Memorandum of Exemption (MOE) process, in the early days of a program these applications can take many months for approval. This delay can cause serious commercial impact on a retailer dependent upon securing an MOE for a location. If this path is selected we would recommend that the best practices from the E85 MOE process for example be adopted and that the ARB sets a standard time limit for approval or denial of an MOE request.

Sales controlled, in stage 2. Since biodiesel is already commercially available today, it would be a step backwards to place into stage 2 and limit the commercial sales of this fuel.

Stage 3, significance threshold – While this could be a good option we would ask the ARB to remember that it will take industry and the markets some material time to prepare for reaching the significance threshold and hence prepare for the necessary mitigations. It is reasonable to need at least a year’s lead-time to arrange appropriate new supply relationships, arrange for the addition of additives and ensure that the new requirements are being met. This would be particularly true if capital investment and hence permitting is required to meet the future mitigations. It would place many a business in a difficult position if the ARB set a threshold and that volume was achieved sooner than expected, thus resulting in sales curtailment. Such an outcome would not only be financially painful but also impact companies in an uneven manner, all because there was not sufficient time to prepare.

Again, we thank you for the opportunity to provide comment and hope that you take our feedback into consideration.

If you have any further questions or concerns, please feel free to call or email us anytime. Thank you for all of your support.

Sincerely,

A handwritten signature in blue ink, appearing to read "Adam Walter".

Adam Walter
Program Manager,
Propel Fuels
W: 650.241.7857
C: 408.644.9367
propelfuels.com