



Propel Fuels, Inc.
2317 Broadway Ste 350
Redwood City, CA 94063
(800) 871-0773

Ms. Michelle Buffington
Air Pollution Specialist, Stationary Source Division
California Air Resources Board
1001 I Street
Sacramento, CA 95812

Summary Comments Regarding the LCFS Advisory Panel Meeting, 30th June/1st July 2011

Thank you for the opportunity to provide feedback regarding the topics reviewed at the recent LCFS Advisory Panel meeting.

In Propel's view the State's LCFS goals are best met by having readily available fuel options for consumers and abundant vehicle platforms for these fuels. Commercially available fuels such as E85, mid-level ethanol blends, biodiesel blends, renewable diesels and emerging bio-butanol hold out the greatest near-to-mid term promise for meeting these goals. However, State regulations covering storage (bulk and retail), blending specifications, transport, dispensing and taxation all must be aligned to create economic clarity and sufficiently reduce the risk to distributors and marketers. Without this confidence, insufficient investment will be made in the infrastructure necessary to bring these fuels to market.

ARB should consider steps to accelerate the time-to-market for emerging fuels. Both accelerated testing programs and policy coordination across all areas of State government that touch the fuel supply chain will increase the likelihood of meeting LCFS targets. Final product specifications for E85 must be technically, logistically, and economically feasible. And Board of Equalization alignment with the ARB's E85 specs is essential to eliminate the current State tax penalty associated with meeting lower ethanol content blend levels. Lastly ARB should also consider a process to fast track the approval of alternative ethanol blend stocks (such as typical denaturant) in the production of E85 to broaden producers' market options and hence enable economic alternatives.

For vehicles, continued OEM Flex Fuel-compatible vehicle production must be encouraged. Continued support for light-duty diesel vehicles using higher biodiesel blends is important. And, accelerating approval of retrofit technology that enables expansion of the Flex Fuel compatible vehicle pool, while maintaining appropriate emissions controls, is necessary.

Propel agrees with the ARB that growth of the E85 market is crucial to achieving the LCFS's goals, as well as to meeting California's "fair share" under RFS2. Further, sales of E85 provide the only pathway towards meeting the forecasted ethanol demand levels put forward by the ARB and CEC, given the current E10 blending wall. Flex Fuel vehicles, of which there are nearly half a million in the State, and which are forecast nationally to grow at 17% per year through 2016, provide the best platform for significant low-carbon fuel use over the medium term.

Today's high-blend infrastructure will dispense tomorrow's advanced ethanol. Thus Propel views the expansion of the market for E85 as vitally important to the advancement of non-food crop-based fuels. The customer education and demand-creation now taking place will benefit these fuels when they become commercially available. ARB should continue its strong support for increased access to E85 by encouraging the CEC's continued investment in public-private partnerships to deploy high-blend ethanol infrastructure.

As ARB Staff are considering forecasts of demand for these fuels, we encourage them to look at the complete value chain when they forecast 'street prices' of emerging fuels relative to their petroleum-based counterparts. These forecasts should not only include the costs of the product itself, but also the relative storage, blending and distribution costs, and the relative taxes levied on new fuels vis-à-vis grades of E10 gasoline and diesel. Price forecasts also need to consider the costs to site owners and marketers of installing the new infrastructure required for these products, taxes levied, the remuneration of this new capital investment back to the owner, the costs of operations and credit cards, and operator profit.

Only by comparing the sum of these costs will Staff see the relative price points for competing fuels the way the consumer sees them.

Specific to Flex Fuel, Propel would urge ARB staff to be mindful that the ongoing penetration of E85 into the growing Flex Fuel-capable vehicle pool may be tempered by perceived consumer value. Consumers make choices to change from historic habits when the sum of attributes such as energy independence, reducing petroleum use, environmental friendliness, and price, converge. In the event that consumers do not see good value for E85 after accounting for the reduction in fuel mileage specific to their vehicle and driving style, they will not choose E85. Supply without demand will not enable LCFS to be met.

Propel believes that mid-level blends, such as E30, could provide an additional route towards renewable fuel objectives. While Propel is a firm supporter of high ethanol blends, we realize that such lower blends will give consumers and retailers choice to both offer and select the product that meets their personal economic value equation. However, today's lack of approved product specifications, lack of explicit approval for storage and dispensing equipment, including blender pumps, and a material tax disincentive for ethanol blends below 85% prevent the market from expanding consumer choice. In the absence of a rapid and coordinated resolution of these issues, the State will miss an important opportunity for an additional pathway toward meeting the LCFS.

Last, Propel remains a proponent of higher blends of biodiesel and the emerging renewable diesels. We encourage ARB to formulate its regulations and product specifications for these fuels in a way that will bring true economic alternatives to today's motor fuel pool. As the scale of the petroleum-replacement industry is still modest as compared with the existing legacy infrastructure, it will initially struggle to achieve the same economies of scale in the near-to-medium term. Any regulations that disproportionately burden these fuels will dampen consumer acceptance and stop industry investment in bringing these fuels to the market place.

In summary we would encourage the ARB to accelerate the pace of approving new fuels into the market, coordinate across State agencies, support continued investment in the last-mile of the supply chain, and ensure that the costs that result from its regulations yield an end-price to consumers that encourage growing demand for these lower carbon fuels.

With best regards,



Jim Iacoponi
Vice President of Operations
Propel Fuels