

## SACRAMENTO METROPOLITAN AIR QUALITY MANAGEMENT DISTRICT

For Agenda of: August 23, 2007

To: Board of Directors  
Sacramento Metropolitan Air Quality Management District

From: Larry F. Greene  
Air Pollution Control Officer

Subject: Resolution Authorizing the Air Pollution Control Officer to Administer Grant Agreements to Evaluate the Use of Ethanol (E85) in the Sacramento Region

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### **Recommendation**

Staff recommends the Board approve the attached resolution and authorize the Chair of the Board of Directors to sign it on behalf of the Sacramento Metropolitan Air Quality Management District.

1. Approve the attached Resolution authorizing the Air Pollution Control Officer (APCO) to administer a pilot Ethanol (E85) program to: (i) identify gasoline dispensing facilities in the Sacramento region that will participate in a program to offer Ethanol (E85) for sale to the public as an alternative to gasoline, and (ii) distribute approximately \$3.5 million in California Air Resources Board (ARB) incentive funds to participating gasoline dispensing facilities. These funds will help defer the costs associated with underground storage tanks and fuel dispensers needed for this project.
2. Authorize the APCO, in consultation with District Counsel, to execute funding agreements with retailers and fleets to fund the purchase and installation of the E85 tanks and dispensers in accordance with ARB's guidelines (See Guidance and sample agreement attached).
3. Direct the Clerk of the Board to forward the fully executed Resolution and associated agreements to the interested parties.
4. Authorize and direct the APCO to take all steps necessary to carry out the intent and provisions of this resolution.

### **Purpose**

The District has received a \$3.5 million grant to implement a pilot E85 Infrastructure program in the Sacramento region. The purpose of this project is to: (i) identify gasoline dispensing facilities in the Sacramento region that will participate in a program to offer Ethanol (E85) for sale to the public as an alternative to gasoline, and (ii) distribute approximately \$3.5 million in ARB funds to participating gasoline dispensing facilities to defer the costs associated with additional installation and construction of underground storage tanks and fuel dispensers needed for this project. The District will also work with the ARB to promote the use of the use of E85 as an alternative fuel. Implementation of this program will assist ARB in determining the level of public interest in purchasing E85 fuel.

## **Background**

The state legislature has directed the ARB, in cooperation with the California Energy Commission (CEC), to develop a plan to incentivize the use and production of alternative fuels (Assembly Bill (AB) 1811 (Chapter 48, Statutes of 2006).

There are currently numerous vehicles that are capable of using E85. These include certain General Motors cars and light-duty sport utility vehicles (manufactured since 2000), as well as some flexible fuel Fords, Mercedes Benz, Nissan and Volvo vehicles. The ARB estimates that there are approximately 300 thousand of these vehicles in California. ARB also estimates that approximately 30 to 35 thousand of these are located in our Sacramento region.

ARB estimates that the cost for installation of a new dedicated storage tank and dispenser system will range from \$100 to \$200 thousand. Because of the significant cost, ARB has included pilot-program-funding to help offset the cost of facility upgrades. The fuel distribution system will become the property of the facility owner at the conclusion of the two-year study. The District will explore different approaches to funding levels, including the possibility of giving higher grants to stations with a history of high volume gasoline sales.

## **Prior Actions**

On January 25, 2007, staff provided this Board with an informational item detailing the SMAQMD's intent to apply to the ARB for funds to evaluate an E85 pilot program in the Sacramento Region.

On March 16, 2007, the SMAQMD applied for funding from the California Air Resources Board (ARB) to administer an E85 Fueling Infrastructure Grant for the Sacramento Region.

On June 29, 2007, the APCO signed a Grant Agreement G06-AF24 with the ARB for \$3,500,000 to administer E85 Pilot Fueling Infrastructure Grant for the Sacramento Region. The grant permits the District to allocate \$50,000 of the total to fund administration of the program.

## **Project Detail**

Under this program, retail operators will install a new underground storage tank, dual nozzle dispenser and associated plumbing and offer E85 for sale to the public along major arterials. Fleet operators with a fleet of a minimum of twenty E85 compatible vehicles will also qualify for infrastructure funds to serve their fleets.

The District will implement the pilot program for the retail and fleet operators in accordance with ARB's program guidelines. Please refer to Exhibit A for a summary of the guidelines.

## **Authority**

Health and Safety Code Section 41014 authorizes the District to conduct public education, marketing, demonstration, monitoring, research and evaluation programs and projects with respect to transportation emission control measures.

Health and Safety Code Sections 41062(a) and 41082 authorize the District to implement programs to reduce transportation emissions, including programs to encourage the use of alternative fuels and low emission vehicles.

**Fiscal Impact**

\$3.5 million of E85 funds were included in the FY07/08 District budget. Direct staff and project incentives are subsidized by ARB. The ARB has approved \$175,000 of the allocated funding for administrative purposes.

If no, or few, retail or fleet participants are found for the evaluation, ARB has indicated that the District would be allowed to keep any funding spent for efforts put forth to recruit operators for this project.

Respectfully submitted,

Approved to as form:

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Larry Greene  
Air Pollution Control Officer

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Kathrine Pittard  
District Counsel

## Exhibit A

### Summary E85 Guidelines Requiring APCO Authority

1. Establish criteria for selecting retail and fleet participants (for example, priority may be given to operators located near transportation corridors with a high population of E85-compatible vehicles, and with a history of high-volume sales of fuel).
2. Identify retail and fleet operators willing to install E85-distribution equipment. The ARB and CEC have agreed to work with the District to determine where the majority of flexible fuel vehicles are located within the Sacramento region. This information can be categorized by zip code. This format will help determine where motorists owning eligible vehicles typically travel in order for the District to select station locations they are likely to find convenient.
3. Distribute ARB funds to participating operators to offset the cost of equipment purchase and installation. After stations are selected, the District will work with owners to obtain permits that will be required for construction and operation of the additional fueling capacity.

#### ARB Funding Eligibility Requirements for Retail Projects

- If the alternative fuel is stored in an underground storage tank, the tank must be a new installation.
- The alternative fuel dispenser(s) must be in California at a gasoline dispensing facility.
- The alternative fuel dispensing and storage equipment must be alternative fuel compatible.
- The source(s) of the fuel must be identified.
- The alternative fuel station(s) should be operational no later than December 31, 2008, and remain operational for a minimum of two years.

#### ARB Funding Eligibility Requirements for Fleet Use Projects

- If the alternative fuel is stored in an underground storage tank, the tank must be a new installation.
- The alternative fueling station(s) must be the primary fueling point for at least 20 fleet vehicles.
- The alternative fuel dispensing and storage equipment must be alternative fuel compatible.
- The source(s) of the fuel must be identified.
- The alternative fuel station(s) should be operational no later than December 31, 2008, and remain operational for a minimum of two years.

ARB will provide educational materials for station owners/operators to promote the sale of E85 and will track the level of fuel sold to determine the public's interest in purchasing the fuel. Based on the results of the pilot program, ARB will provide periodic reports to the legislature and at the conclusion of the pilot program, will prepare a report for the legislature analyzing the public interest in E85.