

SACRAMENTO METROPOLITAN AIR QUALITY MANAGEMENT DISTRICT

For the agenda of: January 25, 2007

To: Board of Directors
Sacramento Metropolitan Air Quality Management District

From: Larry Greene
Air Pollution Control Officer

Subject: Submission of Proposal to the California Air Resources Board to Evaluate the Use of Ethanol (E85) in the Sacramento Region

Recommendation:

This is an informational item. No action is required.

Purpose:

The purpose of this item is to inform the Board of Directors that the Air Pollution Control Officer intends to submit a proposal to the Air Resources Board to conduct a program that will: (i) identify gasoline dispensing facilities in the Sacramento region willing to 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 help offset the costs associated with installing underground storage tanks and fuel dispensers needed for this project. If selected, the District will also work with the California Air Resources Board (ARB) to promote the use of E85.

Authority:

Health and Safety Code Section 40961 identifies the District as the local agency within the boundaries of the Sacramento district with the primary responsibility for the development, implementation, monitoring, and enforcement of air pollution control strategies, clean fuel programs, and motor vehicle use reduction measures.

Health and Safety Code Section 41062(a) directs the district to develop air quality improvement strategies that include demonstration programs and incentives to encourage the use of control measures providing equivalent emission reductions within the District.

Under Health and Safety Code Section 41082, the District may undertake programs which may include financial assistance to fleet operators for the purchase, conversion, or operation of low-emission motor vehicles, financial assistance or other incentives to encourage the sale and distribution of clean burning fuels.

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

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Proposal:

The state legislature has directed 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)).

ARB is establishing a \$3.5 million pilot program to be implemented in the Sacramento region. The purpose of the program is to determine the level of public interest in purchasing E85 fuel. Under the program, retail and fleet operators will install underground storage tanks, plumbing and fuel dispensing equipment to offer E85 for sale to the public. The ARB would like to find 15 retail sites within the Sacramento region, along major arterials, that will install a new underground storage tank, a dispenser and associated plumbing. The stations will need to be located in safe areas that are convenient to motorists and easily accessed from major transportation corridors. ARB estimates that the cost for installation of a new dedicated storage tank and dispenser system will range from \$100,000 to \$200,000. Because of the significant cost, ARB has included pilot-program-funding to help offset the expense 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.

ARB will provide educational materials for station owners and 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.

ARB is currently requesting pilot program proposals from both the private and public sectors. The District intends to submit a proposal and, if selected, the District will:

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 identify 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 participant operators to offset the cost of equipment purchase and installation. After stations are selected, the District will work with owners to help them obtain permits for construction and operation of the additional equipment.

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Background:

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 the State, which means that there may be approximately 30 to 35 thousand in our region.

The E85 fuel has approximately one-third less energy content than standard gasoline. Currently due to ethanol being sold as an additive in fuel the cost is more than an equivalent gallon of gasoline. However, ARB predicts that the price of E85, when produced for use as a fuel, will be more comparable to that of gasoline. In addition ARB believes that in the near future an excess of ethanol reserves will also help to lower the cost. Since there is currently no anticipated cost benefit to using the fuel, ARB will need to conduct a marketing campaign to educate the public on other benefits, including reducing both air emissions and our dependence on foreign oil.

Timing:

The District will need to submit a proposal to the ARB in February outlining our commitment to the project, generally describing how we would locate and select eligible stations to participate, estimating our anticipated administrative costs and indicating how unused funds will be returned if participants cannot be located. The ARB will review proposals in March and go to their Board with a recommendation in either April or May. By statute, ARB must allocate funding by June 30, 2007.

Fiscal Impact:

The District will receive at least \$3.5 million for this pilot project. The ARB advised the District that we will be allowed to allocate five percent (approximately \$170,000) of the funding for administrative purposes. The funding would be awarded by the end of June, 2007.

Even if no retail or fleet participants are found for the evaluation, the ARB indicated that the District would be able to recoup the cost of recruiting stations. Therefore, the fiscal impact should be a net zero. Since new funding will be allocated to the District, however, a budget amendment will be prepared and brought to the Board of Directors if the District is selected for the project.

Respectfully submitted,

Approved to as form:

Larry Greene
Air Pollution Control Officer

Kathrine Pittard
District Counsel