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Honorable Pat Tiberi, Chairman
House Subcommittee on Select Revenue Measures
House Ways and Means Committee
1102 Longworth House Office Building
Washington D.C. 20515

Honorable Charles Boustany Chairman
House Subcommittee on Oversight
House Ways and Means Committee
1102 Longworth House Office Building
Washington D.C. 20515

Oct. 4, 2011

Dear Subcommittee Chairman Tiberi and Subcommittee Chairman Boustany,

I wished to express my appreciation to the Subcommittee on Select Revenue Measures and the Subcommittee on Oversight of the House Ways and Means Committee for holding a hearing to discuss Energy Tax Policy and Tax Reform. The purpose of this correspondence is to offer comments for your consideration and for the record in regard to the importance of supporting all alternative transportation fuels, including E85.

Propel Fuels is a California-based retailer of high-blend ethanol (E85) and biodiesel with 26 fueling sites currently in operation in California and Washington and an additional 90 under contract. In partnership with the California Department of General Services, Propel is building 85 stations in Sacramento, San Francisco, Los Angeles, and San Diego. Propel is concurrently laying the groundwork for a regional expansion that would increase the number of stations in Washington and open markets across the West Coast. With this rapid expansion and an innovative marketing approach, Propel has built one of the nation's leading clean fuel brands in a short period of time. However, our continued growth and operation, along with that of every other E85 and biodiesel retailer across the nation will be impacted by Congress' decisions regarding the future of incentives for alternative fuels.

<u>E85 IS AN ALTERNATIVE FUEL, NOT A GASOLINE ADDITIVE:</u>

As the Committee considers the utility of federal incentives for the purpose of reducing our dependence on imported petroleum by increasing the use of alternative transportation fuels, we would encourage the Committee to consider that a fuel comprised of 85% ethanol and 15% gasoline, i.e. E85, is an Alternative Fuel as defined by 10 CFR 490.2 and Title III §301 of the Energy Policy Act of 1992. Thus, E85 should be treated as an alternative fuel and not as a gasoline additive in the nature of 10% ethanol.

According to the Energy Information Administration, 98% of the total alternative fuel vehicles operating in the U.S. are E85-compatitble Flexible Fuel Vehicles. General Motors, Ford, Chrysler have pledged to produce 50% of their total vehicle production as FFVs by 2012. In addition to the Detroit 3, Toyota, Mazda, Isuzu, Nissan, Hyundai, Mercedes-Benz, and other automakers produce flexible fuel vehicles capable of operating on E85.

The auto manufacturers have incurred significant costs to produce these vehicles and the private sector has contributed millions in the establishment of the more than 2,500 public E85 fueling sites across the nation. It is incumbent on the federal government to continue to participate in these efforts by providing fuel incentives until that time which cellulosic-based advanced ethanol becomes available at a lower cost.

EXISTING ALTERNATIVE FUEL INCENTIVES:

Ethanol blends are currently provided a credit commonly referred to as VEETC and defined in 26 CFR § 6426.(b) *Alcohol Fuel Mixture Credit*.

- **There is wide consensus, even among ethanol trade associations, that the incentive is no longer needed to support the sale of 10% ethanol, which is found in most gasoline. The credit for E10 is $0.045 per gallon.**
- **The Alcohol Fuel Mixture Credit is also used to support the sale of 85% ethanol used in Flexible Fuel Vehicles. Unlike E10 blends, E85 depends on the value of the tax credit to be price competitive with gasoline. The credit for E85 is $0.3825 per gallon.**
  Annual Cost:
  14 billion gallons of ethanol for E10 = ~$6.3 Billion annually
  120 million gallons of ethanol for E85 = ~$54 Million annually

Rather than being subject to the provisions of the Volumetric Ethanol Excise Tax Credit (VEETC) as is E10, E85 should be characterized and treated pursuant to 26 USC § 6426.(d) *Alternative Fuel Credit* which provides a credit to Compressed Natural Gas, Liquid Petroleum Gas, (Propane), and Hydrogen when these products are used as alternative transportation fuels. We would ask that as Energy Tax policy is being crafted by the Committee, E85 should be included definitions section of 26 USC § 6426.(d), Alternative Fuel Credit. This change would allow the Federal Government to pursue a technology-neutral policy of support for alternative fuels.

H.R. 1380 NAT GAS ACT:

Propel supports the Alternative Fuel Incentives as described in H.R. 1380, the NAT GAS Act, but also strongly encourages the inclusion of E85 as an eligible recipient of such incentives.

COMMITTEE RECOMMENDATIONS:

Given the uncertainty regarding the potential of passage of new energy tax related legislation, we would encourage the committee to consider the following actions:

1. **Include E85 as an eligible fuel for purposes of 26 USC § 6426.(d) *Alternative Fuel Credit.***

2. **Extend 26 USC § 6426.(d) *Alternative Fuel Credit* which is scheduled to expire on 12/31/2011.**

In closing, I would again reiterate the significant financial contributions that both public and private sector investors have made in the nation's efforts to advance the use of alternative fuels. Congressional support for both alternative fuel incentives and tax credits for infrastructure would allow our company and others to continue to expand, create jobs, use domestically produced alternative fuels, and promote energy independence.

We appreciate the opportunity to provide these comments and are available to provide additional information or respond to any questions that you or the Committee may have.

Sincerely,

Matt Horton, CEO
Propel Fuels

Copies: **Dave Camp, Chairman**
House Committee on Ways and Means

Members of the House Committee on Ways and Means