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America's Ethanol Supporters

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Dear Mr. Stephenson and Ms. Brand,

Thank you for this opportunity to provide information on the Higher Blends Infrastructure Incentive Program (HBIIP).

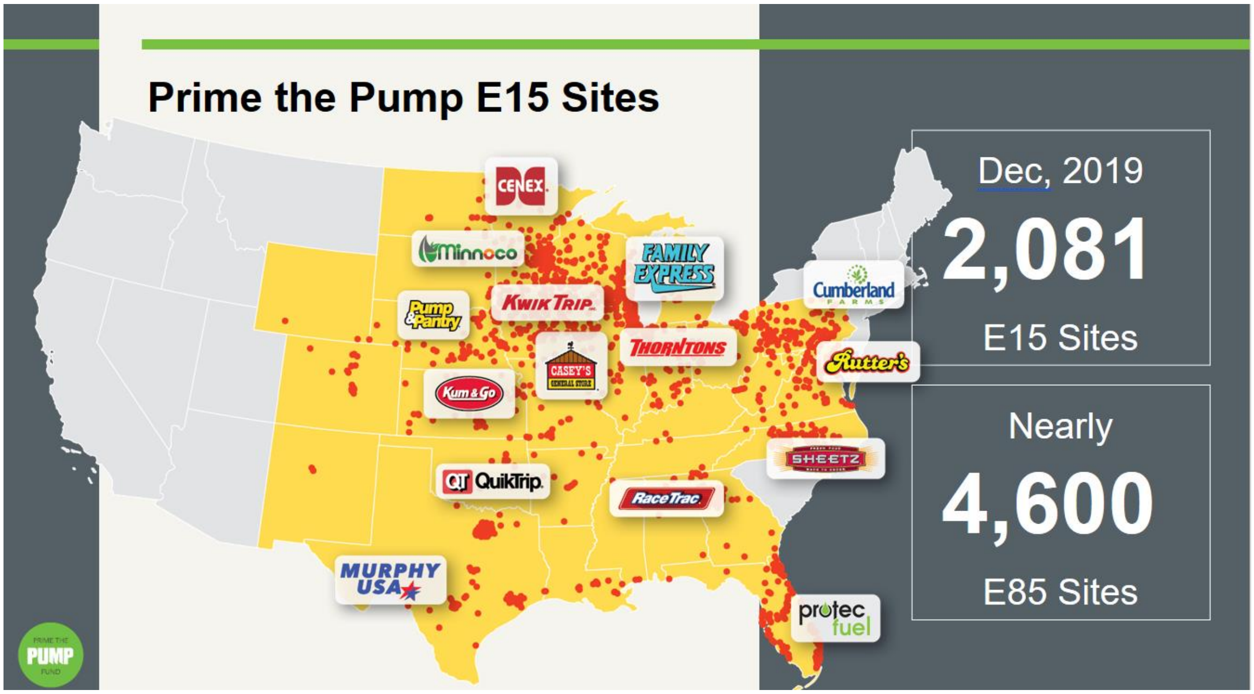
Growth Energy is the world's largest association of biofuels and supporters representing 103 ethanol plants and 96 associate members who serve the nation's need for renewable fuel.

Our industry, through the highly successful, Prime the Pump program, along with nearly all the current high-volume ethanol retailers were proud partners with the Department when it announced its Biofuels Infrastructure Partnership (BIP) in 2015, and we're poised to do so again with the HBIIP. By increasing the market for higher biofuel blends such as E15, USDA can help create more demand for farmers across the country and a win for American agriculture.

Since the approval of E15 in 2011, the retail and wholesale adoption of the fuel continues to grow. Today, there are more than 2000 high-volume fueling locations in 30 states and nearly 200 fuel terminals offering E15 to consumers and fuel retailers alike. American drivers have now logged more than 12 billion miles on the road, and fuel retailers have logged millions of transactions – all with no reported issues. As one major retailer remarked, "Our customers like this fuel. And now, they demand it."[1] With

[1] Lorenz, Mike, Testimony before the U.S. Senate Environment and Public Works Committee's legislative hearing on S. 517, the Consumer Fuel and Retailer Choice Act, June 14, 2017: https://www.epw.senate.gov/public/_cache/files/2/4/24b27dc4-3228-42c5-8610-d7532c27f587/EE647F9024622D076FA2CB8DB19B24E9.lorenz-testimony-06.14.2017.pdf

the fuel continuing to sell for as much to ten cents less per gallon than regular gasoline and a point higher in octane, we expect consumer adoption to only grow and grow.



In response to your request for information, we have attached our comment providing our insight and vast experience with the previous BIP program as well as other programs. Additionally, we have provided key recommendations for you as you work to implement this new program and how it can be successful for retailers, biofuel producers, and American farmers.

We appreciate this opportunity to comment and welcome any further questions. We look forward to working with the department as you construct and administer this important program.

Sincerely,

Chris Bliley, Senior Vice President of Regulatory Affairs

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Historical Grant Program Perspective

Evaluating the strengths and weaknesses of previous ethanol grant programs meant to incentivize the use of higher ethanol blends is an essential consideration for designing an effective new program. Primarily focused on helping E85 be commercialized, grant programs have been a tool used for decades with limited success.

Typically, the E85 grant programs were driven by one state or local entity and provided a very focused approach to adding equipment at retailer locations for dispensing the fuel. The programs usually focused on one piece of equipment, the fuel dispenser, and generally capped the investment by retail site. For example, the state entity would award a retailer a grant of $15,000 per dispenser with a site cap of $30,000.

The positive outcome of this type of grant program is that multiple retailers would be able to participate in the program. However, the negatives associated with this approach severely limits the successful adoption of a fuel like E85. Some of those limitations include the retailer only adding one dispenser for selling E85. In larger retail formats, that means the consumer needs to find the one dispenser out of typically six to eight dispensers offering E85. Consumers want convenience when visiting a retail store and won’t look for the E85 dispenser or even worse, in busier locations the E85 dispenser is frequently blocked and not available.

The other downside to this limited grant program is there tends to create multiple biases against larger retail chains that sell higher volumes. First off, larger volume retail sites will typically have eight to twelve fuel dispensers per site. For the larger volume retailers, the cost for adding alternative fuels is higher, however the advantage of working with larger retailers is the higher potential for more ethanol sales. Also, larger fuel retailers have a retail footprint across many states and localities. For example, Casey's General stores operates in 12 states. Using historical grant approaches, to grow the presence of higher ethanol blends at a retailer like Casey's, the retailer essentially needs to apply for, manage, and negotiate 12 separate agreements with 12 entities. This level of complexity is usually avoided by large retail chains.

Another limitation from this type of grant program that focuses just on the dispenser or in some cases the tank is that the program ignores the potential need for adding other components like pipes, tearing up concrete, sump pumps, secondary confinement, drop tubes or other vital components necessary to store and dispense fuels.

Prime the Pump and a different approach

Incorporated as a 501(c)6 in 2014, Prime the Pump (PtP) was created to help accelerate the adoption of E15 in the United States. Evaluating the limitations of previous grant programs, PtP established a set of grant guidelines that incentivized the retailer to add E15 while addressing the limitations of past programs. To qualify for a PtP grant, a retailer had to agree to offer E15 at the majority of the dispensers on the property, follow all legal requirements for dispensing the fuel, promote the price of E15 on street signs when feasible and agree to offer E15 for at least five years.

In return, PtP would offer a grant that would either off-set the incremental cost of adding E15 to the retail site or provide the retailer with an incentive for selling E15. Given that each retail situation and location is different, this flexibility allowed PtP to provide grants for adding tanks, pipes, sump pumps, drop tubes as well as new dispensers. Also, incentive programs enabled retailers with equipment in place to market and sell E15.

Though managing the cost per grant is vital to PtP, maximizing the potential market growth of higher ethanol blends is the primary focus. To maximize growth, while limiting the issues associated with other grant programs, PtP evaluates grants costs based on gasoline volume sold by each retailer. This approach off-sets the inherent bias against larger retail chains from set equipment programs.

For example, if Prime the Pump were to target a $0.02/gasoline gallon incentive for selling E15, for a retailer that sells approximately three million gallons of gasoline per year with a potential of selling 45,000 gallons of ethanol, the average grant award to these sites would equate to about $60,000 per site. For another retailer averaging about one million gallons of gasoline sales, this grant approach would provide them with an average grant of about $20,000. Looking at the grant awards from a per gallon basis enables PtP to provide the appropriate incentive based on the potential program cost for each retailer based on the size of retailer.

Using this approach, PtP has worked with more than 1,800 of the 2,070 sites selling E15 as of December 2019. Also, PtP works directly with 12 of the largest retail chains in the United States that own more than 10,000 retail sites selling more than 14 billion gallons of gasoline annually.

USDA & BIP

Following the formation of PtP and after generating significant retail interest in E15, the United States Department of Agriculture (USDA) announced the Biofuels Infrastructure Partnership Program (BIP). This USDA program gave a significant boost to the E15 program and added more momentum to the PtP effort.

Within 30 days of the USDA announcement, PtP was able to generate interest in more than 1,000 retail sites with an estimated grant cost of about $162 million. Given the keen interest, PtP hired a grant writing service and developed ten state grant proposals which were successfully submitted to the USDA. Also, PtP worked closely with four additional states providing the retail sites and matching funds.

However, within a few months of the BIP program's inception, weaknesses in the state approach started to appear. For example, Sheetz, one of the largest fuel retailers in the nation, applied for grants that would have enabled them to offer E15/E85 at 230 locations over six states. However, some of the other states in the program successfully lobbied the USDA for more funding than what the state needed for retailers interested in the program. As a result, the Sheetz program was paired back to 185 locations. Also, the states that requested funds above their commitments eventually needed extensions to find retailers for the program. So, even though funding was available, there was no mechanism that would allow for the funds to be re-allocated to a state where Sheetz had sites available for E15. Ultimately, the USDA BIP program missed the opportunity of adding 45 locations that sold in excess of 115 million gallons of gasoline from Sheetz.

Another issue that came to light was the administration of the grant program was done differently by each state. For example, the USDA required specific terms and conditions with each state. Some of the states passed on those terms to retailers while other states modified the terms. Frequently these terms were not relevant to retailers, and in the case of RaceTrac, because the terms were so onerous and variable by state, they cancelled their participation which eliminated more than 160 locations.

Given the nature of needing to apply for grant funds by state, some of the larger retailers passed on participating in the program due to the fact they would have to manage too many states and contracts.

Some of the states made the retailers who previously committed to the program conduct another RFP process. This new RFP process angered many of the retailers the state had already agreed to support through the USDA process. Also, this new approach potentially re-distributed the grant funds to retail sites that sold lower gasoline volumes and or where just looking for equipment upgrades. In several cases, PtP had to remind the states of the previous retail agreements and remind the state that required PtP matching grant funds were already allocated to a given retailer.

Some of the states administering the program essentially leveraged the grants to extract administrative payments from PtP to third-party organizations. Though minor in the grand scheme of the grant program, it is a potential issue for future grant programs.

Given the close relationship between PtP and large fuel retailers, PtP arranged for a meeting with four of the larger retail chains who participated in the BIP program with a USDA representative on August 27, 2019. Most of these themes and limitations were expressed during that meeting by representatives who work for Sheetz, Kum & Go, Casey's, Murphy USA, Protec and Minnoco during the BIP program. These retailers represent almost 7,000 retail locations.

USDA HBIIP Recommendations

With the above information as a historical perspective and with the intent of generating as much additional ethanol sales through a new grant program, PtP has consulted with retailers, ethanol producers, and other relevant parties to maximize the impact of grant monies.

There are three directions the USDA can take with their next grant program. This section will quickly describe the approach and ultimately recommend the course that will likely have maximum impact. The following information is based on PtP experience from writing and managing grants and installations at more than 1,600 retail locations.

One important consideration is the availability of E15 through the supply chain. Though the traditional terminal supply chain is starting to make E15 available to retailers, in many parts of the nation, retailers will still need to use E85 in a blender pump to sell E15. A program that provides the retailer with flexibility based on their ability to offer the product is an important consideration.

First off, a traditional grant program that pays for equipment. As previously stated, historically, these programs have focused on dispenser replacement and at times tanks. However, there are more than 100 pieces of equipment needed to legally dispense fuels. If this equipment approach is taken, then the grant should we available for retailers to replace or add fuel dispensing and underground storage system equipment. Cost per site can vary widely under this scenario. Large volume retail sites with 8 to 12 dispensers could cost as much as $250,000 while smaller retailers with four dispensers could cost approximately $150,000 per site to add tanks, lines and replace dispensers. A site cap could always be placed on the grants. However, these tend to severely limit the dispensers offering E15 to consumers which will result in poor sales results, or skew the program towards small volume retailers. Based on PtP historical sales data provided by retailers, assuming a $100 million grant program, this program would likely generate approximately 850 million gallons of E15 sales.

A second approach would be to provide a sales incentive for retailers to offer E15. Industry research by the National Association of Convenience Stores indicates that consumers will drive five miles out of their way to save $0.05 per gallon. Under this scenario, the retailer would receive a per gallon incentive for selling E15. Assuming a $0.05 per gallon incentive, a $100 million grant program could potentially yield about 2 billion gallons of E15 sales. However, in some cases, the retailer may not be able to get a supply of E15 from their terminal and or may incur some additional site expenses for tanks, hoses and hanging hardware to dispense E15. Offering retailers a performance incentive along with small bonus payments for installation targets has been the optimal method for Prime the Pump to incent recent retail adoption of E15.

Retailer Grant Requirements

The following terms are based on PtP experience working with retailers and marketing best practices. PtP has been working with 17 of the largest retail firms in the nation to optimize sales of E15. This process has included PtP spending near $1 million in consumer research, and marketing trials in partnership with its E15 retailers. In 2018, with the assistance of E15 retailers, Growth Energy published the idea branding requirements for E15 found here: https://growthenergy.org/wp-content/uploads/2018/12/Unleaded88_BrandGuide_090418.pdf

To be considered for a grant, a retailer would need to agree to:

- Offer E15 at the majority of their dispensers
- Offer E15 via a shared hose (this equipment provides the highest sales rates for E15). Other configurations require board approval
- Add E15 to the street sign where local ordinances allow it
- Report monthly sales data to PtP
- Use E15 best promotional practices including calling the fuel UNL88 or REG88
- Offer E15 for sale for a minimum of five years
- Communicate to the retail industry they are offering E15
- A minimum of 250,000 gasoline gallons sold for rural locations, and a minimum of 1 million gallons of gasoline sold for urban locations
- Attend E15 best practices marketing workshop

Reporting

PtP has the process, retail and industry contacts already in place to successfully execute a program. Based on industry donations and successful BIP grant awards, PtP has already been responsible for installing more than 1,800 of the 2,070 retail sites offering E15 today. PtP has established contacts and a working relationship with more than 17 of the largest retail chains in the nation. These chains operate more than 10,000 sites that sell more than 14 billion gallons of fuel. PtP is also actively engaged with six new retail prospects that could provide an additional 10,000 sites that sell more than 15 billion gallons of fuel.

PtP Marketing and Retailer Recruitment

PtP has well established relationships with the largest convenience store publishers in the nation. Our promotions reach more than 300,000 retail leaders on a monthly basis. Communicating and promoting the new USDA program would be actively promoted through these activities, which are already planned:

Weekly/monthly advertising – PtP executes a weekly and monthly promotional program for E15. Promoting and recruiting retailers via this program would be seamless.

CSP Webinar – More than 5,000 retail locations typically attend our events.

NACS – More than 50,000 retailers attend this event annual event. We have a significant presence at the meeting.

SIGMA – This organization represents more than 50% of the fuel sold annually. We attend their fall conference and conduct more than 20 retail meetings which potentially impacts more than 15,000 retail sites.

Regional Workshops – PtP has been conducting local workshops in partnership with CSP magazine.

Petroleum Equipment Institute – PtP is a premier member of this organization that represents the entire equipment installation industry.

Ethanol Industry Workshop – PtP would host an industry wide workshop promoting best practices and providing the necessary grant details to all market development personnel involved with promoting ethanol.

Retailer webcast – PtP would host a webcast with existing E15 retailers to describe the program and further expand their offering of E15 at potential sites.

Retail prospects – As previously mentioned, PtP has generated retail interest for E15 with about 12 new retail organizations representing well over 10,000 sites.

Installation timing and finances

For large retail projects that involve offering E15 at more than 25 sites, retailers need approximately 24 months to install equipment for a variety of reasons. In northern climates, during the winter months, construction is severely impacted by three to six months depending upon the weather. Installation crews are also a limiting factor so being able to schedule and aggressively install equipment will be limited based on the availability of skilled labor. Also, equipment manufacturing capability will be another limiting factor that requires lead time. Finally, the retailers will need to arrange for supply of E15 through negotiating with their fuel suppliers or arrange for E85 supply.

Other Priority Regulatory Actions

There are several regulatory related matters that retailers frequently site as slowing down the adoption of E15. The first comment has to do with underground storage and equipment requirements for E15 being more stringent that E10. By declaring that all equipment currently storing and dispensing E10 is compatible with E15 would help with alleviating the retail industry's confusion. This regulatory change would also potentially reduce the cost per grant associated with the program and further stretch the money into higher ethanol sales.

Finally, EPA should consider removing other barriers to sale of E15 including revising outdated provisions of the misfuelling mitigation rule as the fuel is now sold in 30 states and is approved for more than 9 out 10 cars on the road today. As E15 market penetration increases, the burden placed on rural locations will be especially difficult. Most of the rural retail locations have two dispensers, and these retailers would either have to replace their dispensers to meet these requirements.

Flexibility is the key

Ultimately, for this program to be a success, the critical element is flexibility. Fuel storage and dispensing is a complex system of more than 100 components at a given retail site. Focusing a grant program solely on dispensers and tanks will limit the success of the program. Also, placing caps on grants will limit participation by large retail chains that will sell higher volumes of ethanol. Finally, minimizing administrative burden and the number of applications a retailer needs to fill out will help ensure program success.

The success of Prime the Pump has been its focus on driving E15 into large volume retail sites using a flexible grant program that meets the retailer and ethanol industries needs. Leveraging Prime the Pump will provide the USDA with the retail industry contacts necessary to ensure the grant program is a success. Given that Prime the Pump has been operating for more than five years, the retail industry recognizes the organization as the entity that provides all expertise needed to make E15 a success.