Energy Credit Banking and Selling Program Annual Report FT 2009-10

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The Energy Policy Act (EPAct) State and Alternative Fuel Provider Rule requires state government and alternative fuel provider fleets that operate, lease, or control 50 or more light-duty vehicles (LDV) within the United States to acquire alternative fuel vehicles (AFV).

Since 2001, as a covered fleet, 75% of North Carolina State Government new LDV acquisitions must be AFVs. The State Energy Office is the designated entity to report acquisition activity to the U.S. Department of Energy (DOE) by December 31st of each calendar year.

The state earns one vehicle credit for every light-duty AFV it acquires annually beyond the base vehicle acquisition requirements. Once the state has satisfied the annual light-duty AFV acquisition requirements, it also earns one credit for every heavy-duty AFV purchased annually. Credits generated by vehicle acquisitions can be sold or banked for future use, and credit trading is allowed between fleets that need to buy or sell banked credits. However, only credits that are tied to alternative fuel use in an AFV can be sold or traded. In federal fiscal year 2008-09 the State earned 112 AFV credits that can be banked or traded.

As directed by legislation, the State Energy Office in the Department of Commerce compiled this report and attached the guidelines and rules on the Energy Credit Banking and Selling Program. The provisions for the Energy Credit Banking and Selling Program were enacted by the 2005 General Assembly through SB1149, approved by the Rules Review Commission in April 2007, and went into effect on May1, 2007.

Guidelines for the Energy Policy Act (EPAct) Credit Banking and Selling Program were developed, reviewed and approved at the May 9th, 2007 Alternative Fuels Consortium, and the May 14th 2007 meeting of the Energy Policy Council. The Credit Selling Working (CSW) group is a subgroup of the Alternative Fuel Consortium. The CSW group consists of NC Department of Transportation’s equipment unit designee, Department of Administration Motor Fleet Management division designee, SEO designee, and designees of other state agencies and institutions that generate EPAct credits. The group meets to discuss the number of credits earned annually, the number that are deemed “sellable,” and a price range with a minimum selling price for all credits. The most recent meeting of the CSW group was October 27, 2009.

The State of North Carolina, through the efforts of Motor Fleet Management (MFM) and the Department of Transportation (DOT), had 1545 excess credits to sell based on analysis of tradable credits earned through alternative fuel use during FY 04-05 through FY 08-09. Through federal fiscal year 2009-10, a total of 805 credits have been traded leaving a total of 740 EPAct credits available for trade as illustrated in the table below.

EPAct CREDIT BANKING & SELLING PRGRAM	CREDITS*	FEDERAL FISCAL YEAR TRADES
FY 04-05 credits	365	
FY 05-06 credits	424	
FY 06-07 credits	291	
FY-07-08 credits	353	111
FY 08-09	112	322
**FY 09-10		372
TOTAL CREDITS	**1545**	**805**
BALANCE	740	
* based on state FY, E85 fuel use tracking & annual FFV purchases (FFY 08-09 only)		
SEO will report to DOE by 12/31/2010		

Since the EPAct Credit Banking and Selling Program's inception, the completed trades of 805 credits has yielded a total of $ 782,055 which has been deposited into the Alternative Fuels Revolving Fund (AFRF), held by the Department of Commerce. These revenues and credit trades are illustrated in the following table.

FEDERAL FISCAL YEAR	DEPOSITS	CREDITS
FY-07-08	$425,580.00	429
FY-08-09	$3,800.00	4
FY-09-10	352,675	372
total deposits	$782,055	805

For the federal fiscal year ending September 2010 a total of $812,409 had accumulated in the AFRF from the sale of credits and accruing interest from these trades. The EPAct credit sales are being handled through direct sales by the State Energy Office and brokered sales facilitated by World Energy Alternative, LLC and Cantor Fitzgerald CO2.

During this past fiscal year a total of $446,455.22 was dispersed from the AFRF. On November 17, 2009, NC DOT received a check for $ 223,227.61, to be used for refueling infrastructure for two E85 stations. These stations are located in Asheboro and Marion. MFM had requested equivalent funds to cover the incremental cost of hybrid electric passenger vehicles and it is assumed that $223,227.61 was retained in the Department of Administration accounts for this purpose as these funds did not transfer over to the Department of Commerce when the State Energy Office transferred from Administration to Commerce in the fall of 2009. The table below illustrates the current account balance of $365,953.88 after the disbursement of funds to DOT and MFM.

AFRF Summary Oct 2010	
Total deposits	$782,055.00
Total interest	$30,354.10
Subtotal	$812,409.10
Total disbursements	$446,455.22
Balance 10-18-10	$365,953.88

The AFRF has been established to receive and disburse revenue from EPAct credit sales. One credit is earned for each original equipment manufacturer or U.S. Environmental Protection Agency (EPA) certified retrofit, flex fuel vehicle (FFV), compressed natural gas, propane, and electric vehicle that is purchased. Credits that exceed the annual minimum state AFV acquisition requirement of 75% of light duty purchases can be banked through the U.S. DOE Office of Freedom Car and Vehicle Technologies Program. Banked credits are used to meet future years' requirements, traded or sold. Credits are also earned through the use of B20. Although these credits cannot be traded directly, they can help the state fleet meet its minimum acquisition requirements. One vehicle credit is accrued through the use of 2,250 gallons of B20, or 450 gallons of B100. However, only credits that are tied to the actual use of alternative fuel in the AFV may be sold. This means that biodiesel used in diesel vehicles cannot be traded. State agencies must document and track the use of alternative fuel in AFVs for credits that are traded and/or sold.

The SEO currently lists credits on an open bulletin board for direct sale and with credit brokers. The credits for sale are posted on the U.S. DOE website. The SEO has an agreement with World Energy Alternatives, LLC, which offers credit brokering services for a 10% surcharge on the sale price, and Cantor C02 which charges $30 per credit for brokering trades.

The SEO annually informs the Alternative Fuel Consortium of the amount of revenue deposited in the AFRF account and the percentage of these funds that were generated by each participating state agency and institution. To date, it has been calculated that MFM and DOT each has generated 50% of the tradable credits. Although technically the credits generated by DOT for B20 use are not tradable, their use of B20 provides the opportunity for the state and MFM to exceed their minimum requirements so that all the credits generated by MFM through the use of E85 in FFVs are deemed eligible for trade.

The distribution of funds are prioritized by the Alternative Fuels Consortium, based on maximizing benefits to the state for the purchase of alternative fuel, related refueling infrastructure, and AFV purchases. Both the Energy Policy Council and the Alternative Fuel Consortium deemed it necessary to establish a clear priority for the funds accrued by the sale of credits. This priority is the development of more refueling options. To that end, the DOT requested and received one half of the funds accrued to the AFRF in November of 2009 to build two E85 refueling sites to serve DOT and other state fleet E85 capable FFVs. The Department of Administration's Fiscal Office issued a check to the DOT in November 2009, in the amount of $223,227.61 from the proceeds of the AFRF to build E85 refueling at DOT stations in Marion and Asheboro. As of the date of this report submittal, the station in Marion has been installed and is awaiting final hookups to connect to the state fuel processing system. The tank in Asheboro was installed but failed a quality control test. The manufacturer is replacing the tank, which should be operational by the end of the year. DOT has expressed the importance of having Motor Fleet Management (MFM) and other state agencies utilize these new sites as they do not have a sufficient number of FFVs in these locations to ensure the success of these stations. MFM has expressed interest in utilizing its share of AFRF monies to cover the incremental cost of hybrid electric vehicles. However, they have been prohibited from purchasing any new vehicles for the past two years.

A meeting of the Credit Selling Work Group (NC DOT, MFM and the SEO) is planned for early 2011 to discuss action steps to insure the success of DOT E85 sites and options/priorities for MFM AFRF monies.