Energy Credit Banking and Selling Program Annual Report
FY 2010-2011

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The Joint Legislative Commission on Governmental Operations
The Fiscal Research Division

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State Energy Office of the Department of Commerce

Attachments:

Program Guidelines
Program Rules

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 2009-10 the State earned 252 AFV credits that can be banked or traded.

As directed by legislation, the State Energy Office in the Department of Commerce has 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 State of North Carolina, through the efforts of Motor Fleet Management (MFM) and the Department of Transportation (DOT), had 1797 excess credits to sell based on analysis of tradable credits earned through alternative fuel use during FY 04-05 through FY 09-10. Through Federal fiscal year 2010-11, a total of 1,041 credits have been traded leaving a total of 756 EPAct credits available for trade as in the table below.

EPAct CREDIT BANKING & SELLING PROGRAM	**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	252	372
******FY10-11		236
TOTAL CREDITS	**1,797**	**1,041**
BALANCE	756	

* based on state FY, E85 fuel use tracking & annual FFV purchases (FFY 10-11 only)
**SEO will submit the annual State and Alternative Fuel Provider Report to DOE by 12/31/2011

Since the EPAct Credit Banking and Selling Program's inception, the completed trades of 1,041 credits has yielded a total of $1,002,455 which has been deposited into the Alternative Fuels Revolving Fund (AFRF), held by the Department of Commerce. These revenues and credit trades are listed 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
FY-10-11	220,400	236
Total deposits	$1,002,455	1,041

For the federal fiscal year ending September 2011, a total of $585,968.80 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.

No AFRF funds were dispersed during the previous fiscal year. On November 17, 2009, NC DOT received a check for $ 223,227.61 that will be used for refueling infrastructure for two E85 stations located in Asheboro and Marion. MFM requested equivalent funds to cover the incremental cost of hybrid electric passenger vehicles. It has been confirmed that the requested equivalent funds remained in the Department of Administration's account for this purpose after the SEO transferred to the Department of Commerce in the fall of 2009. The table below lists the current account balance of $589,968.18.

Alternative Fuel Revolving Fund Summary - Oct 2011	Amount
Total deposits	$555,999.80
Total interest	$ 33,968.38
Subtotal	$589,968.18
Total disbursements	$0.00
Balance on October 1, 2011	**$589,968.18**

The AFRF was 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, or 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 credit 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 on the U.S. DOE website. The SEO has an agreement with World Energy Alternatives, LLC, to offer credit brokering services for a 10% surcharge of the sale price.

The SEO annually informs the Alternative Fuel Consortium 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, MFM and DOT have generated 50% of the tradable credits. Technically the credits generated by DOT for B20 use are not tradable; however their use of B20 provides the opportunity for the state and MFM to exceed their minimum requirements. As a result, 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. The top priority identified was the development of more refueling options. As a result, the DOT requested and received one half of the accrued AFRF funds in November of 2009 to build two E85 refueling sites for DOT and other state fleet E85 capable FFVs. The Department of Administration's Fiscal Office issued a $223,277.61 check to the DOT in November 2009, from the proceeds of the AFRF to build E85 refueling at DOT stations in Marion and Asheboro. DOT stressed the importance of having Motor Fleet Management (MFM) and other state agencies utilize these new sites since they do not have a sufficient number of FFVs in these locations to ensure the success of these stations. MFM has shown interest in utilizing its share of AFRF monies to cover the incremental cost of hybrid electric vehicles in the future.