



January 30, 2020

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Commodity Credit Corporation  
U.S. Department of Agriculture

Bette B. Brand  
Administrator  
Rural Business-Cooperative Service  
U.S. Department of Agriculture

Docket ID No. RBS-20-BUSINESS-0002  
Submitted via [www.regulations.gov](http://www.regulations.gov)

**RE: Request for Information on a Higher Blends Infrastructure Incentive Program**

Dear Robert Stephenson and Bette Brand:

Thank you for inviting the American Coalition for Ethanol (ACE) to take part in the November 1, 2019 stakeholders' meeting to explore ideas for the infrastructure program USDA is developing to increase the availability and use of biofuels in the U.S. We were pleased to hear USDA also asked for input from fuel retailers regarding making higher blends of ethanol available across the country. ACE's market development efforts have been driven by the needs of, and with advice from, retailers from the start, nearly 20 years ago. I operated, supplied, owned, and/or worked in convenience stores for nearly 40 years, and as a result, I am intimately familiar with decision-making process of those business people who will ultimately determine whether consumers will be able to buy new fuels like E15, E30 and flex fuels. Their input in this process is critical.

You may recall in the meeting last November, several times I stressed the importance of any program adopted being accessible to single-store and small chain convenience store owners and operators. Those small businesses own more than half of the convenience stores in the U.S. and were the key to nationwide E10 availability within only a few years of the Renewable Fuel Standard (RFS) being signed into law. With no large corporate bureaucracy to navigate, "mom and pop" retailers were able to quickly introduce E10 to markets where ethanol had never been sold, gaining a competitive advantage and forcing much larger and more well-funded competitors to offer E10 or concede market share to small retailers offering a lower priced, higher octane gasoline.

**Responses to Request for Information on a Higher Blends Infrastructure Incentive Program**

1. The RFS, when enforced as written, including an honest and robust Renewable Identification Number (RIN) market, encourages increased sales/use of fuel ethanol at a very low cost to taxpayers. The RFS provides incentives in the form of RINs for fuel marketers who facilitate blending, paid for by obligated parties who choose not to blend. The cost of the RFS to the



government is the minimal cost of enforcing the law as written. Unfortunately, persistent misinformation campaigns designed to confuse and discourage retail station owners from offering higher blends of ethanol have been successful, making government assistance necessary to incentivize retailers to offer consumers new fuels like E15 and flex fuels. A properly targeted and implemented incentive program can create much larger markets for ethanol at a very low cost per gallon over the long term.

- a. A successful biofuels infrastructure program will incentivize the highest number of locations available over the widest geography possible. In order to maximize the number of gallons of ethanol sold, whether in the form of E15 or higher blends, the most important factor is wide consumer availability. At this point in the product life cycle of E15 in particular, it is critical to establish the fuel as a regular unleaded fuel in the eyes of consumers because they will continue to see it as a “specialty” or “experimental” fuel if E15 is only sold at high-volume outlets in portions of the country. The fuels business is not one where a unique product attracts a lot of new customers. Consumers may try a “new and improved” version of a fuel they already know and use, but even that fuel will be an occasional or only one-time-use fuel unless it is available to put in the tank every time the driver fills their vehicle. Interestingly, rather than trying to limit competition and be the “exclusive” suppliers of E15, successful E15 and flex fuel retailers – large and small alike - tell us they would like to see those fuels available nationwide, because fuel customers would then see them as “regular” gasoline blends. Motorists tend to buy the same fuel every time they fill, and if E15 is only available in certain locations, people are more likely to buy something else regularly, even when they drive into a station that sells E15. The more widespread the availability of E15, the more consumers will use it every time they fill up.
  - i. We also recommend incentives for wholesale blending facilities (i.e. offsite blending facilities and/or E15 and flex fuel blending and loading infrastructure at ethanol plants) because having “RINless” ethanol or E85 (blended fuel sold without RINs, and with the cost reduced to reflect the value of the RIN) available outside of fuel terminals has been the single most important factor in areas where significant volumes of higher ethanol blends are being sold. In addition to removing the risk and hassle of handing RINs for retailers, the availability of RINless E85 or ethanol forces sellers of terminal blended E70 and E15 to be competitive and share at least a portion of the ethanol product discount and/or RIN value with the retailer.
- b. Any equipment used to store, blend, and dispense higher blends of ethanol should be eligible under the program. In response to Clean Air Act amendments, many existing sites installed tanks in the mid-1990’s, and most of those tanks carried a 30-year warranty which will be expiring soon. While ethanol would not be the reason tank upgrades are required, making funds available for tanks, the need to replace or upgrade those tanks could be a driver for site owners to participate in an incentive program.



2. The goal of a HBIP program must be to expand the geographical availability of higher blends and encourage more widespread participation by all retailers in the proposed upcoming round of infrastructure funding. ACE recommends a combination of grants and high percentage direct cost share for the purchase of equipment, retrofitting, enhancements, and other expenditures that will encourage retailers to investigate whether they can sell E15 and higher ethanol blends. We expect when station owners do so, they will find costs are much lower than they were led to believe, and the program's incentives will serve to make addition or conversion to offer higher ethanol blends more financially attractive than continuing with their current slate of fuels. We believe a high percentage of existing stations could add E15 using mostly existing equipment, and the grant structure we suggest would encourage owners to make the change quickly. The availability of more E15 in markets would put added pressure on stations who need to do more extensive work to offer higher blends, and the high percentage cost share would help make their participation more likely.

Higher blend biofuel sales or marketing incentives would give an unfair advantage to those already selling higher blends, and would likely result in larger retailers, who already received the bulk of funding under the original Biofuels Infrastructure Partnership (BIP) program, again receive funds intended to offset the cost of conversion rather than pay for product marketing. An incentive program would likely lead to the smaller number of higher volume station scenario mentioned previously and could be seen again as “the rich getting richer” by retailers who objected to the previous BIP program. In addition, a USDA incentive program might be confused with or duplicate incentive programs the ethanol industry already has in place, resulting in double benefits or replacement of obligations already agreed to and paid for by ethanol producers, leaving fewer dollars available to convert additional retail locations.

Meaningful growth in E15 and flex fuel availability will require any infrastructure program created by USDA to assure “mom and pop” c-stores they can afford to add E15 and participate in the program. Following the November USDA meeting, we talked to some of the small retailers and groups who adamantly opposed E15 and didn't like the first BIP program to find out what they would like to see in a new program. As expected, the main objections to adding E15 to their fuel product slate were beliefs E15 isn't compatible with existing equipment, new infrastructure is too expensive, and only big convenience store chains can afford to offer it.

Fortunately, this commonly held belief is almost entirely fiction, as most stations already have equipment compatible with blends of 15 percent ethanol (or more). National Renewable Energy Labs (NREL) has done multiple studies proving this fact<sup>i</sup>, the Petroleum Equipment Institute (PEI) has an equipment manufacturers compatibility library<sup>ii</sup>, and Underwriters Laboratories (UL) recently unveiled a new fuel compatibility tool<sup>iii</sup>. Station owners can use these tools as preliminary checks and will likely find even if some changes are required, the cost is far more affordable than they have been led to believe.

Unfortunately, many retailers don't even investigate the actual cost of selling E15 in their stations, because they believe the “high infrastructure cost” ghost stories they've been bombarded with for nearly a decade. A new HBIP must find a way to inspire retailers of all sizes to at least investigate the possibility of offering higher ethanol blends. Retailers who've asked us about infrastructure



over the past few years have been pleasantly surprised by the real cost of equipment and the financial assistance available if they want to do something bigger and better.

USDA's original BIP program unintentionally reinforced retailers' belief that adding E15 is an expensive proposition. While BIP gave higher blends of ethanol a large boost in availability and visibility, the program sent some unintended (and inaccurate) messages to retailers who did not take part in the program. After years of telling station owners E15 is inexpensive to offer because most of their equipment is already compatible with E15, why would \$100 million dollars in government funding and \$100 million in industry matching funds be needed? Were the ethanol people lying about the cost? Furthermore, as mentioned previously, when BIP money went to large retailers, who were then promoted as early adopters of E15, other retailers thought only the largest companies could afford to offer E15.

We have included a rough draft of an infrastructure program ACE developed with input we received from small and large fuel retailers following our comments. The main feature of the program is a flat rate grant per dispenser that will – in many cases – be in excess of the actual cost of conversion. This is intended to pique the curiosity of retailers who have not previously investigated actual costs of offering E15 in their location(s). Inflation adjusted costs from a report the PEI did for USDA several years ago are included in the draft. It has been my experience that if a retailer can receive \$10,000 for doing something, they will find a way to do it for \$8,000. Or \$5,000. Or less (which is why we recommend requiring the work be done by accredited professionals in answer no. 3 below). The program would limit the number of dispensers paid for at a participating location, to make money available to more retailers in more cities across the country. It would also provide a high cost share for equipment used to store and sell flex fuels.

According to a recent National Association of Convenience Stores (NACS) podcast, the initial BIP program provided approximately \$84 million dollars in matching grants and resulted in about 900 new E15 locations. Given PEI's estimates of the cost of E15 "conversion," (see draft program) \$84 million dollars matched by an equal amount of industry/state/private dollars could have been enough to update more than 15,000 stations – and many, many more if they had newer equipment. Fortunately, most of the 900 stations funded by BIP also added E85, which is creating significant new ethanol volume along with 4,000 other locations currently offering E85 and/or other flex fuels. Any new HBIP must include incentives for E85, which, in addition to expanding higher blend ethanol availability and raising the potential for higher octane E25-E40 blends in the future, will send a signal to automakers that fuel will be widely available should F-factor and R-factor credits be restored and they can resume and expand the production of flex fuel vehicles as well as know infrastructure is in place should they begin building vehicles to take advantage of the benefits of low carbon, high octane mid-level ethanol blends to meet environmental and fuel economy requirements in the future.

3. All equipment funded by the program – whether new or converted – must be compatible with the fuel offered, as verified by an equipment installer licensed by the authority having jurisdiction (AHJ) in the station's area. While we will recommend retailers install new equipment do so with equipment that is "future proofed" by virtue of being compatible with 25 percent (or more) ethanol,



having a 25 percent requirement could prevent station owners who currently have equipment compatible with E15 from adding E15, and we expect that group will provide the largest number of higher blend locations that will be added — at the lowest cost. Even without a requirement in the program, many AHJs will make E25 compatibility a requirement.

4. As mentioned previously, the availability of “RINless” ethanol or E85 outside of fuel terminals has been the single most important factor in areas where significant volumes of higher ethanol blends are being sold.
  - a. The program should be agnostic as to blends, and encourage the highest possible blend, although our draft program offers a much more attractive incentive for simply offering one higher blend, in most cases, E15. Historically, once a station adds a new ethanol blend, it is unlikely to remove it, and is more open to trying the next higher blend.
  - b. Our draft program has a minimum requirement of two dispensers and four fueling positions. We would recommend station owners be limited to one time use of the dispenser grant portion of the program, as that would encourage them to convert all their dispensers at once. However, even those who don't, will likely find the cost of converting additional dispensers at a later date is marginal.
  - c. Again, let the AHJ and marketers decide. USDA shouldn't design a program based on retailers who don't really want to sell higher blends of ethanol.
  - d. See above. Successful high blend retailers put the name and price of the fuel on their street signs. Our draft plan mentions those upgrades as possible uses for funds received in excess of actual cost of converting dispensers to sell E15.
  - e. Retailers who want to sell more E15 or flex fuels have a number of resources available to them, and primarily will listen to other successful marketers, as can be found at our marketer-to-marketer website [flexfuelforward.com](http://flexfuelforward.com). USDA, ACE or anyone else could insist, but insistence generally creates resistance. It is far better to have station owners arrive at the same decision on their own. We have found the most successful retailers are the ones who decide they want to be known as a higher blend retailer, and they will do whatever they can to sell more of our fuel. When they do, we need to make their information available to other prospective high blend marketers. If we had required a particular name on E15 when BIP started, it would have been different from the terminology used by the highest volume retailers today. We typically advise retailers they can call E15 anything they want, as long as they call it unleaded or regular – because that is what nearly all drivers look for at the pump.
5. The lower the cost share for the retailer the better, and even when the amount is low, small retailers sometimes have a problem obtaining the funds to make the change. We recommend a minimum retailer cost share of zero on initial conversion of a limited number of dispensers for that reason. We need that approach to overcome retailers' resistance to even considering the cost of adding E15. Prior to BIP, ACE and the Renewable Fuels Association (RFA), funded by the National Corn Growers Association (NCGA) and state corn growers, worked together on the Blend Your Own (BYO) Ethanol campaign. During that campaign, coincidentally, about 900 new higher blend



locations were added in the U.S. That program was primarily informational, helping station owners learn about tax credits for alternative fuel infrastructure as high as 75 percent, and we helped marketers obtain Rural Energy for America Program (REAP) grants from USDA. In some cases, the combination of grants, tax credits, state funding and corn grower funding added up to more than 100 percent of the cost of equipment. Prior to BYO and REAP, we had success with other E85 programs that required marketers to pay 25 percent or less. At this time, with the individual dispenser grants, or in the case of tanks that must be upgraded or replaced due to expiring warranties, a smaller federal cost share on additional equipment may be sufficient, but we lean toward a higher percentage of federal reimbursement.

6. See previous answers.
7. Since most businesses are required to file quarterly federal tax returns that include fuel sales volumes, quarterly reporting shouldn't be a burden. It would help to gather information on higher blend sales as well as total gasoline sales, so higher blend volumes can be put in perspective. For example, sales of 25,000 gallons of E15 per month at a station selling 100,000 gallons of total gasoline per month is more impressive than 25,000 gallons of E15 sold at a station selling 250,000 gallons of gas per month. Learning from the first marketer might help us increase the sales of the second.
8. As mentioned at the November 1, 2019 meeting at USDA and several times in these comments, most retailers are not aware their equipment may already be compatible with E15, and to the contrary, assume it is not. We must cut through the forest of misinformation between retailers and widespread E15 availability. Fortunately, we have considerable experience in that area, and can make it available again. Funds to help ACE and others expand our outreach to station owners and operators, connecting them with peers who have already successfully upgraded to higher ethanol blends would be a very cost-effective way to add retail fuel locations that will sell more ethanol.

When E10 went from being a regional fuel to a nationwide fuel between 2000 and 2008, ACE was the only ethanol association with a Market Development program nationwide. We provided training, information and workshops in conjunction with state corn grower groups, state petroleum associations and various government entities to help station owners "do the math" of selling higher octane ethanol at lower prices to gain market share. Those factors were often enough to convince a retailer to switch and offer E10, and competitors eventually had no choice but to also offer E10. In those cases, the main federal "expenditure" was a lower tax on gasoline with 10 percent ethanol, and that was enough for retailers to make the change. Ethanol volume grew by 8 billion gallons during that time period, staying a billion gallons ahead of any legal requirements to sell ethanol blended gasoline, including the RFS.

ACE and RFA worked together on the BYO campaign mentioned previously, which was funded by NCGA and state corn growers, and expanded ethanol's informational outreach by continuing to promote E10, and further promoting E85 and mid-level blends made using blender dispensers. More state and federal incentive funds were available during those years, and ACE and RFA even assisted with a nationwide tour USDA Rural Development put together to encourage station owners



to use REAP funds to install blender dispensers. During the first three years of that campaign, U.S. ethanol sales grew an additional 3 billion gallons to 13 billion total gallons of domestic use.

9. See answer no. 3 above.

10. For many reasons (most already mentioned), the original BIP program was less successful than one would expect from such a large expenditure. It is important to remember BIP's design flaws were partially driven by the need to insulate the CCC funding from attacks by opponents of ethanol on Capitol Hill. The structure made it necessary to get commitments from larger, more financially stable retailers first, which is precisely the opposite of the way earlier market development efforts were approached.

While it may have seemed reasonable to expect small retailers would follow large retailers in the same way small retailers led the addition of E10, followed by larger marketers, the convenience store industry doesn't necessarily work that way. When large chains roll out a new product or technology, smaller retailers may want to offer the same things, but assume only the larger companies can afford to make the addition. Single store and small chain owners are already reluctantly comfortable with not having everything big stores have, so not adding a new fuel like E15 (especially when they've heard repeatedly E15 will require expensive equipment upgrades) does not cause concern. On the contrary, a small station gaining attention (and business) by offering a new product upsets the large retailer, who uses their own resources to add the same product and attempt to erase the small store's advantage.

Thank you for taking the time to read these ideas and concerns, and again, thank you for all USDA is doing to assist the ethanol industry and agriculture. I will be happy to discuss any of the items in this document with the staff member(s) tasked with developing the program.

Sincerely,

Ron Lamberty, Senior Vice President  
American Coalition for Ethanol

cc: Deputy Secretary of Agriculture Stephen Censky

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<sup>i</sup><https://www.google.com/url?sa=t&source=web&rct=j&url=https://www.nrel.gov/docs/fy15osti/64156.pdf&ved=2ahUKEwjej5jss7zIAhVQRKwKHXrDCfo4ChAWMAB6BAGFEAE&usg=AOvVaw3ia5AWNGEF6S5mDGzMOeTe>

<sup>ii</sup><https://www.pei.org/ust-component-compatibility-library>

<sup>iii</sup>[https://collateral-library-production.s3.amazonaws.com/uploads/asset\\_file/attachment/17612/UL\\_Fuel-Compatibility-Tool\\_01.pdf](https://collateral-library-production.s3.amazonaws.com/uploads/asset_file/attachment/17612/UL_Fuel-Compatibility-Tool_01.pdf)



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## DRAFT – USDA HIGHER BLENDS INFRASTRUCTURE INCENTIVE PROGRAM

### **\$5000 PER DISPENSER OFFERING ETHANOL BLENDS OF E15 OR HIGHER**

- MUST MEET EPA COMPATIBILITY REQUIREMENTS, CONFIRMED AND VERIFIED BY LICENSED FUEL EQUIPMENT INSTALLER
  - REIMBURSEMENT OF UP TO **\$1000** FOR RETAILERS WHO HAVE SITE INSPECTION PERFORMED BY LICENSED FUEL EQUIPMENT INSTALLER AND ARE UNABLE TO MOVE FORWARD WITH ADDITION OR CONVERSION TO E15 OR FLEX FUEL
- **FIVE YEAR COMMITMENT TO OFFERING HIGHER ETHANOL BLENDS AT MARGINS SIMILAR TO OR LOWER THAN OTHER FUELS**
- PRODUCT NAME AND PRICE MUST BE POSTED WITH/NEAR OTHER FUEL PRODUCTS IN SAME SIZE OR LARGER FONT AND NUMBER HEIGHT
- **MINIMUM TWO** DISPENSERS, **FOUR** FUELING POSITIONS
- GRANT PAID ON A **MAXIMUM OF EIGHT** DISPENSERS
- IF CONVERSION COSTS LESS THAN \$5000 PER DISPENSER, RETAILER MAY USE ADDITIONAL FUNDS FOR PROMOTION OF BIOFUELS

### **75% COST SHARE FOR DISPENSERS OFFERING BOTH E15 AND FLEX FUEL**

- MUST MEET EPA COMPATIBILITY REQUIREMENTS, CONFIRMED AND VERIFIED BY LICENSED FUEL EQUIPMENT INSTALLER
  - REIMBURSEMENT OF UP TO **\$1000** FOR RETAILERS WHO HAVE SITE INSPECTION PERFORMED BY LICENSED (PEI MEMBER?) FUEL EQUIPMENT INSTALLER AND ARE UNABLE TO MOVE FORWARD WITH ADDITION OR CONVERSION TO E15 OR FLEX FUEL
- **SEVEN YEAR COMMITMENT TO OFFERING HIGHER ETHANOL BLENDS AT MARGINS SIMILAR TO OR LOWER THAN OTHER FUELS**
- PRODUCT NAMES AND PRICES MUST BE POSTED WITH/NEAR OTHER FUEL PRODUCTS IN SAME SIZE OR LARGER FONT AND NUMBER HEIGHT
- **MINIMUM TWO** DISPENSERS, **FOUR** FUELING POSITIONS
- GRANT PAID ON A **MAXIMUM OF EIGHT** DISPENSERS

### **75% COST SHARE FOR OTHER INFRASTRUCTURE REQUIRED TO OFFER BLENDS OF E15 OR HIGHER,**

- INCLUDES TANKS, LINES, SUBMERSIBLE PUMPS, PROBES AND ANY OTHER EQUIPMENT **REQUIRED TO STORE AND SELL HIGHER ETHANOL BLENDS**



Below are Petroleum Equipment Institute (PEI) responses to questions from USDA about the actual cost of making an existing retail fuel site compatible with E15 under certain different scenarios. To the right of the struck-out original costs are costs adjusted for inflation since original letter in 2014.

To see the entire PEI letter to USDA, go to:

<https://flexfuelforward.com/wp-content/uploads/2020/01/USDA-letter-e15-PEI6984.pdf>

**Scenario #2:** Dispensers are not compatible but will use a “listed\*\* by report” retrofit kit to make compatible to satisfy local AHJ requirements. Also replace hanging hardware that is listed\*\* to dispense E15. Please use dispenser counts of 2, 4, 6 and 10.

2 dispensers:	Average: <del>\$8,385</del>	\$9,172	Median: <del>\$7,600</del>	\$8,345
4 dispensers:	Average: <del>\$16,378</del>	\$17,687	Median: <del>\$15,200</del>	\$16,681
6 dispensers:	Average: <del>\$25,264</del>	\$27,264	Median: <del>\$22,800</del>	\$25,022
10 dispensers:	Average: <del>\$41,622</del>	\$45,678	Median: <del>\$38,000</del>	\$41,702

**Scenario #2b:** Same as #2 but will not replace hanging hardware (the AHJ accepts the existing hanging hardware as compatible).

2 dispensers:	Average: <del>\$6,961</del>	\$7,639	Median: <del>\$6,452</del>	\$7,080
4 dispensers:	Average: <del>\$13,812</del>	\$15,158	Median: <del>\$13,000</del>	\$14,267
6 dispensers:	Average: <del>\$20,661</del>	\$22,674	Median: <del>\$19,500</del>	\$21,400
10 dispensers:	Average: <del>\$34,240</del>	\$37,576	Median: <del>\$32,500</del>	\$35,667

**Calculated using numbers above:** Dispensers are compatible - will replace ONLY hanging hardware (the AHJ does not accept existing hanging hardware as compatible).

Per dispenser:	Average: <del>\$767</del>	\$841	Median: <del>\$683</del>	\$749
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