

NC Alt Fuels Group Call Summary

September 20, 2007

Participation:

Steve Richardson – U.S. DOE ; Ron Fish , Gary Prost- NC DA & CS; Anne Galamb, Pat Bello, Heather Hildebrandt,- NC DAQ , Dense Choy- Env Defense;, Mike Arnold- Lt Gov Office; Derek Graham - DPI, Steve Walk -Clean Fuel Technologies, Joella Jackson- Eastern Band of Cherokee; Randy Dellinger, Foothills Bioenergy; Bryan Roy, Maureen Quinlan, Anne Tazewell- NC Solar Center ; Charles Hall- NC Soybean Producers; Jennifer Epperson, Gov Easley's Office; Van Dotson- Thomas Petroleum ; Dave Carey- Protec Fuel Management; Drew Harbinson, Bruce Thompson- NCDOT; Charles Young, Ft Bragg; Mark Fisher, Biologix; Roger Barnsly- Guilford County, Tobin Freid- Triangle Clean Cities ; Jason Wager- Centralina Clean Fuels; Earle Spruill- Osage Inc; Brent Bailey- 25x25 (Total 28)

Biofuels Taxation, Policy Changes and Procedures

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Starting January 1, 2008 biodiesel and ethanol will be taxed at refinery or terminal (whatever is the first point of entry into NC) and distributors will have to file for a reimbursement of state taxes from NC DOR for fuel sold for off road purposes and fuel sold to state and local governments (who are exempt from state and federal taxes).

Some scenarios: A railcar of biofuels brought from another state is interstate commerce so only what is offloaded is taxed. A rail load in Charlotte that has some going to Spartanburg which is then trans-loaded to truck with interstate plates would not be taxed. This scenario is for product that is FOB origin.

Taxation is done before fuel is blended (i.e. B100 is taxed). Typically when fuel is delivered directly to a terminal it does not carry the tax. Tax is imposed upon removal from the terminal. If fuel comes in by rail and rail is outside of terminal system and biofuels shipment has a NC FOB destination it will subject to NC taxes. However, NC is probably going to do an administrative ruling that will allow the fuel to be less the tax and then taxed upon removal from the terminal.

NC Dept of Revenue is moving towards an all electronic filing systems which will significantly speed up refunds to an estimated 3 ½ weeks for web based filing versus 6 weeks for forms that are printed and need to be manually filed

Refer to following link at <http://www.dor.state.nc.us/downloads/motor.html> and click on GAS 1206 for Motor Fuels Claim for Refunds for Exempt Entities

GAS 1264 for Fuel Alcohol Biodiesel Providers Form
<http://www.dor.state.nc.us/downloads/Gas1264.pdf> Form 1264 must be filed monthly by biodiesel and ethanol fuel distributors/ producers in NC.

It was suggested that an explanation of the motor fuel tax procedures be provided to NC Purchasing and Contracting to be included in bid package so that future biodiesel (B20) and ethanol bidders(E10 & E85) can have a clear understanding of taxation before they bid on term contracts.

Starting Oct 1,2007 there is a NC motor fuels tax exemption for individuals that produce biodiesel for use in own vehicle (must be for personal use ONLY, not for commercial use vehicles) and the individual does not have an annual fuel tax liability that exceeds \$2,000. Furthermore, a rule that required both individuals and businesses to post a \$2,000 bond if they are small biodiesel producers (less than 5,000 gals annually) has been removed if the annual tax liability does not exceed \$2,000. The motor fuels tax in NC is currently .297 per gallon

Contact Andy Sabol Director of Sales Tax Division 919 733 2151 to inquire about a letter stating that you are a non taxed entity (schools, local & state govt.)

Contact Greg Radford (Dept of Revenue- Corporate income) to inquire about procedures for 2005 budget provision that will allow biodiesel providers an income tax credit equivalent to the motor fuels tax paid for biodiesel by producer starting January 1,2008 . A "TAX CREDIT FOR BIODIESEL PRODUCER" provision is contained in Section 24.8.(a) GENERAL ASSEMBLY OF NORTH CAROLINA SESSION 2005 SESSION LAW 2006-66 SENATE BILL 1741 (Budget Bill) signed by Gov Easley 7-10-06
<http://www.ncleg.net/Sessions/2005/Bills/Senate/PDF/S1741v8.pdf>

Regarding current legislation that could be considered in 2008 "short session" HB2003 <http://www.ncleg.net/Sessions/2007/Bills/House/HTML/H2003v1.html> sponsored by Reps Harrison, Tolson, Hill & Wray would provide a "discount allowance" equivalent to the motor fuel tax for biodiesel that could be claimed on Form 1264. This would require some modifications to the form and accounting procedures if passed. However, it was suggested that the provision in HB2003 that would change the tax rate for ethanol based on BTU content should not be referenced as a percentage but rather a specific amount because a percentage would be administratively very cumbersome

NC Green Business Fund

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A \$1,000,000 "Green Business" fund has been created through a provision included in the 2007 budget. The NC Dept of Commerce will be administering these funds as a grant program. A request for proposals is expected in late October/early November. It is anticipated that 80% of

the funds will go to grants in the range of \$50,000-\$150,000 and that 20% will go to smaller grants.

The genesis for the fund came from Lt Gov Beverly Perdue who realized that at this point in time that there was little attention being paid to the potential business opportunity to growing a green economy as a solution to climate change. She worked with Charlie Albertson on the Senate side and Joe Tolson in the House. She and other state leaders want to grown the Green Business Fund much like the Clean Water Trust Funds (which is now \$100M annually)

The focus of the Green Business Fund is

- 1) Biofuels production and distribution & retail
- 2) Green building
- 3) Green business development

It can be considered to be a “very niche market economic development tool” and is aimed more toward small businesses (less than 100) that are expanding or creating the ability to provide “sustainable” services or technologies, not for these entities to “green” their own businesses. In addition to funding actual hardware workforce development and education project are eligible for funding.

This is less of an opportunity for fleets to add vehicles and more towards a fueling business that services fleets.

Mom and pop gas station can apply for funds to convert their fuel station

Generally “if your product is good for the economy and environment you should be qualified”

NC is doing a better job of talking about the link between environmental enhancement and economic development but need to continue ways to bridge the understanding that “development that is good for the environment is also good for business” Too often economic developers and environmentalists are at odds with each other.

The Lt Gov recently met with Norris Tolson & Steven Burke (NCBC leadership involved with new Biofuels Center). A primary goal of the Biofuels Center is to move toward on the “10% of fuel used in NC will be NC produced by 2017 mandate”. There was group discussion about: What will this cost? What are the benefits? And that the costs and benefits should be recognized together.

The way things work in NC is that the General Assembly fiscal staff will give cost analysis but then have no way to account for the co benefits of a particular action that may “cost” the state. In other words there is no full life cycle analysis or analysis of co-benefits. Lawmakers rely on working with a reputable 3rd party group to analyze benefits and then try to get this information to the fiscal staff or include them in the process.

E85 Equipment and State Term Contract

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CleanFUEL Distribution provides full service logistics for biofuels refueling with a focus on E85. CleanFUEL now has the state wide contract for E85 (available to local and state govt. agencies in all 100 counties) and is actively seeking ways to expand use in NC. Currently there are only a very small handful of state refueling sites for E85.

CleanFUEL has E85 equipment that is approved for use in 18 states (including NC) CleanFUEL specializes in fuel logistics (E10, E85 and B20) and works from AZ-NM, the NE US and the SE from Texas eastward. They work with fleets, distributors, and military operations to solve logistic issues and expand use of biofuels.

Web based software www.cleanfuelusa.com <http://www.cleanfuelusa.com> that can help fleets managers when considering using E85

http://www.cleanfuelusa.com/cf_distribution/fuel_analysis.php

For example they can compare fuel costs for gasoline and E85 vehicles side by side and see how long it will take to recoup \$70,000 investment equipment

CleanFUEL Distribution recommends locking into supply type of agreement using a variety of contracts

Since Ethanol is now cheaper than gasoline (and projected to continue that way through 2008 with a few caveats) CleanFUEL is now locking in supply.

CleanFuel's retrofit kit is approved by North Carolina's Fire Marshall. This retrofit kit has many of the same components as a "blending" dispenser whereby E100 could be delivered to the station, stored and then blended on demand into E10 & E85. That way the station owner becomes the "blender of record" and eligible to claim federal tax credits (.51 cents/gal). If fuel providers are interested in the blending dispenser CleanFUEL would undertake the legwork involved in getting the NCFM's approval.

Underwriters Lab (UL) is on schedule to take dispenser and retrofit kits applications for certification of compability with E85 in Jan-Feb 2008 and by 3rd quarter 2008 UL intends to have approved dispensers.

CleanFUEL is also working with Gilbarco and Dresser Wayne on the UL certification process

For a public service station to be successful it is important to have an "anchor tenant" to assure throughput of fuel. At a E85 station in FL, CleanFUEL Distribution worked with the federal GSA to swap out vehicles and assign more FFV postal vehicles to support new station

10-20,000 gals per month is a general number of how much an E85 retailer would want to sell at a minimum per month in order to seriously consider getting into this arena

Ethanol is likely to remain about .30-.40 less per gallon than gasoline for near horizon. There is an abundant supply currently. The price has been more commodities oriented but is increasingly being tied to RBOB (gasoline). There are some actions that CA, TX and FL could do to change this fuel price projection.

Come Jan 2008 a U.S. Dept of Defense mandate will require the use of E85 and B20 if you have vehicles that are capable of operating on these fuels. There will be penalties for non-compliance. Seymour Johnson is in the process of E85 building station, Cherry Point already has E85 and Ft Bragg is working on it

Announcements: October 9, 2007 9-12 NC Biomass Council meeting
Dobbs Bldg, 3rd Floor, located in downtown Raleigh
RSVP with attendance plans to kim_tungate@ncsu.edu