

**Questions and Answers
for the
Alternative and Renewable Fuel and Vehicle Technology Program
Solicitation
PON-09-607**

California Ethanol Producer Incentive Program

1. What is the duration of the California Ethanol Producer Incentive Program? As it is not entirely clear in the Solicitation whether it is only a one-year program, can it be extended to multiple years?

Answer 1): The California Ethanol Producer Incentive Program or CEPIP is designed as a five-year program.

2. When is the beginning of the CEPIP? i.e. What is the exact start date of program?

Answer 2): The beginning of CEPIP has not yet been determined. The Energy Commission is accepting applications from eligible entities concurrently with program development. Applicants will receive further notice when they execute a participant agreement as to when the program will officially commence and potential payments may be released.

Participants accepted into the program will be eligible to receive payments as soon as all of the following steps have been completed:

- CEPIP applicant submits all required information and receives written confirmation from the Energy Commission that their application is deemed "complete."
- CEPIP Interagency Agreement between the Energy Commission and the California Alternative Energy and Advanced Transportation Finance Authority (CAEATFA) is approved by the Energy Commission at a business meeting.
- CEPIP Interagency Agreement between the Energy Commission and CAEATFA is approved by CAEATFA at a board meeting.
- Agreement between CAEATFA and the CEPIP Trustee is approved by CAEATFA at a board meeting.
- CEPIP Participant Agreement between the CEPIP participant and the Energy Commission is approved by the Energy Commission at a business meeting and signed by both parties.
- CEPIP Participant Agreement between the CEPIP participant and the CEPIP Trustee may also be required. If so, this agreement would need to be signed by both parties, and may need to be approved by the CAEATFA board at a board meeting.

- Each CEPIP participant's individual start date will be the beginning of the next complete month following completion of the all of the steps above.
3. If a facility reaches the maximum amount of funding available per year, per facility in the first three months of the program, how is the program going to continue to ensure that the ethanol production facility continues operating? For example if margins stay poor and the budget for the CEPIP stays low?

Answer 3): The CEPIP is designed to provide economic assistance during periods of difficult economic operating conditions. The CEPIP is not designed to ensure that California ethanol facilities continue operating regardless of monthly operating economics that can vary significantly between facilities and from one month to the next. If operating margins are poor and remain so for an extended period of time, it is possible that funds available to make payments will be exhausted prior to the start of the next Investment Plan cycle.

4. Why is the cost of transportation of corn from mid-western US States to California absent from the Ethanol Crush Spread (ECS) calculation?

Answer 4): The Energy Commission elected to use an industry-standard formula that uses two variables, ethanol and corn prices. At this time, the ECS formula includes a Los Angeles ethanol price and a Chicago Board of Trade month-ahead futures corn price. No other factors have been included in this formula, such as transportation costs to deliver corn from the Midwest United States to California. Other factors such as the cost of purchased natural gas and revenue generated from the sale of wet distillers grains have also been excluded from the current ECS formula.

5. As the CEC reserves the right to increase funding by an additional \$9M, what factors will contribute to this increase, and is this increase going to be for the next year of the program only, or take the total available funds up to \$15M.

Answer 5): Each year, the Energy Commission, in consultation with the AB 118 Investment Plan Advisory Committee, meets to discuss available monies and apportionments for the upcoming fiscal year. During each investment plan cycle, the Energy Commission conducts a series of technology- and fuel-specific workshops, and holds advisory committee meetings and public workshops throughout the state.

The 2010-2011 Investment Plan process is underway. Information is available at the following link: <http://www.energy.ca.gov/2009-ALT-1/index.html>

As part of this process, the commissioners determine policy and funding priorities across the broad array of alternative and renewable fuel options reflected in the

Investment Plan. Currently, only \$6 million is allocated for the CEPIP. Parties with interest in the CEPIP may provide written and oral comments as to the appropriate funding level for this program during the upcoming fiscal year.

6. What is the rationale behind the decision to take the CEC 20 days to calculate the Ethanol Crush Spread (ECS) before posting online and advising the CEPIP Trustee? As most of this info is commercially available on a daily basis, why will it take so long to allow for this calculation when one could do so on an ongoing basis rather easily?

Answer 6): The Ethanol Crush Spread calculation will not take 20 days to complete. Rather, the Energy Commission staff will be tracking and calculating information used to determine the Ethanol Crush Spread on a daily basis. The Energy Commission staff will calculate the ECS and notify the CEPIP participants via electronic mail within 5 days following the close of the previous month. When the ECS value is less than 55 cents per gallon, the Energy Commission staff calculates the amount of payment due each active CEPIP participant within 30 days following the close of the previous month. This timeline is conditional upon receiving the completed CEC M29 form from each CEPIP participant within 21 days following the close of the previous month.

7. What is the rationale behind the timeline of 60 days for the payment terms of the CEPIP? i.e. If the program is designed to ensure that CA Ethanol producers continue producing low-carbon intensity fuel when margins turn south, how are producers expected to continue to produce when we need help the most, when the CEPIP Trustee pays 60 days later?

Answer 7): The CEPIP timeline for determining and issuing payments involve CEPIP participants, and two state agencies. Each of these entities has procedures that can require up to a combined maximum of 60 calendar days to consummate all of the necessary review and approval steps. The timing of payments is expected to take no more than 60 days from the close of a month where the ECS was less than 55 cents per gallon. It is possible that CEPIP payments can be made in less time based on how quickly CEPIP participants provide their necessary monthly production volumes, how quickly this information is processed by the Energy Commission and conveyed to the CEPIP Trustee, and how quickly the CEPIP Trustee can process a payment.

8. Can the Ethanol Crush Spread (ECS) formula be amended in the future? If so, how?

Answer 8): Yes, the ECS can be amended in the future to include additional cost and revenue elements. The Energy Commission would provide notice and conduct a

public workshop with any proposed modifications for purpose of taking comments from interested parties. CEPIP participants should provide the Energy Commission staff with electronic or written information detailing any proposed modifications to the current ECS formula during the first quarter of each calendar year.

9. Is there a mechanism for CA Ethanol Producers to challenge the CEC's methodology if required to pay, when in fact the margins are significantly less than the ECS calculation shows?

Answer 9): Terms and conditions for reimbursement to the State will be clearly articulated in the CEPIP Participant Agreement that will be executed between the CEPIP participant and the Energy Commission. All CEPIP participants will be bound by these reimbursement obligations. Challenges to any specific monthly reimbursement obligation are permissible for instances whereby the CEPIP participant believes the Energy Commission has erred in any of the following steps: the initial calculation of the ECS for a particular month; the volume of ethanol produced by a facility; and the resultant reimbursement total calculated (for months when the ECS is greater than \$1 per gallon).

10. Is there a mechanism to allow for producers to 'opt out' of the CEPIP if they choose?

Answer 10): There is no mechanism for a CEPIP participant to “opt out” of the program. However, CEPIP participants can elect to not receive payments at any time by informing the Energy Commission and CEPIP Trustee in writing of this intention. Loss of eligibility to receive payments or failure to achieve compliance with any of the milestone requirements under the terms and conditions of the CEPIP does not obviate the obligation to reimburse the CEPIP Trustee any monies received as part of this program.

11. Do cellulosic ethanol producers have any advantage applying for this program funding versus traditional ethanol producers?

Answer 11): The CEPIP is designed to move California ethanol facilities using corn as a feedstock in the direction of reducing their environmental footprint as part of the Biorefiner Operational Enhancement Goal or BOEG obligations.

Currently, there are no California facilities producing ethanol from cellulosic sources or sugar cane in excess of 10 million gallons per year of capacity. If companies associated with such types of commercial operations initiate construction, they should communicate with the Energy Commission an intention to participate in the CEPIP or any similar programs that may be offered. If so, modifications to the CEPIP or creation of a new program would be required since the ECS formula is

designed for ethanol facilities using corn as a primary feedstock. Facilities using either cellulosic feedstock or sugarcane would require the development of new formulas designed to capture costs and revenue streams specific to those other types of ethanol production processes.