Environmental Quality

PAT MCCRORY
Governor

DONALD R. VAN DER VAART
Secretary

MEMORANDUM

TO: JOINT LEGISLATIVE COMMISSION ON GOVERNMENTAL OPERATIONS
The Honorable Phil Berger, Co-Chair
The Honorable Tim Moore, Co-Chair

FROM: Mollie Young, Director of Legislative Affairs, NCDEQ

SUBJECT: Energy Credit Banking and Selling Program Annual Report

DATE: October 13, 2016

Pursuant to G.S. 143-58.5, "*The Department shall submit to the Joint Legislative Commission on Governmental Operations and the Fiscal Research Division no later than 1 October of each year a report on the expenditures from the Fund during the preceding fiscal year.*"

If you have any questions or need additional information, please contact me by phone at (919) 339-9433 or via e-mail at mollie.young@ncdenr.gov.

Cc: Don Van der Vaart, Secretary, NCDEQ
Tom Reeder, Assistant Secretary for Environment, NCDEQ
Tracy Davis, Director of Energy, Mineral, and Land Resources, NCDEQ
Lanier McRee, Fiscal Research Division, NCGA

Energy Credit Banking and Selling Program Annual Report FY 2015-2016

Citation of Law or Resolution:	G.S. 143-58.5
Section Number:	§ 14358.4
Due Date:	Oct. 1, 2016

Receiving Entities:
Joint Legislative Commission on Governmental Operations
Fiscal Research Division

Submitting Entity:
State Energy Program of the Department of Environmental Quality

The Energy Policy Act (EPAct) State and Alternative Fuel Provider Rule was implemented with provisions of Titles III-V of the Energy Policy Act (EPAct) of 1992. EPAct 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, EPAct has required that 75% of state government new LDV acquisitions be AFVs. The State Energy Program (SEP) of the Department of Environmental Quality (DEQ) is the designated entity to report acquisition activity to the U.S. Department of Energy (DOE) by December 31 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. 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. In federal fiscal year 2015-2016, the State earned 618 AFV credits that can be banked or sold. EPAct credits range have ranged in value between $800 and $1,100. The selling price is negotiated between the buyer and the seller. Upon completion of the negotiation, the final transaction is approved by the DEQ Energy Group Executive Director.

As directed by legislation, SEP has compiled this report and attached the guidelines and rules on the Energy Credit Banking and Selling Program. The report is based on data from the federal fiscal year cycle from October 1, 2015 through September 30, 2016. The state provisions for the Energy Credit Banking and Selling Program were enacted by the 2005 General Assembly through Senate Bill 1149/S.L. 2005-413, with subsequent rules approved by the Rules Review Commission in April 2007 that became effective on May1, 2007.

Guidelines for the EPAct Credit Banking and Selling Program were developed, reviewed and approved at the May 9, 2007 Alternative Fuels Consortium and the May 14, 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 the equipment unit designee in the Department of Transportation (DOT), the Department of Administration Motor Fleet Management (MFM) designee, a SEP designee, and designees of other state agencies and institutions that generate EPAct credits. The group meets annually to discuss the number of credits earned, the number that are deemed “sellable,” and a price range with a minimum selling price for all credits.

North Carolina currently has 1,344 excess credits to sell based on analysis of sellable credits earned through alternative fuel use through federal fiscal year 2015-2016. In early August 2015, Southern California Edison Company requested to purchase 240 credits as noted in the FY 2014-2015 EPAct report. Due to company budget restraints, Southern California Edison’s reduced the amount of credits it wished to purchase from 240 to 225. North Carolina received $192,000 for the sale of these credits. No credits were sold for federal FY 15-16.

EPAct CREDIT BANKING & SELLING ROGRAM	CREDITS Earned	SOLD	DEPOSITS
FY 04-05 credits	365		
FY 05-06 credits	424		
FY 06-07 credits	291	111	$110,760
FY-07-08 credits	353	429	$425,580
FY- 08-09 credits	112	4	$3,800
FY- 09-10 credits	252	372	$352,675
FY-10-11 credits	102	236	$220,400
FY-11-12 credits	297	200	$180,000
FY-12-13 credits	301	215	$196,500
FY-13-14 credits	299	0	$0
FY-14-15 credits	115	225	$192,000
*FY-15-16 credits	**	0	$0
TOTAL CREDITS	**2,911**	**1792**	**$1,681,715**
BALANCE of sellable credits	**1,344**		

*Credits that are eligible to be sold have been accrued through the use of E85 ethanol in flexible fuel vehicles (FFVs) operated by the Division of Motor Fleet Management.

**Total credits earned will not be available until after September 30, 2016 when the Federal fiscal year ends.

Since the EPAct Credit Banking and Selling Program's inception, North Carolina has completed the trade of 2,032 credits, which has yielded a total of $1,681,715. The proceeds are deposited in the Alternative Fuel Revolving Fund (AFRF) held by the DEQ. These revenues and corresponding credits sold are listed in the following table.

As of August 31, 2016, a total of $690,173.01 remains in the AFRF from the sale of credits and accruing interest on the fund balances resulting from these sales.

Alternative Fuel Revolving Fund Summary August 2016	Amount
Beginning Balance on October 1, 2016	$689,145.56
FY 2015-2016 interest through August 31	$1,027.45
Proceeds from credit sales	$0
Total disbursements	$0
Balance on August 31, 2016	**$690,173.01**

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 purchased by the state. 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

Energy Efficiency and Renewable Energy, State and Alternative Fuel Provider Fleets Program. Banked credits are used to meet future credit requirements, or are sold. Credits are also earned through the use of B20 biodiesel. Although these credits cannot be sold 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 use cannot accrue saleable credits. State agencies must document and track the use of alternative fuel in AFVs for credits that are to be made available for sell.

The SEP currently lists credits on an open bulletin board on the U.S. DOE website so that entities interested in purchasing credits can see what credits are available.

The SEP 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 sellable credits. Even though the credits generated by DOT for B20 use are not sellable, the DOT's use of B20 provides the opportunity for the state and MFM to exceed the minimum requirements. As a result, the credits generated by MFM through the use of E85 in FFVs are deemed eligible for sale.

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 AFVs. 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.