

**Report to the North Carolina General Assembly
Joint Legislative Oversight Committee on
Agriculture and Natural and Economic
Resources and the Fiscal Research Division**



***Alternative Fuel Revolving Fund
and Energy Credit Banking and
Selling Program***

Annual Report

October 1, 2023

**State Energy Office
NORTH CAROLINA DEPARTMENT OF
ENVIRONMENTAL QUALITY**

Pursuant to G.S. 143-58.5

Overview

The Energy Policy Act (EPA) State and Alternative Fuel Provider Rule was implemented with provisions of Titles III-V of the Energy Policy Act (EPA) of 1992. EPA 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). The State Energy Office (SEO) 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 31st of each calendar year.

Since 2001, as a covered fleet, EPA has required that 75% of North Carolina State Government new LDV acquisitions must be AFVs. 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.

In federal fiscal year 2022-2023 the State earned 10 AFV credits that can be sold. EPA credits have ranged in value between \$800-\$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 Executive Director.

In March 2020, Governor Roy Cooper issued Executive Order 116 (and subsequent executive orders), declaring a state of emergency in response to the COVID-19 pandemic. Corresponding modifications to State operations and business practices (e.g. travel restrictions, telecommuting, etc.), significantly reduced affected vehicle mileage and the quantity of E-85 used. As a result, Motor Fleet Vehicles were underutilized. However, Motor Fleet Management (MFM) considers travel reductions resulting from these modifications as justification for fleet vehicles not meeting the normal minimum mileage requirements. As of 2023, fleet vehicles remain underutilized, and the usage of E-85 remains lower than before the pandemic.

As directed by G.S. 143-58.5, the SEO in the DEQ 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 September 1, 2022 through August 2, 2023. The 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 May 1, 2007.

Program Operations

The Alternative Fuel Revolving Fund (AFRF) was established to receive and disburse revenue from EPA credit sales. One credit is earned for each original equipment manufacturer or U.S. Environmental Protection Agency (EPA) certified retrofit, FFV, compressed natural gas, propane, or electric vehicle purchased by the state of NC. 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 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 sale.

Guidelines for the Energy 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 Fuels 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 EPart credits. The group meets as needed 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. The group did not see a need to meet during this reporting cycle.

2022-2023 Transactions and Budget Summary

As shown in Table 1, the State of North Carolina, through the efforts of Motor Fleet Management (MFM) within the Department of Administration (DOA), currently has 1,715 excess credits to sell based on analysis of sellable credits earned through alternative fuel use through federal fiscal year 2022-2023. No requests were made to the State of North Carolina to purchase credits; therefore, no credits were sold for federal FY 22-23. The table below summarizes historical and current credits earned and sold.

Table 1. Inventory of Credits Earned and Sold and their Related Deposits

ENERGY CREDIT BANKING & SELLING PROGRAM	CREDITS EARNED	CREDITS SOLD	AFRF 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	-	-
FY-14-15 credits	115	225	\$192,000

FY-15-16 credits	112	-	-
FY-16-17 credits	37	-	-
FY-18-19 credits	169	-	-
FY-19-20 credits	253	-	-
FY-20-21 credits	7	0	-
FY-21-22 credits	8	0	-
FY-22-23 credits	10	0	-
TOTAL CREDITS	3,507	1,792	\$1,681,715
Credits that are eligible to be sold by the State of NC have been accrued through the use of E85 ethanol in flexible fuel vehicles (FFVs) operated by the MFM.			
Balance of sellable credits is 3,507- 1,792= 1,715			
SEO will submit the annual State and Alternative Fuel Provider Report to DOE by 12/31/2023			

Since the Energy Credit Banking and Selling Program’s inception, 1,792 credits have been sold for \$1,681,715 and deposited into the Alternative Fuel Revolving Fund (AFRF) held by the DEQ. The deposits are calculated based on the price per credit sold. The selling price of the credits is negotiated between the buyer and the seller and can range between \$800 and \$1,100. These revenues and corresponding credits sold are listed in the above table.

For the time period ending August 8, 2023, a total of \$597,056.23 remains in the AFRF from the sale of credits and accruing interest on the fund balances resulting from these sales. The total amount remaining in the AFRF also deducts funds that were previously approved for MFM and DOT to use for vehicle purchases. The EPAct credit sales are handled through direct sales and processed by the SEO and DEQ’s Financial Services Division. Table 2 below summarizes the balances in the AFRF, the interest earned during the report year, and the total disbursements made from the AFRF during the report year.

**Table 2. Alternative Fuel Revolving Fund Summary
As of 2022-2023**

	AMOUNT
Beginning Balance	\$582,632.76
Total interest	\$ 14,423.47
Subtotal	\$597,056.23
Total disbursements	\$0
Balance 8-8-2023	\$597,056.23

The SEO currently lists credits on an open bulletin board on the U.S. DOE’s Energy Efficiency and Renewable Energy website so that entities interested in purchasing credits can see what

credits are available. The open bulletin board can be accessed at <https://www.energy.gov/eere/vehicles/epact-regulated-fleets>.

The SEO annually informs the Alternative Fuels 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.

The distribution of funds is prioritized by the Alternative Fuels Consortium based on maximizing benefits to the state for the purchase of alternative fuels, related refueling infrastructure, and AFVs. Both the Energy Policy Council and the Alternative Fuels Consortium deemed it necessary to establish a clear priority for the funds accrued by the sale of credits.