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Mr. John Podesta
Counselor to the President
The White House
1600 Pennsylvania Avenue NW
Washington, DC 20500

Dear Mr. Podesta:

On behalf of the Society of Independent Gasoline Marketers of America (SIGMA)¹ and the National Association of Convenience Stores (NACS)², I write to formally request a meeting with you to discuss the renewable fuels market in the United States. In particular, there are several misconceptions percolating among policymakers regarding the use of so-called "E85" (gasoline-ethanol blends with between 51% and 83% ethanol) that must be addressed. Consumer demand for E85 has been minimal. As a consequence that product's position in the U.S. retail fuels market will be limited. Fuels policy in the United States must reflect this undeniable fact.

Members of SIGMA and NACS represent approximately 80% of retail motor fuel sales in the United States. They have a single objective: to sell in a lawful manner the product that their customers want to buy. As an industry, these businessmen and women are incredibly responsive to their consumers' demands. In certain locations throughout the country, retailers anticipated that consumers would demand E85. These retailers invested in E85 installations. Consumer demand, however, remains low. Retailers cannot control this. Supply responds to consumer demand; consumer demand is not created by the availability of supply.

SIGMA and NACS do not advocate repeal of the Renewable Fuel Standard. In order for that program to achieve its objectives, however, policymakers must operate based on certain essential facts.

¹ SIGMA represents a diverse membership of approximately 260 independent chain retailers and marketers of motor fuel. Ninety-two percent of SIGMA's membership are involved in gasoline retailing, 66 percent are involved in wholesaling, 36 percent transport product, 25 percent have bulk plant operations, and 15 percent operate terminals. Member retail outlets come in many forms, including travel plazas, traditional "gas stations," convenience stores with gas pumps, cardlocks, and unattended public fueling locations.

² NACS is an international trade association composed of more than 2,200 retail member companies and more than 1,600 supplier companies doing business in nearly 50 countries worldwide, with the majority of members based in the United States. While 49 of the top 50 convenience store companies in the United States are members of NACS, the majority of NACS's members are small, independent operators. More than 70 percent of NACS's total membership is composed of companies that operate ten stores or less, and more than 60 percent of NACS's membership operates just a single store.

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Some renewable fuel advocates make the fallacious argument that if retailers were to simply offer more E85 for sale, consumers would purchase more E85. Fundamental economic principles and real-world retailer experience dictate that this is simply not true. (Undoubtedly, if retailers could make money by selling E85, they would do so.) Many fuel retailers across the country have invested substantial sums of money in E-85 infrastructure only to see the E85 dispenser under-utilized. Even when it is priced much lower than traditional gasoline, consumers have exhibited little proclivity for purchasing E85. In fact, SIGMA and NACS members have almost never derived more than three-to-four percent of their total fuel throughput from E85 sales on a consistent basis.

Consumer demand for E85 is low for a number of reasons. There are relatively few (only approximately 6 percent of vehicles) flex-fuel vehicles (FFVs) that can run on E85. Incentives for manufacturing additional FFVs in the future are phasing out due to the new Corporate Average Fuel Economy (CAFE) standards. On top of this, many consumers that own FFVs reject E85. This is due in large part to the reduced fuel economy inherent with E85, and the associated shorter driving range and more frequent refueling stops.

Without consumer demand for E85, there is no incentive for retailers to invest further in additional infrastructure to store and dispense E-85. NACS estimates that the cost of installing retail infrastructure that can handle E85 can exceed, in some areas, \$200,000 for an individual store owner who operates two underground storage tanks and four dispensers. This is a significant investment to sell a product with minimal consumer demand, particularly in light of the fact that the average convenience store's annual pre-tax profit is less than \$50,000.

The fuel retailing community can be an important asset in the Administration's push to improve America's energy picture. Some in the renewable fuels community may contradict the assertions made in this letter. SIGMA and NACS would be eager to work with the Administration to engage in a study of E85 facilities in the United States to evaluate those individuals' arguments.

I hope to hear from your office as to how we may best work together to achieve what I believe are mutually compatible objectives.

Sincerely,



R. Timothy Columbus
General Counsel
SIGMA and NACS