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The problem with going green

Pearson Fuels aims to transform California's ethanol availability

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SAN DIEGO — At first glance the Pearson Fuels gas station on El Cajon Boulevard is unremarkable, save for the colored paper streamers and the "Grand Opening" sign above its adjoining food mart.

Customers using the station transit in and out, some fueling their cars with gas, others simply stopping for a soda and a bag of chips. Most seem unaware or uninterested in a row of lonely pumps that occupy the western end of the canopy.

With strange labels like E-85 Ethanol and BioWillie biodiesel, adorned with an

image of country singer and alternative fuels advocate Willie Nelson, these pumps go unoccupied — some for days.

Despite being the only E-85 ethanol public filling station in California, a state in which there are an estimated 1 million cars capable of combusting the fuel — including about 30,000 in San Diego — there are many days when the station fails to see even one ethanol customer, according to General Manager and co-owner Mike Lewis.

While the biodiesel and natural gas pumps at the station see a regular flow of traffic, "there are literally days when

See Pearson on 10A

Pearson

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we've not sold a drop (of ethanol), which means the state of California hasn't sold a drop," said Lewis, with a chuckle and a squinting smile.

But for Lewis and his partners John McCallan and Gary Hertica, co-owners of the Pearson Ford car dealership, the business of alternative fuels is no laughing matter.

The trio have reportedly invested more than \$2 million into the research and development required to operate the station, including countless hours of discussions with state and local regulatory agencies and time spent navigating a number of permitting processes.

Despite national press coverage, including the day in February of last year when Willie Nelson stopped by to fill up his biodiesel tour bus, and the attention generated in 2004 when Pearson Ford sold the world's first hybrid SUV, sales of alternative fuels at the station aren't exactly booming.

Now Lewis and his partners are focusing on a new strategy.

Last week, Pearson Fuels announced a partnership with the California Air Resources Board. The board granted the company \$802,000 to begin building ethanol pumps and storage facilities at gas stations around the state.

The funds are part of California's effort to spur the use of alternative fuels in order to cut greenhouse gas emissions 25 percent by 2020, returning them to 1990 levels, as mandated by Assembly Bill 32 passed last year.

Under the business model proposed by Pearson, the company wouldn't profit on the construction of the pumps, but rather benefit from the sales of the station's ethanol by entering an exclusive contract as its ethanol distributor.

Although the grant is modest — only enough to build about four or five facilities — Lewis sees this as the beginning of a new era for the supply of ethanol in the state, one on which he has staked a large part of his business.

In all, Pearson offers customers five alternative fuels in addition to the standard three varieties of unleaded gasoline and diesel fuel, many of which Pearson was the first to offer in the area.

But no alternative fuel has resonated more with lawmakers and government officials than ethanol, which is most commonly produced from corn or sugar and can also be made from biowaste such as cheese.

Ethanol is a mainstay in the debate over U.S. energy policy, which grows louder with every dollar the cost of crude oil rises. It is touted as a cleaner, renewable alternative to oil by proponents, which include U.S. agricultural interests like corn producers. But the availability has been limited in California due to the state's strict environmental regulations.

Since 2003, Pearson has been the only public E-85 ethanol filling station in California, despite the large number of cars in the state equipped to burn the fuel, a blend of 85 percent ethanol and 15 percent gasoline.

Pearson secured its monopoly when Lewis convinced CARB to grant his company a research and development permit that would enable him to sell E-85 at his station, an event he attributes to "being lucky and being willing to spend our money all these years testing these components with no real return."

Despite the difficulty of finding ethanol in California, the state is its biggest user, accounting for about 20 percent of all ethanol consumed in the country, according to CARB spokeswoman Gennet Paaue.

The reason, she said, is because refiners have been mandated to use ethanol as an additive in gasoline to reduce greenhouse gas emissions.

Paaue said that E-85 is a component of CARB's overall vision for California's air future.

Critics of ethanol complain that the substantial energy required to generate the fuel detracts from its efficiency and that the price is unrealistically low because of generous government subsidies.

Nevertheless, both the con-

sumption and supply of ethanol appear destined for growth in the United States.

Last week the Senate passed an energy bill that would require a yearly increase in U.S. ethanol production aimed at achieving 36 billion gallons per year, more than seven times the 4.8 billion gallons produced in 2006, according to the Renewable Fuels Association.

One thing ethanol proponents have going for them is the number of cars already on roadways that are able to burn E-85, compared to very few cars that are equipped to burn natural gas. Biodiesel, a fuel often promoted as an alternative to ethanol because it contains no gasoline and can be combusted by most diesel engines, has not received as much support from legislators.

Domestic car manufacturers such as Chrysler and General Motors (NYSE: GM), under pressure from lawmakers to improve fuel efficiency, have been relatively quick to produce a number of ethanol compatible models, called Flex Fuel Vehicles, capable of burning either E-85 or gasoline or a combination.

Chrysler offers eight 2007 model cars, including the 4.7 liter series of Dodge Durango, Dodge Ram 1500 pickup truck and Jeep Grand Cherokee.

Ten of General Motors' 2007 models are FFVs.

Green vs. green

By far the biggest problem the ethanol industry faces is the fluctuation in the price of the fuel, which is driven by the same basic factors as gasoline: supply and demand.

"What we have found with ethanol is when it is less expensive than gasoline we sell a decent amount of it," Lewis said. "When it is more expensive than gasoline, we sell nothing."

Last week, a gallon of E-85 at Pearson Fuels was selling for \$2.99, while gasoline was available for just 6 cents more per gallon.

Lewis believes that once the price of gasoline rises significantly above the price of E-85, Pearson will be in an ideal posi-

tion to capitalize on the surge in demand that will take place.

The only problem: he can't predict when that will be.

"I'm betting the entire business that in the long run ethanol will be less expensive than gasoline," he said.

CARB's Paaue said that whether or not ethanol becomes a mainstream commodity is largely up to the consumer.

"We're looking at a wide variety of fuels," said the spokeswoman. "But at this point it's hard to say how much it (ethanol) will catch on with the average consumer."

In the meantime Lewis has made an oral agreement to begin installing E-85 equipment with a gas station owner in Carlsbad and has spoken with five other interested owners since Pearson made the CARB grant public last week.

Lewis said he plans to begin construction within two months.

He also plans to enter discussions with potential investors that will enable him to continue to "dig holes," a term he uses to describe building E-85 facilities, after the initial grant money is exhausted.

Reflecting the amount of time Lewis is willing to wait for consumers to warm to the use of ethanol and other alternative fuels, since last year he has operated as chairman of the San Diego Environmental Foundation Inc., a nonprofit aimed at educating the next generation of consumers and operated in offices next to the fuel station.

The facilities include an approximately 100-seat multi-level theater, interactive educational displays on the importance of alternative fuels and the environment and a hydrogen highway complete with a roadblock and a message about how to get around it: e-mail the governor.

As of December 2006, the nonprofit has hosted 140 different schools from around the county.

"I have great faith that in the long run we're on the right track," Lewis said.

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