

TECHNICAL REVIEWERS' RATING SUMMARY

R003-A

Promoting Ethanol Fuels in North Dakota

Submitted by American Lung Association & ND Ethanol Producers Association

Principal Investigators: Kelly Marczak & Valerie Kummer

Request for \$217,323; Total Project Costs \$434,730

<u>Rating Category</u>	<u>Weighting Factor</u>	<u>Technical Reviewer</u>			<u>Average Weighted Score</u>
		<u>3A</u>	<u>3B</u>	<u>3C</u>	
Objectives	9	4	4	4	36.00
Achievability	9	4	2	4	30.00
Methodology	7	3	5	4	28.00
Contribution	7	2	3	5	23.33
Awareness	5	3	4	3	16.67
Background	5	5	4	4	21.67
Project Management	2	4	5	3	8.00
Equipment Purchase	2	5	3	5	8.67
Facilities	2		3	5	5.33
Budget	2	4	3	4	7.33
Average Weighted Score		173	178	204	185.00
Maximum Weighted Score					250.00

OVERALL RECOMMENDATION

FUND				x
FUNDING MAY BE CONSIDERED	x	x		
DO NOT FUND				

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Promoting Ethanol Fuels in North Dakota

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- 1. The objectives or goals of the proposed project with respect to clarity and consistency with North Dakota Industrial Commission/Renewable Energy Council goals are: 1 – very unclear; 2 – unclear; 3 – clear; 4 – very clear; or 5 – exceptionally clear.**

Reviewer 3A (Rating: 4)

Several goals and objectives are directly addressed with this proposal, specifically:

- Most effectively educate the general public about the benefits and opportunities provided by the North Dakota renewable energy industry;
- Maximize the market potential for renewable energy resources and the associated byproducts produced therewith;
- Preserve existing jobs and production levels (indirectly); and
- Develop baseline information that will lead to other projects, processes, ideas, and activities.

Reviewer 3B (Rating: 4)

The project clearly meets the goal of the Renewable Energy Council to educate the public about renewable fuels and help grow the ethanol industry. The project also identifies some clear goals to increase the awareness of the benefits of ethanol, add 10 new stations that offer E-85, and significantly increase the sales of ethanol at the pump.

Reviewer 3C (Rating: 4)

I thought the proposal was excellent as is the whole project that is outlined is an excellent project. The proposal was very clear and concise and the promotion of ethanol should prove to be beneficial throughout the state. North Dakota needs additional awareness of E85 and E10 fuels, considering all of the recent negative attention nationally and internationally. As a person who uses E10 exclusively, I'd like to see more attention in the state and have people know more about the positive sides of ethanol.

- 2. With the approach suggested and time and budget available, the objectives are: 1 – not achievable; 2 – possibly achievable; 3 – likely achievable; 4 – most likely achievable; or 5 – certainly achievable.**

Reviewer 3A (Rating: 4)

The four outcome objectives listed in the proposal are quite ambitious. It will be difficult in today's market to achieve a 19% increase in ethanol sales in year one and to triple sales of E85 ethanol by the end of year one. However, the American Lung Association has established a very good track record with promotion of ethanol and may be able to accomplish or nearly accomplish the outcomes hoped for. The proposal appears to indicate that the ALA and Ethanol

Producers organization see this as a longer term marketing and educational campaign. There is one outcome objective that directly mentions a year two goal.

Reviewer 3B (Rating: 2)

All of the stated goals are likely not achievable unless since ethanol is already blended in nearly 60% of the gasoline sold in the state and currently has a ten cent price advantage at the pump and is advantageous for retailers to market. The survey indicates only 35.3% of people said they use ethanol but the state data indicates the number is much higher in recent months. Regardless, consumers want a choice and although most are choosing ethanol at the pump many still demand regular gasoline and are willing to pay extra for the product. However, many retail locations are offering only ethanol blends at retail locations which significantly increases ethanol consumption. The only option for consumers pulling up to these retail locations it to drive through in search of a station which offers a choice in fuels, which is rarely done.

E-85 is a product that retailers are not likely going to add to their retail offerings until the product is demanded by more consumers. For that to happen E-85 will need to have a technological break-through making it more energy efficient or the price will have to drop significantly to make the product at least of equal energy value to E-10 or regular gasoline. Consumers especially at higher prices monitor their gas mileage closely and know that E-85 needs to be about a dollar less per gallon to be cost-effective. Some quick research indicates:

Retail E-85 price averages appearing on the AAA website on July 1, 2008:

- US average E-85 price rose for the 2nd time in 9 days on Monday; jumping 5.22 cents to \$3.807/gal
- When adjusted for MPG or Btu,the average E-85 price was \$5.01 per gallon
- Compared to the average retail gasoline price of \$4.087 per gallon, E-85 cost 92.3 cents (22.6%) more per gallon on a MPG-adjusted basis

This suggests to me that this promotional effort maybe flawed in attempting to focus on promoting E-85. E-85 is not a fuel of choice and it will not be until the product is improved. Instead, the promoters should consider focusing their efforts on educating the public about E-10 which is a fine product that is more of a choice for consumers than an economic decision. The fact that the research data for this project concludes that of the people survey only about 8.9% of those with flex-fuel vehicles are using E-85 validates this finding. Few consumers understand the E-10 octane value in the winter months and several other points are favorable even with a slight mileage loss.

Reviewer 3C (Rating: 4)

I believe the initial three months hold a very tight schedule for getting all the messaging and education out to the public, but with the qualifications of the principal people involved and the supporting partners, I think the objectives will fully be met.

- 3. The quality of the methodology displayed in the proposal is: 1 – well below average; 2 – below average; 3 – average; 4 – above average; or 5 – well above average.**

Reviewer 3A (Rating: 3)

The methodology described is sound and is very much in keeping with other successful ALA marketing efforts in Minnesota and Iowa. Today's climate, though, is different from what it was in the recent past. The issues surrounding ethanol production, whether ill conceived or not, will make it more difficult to achieve the kind of acceptance and usage as has happened in other states. On the other hand, the ethanol industry in North Dakota has provided much-needed good-paying jobs to many young families in the state, and the benefits to farmers and the state's economy should provide impetus to the public to support the industry by purchasing either E10 or E85.

Reviewer 3B (Rating: 5)

The methodology displayed is excellent, the need was well defined although somewhat flawed it used quality research data and designed a good campaign.

Reviewer 3C (Rating: 4)

I enjoyed seeing the results from the pre-campaign survey by the North Dakota Ethanol Producers; it gave me good information going into the review of the proposal. The methodology looks solid and very well-planned. I think the one weakness that I saw is the description of how the success of awareness will be measured, i.e. a greater description of post-survey and their administration. Is it simply about measuring more fuel-usage or will there be surveys measuring attitude shifts regarding E-fuels.

4. The scientific and/or technical contribution of the proposed work to specifically address North Dakota Industrial Commission/Renewable Energy Council goals will likely be: 1 – extremely small; 2 – small; 3 – significant; 4 – very significant; or 5 – extremely significant.

Reviewer 3A (Rating: 2)

As a marketing/educational campaign, there isn't a scientific and/or technical contribution involved with this proposal.

Reviewer 3B (Rating: 3)

There is not much scientific or technical components of an education and promotion project to comment on but the goals are well defined and technical research was excellent.

Reviewer 3C (Rating: 5)

The state needs a higher-level of awareness for ethanol production and this project seems to nearly define many of the goals of the Commission and the Council. If all goals are met, there will be solid statistics and greater usage. I think there is great opportunity for North Dakota media to promote the results of this project, and could be a good launching point for more awareness campaigns.

- 5. The principal investigator's awareness of current research activity and published literature as evidenced by literature referenced and its interpretation and by the reference to unpublished research related to the proposal is: 1 – very limited; 2 – limited; 3 – adequate; 4 – better than average; or 5 – exceptional.**

Reviewer 3A (Rating: 3)

Again, this proposal doesn't really address this scoring element. From first-hand experience, this reviewer is aware that the ALA ethanol team is very aware of current research activity related to ethanol and keeps up with published material related to ethanol benefits and issues.

Reviewer 3B (Rating: 4)

The PI appears to be running other campaigns relating to ethanol across the Midwest and certainly the partners have vast knowledge in renewable fuels and the advertising agency does great work.

Reviewer 3C (Rating: 3)

I read the full ND Ethanol Producers benchmark study, which was very helpful. I really struggled with how to grade this section because the proposal doesn't fully outline how well the principal investigator knows current literature. Through reading the principal investigator's background and knowledge of subject, I can infer that there is a wealth of awareness.

- 6. The background of the investigator(s) as related to the proposed work is: 1 – very limited; 2 – limited; 3 – adequate; 4 – better than average; or 5 – exceptional.**

Reviewer 3A (Rating: 5)

Both the principal investigator and project coordinator have strong backgrounds in ethanol marketing and education. They will also be working with the Ethanol Producers organization and will have the benefit of that expertise. The proposal also lists several additional partners that bring strength to the project.

Reviewer 3B (Rating: 4)

Excellent in all regard except understanding retail marketing of petroleum products and understanding the competitive consumer marketplace.

Reviewer 3C (Rating: 4)

I believe that Kelly and Valerie's backgrounds are excellent as far as knowledge of subject and materials, as well as years of experience and program development. They have skills that combine well to be able to execute and promotion the program.

- 7. The project management plan, including a well-defined milestone chart, schedule, financial plan, and plan for communications among the investigators and subcontractors, if any, is: 1 – very inadequate; 2 – inadequate; 3 – adequate; 4 – very good; or 5 – exceptionally good.**

Reviewer 3A (Rating: 4)

The proposal does lay out a project schedule with a few milestones and mentions key evaluation points as a post-campaign survey and monitoring ethanol usage on a quarterly basis and at project completion. A more detailed milestone chart could have been included, along with more information on a communications plan between the project investigator and project coordinator and other partners in the proposal. The proposal does include mention of periodic reports to the Industrial Commission, as needed.

Reviewer 3B (Rating: 5)

The project management, design, background work, goals and timetable are well defined.

Reviewer 3C (Rating: 3)

I think this is an area that is weakly defined within the proposal. The budget is well laid out, but a stronger timeline could have been defined for this purpose. The proposal loosely mentions what happens the first two months and then what begins in the third month and mentions the one-year timeframe. I would have like to have seen more on where, when, how the one-on-one education will take place; who and where the media buying would be, etc.

- 8. The proposed purchase of equipment is: 1 – extremely poorly justified; 2 – poorly justified; 3 – justified; 4 – well justified; or 5 – extremely well justified. (Circle 5 if no equipment is to be purchased.)**

Reviewer 3A (Rating: 5)

This does not apply. The only mention of equipment has to do with additional E85 stations and is outside the scope of the proposal and proposal budget.

Reviewer 3B (Rating: 3)

Reviewer 3C (Rating: 5)

N/A

- 9. The facilities and equipment available and to be purchased for the proposed research are: 1 – very inadequate; 2 – inadequate; 3 – adequate; 4 – notably good; or 5 – exceptionally good.**

Reviewer 3A (Rating: NA)

Again, this does not apply.

Reviewer 3B (Rating: 3)

All seem reasonable

Reviewer 3C (Rating: 5)

N/A

10. The proposed budget “value” relative to the outlined work and the financial commitment from other sources is of: 1 – very low value; 2 – low value; 3 – average value; 4 – high value; or 5 – very high value. (See below)

Reviewer 3A (Rating: 4)

The total project cost of \$434,730 for a one-year marketing/educational campaign is, in this reviewer’s opinion, quite high. North Dakota did a fairly successful “GoE” ethanol marketing campaign over a three-year period for slightly less than \$400,000, using most of the advertising and promotional approaches outlined in this proposal. It might be assumed that this effort is also slated to be a multi-year campaign, with only the first year’s costs included in this proposal. That said, if the four outcome objectives outlined in the proposal are actually accomplished in one year, it could be argued that the cost was worthwhile. The ALA-ND and partner match amount is slightly greater than fifty percent.

Reviewer 3B (Rating: 3)

It appears the budget match does not meet the required 50%. The ALAND is apparently contributing one full-time intern at the price of \$51,745 (\$18.99 per hour for an intern plus 31% benefits) in addition; ALAND is assessing 20.8% in-direct expenses for a total of \$75,360. This totals about \$127,105 in administrative or management fees for committing an intern to this project. Certainly time and expense will be incurred in carry-out the duties but the ad agency will not need too much guidance with all their expertise. The costs without the ALAND fees is \$307,625 a reasonable management fee of 15% which is high for these type of projects would be \$46,143 add some in-kind expenses and maybe \$50,000 or \$60,000 is reasonable. That is half of the defined expenses. The 50/50 match should be based upon a project value around \$350,000 not \$434,730.

The hard costs all appear reasonable since advertising is expensive...

Reviewer 3C (Rating: 4)

I actually thought going into the initial reading of the proposal that the budget would be much greater considering the expected outcomes and desired results and scope of what needs to be done. I think it’s a very tight budget but well defined and planned.

Financial commitment from other sources – A minimum of 50% of the total project must come from other sources to meet the program guidelines. Higher priority is to be given if the application has private industry investment equal to or at least 50% or more of total cost.

The minimum 50% cash match is demonstrated.

Section C. Overall Comments and Recommendations:

Please comment in a general way about the merits and flaws of the proposed project and make a recommendation whether or not to fund.

Reviewer 3A (Funding May Be Considered)

The ethanol industry is vitally important to North Dakota in that it has created excellent jobs in several rural areas, it makes the state and country less dependent on foreign oil, it improves the environment, it provides tax revenues to local and state government, and it has been a boost to state corn growers. But it's also an industry more and more in question as to the effects on food prices, the degree of mileage reduction from higher blends of ethanol, and the extent of federal subsidization of the industry.

The proposal mentions that there are approximately 29,000 flexible fuel vehicles in North Dakota, and that only 8.9 percent of FFV owners regularly fill with E85. According to the ND Dept. of Transportation, in calendar year 2007 there were 423,324 passenger vehicles and 324,427 light trucks registered in the state, for a total of 747,751 vehicles. (There was an additional 150,000 plus "other" vehicles registered, including motorcycles, ATV's, snowmobiles, etc.) That means that of all the passenger and light truck vehicles registered, a paltry 0.35 percent are regularly using E85! The number of vehicles using E10 is considerably higher, but there is no question that greater usage of ethanol could and should be achieved.

It is hard to understand why North Dakota citizens have been slow to accept ethanol and use it on a regular basis. Usage has pretty much ebbed and flowed with pricing, and it seems to take a good \$.05 to \$.10 a gallon reduction in cost to encourage North Dakotans to purchase E10. Flexible fuel vehicle owners weigh the reduced cost of E85 fuel with the reduced mileage they experience with their vehicles. The target increases in ethanol usage in North Dakota is more symbolic than it is necessary to the industry. While it would be better and less expensive to use more of the locally produced ethanol in the state, it is an export market. It's maybe as or more important to market the byproducts of ethanol production in North Dakota.

The ethanol promotional and educational campaign outlined in the proposal is a strong one. A similar attempt has been made before with the 3-year "GoE" campaign, but the track record and reputation of the American Lung Association, and that organization's ability to work with many partners and create a "team" approach to the effort will greatly improve its chances of success.

Reviewer 3B (Funding May Be Considered)

The project is designed to achieve one of the primary goals of the Renewable Energy Research Council which is to educate the public about renewable fuels and grow the industry by selling more renewable fuels. However, the growth of the industry is not predicated upon sales in North Dakota since it would only take one or two of the new plants to produce all the ethanol North Dakota can consume. The federal mandates have stated the growth chart and selling products close to production always maximizes profitability so working to educate consumer on the benefits of E-10 is a good goal. I hope the Council will take a serious look at whether promoting E-85 is a worthy goal or not. The survey indicates even those consumer who bought a flex-fuel vehicle don't use it for a variety of reasons but the energy efficiency problems associated with E-85 will not be dismissed by consumers.

The budget issues relating to the matching funds, management fees, and indirect costs identified in this review will hopefully be addressed.

The project overall despite the two items identified above has merit and is worth consideration. The model advertising plan is solid and has defined goals.

Reviewer 3C (Fund)

This was a very good proposal and I look forward to hearing and seeing the messaging and am hoping the ALA-ND and the North Dakota Ethanol Producers have great success. I hope there will be future ways that the general public can get involved in education and promotion of the Ethanol Industry, because it is becoming a vital industry for the state that connects the energy and agriculture industry.