



# Flying the Green Flag

Propel, PC&F carve out renewable-fuels deal that could be industry template

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**M**ost convenience retailers appreciate the intent behind renewable fuels but have difficulty making the business case for it.

There's the question of demand—or lack thereof—the cost of new equipment, labor and marketing, and the hassle of permitting. Combined, they create a huge barrier to entry.

It is this conundrum that Propel Fuels is targeting as it signs on partners in Washington and California to host its Clean Fuel Points (CFP), renewable-fuel stations that enable retailers to offer E85 and biodiesel without the accompanying financial responsibilities and liability.

“We give them all of the benefits of having renewable fuel on their site without the cost and hassle associated with it,” says Matt Horton, CEO of Propel Fuels, Redwood City, Calif. “It is a lot of work to put your own deal together: everything from handling permitting, looking for grant funding, finding suppliers who can provide you with product, and that’s to say nothing about managing a construction project, handling customer questions, needing to understand pricing strategy. We come to the table with a full-service offering.”

Propel leases an area of a retailer’s property and pays for the building, operation and management of its CFP, which includes the Propel-branded E85 and/or biodiesel dispenser, POS system, fuel lines, storage tanks, LED street price sign and back-office equipment, as well as a canopy when needed. Where space is limited, Propel can also install its dispenser in line with a retailer’s own fueling equipment, or upgrade existing renewable fuel equipment.

It attempts to sign on with local biodiesel producers when possible to keep its carbon footprint low, and it offers blends ranging from B5 to B99.

## ► Propel Fuels

Redwood City, Calif.

No. of sites: 26

### Current states of operation:

California and Washington

**The lowdown:** Propel leases part of a retailer's property to build, operate and manage its Clean Fuel Point (CFP), a stand-alone renewable-fuel island for E85 and biodiesel, and offers different compensation packages for volume.

**The process:** After a site is qualified, Propel pays for and installs a POS dispenser, fuel lines, storage tanks, street signage and back-office equipment over a four-week period. Propel operates, manages and maintains the CFP, including cash and credit processing and price changes, customer service and equipment issues.

### For more information:

Visit [www.propelfuels.com](http://www.propelfuels.com) or call (650) 241-7888

In return, retailers earn the lease income and volume incentive bonuses. The contract covers 15 years, with an option period. Once operational, each CFP is managed, maintained, supported and insured by Propel, to the tune of \$2 million per site in pollution and liability insurance.

It's this turnkey package that convinced Pacific Convenience and Fuels LLC (PC&F), Pleasanton, Calif., to sign a contract to spec CFPs at 80 of its California and Washington sites. The agreement was a boost for Propel, which currently has 26 CFPs in operation—six in Washington and 20 in California—and the opportunity for PC&F to immediately jump into the renewable-fuels business.

"We looked at them as an expert in biofuels and E85," says Chris Wilson, general manager of PC&F. "We didn't

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"A lot of people put E85 in but it's usually just in one dispenser ... whereas Propel generally has its **own canopy and own dispenser**, and is its own stand-alone business that happens to be on our parking lot."

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think we could do any better by ourselves at the moment. We could with due diligence and time, but they're ready to go now; they've made it work. So far they've been the only company that sustained itself. Quite frankly, there is a bit of risk involved, and that risk is shifted to Propel."

In addition, many of the communities PC&F serves are interested in green technology and the environment, "and that puts a green footprint on our lots, and it's good for our image overall," says Wilson.

### A Vending Machine for Fuel

PC&F has identified 80 potential sites out of its network of 300 for CFPs. Along with Propel, the company is examining each for its potential to support E85 and biodiesel sales. "Not all fuel stations in this country will perform very well as renewable-fuel stations, because of differences in the customer and vehicle base associated with renewable fuel," says Horton. "We find it's a relatively small group of stations that have a really high potential for E85 and biodiesel sales."

Propel uses a proprietary site-selection tool to isolate the most promising locations by factoring in customer demographics, the number of flex-fuel vehicles registered in the surrounding ZIP codes, and local government fleet opportunities.

"Many retailers ... are reluctant to make an investment on their own unless they are absolutely certain it will be a great-performing station," says Horton. "The tools just don't exist out in the market today to really give people that level of confidence. That's one of the nice things we've developed over four years: a deep understanding of the performance

characteristics of the stations."

"They basically do all the due diligence," says Wilson of PC&F. As PC&F opens CFPs, it will secure the business of local government agencies, law enforcement and the U.S. Post Office, which all have alternative-fuel mandates to follow. As of press time, nine PC&F sites were in the pipeline to receive CFPs and in the permitting process (three in Washington and six in California). Wilson expects them to be online by end of first-quarter 2012, and he foresees 60 sites hosting CFPs within the next five years.

PC&F receives rent as well as a fixed, cents-per-gallon benefit. Propel, which sets and changes the prices remotely, earns its profit from any amount beyond that fixed fee and receives any tax credits associated with selling renewable fuel. PC&F employees keep the dispenser area clean and perform daily environmental inspections, but that's about it.

"They have their own payment system that goes right through the dispenser; we don't handle credit cards or cash," says Wilson. "It's like a vending machine on the property where we don't have access to the cash."

Propel educates the retailers' employees on which cars accept the renewable fuels. It provides a sticker for the pump that lists makes and models compatible with the fuel, and an 800 number for customers to call with any questions or issues. While fleets frequent CFPs, more than half of Propel's total fuel volume comes from individual consumers.

Since PC&F acquired the site hosting a CFP at the beginning of the year, renewable-fuel volumes have grown 15%. Wilson attributes the increase to Propel's

## Propel Fuels by the Numbers

**26**

Current number of  
Propel Fuels locations

**80**

Number of sites Pacific  
Convenience & Fuels will evaluate  
for future Propel locations

**15%**

Increase in volumes of E85  
and biodiesel at PC&F's first  
Propel site in 2011

marketing and consumer outreach efforts, which include direct mail, e-mail marketing and P.R. events; growing consumer awareness; and PC&F's reimage of the entire site and remodeling of the c-store.

"Propel has a marketing plan and brand name," says Wilson. "A lot of people put E85 in but it's usually just in one dispenser under the canopy and not really significant, whereas Propel generally has its own canopy and own dispenser, and is its own stand-alone business that happens to be on our parking lot."

E85 and biodiesel make up 25% of the overall volume at PC&F's first CFP, which Wilson describes as "not incredibly high but decent." Seventy percent of its volume is E85, mostly because of the current 50- to 60-cent-per-gallon price advantage on conventional unleaded.

Both conventional diesel and biodiesel are offered at the site and currently are priced similarly.

"It's really the green person going after the biodiesel," says Wilson. "That is bringing in a unique customer, whereas E85 is generally a combination of both the green shopper and a person looking to save money." PC&F has seen total site volumes rise 10%, although it is tough to attribute the increase exclusively to the renewable-fuel offering. CFP customer intercepts conducted by Propel show that up to 25% purchase products and use services from other businesses at the location.

### Measuring the Upside

Propel sees great upside to E85 and biodiesel as more flex-fuel vehicles hit the road and government renewable-fuel mandates kick in. One storm cloud on the horizon: the potential end of the federal subsidy on ethanol, which could potentially add 38 cents in taxes to each gallon of E85.

"We think it will make it more challenging to provide consumers with great savings at the pump," says Horton. "It's something we are very concerned about and hope Congress will continue to keep E85 as strong a market as it has been."

For PC&F, the partnership with Propel is for the long term. While the chain has identified 80 possible sites, "our whole network is open to consideration for them," especially as the renewable-fuel brand moves into new markets, Wilson says.

"We're both headquartered within 30 miles of each other," says Wilson. "We have similar cultures and are both aggressive companies. We want to be their preferred partner going forward, which is why we made such a big commitment." ■