

Propane Education & Research Council

Budget Plan for Calendar Year 2011

On July 30, 2010, the Propane Education and Research Council (PERC) published its 2011 budget plan document for public comment in accordance with the Propane Education and Research Act of 1996 (Public Law 104-284). That budget plan, according to the Act, included the probable costs of all programs, projects, and contracts as well as a recommended rate of assessment sufficient to cover such costs. This document represents the 2011 budget that PERC approved at its October 6-7, 2010, meeting after giving consideration to public comments received as well as any changes in planned resources and the use of those resources.

PERC will submit this budget plan to the Secretary of Energy and to Congress. The Act provides that the Secretary may recommend programs and activities the Secretary considers appropriate.

No funds will be expended as a result of PERC's adoption of this budget other than for operating or capital expenditures. Under its rules, PERC must separately approve a detailed funding request for each specific project before funds are expended.

In accordance with PERA, this budget includes functions to develop programs and projects that will result in entering into contracts or agreements for implementing the Act, including programs to enhance consumer and employee safety and training, to provide for research and development of clean and efficient propane utilization equipment, to inform and educate the public about safety and other issues associated with the use of propane, and to provide for the payment of the costs thereof with funds collected pursuant to this Act. Furthermore, this budget complies with that part of the Act requiring that issues related to research and development, safety, education, and training be given priority by the Council in the development of its programs and projects.

On August 7, 2009, PERC received a letter from the Department of Commerce (DOC) stating that the change in propane prices compared with a basket of other residential energy sources had exceeded a threshold established in the statute, according to the department's calculations. As a consequence under the law, PERC was obligated to restrict its activities to research and development, training, and safety matters. Accordingly, PERC is precluded from engaging in general consumer education activities. Even though the statute includes a provision for the restricted activities (see PERA, Section 9, Market Survey and Consumer Protection), the costly restriction could have been averted had the DOC adopted a more appropriate method of performing its propane price analysis. PERC provided the department with what it believes to be a better pricing methodology to recognize that the escalation in propane prices has been driven by an unprecedented run-up in oil prices and not PERC's activities. The DOC did not accept PERC's recommendation (for reasons unknown), and as a result PERC has restricted its activities under the law.

In accordance with PERA, upon the expiration of 180 days after the beginning of the restricted activities, the Secretary of Commerce again conducted the propane price analysis and, as expected, the analysis required PERC to continue restricting its activities. PERC has complied with the restricted activities since first being notified by

the DOC and continues to comply. PERC expects the restriction to be in place for several years to come.

All resources and expenditures outlined in this budget plan will be subject to audit by a certified public accountant at the time said resources and expenditures are realized for the 2011 year. Since PERC's inception, all audits have resulted in an unqualified (clean) opinion from the certified public accounting firms. These audits included the reasonableness testing of all key financially related matters under PERA.

Part I.

ASSESSMENTS, INVESTMENT INCOME, and OTHER RESOURCES

The federally authorized assessment on odorized propane is the principal source of funding for PERC. PERC collects late payment fees and interest on assessments that are paid after the due date. PERC receives income from the investment of assessment funds pending their disbursement. Also, PERC may receive grants and other funds from government agencies and private organizations.

Assessment Rate. The assessment rate in 2011 allowed under PERA will be four-tenths of a cent per gallon of odorized propane, effective for gallons odorized on or after January 1, 2011. The previous assessment rate of five-tenths of a cent per gallon was reduced to four-tenths of a cent effective April 1, 2010.

Assessment Collections. Assessment revenues of \$35,100,000 are projected for 2011.

Investment Income. Investment income in 2011 is estimated at \$496,000. Investment income is affected by market conditions as well as the timing of assessment collections and funds disbursed for operating expenses, grants, projects, and state rebates. All funds are invested in accordance with PERA.

Deobligations. Unused funds from projects completed in 2011 are estimated at \$1,400,000.

Estimated Beginning Surplus. Surplus funds available from 2010 are projected to be \$8,863,500, including the de-obligation of unspent funds associated with restricted activities.

Grants to the Council. PERC will continue to seek funds from government and private sources in 2011.

Part II.
GENERAL EXPENDITURES AND CAPITAL INVESTMENTS

Administrative Expenses. Administrative expenses in 2011 are projected to be \$2,922,000. Under PERA, administrative expenses may not exceed 10 percent of funds collected during the year. The proposed administrative expenses along with administrative related depreciation expenses of \$86,000 are estimated at 8.45 percent of funds the Council expects to collect in 2011. In accordance with PERA, no funds are used to compensate members of the Council, who all serve as unpaid volunteers. Of the 21 members of the Council, only the three public members may be reimbursed for travel expenses and only for attendance at Council meetings. Also under PERA, no funds collected by the Council are used in any manner for influencing legislation or elections, except that the Council may recommend to the Secretary changes in this Act or other statutes that would further the purposes of this Act.

Assessment and Collections. PERC estimates its assessment and collection expenses to be \$168,000. These costs are primarily based on an allocation of a portion of the costs incurred under a contract with PERC's outsourced accounting service that manages assessment collections.

Depreciation Expenses. PERC has made and is planning to make capital expenditures. Depreciation on these expenditures is estimated to be \$1,107,000 in 2011.

Capital Investments. PERC is planning capital investments of \$820,000 in 2011 primarily for computer hardware and software as well as information technology program enhancements.

Part III.
STATE REBATES

By operation of the law and the rules adopted by the Council, 20 percent of assessment collections are rebated to the states. If the budgeted assessment collections are realized, the total expenditure for the state rebate program in 2011 will be \$7,020,000.

Part IV.
PROGRAM AND PROJECT EXPENDITURES

PERA requires PERC to *"develop programs and projects and enter into contracts or agreements for implementing this Act, including programs to enhance consumer and employee safety and training, to provide for research and development of clean and efficient propane utilization equipment, to inform and educate the public about safety and other issues associated with the use of propane. ..."* As previously stated, PERC is precluded from engaging in general consumer education activities and accordingly, there are no planned expenditures in 2011 related to these activities.

Five advisory committees have been established: agriculture, engine fuel, research and development, residential and commercial, and safety and training. These advisory committees were consulted on the 2011 budget. These committees will evaluate project proposals and make funding recommendations to PERC during the 2011 year. They

also develop, at the direction of the Council, requests for proposals or in some instances develop and present project initiatives for Council consideration and funding. All funding decisions require Council approval, although the Executive Committee has authority to act between Council meetings on matters requiring prompt consideration. The president and CEO also has limited authority to approve small grants.

The projects and initiatives described in the following sections are based on the recommendation that the Council received from PERC's Budget and Finance Committee in collaboration with PERC's Executive Committee, the staff, and other sources. While the descriptions to follow provide insight into the overall plans of PERC, actual funding will be considered on a docket-by-docket basis for 2011. The budgeted programs include \$2,725,000 in PERC direct labor cost (including \$355,000 in employee benefits), which are incurred in supporting program activities and projects. Also included in the programs' budget is \$427,000 for IT Support, which is for computer services that support the program activities.

In addition to requesting public and industry comments on the budget plan, PERC routinely solicits comments as part of its evaluation process for individual projects. The Council's funding decisions and other grant information are posted and frequently updated on the Council's website, www.propanecouncil.org, and published each year in the annual report.

There are \$29.5 million in program budget initiatives to follow that are in accordance with the permitted activities of research and development (\$16.0 million), training (\$8.4 million), and safety (\$5.1 million) as outlined under PERA. Some of the program activities may be multi functional in nature meaning that a budget initiative may include two or three of the permitted activities in which case the initiative was classified according to the activity with the majority of the budget funding.

Other requirements under PERA included in the budget initiatives are:

- Not less than 5 percent of the funds collected through assessments pursuant to the Act will be used for programs and projects intended to benefit the agriculture industry in the United States. The Council will coordinate its activities in this regard with agriculture industry trade associations and other organizations representing the agriculture industry.
- The Council shall coordinate its activities with industry trade association and others as appropriate to provide efficient delivery of services and to avoid unnecessary duplication of activities.

All program plans and budgeted funds are not committed until the Council approves the associated funding requests that are recommended by the advisory committees and/or staff. Plans may change, and funds reprioritized from one program to another based on what Council determines to be in the best interest of the Industry.

Research and Development

Commercial Applications (Budget \$3,100,000): New products will be developed and launched into the commercial sector in 2011 including combined heat and power systems and heat pump/gas air conditioning units. In addition, the budget includes

proposed funding for product testing. Other products already funded through the research and development budget in 2010 will be introduced to the commercial sector through training and joint demonstration programs with manufacturers.

Residential and Commercial Program Oversight (Budget \$370,000): These funds are budgeted to support the duties and meet the responsibilities of the related committees and staff associated with residential and commercial sectors. Costs include: in-person meetings, conference calls, travel and lodging, materials, supplies and shipping, and professional services.

Residential and Commercial Market Metrics and Technology Assessment (Budget: \$610,000): Working with independent consultants and obtaining critical data from residential and commercial data experts, PERC will establish various sets of metrics and identify research opportunities. Subsequently, opportunities will be explored, goals will be established, and outcomes will be evaluated.

Off-Road Motor Fuel Applications (Budget: \$2,050,000): PERC will work with manufacturers of zero-turn-radius (ZTR) mowers to develop, test, and demonstrate propane-fueled products. PERC will continue to develop relationships and research partnerships with OEMs and organizations representing key stakeholders in this sector. We will also maintain and increase propane's presence through demonstration and training events..

Training programs to date include the development and use of a propane outdoor power equipment maintenance and training manual being implemented by Briggs & Stratton to train its dealers. Other initiatives include the introduction of propane information and technology incorporated into Kawasaki Service Training schools and the initiation of a program to train commercial mowing dealers on propane equipment as well as the development of refueling video for end users. PERC will also seek opportunities to expand its research on small engines to off-road vehicles and equipment used in the golf course industry.

Forklifts (Budget: \$1,250,000): Today more than 600,000 propane forklifts operate every day. Improvements in electric forklifts, continuing concerns over volatile fuel costs, and more stringent environmental regulations have increased interest among forklift OEMs in working with the Council to develop propane/electric hybrid forklift technology for the North American economy.

The Engine Fuel Advisory Committee will recommend funds for research and development on a new propane hybrid forklift power system to improve energy efficiency and reduce emissions.

On-Road Motor Fuel Applications (Budget: \$2,000,000): There are approximately 270,000 propane vehicles on the road today in the United States. Through PERC and industry investment several new vehicle platforms are available now or soon will be available for fleet customers to choose propane. It is now critical to implement a training program designed to further enhance understanding of propane-fueled vehicles in commercial fleets to reduce emissions without sacrificing performance. These include but are not limited to public and private fleet managers, school districts, airport shuttles, mass transit, and national parks. The program will also continue the industry's longstanding partnership with the Department of Energy's Clean Cities Program, as well

as continue working with the Environmental Protection Agency's National Clean Diesel Program and other government programs as needed.

Many new propane-fueled products are now available for purchase in the on-road sector. However, there remain some gaps in product availability that are required to offer a complete suite of propane vehicles serving all fleet customer segments, and PERC's engine fuel research efforts are intended to address these needs.

Under PERA, the percentage of funds collected through assessments pursuant to the Act to be used for projects relating to the use of propane as an over-the-road motor fuel shall not exceed the percentage of the total market for odorized propane that is used as motor vehicle fuel, based on the historical average of such use over the previous 3-year period. PERC expects to be at or near this limitation by the end of 2011.

Motor Fuel Program Oversight (Budget \$150,000): These funds are budgeted to support the oversight duties and meet the responsibilities of the committees and other personnel involved in motor fuel. Costs include: in-person meetings, conference calls, travel and lodging, materials, supplies and shipping, and professional services.

Motor Fuel Market Metrics and Technology Assessment (Budget: \$250,000): Working with independent consultants and obtaining essential data from motor fuel data sources and experts, PERC will continue its efforts to benchmark and evaluate the impact of investments on motor fuel markets.

Agriculture Engines (Budget: \$600,000): PERC will conduct research and development to advance the use of propane-fueled engines, such as those used for irrigation, through a program that includes:

- Developing stationary propane-fueled engines that offer a combination of cost-savings, performance, and environment benefits, beyond those offered by diesel engines through partnerships with manufacturers such as Ford, GM, and others.
- Continuously improving new engine products and identifying service, training, or other support needs through demonstration and data collection activities.
- Developing and implementing needed safety and training support necessary for new products.
- Exploring opportunities to develop propane-fueled agricultural tractors with tractor manufacturers. Initial target will be the orchard and vineyard industries.

Pest Control (Budget: \$275,000): PERC will research, develop and transfer to the agriculture sector new weed and pest control technology that will utilize propane-generated heat and steam.

Agriculture Energy Efficiencies (Budget: \$275,000): PERC will identify and engage in strategic projects that sustain and expand base applications in the agriculture sector such as crop conditioning and structural heating. These projects will primarily be aimed at improving the efficiency of current crop-drying or heating/cooling systems for greenhouses, barns, stables, and other structures.

Agriculture Program Oversight (Budget \$150,000): These funds are budgeted to support the oversight duties and meet the responsibilities of the committees and other

personnel associated with agriculture. Costs include: in-person meetings, conference calls, travel and lodging, materials, supplies and shipping, and professional services.

Agriculture Market Metrics and Technology Assessment (Budget: \$300,000):

Working with independent consultants and obtaining essential data from agriculture data sources and experts, PERC will continue its efforts to benchmark and evaluate the impact of investments on agriculture.

Partnership with States (Budget: \$2,000,000): This matching funds program will support joint efforts between PERC and the states to fund safety, training, and research and development programs. Partnership activities will primarily target external audiences, such as residential consumers, builders, farmers, fleets, and the fire service. Model programs were developed with the states for technology demonstration and training programs, data collection, safety communications, and safe appliance installations.

Fundamental Research (Budget: \$3,300,000): Fundamental research will contribute to PERC's technology research and development by identifying organizations and researchers who can contribute to the development of possible breakthrough technologies and new sectors that have the potential to establish new propane products. PERC is planning to conduct a nationwide Propane Challenge timed with the 100th anniversary of propane in 2012 to ignite innovation, engage thought leaders and foster a competitive spirit among researchers and product developers in support of the future use of propane. In addition, other proposed fundamental initiatives in 2011 include equipment and environmental comparison research and fuel studies.

Partnerships (Budget: \$1,341,000): In fulfillment of PERC's statutory obligation to coordinate its activities with those of industry associations, PERC's partnership agreement with the Gas Processors Association and the National Propane Gas Association aligns the strategies of the three nonprofit groups and expands collaboration on activities and initiatives such as joint planning, support to PERC advisory committees, safety and training collaboration, regulatory compliance, technology support, advancing the Certified Employee Training Program (CETP), and research and development activities. In addition to the foregoing work, PERC also will coordinate with the World LP Gas Association (WLPGA), the Global Technology Network (GLOTEC) and Global Autogas Industry Network (GAIN) to advance propane technologies in the United States.

Safety

Consumer, Industry, and Emergency Responder Safety (Budget: \$1,665,000):

PERC's commitment to consumer, industry, and emergency responder safety programs continue to resonate and penetrate those segments. For 2011, these continued commitments include the following:

- Revised Gas Check is based largely on the revised suite of CETP vapor distribution courses.
Budget: \$150,000

- Consumer Safety Outreach includes the development and/or refinement of new or existing consumer safety communications vehicles, using data from the Consumer Safety Research initiative.
Budget: \$600,000
- Safety Communications includes developing various “conversations” and leave behinds with the propane industry on the availability, use, and benefits of many of PERC’s safety programs aimed at developing an even greater industry penetration of those programs.
Budget: \$300,000
- Propane Emergencies Program will be used to continue outreach, industry conferences and expansion of the program to new audiences and partners. PERC has developed a series of strategic partnerships aimed at cost-effectively expanding the reach of the *Propane Emergencies Program*. Such partnerships include the National Volunteer Firefighter Council, Federal Emergency Management Association, National Fire Protection Association, Association of Public Communications Officers, and the Chemical Safety Board, and the Fire Department Safety Officers Association.
Budget: \$200,000
- Program Development & Oversight includes the management of the Safety & Training Advisory Committee, annual liability insurance pursuant to PERC’s development of safety programs, ability to retain third party contracts and legal counsel based on unforeseen situations, and attendance at various industry meetings such as NPGA, TS&S and CETP Certification Committee.
Budget: \$165,000
- Safety Assessment & Evaluation focuses on the collection of meaningful data on the impact of PERC’s safety materials to the propane industry.
Budget: \$250,000

CETP Alignment, Maintenance and Outreach (Budget: \$1,665,000): PERC has made a significant commitment to the safety training of the propane workforce since it was established in 1998, much of it leveraged and repurposed into additional training vehicles and markets. The investment in industry training for 2011 includes the continued instructional design and alignment of CETP courses, as well as maintaining current courses and providing help desk services for e-Learning users.

Training

Residential Training (Budget: \$4,447,000): In 2008, PERC launched a program to provide training courses to architects. Working with the American Institute of Architects, these courses provide continuing education credits to architects. This program was expanded to include other construction professionals including homebuilders. PERC intends to expand training programs to additional trades and professions involved in the installation and maintenance of propane appliances.

In 2011, the training program will continue to grow and existing courses will be revised to provide the most current information to construction professionals. All training topics will focus on propane applications including new technologies, installation, maintenance, servicing and safety and will be available online and in person. This program will be coordinated with PERC's Safety and Training program along with will target builders, architects, plumbers, and HVAC professionals. These training courses will be certified by the American Institute of Architects and the National Association of Home Builders.

Commercial Training (Budget: \$534,000): PERC will provide a training program to construction professionals working in the commercial sector. This training will focus on new technologies funded and developed through PERC's research and development. The training will provide information on the safe installation and maintenance of products specific to the commercial sector.

Motor Fuel Training (Budget: \$1,700,000): This funding is designated for engine fuel technician training as more fully explained in the Research and Development section for *Off-Road Motor Fuel Applications* and *On-Road Motor Fuel Applications*.

Retail Marketer Technology Training (Budget: \$700,000): This program is designed to support technology training, safety, and research and development efforts by enhancing a retail marketer's understanding of technology applications. Training will cover installation criteria, energy efficiency and environmental impact, consumer benefits, and implementation obstacles.

Industry Coordination (Budget: \$790,000): This activity strives to make retail marketers aware of industry initiatives, encourage their participation, and obtain feedback. PERC will communicate through print and electronic newsletters, broadcast faxes, the annual report, and sponsorships of other industry publications. Industry outreach will focus on participation at propane industry regional conventions and meeting.

American Petroleum Institute Annual Propane Sales Survey (Budget: \$185,000): The API survey is the only industry report that breaks down propane sales by market category and by state and region. By law, 20 percent of assessments collected by PERC are rebated back to the states, and this survey is used to determine the allocation the states receive annually.

Propane MaRC (Budget: \$100,000): The Propane MaRC website will continue to be a resource for industry members to access and purchase safety, training and research and development related fact sheets and support materials.

Retail Marketer Survey (Budget: \$50,000): The 2010 survey will be used as a benchmark. The purpose of the marketer survey is to identify industry member usage of and satisfaction with specific PERC products, services and activities across all program areas, as well as identify needs and wants.

Part V.
2011 BUDGET SUMMARY

SOURCES OF FUNDS

REVENUES

Assessment Collections	\$35,100,000
Investment Income	\$496,000
TOTAL REVENUES	<u>\$35,596,000</u>

DEOBLIGATIONS

\$1,400,000

BEGINNING SURPLUS

\$8,888,500

Total Sources of Funds

\$45,884,500

DISTRIBUTION OF FUNDS

Administrative Expenses

\$2,922,000

Other Expenses:

Assessment and Collections	\$168,000
Depreciation Expenses	\$1,107,000
Total Other Expenses	<u>\$1,275,000</u>

State Rebates (20 % of Assessment Collections)

\$7,020,000

Programs:

Program Salaries & Taxes	\$2,370,000
Program Staff Benefits	\$355,000
IT Support	\$427,000
Research and Development	\$16,017,668
Safety	\$5,081,666
Training	\$8,417,666
Total Program Funding	<u>\$32,669,000</u>

Total Distribution of Funds

\$43,886,000

ENDING SURPLUS FOR 2011

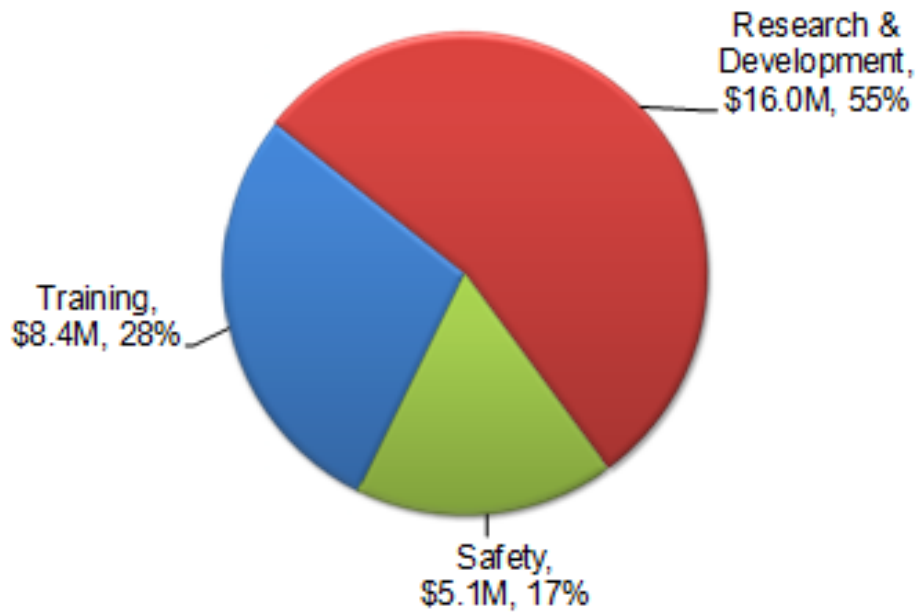
\$1,998,500

CAPITAL EXPENDITURES

\$820,000

Part VI.

2011 BUDGETED OPERATING PROGRAMS
BY FUNCTIONS



Total: \$29.5 Million