

## **Propane Education & Research Council**

### Budget Plan for Calendar Year 2012

On July 29, 2011, the Propane Education and Research Council (PERC) published its 2012 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 2012 budget that PERC approved at its December 8-9, 2011, 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.

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. It is further stipulated under PERA that upon the expiration of 180 days after the beginning of the restricted activities, the Secretary of Commerce again conduct the propane price analysis. To date, any subsequent price analyses have resulted in the continuation of PERC 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 audited by a certified public accountant shortly after said resources and expenditures are realized for the 2012 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 financial 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 2012 will be four-tenths of a cent per gallon of odorized propane, effective for gallons odorized on or after January 1, 2012.

**Assessment Collections.** Assessment revenues of \$34,400,000 are projected for 2012.

**Investment Income.** Investment income in 2012 is estimated at \$339,000. 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 and specifically funded activities completed in 2012 to be returned to the general treasury are estimated at \$1,253,000.

**Estimated Beginning Surplus.** Surplus funds available from 2011 are projected to be \$8,783,500.

**Grants to the Council.** PERC will continue to seek funds from government and private sources in 2012.

***Part II.***  
**GENERAL EXPENDITURES AND CAPITAL INVESTMENTS**

**Administrative Expenses.** Administrative expenses in 2012 are projected to be \$2,884,000. 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 \$75,000 are estimated at 8.52 percent of funds the Council expects to collect for 2012. 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.

**Assessment and Collections.** PERC estimates its assessment and collection expenses to be \$138,000. 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 \$1,138,000 in 2012.

**Capital Investments.** PERC is planning capital investments of \$622,000 in 2012 primarily for 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 2012 will be \$6,880,000.

### ***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 2012 related to these activities.

*. The projects and initiatives described in the following sections are based on a recommendation from PERC's Budget and Finance 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 2012. 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](http://www.propanecouncil.org), and published each year in the annual report.*

There is \$29.2 million in program budget initiatives to follow that are in accordance with the authorized activities of research and development (\$15.7 million), training (\$9.5 million), and safety (\$4.0 million). The funding for these initiatives is derived from 2012 resources, along with \$700,000 from agriculture funding estimated to be unappropriated in 2011, but are planned for use in 2012 consistent with the minimum agriculture funding requirement under PERA. Some of the program activities may be multi functional meaning that a budget initiative may include two or three of the authorized 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 as follows:

- 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.

## ***Research and Development***

Among the significant research and development activities planned for 2012 are the following:

**Residential and Commercial Applications (Budget \$3,895,000):** New products will be developed and launched in 2012 including combined heat and power systems and heat-pump gas air-conditioning units. In addition, the budget includes proposed funding for product testing and demonstration. Other products already funded through the research and development budget in 2011 will be introduced to the commercial sector through training and joint demonstration programs with manufacturers.

### **Technology Assessment and Market Metrics**

**(Budget: \$111,500):** Prior to investing funds in the development of clean, efficient propane utilization equipment and in order to minimize risks, the Council conducts preliminary market and technology research. After new products are launched, PERC collects data on the number of units sold, impact on demand, and collects data that consumer response to determine whether post-launch modifications are required or if additional safety education or training efforts are needed

**Off-Road Motor Fuel Applications (Budget: \$1,800,000):** There are approximately 350,000 new zero-turn-radius (ZTR) mowers sold annually. Through PERC investments in engine development and research, propane is positioned to become the viable fuel option for this sector, with about a dozen leading ZTR manufacturers offering propane products. A new generation of propane engines will be required to meet more stringent emission standards, and PERC will continue to work with manufacturers and outdoor power equipment organizations to advance propane as a fuel of choice in that market sector.

**Forklifts (Budget: \$1,000,000):** Today more than 600,000 propane forklifts operate every day. Increased developments in electric forklifts, growing concerns over rising fuel costs, and changing emissions regulations have created interest among forklift manufacturers in developing propane-electric hybrid forklift technology. Working with the Industrial Truck Association and its major forklift manufacturing constituents, PERC will launch a technology research program to develop and introduce propane-electric hybrid forklifts in United States.

**On-Road Motor Fuel Applications (Budget: \$2,135,000):** Through PERC and fuel system manufacturers' investments, several new vehicle platforms are currently under development and more are becoming available this year for customers who wish to take advantage of propane autogas' lower emissions, reduced maintenance requirements, comparable performance (horsepower, torque, and towing capacity) and affordable infrastructure to power fleet vehicles. In 2012, PERC will expand its ongoing efforts to demonstrate these vehicles to commercial fleets. These include 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 federal and state government programs. Funds will also be required to conduct preliminary market and technology research. After new products are launched, PERC will collect data on the number of units sold, impact on demand, and collect data on fleet consumer response to determine whether post-launch modifications are required or if additional safety education or training efforts are needed.

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 2012.

**Agriculture Engines (Budget: \$1,157,000):** PERC will demonstrate and collect performance data on new, commercially available, technology through the Propane Farm Equipment Efficiency Demonstration (FEED) program. PERC will also explore opportunities to develop propane-fueled agricultural tractors with manufacturers. Initial target will be the orchard and vineyard industries.

**Pest Control (Budget: \$325,000):** 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: \$350,000):** PERC will identify and engage in projects that sustain and expand base applications to improve energy efficiency and reduce emissions in the agriculture sector such as crop conditioning and structural heating. These projects will primarily target crop-drying or heating and cooling systems for greenhouses, barns, stables, and other structures.

**Agriculture Measurement and Evaluation (Budget: \$135,000):** Funds will also be required to conduct preliminary market and technology research. After new products are launched, PERC will collect data on the number of units sold, impact on demand, and collect data on fleet consumer response to determine whether post-launch modifications are required or if additional safety education or training efforts are needed.

**Fundamental Research (Budget: \$3,290,000):** Technology innovation will contribute to PERC's development goals by identifying organizations and sourcing researchers who can contribute to the development of possible breakthrough technologies that would position propane as a preferred energy source. In 2011, the Council launched a nationwide Propane Challenge to engage thought leaders, universities, public and private research laboratories, and product manufacturers to identify and pursue research opportunities to develop clean, efficient propane utilization equipment, appliances, and vehicles for on-road and off-road use.

This budget recognizes a variety of project ideas from the Propane Challenge that have good potential for funding. If it is determined that these projects are not feasible then Council will redirect this funds to other research and development initiatives.to other market growth opportunities.

Other research initiatives in 2012 include equipment and environmental comparison research and fuel studies.

**Partnership with States (Budget: \$1,800,000):** 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.

**Partnerships (Budget: \$1,311,000):** 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 key strategic objectives of the three nonprofit groups and expands collaboration on activities and initiatives such as joint planning, safety and training collaboration, regulatory compliance, technology support, advancing the Certified Employee Training Program (CETP), and research and development activities. Funds are also included to coordinate PERC activities with federal and state agency programs to reduce emissions, advance research, enhance safety, and improve training. PERC will also continue its collaboration with industry and public organizations outside the United States to avoid duplication of effort and share technological developments.

## **Safety**

Among the significant safety activities planned for 2012 are the following:

**CETP Alignment, Maintenance, and Outreach (Budget: \$975,000):** PERC has made a significant investment in the safety and 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 2012 includes the continued instructional design and alignment of a selected CETP course, as well as maintaining current courses and providing help desk services for e-learning users.

**Gas Check and Residential Safety Inspection Protocol (Budget: \$175,000):** This protocol will be developed based largely on the revised suite of CETP vapor distribution courses and lessons learned from the 2010 Consumer Safety Research initiative.

**Consumer and Industry Safety Outreach (Budget: \$300,000):** This safety initiative includes the development and refinement of new or existing consumer safety communications for propane consumers, and the propane industry using data from the Consumer Safety Research initiative.

**Safety Communications (Budget: \$295,000):** The purpose of this program initiative is to develop various materials on the availability, use, and benefits of many of PERC's safety programs aimed at enhancing an even greater industry penetration of those programs. This includes leveraging the established penetration of PERC's safety training programs to communicate the availability and benefits of other PERC market-based initiatives.

**Propane Emergencies Program (Budget: \$100,000):** The majority of these funds will be used to expand the successful Industry Responder Conferences as a way to teach firefighters the safe methods to respond to propane incidents while at the same time establishing positive relationships among propane and emergency responder professionals, local government officials, and local communities.

**Safety Assessment and Evaluation (Budget: \$135,000):** This endeavor will fund safety data collection and assessments to assess and evaluate the impact of PERC's safety programs on the propane industry.

## ***Training***

Among the significant training activities planned for 2012 are the following:

**Residential Training (Budget: \$3,706,000):** 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 other construction professionals including homebuilders and remodelers. PERC also provides training programs to additional trades and professions involved in the installation and maintenance of propane appliances.

In 2012, 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: \$400,000):** In 2012, training courses will be developed to support the new technology entering the commercial market. In addition, the existing residential training courses will be evaluated and modified for the commercial sector. These courses will be aimed at engineers, developers, and builders.

**Engine Fuel Training (Budget: \$2,740,000):** PERC has been investing in research and technology development projects in the past few years that are designed to bring new or improved technology into the economy. We now have a variety of off- and on-road products available to serve multiple sectors, including propane-fueled commercial mowers and a growing portfolio of other off-road applications such as the Subaru engine construction equipment, the Club Car utility vehicle. On-road fleet vehicles from manufacturing partners are available in light-duty and medium-duty applications from several brands with a variety of vehicle platforms. Demonstrating the vehicles and providing training to fleet operators and service and maintenance technicians will be greatly expanded in 2012.

**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 Engagement (Budget: \$500,000):** An outreach campaign to the propane industry will be developed in 2012 in an effort to heighten the industry's awareness and understanding of PERC's investment in research and development, safety, and workforce training. New propane technologies are being brought to the agriculture, motor fuel, residential and commercial sectors. There are numerous opportunities for the propane industry to inform local decision makers (including but not limited to construction professionals, fleet operators, landscape companies, agriculture producers, and commercial entities) about our clean and efficient products.

**Industry Coordination (Budget: \$690,000):** 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: \$200,000):** The API survey is the only industry report that breaks down propane sales by market category and by state and region. This program is essential to carrying out the statutory mandate that 20 percent of assessments collected by PERC are rebated back to the states, and this survey is used to determine the state-by-state annual allocation of assessment funds.

**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.

**Part V.**  
**2012 BUDGET SUMMARY**

**SOURCES OF FUNDS**

**REVENUES**

|                        |                     |
|------------------------|---------------------|
| Assessment Collections | \$34,400,000        |
| Investment Income      | \$339,000           |
| <b>TOTAL REVENUES</b>  | <b>\$34,739,000</b> |

**DEOBLIGATIONS**

**\$1,253,000**

**BEGINNING SURPLUS**

**\$8,783,500**

**Total Sources of Funds**

**\$44,775,500**

**DISTRIBUTION OF FUNDS**

**Administrative Expenses** **\$2,884,000**

**Other Expenses:**

|                             |                    |
|-----------------------------|--------------------|
| Assessment and Collections  | \$138,000          |
| Depreciation Expenses       | \$1,138,000        |
| <b>Total Other Expenses</b> | <b>\$1,276,000</b> |

**State Rebates (20 % of Assessment Collections)**

**\$6,880,000**

**Programs:**

|                              |                     |
|------------------------------|---------------------|
| Program Salaries & Taxes     | \$2,656,000         |
| Program Staff Benefits       | \$410,000           |
| IT Support                   | \$629,000           |
| Research and Development     | \$15,021,817        |
| Safety                       | \$4,011,417         |
| Training                     | \$9,447,266         |
| <b>Total Program Funding</b> | <b>\$32,175,500</b> |

**Total Distribution of Funds**

**\$43,215,500**

**ENDING SURPLUS FOR 2012**

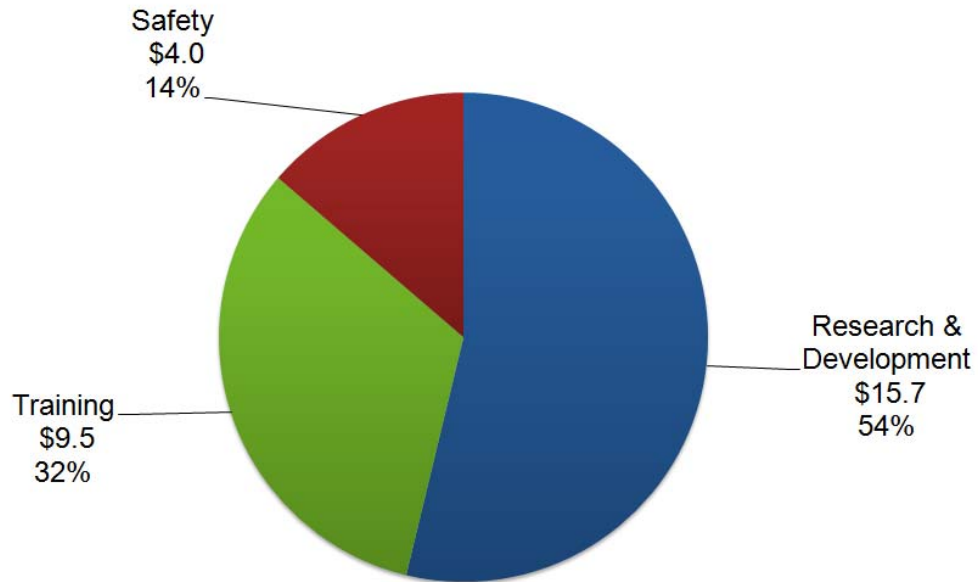
**\$1,560,000**

**2012 CAPITAL EXPENDITURE Budget**

**\$622,000**

**Part VI.**

**2012 Budgeted Operating Programs by Functions (in Millions)**



**TOTAL: \$29.2M\***

\*Includes \$0.7M from 2011 Agriculture Unappropriated Funds