



STATEMENT OF NGVAMERICA

UNITED STATES HOUSE OF REPRESENTATIVES

TAX REFORM WORKING GROUPS:

ENERGY

April 15, 2013

Introduction

NGVAmerica respectfully submits the following statement in response to the U.S. House of Representatives' Ways & Means Committee's request for information on tax reform. This statement specifically concerns current and expired tax code provisions affecting the use of natural gas vehicles. The committee should be applauded for its efforts to streamline and simplify the tax code. We also believe this effort should seek to level the playing field and promote broader adoption of alternative fuels and alternative fuel vehicle technologies. Tax reform should remove tax policies or provisions that impede economic growth and business development or that discourage critical business and technology investments.

With respect to natural gas vehicles, NGVAmerica would note that recent reports and studies highlight that natural gas vehicles have the greatest potential of any technology to displace oil consumption and achieve mass market adoption.¹ Given the significant energy security, environmental, and economic benefits associated with accelerated growth in the use of natural gas vehicles, NGVAmerica believes that, at a minimum, tax reform should remove tax policies that serve as barriers to increased use of natural gas as a vehicle fuel. In addition, it also is important that the Committee consider providing incentives that encourage natural gas related investments -- along with incentives offered for other alternative fuel technologies. Tax policy should not pick technology winners and losers among the different alternative fuels. However, it should be pointed out that the various alternative fuels need different incentives to stimulate their growth. Congress should provide the appropriate incentive for each fuel. Moreover, the adoption and implementation of these incentives should provide certainty regarding how long these incentives will remain in place so that businesses and consumers can plan accordingly.

NGVAmerica is a national organization dedicated to the development of a growing and sustainable market for vehicles powered by natural gas and biomethane. NGVAmerica represents more than 200 companies, including vehicle manufacturers; natural gas vehicle component manufacturers; natural gas distribution, transmission, and production companies; natural gas development organizations; environmental and

¹ See National Petroleum Council, "Future of Transportation Fuels" (August 2012)" (http://www.npc.org/FTF-report-080112/Natural_Gas_Analysis-080112.pdf); National Academy of Sciences, "Transitions to Alternative Vehicles and Fuels (March 2013) (http://www.nap.edu/catalog.php?record_id=18264).

non-profit advocacy organizations; state and local government agencies; and fleet operators.

Comments

Due to significant advancements in drilling technology and the vast natural gas resources that are now economically recoverable, the U.S. now has an excellent opportunity to displace a significant share of its petroleum imports with domestically-sourced natural gas in the transportation sector. Studies by credible experts have concluded that the U.S. has an expansive natural gas resource base. Indeed, current estimates forecast that the United States has over 100 years of natural gas supply at our current rate of consumption, and that estimate is expected to increase with further advances in production technology.

Today, despite increased domestic oil production and declining use of conventional fuels, the U.S. continues to *annually* send more than \$300 billion overseas for imported oil.² That money would be much better spent here in the U.S. on domestic alternative fuels, helping to improve our domestic economy and helping to transition to a clean economy. Displacing petroleum with natural gas provides huge economic benefits to the U.S. economy. It creates and sustains jobs in the domestic natural gas industry and related industries (e.g., processing, handling, transmission and distribution of natural gas). Studies estimate that the natural gas industry currently supports nearly 2.2 million jobs. Increased domestic production will *add* to these numbers. A study recently commissioned for America's Natural Gas Alliance indicates that in the next several decades 1.6 million *new jobs* will be created as a result of the growth in shale gas production.³ This same study also projects that the industry will make \$1.9 trillion in capital expenditures between now and 2035 to support expanded development of domestic shale gas. The production of natural gas also directly benefits federal and state budgets because of the taxes paid, royalties and other fees associated with development and production.

² U.S. Energy Information Administration, *Annual Energy Outlook (AEO) 2013 Liquid Fuels Supply and Disposition, Reference Case* (2013 \$323 million).

³ HIS Global, *The Economic and Employment Contributions of Shale Gas in the United States* Prepared for ANGA (December 2011).

Displacing petroleum imports with natural gas for transportation not only keeps dollars here in this economy but it lowers the transportation costs for U.S. businesses making them more competitive, and allowing them to expand their businesses. Fleets converting to natural gas will be able to lock-in these lower costs for years because the price outlook for natural gas is stable. EIA's Annual Energy Outlook projects that natural gas will be \$1 - \$2 less costly than diesel and gasoline for many years to come.

Only a few years ago, the U.S. was expected to become a net importer of natural gas, but that prospect has all but disappeared as large supplies of domestic natural gas are now under development. Low natural gas prices are encouraging more users to take a serious look at natural gas as a transportation fuel. There is growing interest and activity in the transit bus market, refuse truck market, and the over-the-road truck market, among others. Twenty-two state governments are participating in the first-ever multi-state procurement request to purchase light duty natural gas vehicles, signaling their commitment to promote efforts to encourage production and use of light duty natural gas vehicles in their state fleets.

Today, virtually every heavy-duty truck manufacturer and most transit bus manufacturers offer a selection of natural gas vehicles. Many prominent light duty manufacturers – Chrysler, Ford, GM, American Honda – offer factory built products or have arrangements with suppliers to make natural gas vehicles available to their customers. Fuel providers also have been actively adding to the number of fueling outlets that offer vehicular natural gas. Today, there are about 1,250 natural gas fueling stations in the U.S. This total is up significantly from just a few years ago as about 15–20 new stations are being added each month. The capital required to build out these stations is easily \$250 - \$500 million a year in new investment that is occurring and the pace of this investment is expected to pick up as even more stations are built. However, the total number of stations is still miniscule compared to the nearly 150,000 service stations in the U.S. that provide conventional motor fuels. And the sales of natural gas, while making sizable gains in key markets like transit and refuse, remain small relative to overall market sales.

The near-term prospects for natural gas are best in high-fuel use applications where the pay-back or return on investment makes the most economic sense. It is for this reason that natural gas holds the potential to vastly change the freight transport and

heavy-duty transportation market. Truckers are not just interested in today's low natural gas prices but also are interested in the prospect of price stability and the long-term outlook for locking in lower fuel prices with natural gas. For many applications, however, the incremental cost of natural gas vehicles is currently too high even with the low fuel prices because these applications simply do not use enough fuel to provide a return on investment in the necessary time period (often 2 -3 years for most fleets). As the natural gas industry grows and larger numbers of vehicles are produced, the first-cost of natural gas vehicles will come down because of economies of scale and competition. That process would be greatly accelerated by removing tax barriers that currently are impeding the growth of natural gas vehicle use, and, further, by providing targeted incentives to the early adopters of natural gas vehicles and to the businesses investing in fueling stations. Providing incentives for natural gas vehicles would also show the auto manufacturers that U.S. policy makers truly do support all alternative fuels.

Building out a national fueling infrastructure to support a new fuel like natural gas is a daunting task. It requires enormous capital and a belief that the demand for the new fuel will materialize. Tax policy can have a positive impact on this effort. Providing tax incentives can help accelerate the investments in natural gas vehicles and increase demand for vehicles. This, in turn, will encourage more businesses to develop fueling stations that provide natural gas, and it will reward manufacturers who are investing in producing natural gas vehicle and natural gas fueling equipment. Today, all companies in these businesses can be characterized as leaders and as risk takers, because the investments they are making are predicated on the actions of future customers and future demand that has yet to materialize. That is why it is important that governmental policies ensure access to natural gas supplies, and foster the right type of environment for investment. For this to be truly sustainable effort, more fleets and more businesses need to be encouraged to make these types of investments.

Specific Proposals for Tax Policy Changes

Taxation of Liquefied Natural Gas (IRC 4041)

Liquefied natural gas or LNG competes with diesel fuel as a transportation fuel for use in heavy duty trucks. The federal highway excise tax on both diesel and LNG is set at 24.3 cents *per gallon*. See 26 USC §§ 4041, 4081. However, LNG has less energy *per LNG gallon* than diesel fuel. In fact, it takes about 1.7 gallons of LNG to equal the same energy content as one gallon of diesel fuel. Since the excise tax is based on volume, not energy content, LNG is taxed at 170% of the rate of diesel on an energy equivalent basis.⁴ This equates to a diesel gallon equivalent rate of 41.3 cents for LNG. This disparity creates a significant disincentive for the use of LNG.⁵

Example of How This Tax Impacts Natural Gas Truck Users

A diesel truck traveling 100,000 miles per year at 5 miles per gallon consumes 20,000 gallons of diesel fuel. An identical LNG truck would require 34,000 gallons of LNG to travel the same distance assuming comparable fuel economy. The LNG truck would pay an additional \$3,402 *per year* in highway excise taxes for using LNG.

Fuel Type	Annual Mileage	Gallons Per Year	Excise Tax Rate/Gallon	Total Tax
Diesel	100,000	20,000	24.3 cents	\$4,860
LNG	100,000	34,000	24.3 cents	\$8,262

⁴ The situation is quite different for compressed natural gas (CNG) when compared to gasoline, with which CNG primarily competes. When establishing the federal highway excise tax for CNG, Congress imposed the tax on CNG that is approximately the same as the tax on gasoline on an energy equivalent basis. See 26 USC 4041. The tax on LNG at one time was also adjusted for its energy content. During the period 1997–2006, the LNG tax was tied to the gasoline rate of 18.3 cents but adjusted downward to 11.9 cents because of its lower energy content. SAFETEA-LU (P.L. 109-59), however, inexplicably modified the tax effective as of Oct. 1, 2006, basing the tax on the diesel rate and removing the adjustment for lower energy content.

⁵ This tax penalty is further magnified by the fact that many states emulate the federal government and, therefore, also tax LNG based on volume rather than energy content.

Combined with the higher up-front cost of a LNG truck, in some cases as high as \$60,000 to \$80,000, and the fact that most of these trucks drive over 1 million miles during their lifetime, this higher federal highway excise tax is a critical barrier to the adoption of lower-emission, domestically-fueled LNG trucks.

Proposal

Congress should amend the motor fuels excise tax on LNG so that it is imposed on an energy equivalent basis and not a volumetric basis. This change would impose a tax of approximately 14.3 cents per LNG gallon. The impact of this provision is 17 cents of lost revenue per diesel gallon equivalent of LNG consumed, or 10 cents per LNG gallon sold. In terms of budgetary impacts this provision would only have minimal impact because today the amount of LNG used for on-road transportation is only around 100 million gallons per year, and a portion of this fuel is tax exempt. Longer term, this tax change would result in *no less revenue* than if the status quo continued (i.e., the U.S. continued to rely on petroleum fuels and petroleum fueled vehicles). This policy change should be made permanent but allow for additional increases to be made in the future if diesel fuel taxes are increased to provide for transportation funding and road improvements. Given that the LNG change may properly be viewed as a clarification in treatment or tax technical correction, this provision should be addressed as soon as possible.

Federal Highway Excise Tax on Heavy Duty Trucks (IRC 4051, 4053)

The tax code currently imposes a 12 percent excise (sales) tax on heavy duty trucks, trailers, and tractors. See 26 USC § 4051. This tax acts to discourage new truck purchases because it substantially raises the cost of all new truck purchases, diesel and alternative fuel alike by 12%. Other organizations have argued that the Federal excise tax (FET) should be done away with altogether because it raises the capital cost of purchasing trucks and discourages new sales.⁶ We agree with that sentiment. This tax is even worse in the case of alternative fuel trucks because these trucks include new technology and are sold in limited quantities, and, as a result have a much higher first cost or incremental cost than conventional trucks. The tax is a penalty because the

⁶ See HR 4321 (112th Congress). This proposal is revenue neutral as it proposes an increase in the diesel fuel tax or motors taxes in order to offset the lost revenue to the Transportation Trust Fund.

12% rate is assessed not only on the base cost of the truck but also on the incremental cost, unnecessarily adding to the already higher cost of these vehicles. The result is added sticker shock for buyers and a longer payback period. This tax makes it harder for many businesses who may be considering natural gas trucks to justify that initial purchase.

Fuel Type	Truck Price	12% FET per IRC § 4051	Total Price	Additional Tax
Diesel	\$125,000	\$15,000	\$140,000	
Natural gas	\$185,000	\$22,200	\$207,200	\$7,200

Proposal

Congress should do away with this tax or, at a minimum, amend section 4051 so that the incremental cost of natural gas trucks and other advanced technology trucks is exempted from the tax. This particular section already includes an exemption for auxiliary power units that are intended to reduce petroleum consumption and pollution. The current exemption for auxiliary power units is found in section 4053 of the code; therefore, it makes sense that an exemption for the incremental cost of natural gas vehicles and other technologies also be listed in section 4053. This change should be made on a permanent basis. This policy change would have only minimal budgetary impact because the number new natural gas trucks covered by this tax is relatively small; probably less than a 1,000 trucks per year. Over time, this change would result in *no less revenue* than if the status quo continued (i.e., the U.S. continued to rely on petroleum fuels and petroleum fueled vehicles).

Income Tax Credits for Acquiring Natural Gas Vehicles (IRC 30B)

The Energy Policy Act (EPAct) of 2005, PL 109–58, provided for an income tax credit for the purchase of a new, dedicated natural gas vehicle of 50 percent of the incremental cost of the vehicle, plus an additional 30 percent if the vehicle met certain tighter emission standards. These credits ranged from \$2,500 to \$32,000 depending on

the size of the vehicle. The credit went into effect January 1, 2006 and expired December 31, 2010. This incentive also applies to other types of alternative fuel vehicles. Congress has not extended the Section 30B credit but it has enacted new incentives for electric vehicles that continue to remain in effect. Specifically, section 30D of the tax code provides up to a \$7,500 tax credit for the purchase of an electric vehicle. NGV America does not question the appropriateness of this electric vehicle credit. We do believe, however, that Congress should provide a comparable incentive for light-, medium- and heavy-duty natural gas vehicles, creating a level-playing field for alternative fuels.

Of all the tax incentives intended to encourage natural gas vehicles, we believe that the incentive for purchasing such vehicles is the most effective tool because it directly rewards businesses, fleets and individuals for investing in natural gas vehicles. This directly would support all aspects of the natural gas vehicle industry value chain, from equipment suppliers, to vehicle manufactures, fuel sellers, and also station owners. Previous Congress' have proposed modifying these tax credits so that they also extend to bi-fuel natural gas vehicles that operate primarily on natural gas; the expired Section 30B tax credits for natural gas vehicles only extended to dedicated vehicles or vehicles that operate exclusively on natural gas. The inclusion of bi-fuel vehicles⁷ is important and sound policy, particularly in the case of light duty vehicles and vehicles operated by consumers who may have concerns about the ability to take extended trips with their natural gas vehicles.

Proposal

Congress should reinstate the incentives for natural gas vehicles and extend them for a period of five years. The credits also should be expanded to provide an incentive for bi-fuel vehicles that operate primarily on natural gas and rely on gasoline or diesel as a backup.

Excise Tax Credit to the Seller of CNG or LNG (IRC 6426, 6427)

The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), PL 109–59, provided a 50-cent incentive per gasoline gallon equivalent (GGE) of compressed natural gas (CNG) and per gallon of liquefied

⁷ Bi-fuel NGVs are vehicles that are capable of operating on natural gas or gasoline but not on a mixture of both fuels at the same time. U.S. EPA regulations refer to these vehicles as dual-fuel vehicles.

natural gas (LNG) sold for use as a motor vehicle fuel. See 26 USC §§ 6426, 6427. The incentive also applies to other types of alternative fuels (e.g., propane, hydrogen). This incentive serves as a tax credit for taxable entities and a payment in the case of tax exempt entities, such as state agencies, transit authorities, school districts and public universities. The credit went into effect October 1, 2006 and originally expired December 31, 2009. Congress has extended this credit twice. It currently is available until the end of 2013. This incentive generally goes to retailers but can go to users if there is no retail transaction. In the case of public fleets that own their own station, this incentive directly benefits school districts, transit agencies and other state and local government fleets.

This incentive is particularly effective in helping to offset the cost of owning and operating natural gas vehicles and accelerating the return on investment. And it is the only incentive that directly goes to or benefits tax exempt entities because the other federal incentives for alternative fuel vehicles and fueling infrastructure (see below) are income tax credits that can only be claimed by taxable entities.

Proposal

Congress should extend this incentive for 5 years with the other incentives for natural gas vehicles. This extended period is important since it provides vehicle buyers certainty over the period, which facilitates longer term planning.

Income Tax Credit for Installing Alternative Fuel Infrastructure (IRC 30C)

The Energy Policy Act (EPAAct) of 2005, PL 109–58, included an income tax credit equal to 30 percent of the cost of natural gas refueling equipment, up to \$30,000 in the case of large stations and \$1,000 for home refueling appliances. See 26 USC § 30C. This incentive also applies in the case of infrastructure used to dispense other alternative fuels (e.g., electricity, hydrogen, propane). The credit went into effect after December 31, 2005, and, currently, is available until the end of 2013. Congress has extended this credit twice.

A new natural gas fueling station can cost anywhere from \$400,000 to \$4 million depending on the type of station and the number of dispensers, storage capacity, and on-site compressors. Thus, the ability to claim the \$30,000 tax credit is useful for smaller, private businesses who are installing their own fueling stations but likely is not a significant enough to factor into the decision making of businesses installing

large natural gas fueling stations. The \$1,000 home fueling appliance credit has likely not been used in the past several years as there really are no low-cost home refueling appliances available. However, several manufacturers are working to bring home refueling appliances for natural gas vehicles to the market and the \$1,000 credit if expanded and left in place for a 5-year period could stimulate the market for such products.

Proposal

Congress should amend the current incentive and increase the amount for business property to \$100,000 per station, and leave in place the current \$1,000 credit for home refueling appliances. Both of these incentives should remain in place for a period of five years.

Conclusion

NGVAmerica appreciates the opportunity to provide the committee with comments on those specific tax policy provisions that affect the use of natural gas vehicles. . The U.S. has an unprecedented opportunity to significantly reduce its reliance on foreign petroleum and to improve its economic competitiveness by encouraging greater use of domestic natural gas. Now is the time to act to encourage the increased use of natural gas vehicles. Greater use of natural gas supports millions of jobs, provide state and local revenues, and also federal royalties. Using natural gas as a transportation fuel also will help fleets and businesses lower their operating costs, thus improving overall economic prosperity. Tax policies can aid in accelerating the successful market penetration of natural gas vehicles and thereby accelerate the achievement of the benefits provided by natural gas vehicles. In order to be effective, policies that provide incentives need to provide certainty for businesses and industries and remain in place for a specific number of years, preferably five years. Also, tax policy should remove existing barriers that discourage capital investments in new advanced technologies. We look forward to the opportunity to provide further assistance to the committee in understanding how these issues impact our industry,

For additional information concerning this statement, please contact:

Paul Kerkhoven
Director, Government Relations
NGVAmerica
400 N. Capitol Street, NW
Washington, DC 20001
pkerkhoven@NGVAmerica.org
(202) 824-7363