

Statement for the Record
Of the
National Propane Gas Association

**U.S. House of Representatives
Ways and Means Committee**

Working Group on Energy

April 15, 2013



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The Honorable Kevin Brady
Chairman
Energy Working Group
Committee on Ways and Means
United States House of Representatives
301 Cannon House Office Building
Washington, D.C. 20515

The Honorable Mike Thompson
Vice Chairman
Energy Working Group
Committee on Ways and Means
United States House of Representatives
231 Cannon House Office Building
Washington, D.C. 20515

Dear Chairman Brady and Vice Chairman Thompson:

As the Ways and Means Committee considers energy tax policies, the National Propane Gas Association (NPGA) believes that propane gas, as a fuel source for American households, vehicles and commerce, plays a significant role in achieving an “all-of-the-above” domestic energy plan. NPGA supports energy tax policies that encourage the use of alternative fuels, creating a diverse, efficient, secure and domestically-sourced U.S. energy landscape.

Background

NPGA is the national voice for the propane gas industry. NPGA’s 3,000 member companies—the majority of which are small family-owned businesses—fuel homes, businesses, and vehicles in all fifty states, and employ approximately 40,000 industry employees nationwide. Propane is a non-toxic gas produced from natural gas processing and crude oil refining. Approximately 70% of propane comes from natural gas. The growth in American natural gas production over the last several years has brought with it an associated growth in propane supply. In fact, as recently as 2010 the U.S. was a net importer of propane. Today, America is a net exporter of propane. This surplus in clean American energy can, and should, be relied upon to advance America’s energy security and environmental goals.



Benefits of Propane

Propane is a clean fuel relative to other fuels such as gasoline and diesel. An April 2013 report entitled “Propane Supply Sources and Trends” prepared for NPGA by ICF International contained a section on the impact of changes in propane supply on carbon emissions. Specifically, the report states:

Without sophisticated emissions control devices, use of propane typically emits much lower levels of CO, particulate matter (PM), and evaporative VOC’s, and similar levels of NOx and exhaust VOC’s when compared to gasoline and diesel fuel. While these emissions differences are important in many applications, current emissions standards for on-road vehicles result in similar emissions levels for propane, gasoline, and diesel fuel with respect to these standard criteria pollutants. However, propane also has significantly lower carbon emissions than gasoline and diesel fuel. Carbon emissions are inherent to the fuel, and cannot currently be controlled with existing emissions technologies.

As the sources of propane supply have shifted from crude oil refining to natural gas liquids fractionation, the total carbon emissions associated with using propane have declined. The chemical composition of the consumer grade propane sold in the U.S. is very similar regardless of whether the propane is produced in a natural gas plant, a refinery, or is imported from other countries. However, the carbon emissions associated with producing propane differ based on the source of the propane. Refineries typically are much more energy intensive, and have higher carbon emissions per unit of output than natural gas fractionation facilities. Overall, ICF estimates that propane produced from natural gas liquids reduces carbon emissions by about 16% relative to propane produced in a refinery.

As the percentage of U.S. propane supply sourced from natural gas plant production has increased from 59.7% of the total U.S. propane supply in 2005 to 72.5% of the total U.S. propane supply in 2012, the per gallon CO2 emissions associated with using propane have fallen by about 2 percent.



NPGA would be pleased to discuss the environmental impacts of using propane in various applications, should the working group desire.

Impacts of Comprehensive Tax Reform on the Propane Industry

One of the goals espoused by many for revising and updating the Internal Revenue Code is to reduce the significant number of tax preferences as a *quid pro quo* for reducing marginal corporate and individual tax rates for those who currently utilize the tax preference items. The idea would be to move from an old Code to a new, simpler Code on a revenue-neutral basis, while at the same time reducing marginal rates. This may be a laudable goal on a broad basis; however, the Committee must understand that, in a number of circumstances, eliminating tax preferences will not result in lower corporate or individual tax rates for the beneficiary of those preferences.

One such example is the alternative fuel credit, which is discussed below. That provision, which has been in effect since 2005, permits those who use alternative fuels—such as propane—for transportation to receive a tax credit. This provision is widely utilized by entities that are not tax-paying—including schools, police departments, fire departments, and some nonprofit organizations. In these circumstances, eliminating the tax credit will not provide these entities with lower tax rates. Instead, it will simply deprive them of the incentive to use alternative fuels, with absolutely no corollary benefit. Accordingly, NPGA urges the Committee to look carefully at situations such as this that do not handily fit within the larger mold of “tax reform.”

Alternative Fuel Tax Credits Applicable to the Propane Industry and Consumers

The current Code has a laudable and salutary purpose in encouraging the use of propane in transportation. Propane is chemically similar to natural gas, a fuel that has drawn much attention lately. Indeed, it is fair to say that propane is “portable natural gas” because it can be much more easily provided to consumers without elaborate and costly infrastructure. In transportation applications, propane produces lower emissions than gasoline or diesel fuel, its closest competitors. As noted above, propane also produces far less carbon emissions than these traditional transportation fuels. Thus, these tax credits encourage behavior that is highly beneficial for the environment. Moreover, America is today a net exporter of propane. Thus, propane in transportation applications displaces petroleum imported from abroad, often from nations that do not share our core democratic and economic values. Propane in transportation applications not only provides energy security, it also improves the nation’s balance of payments and provides jobs here rather than abroad.



NPGA supports credits that encourage the use of alternative fuels in vehicles, particularly:

- 1) the Alternative Fuel Credit (26 USC § 6426(d));
- 2) the Alternative Fuel Vehicle Refueling Property Credit (26 USC § 30C); and
- 3) the Alternative Motor Vehicle Credit (26 USC § 30B(e)).

Since 2005, Congress has provided alternative fuel tax incentives for propane used in on-road vehicles and forklifts; for the construction of propane refueling infrastructure; and, until December 31, 2010, for the purchase of propane powered vehicles.

These credits have worked. They have incentivized alternative fuel use, increased consumers' buying-power, and created a clean, domestic, and economical alternative to gasoline and diesel. Public and private vehicles that run on alternative fuels—propane, natural gas and others—are gaining increased market acceptance, particularly with fleet businesses and local governments. One only needs to see the number of manufacturers that have been attracted to this sector for the first time to understand the positive impact these tax credits have had. Because of the \$.50/gallon credit and the 30% refueling infrastructure credit, school districts and public fleets nationwide are replacing gas-guzzlers with propane school buses and propane police cruisers. These credits give local, non-tax paying, governments the opportunity to choose a cleaner and more economical alternative to traditional gasoline and diesel, which lowers greenhouse emissions and lessens U.S. dependence on the overseas oil market.

These alternative fuel credits were first enacted in the Energy Policy Act of 2005, P.L. 109-58, (refueling property and motor vehicle credits) and the 2005 transportation bill, Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users, P.L. 109-59, (\$.50 fuel credit). While Congress extended the fuel credit and refueling property credit through December 31, 2013, by the tax extenders portion of January's "fiscal cliff" legislation, the alternative fuel motor vehicle credit, which allowed a credit to alternative fuel vehicle manufacturers, ended in 2010. NPGA encourages the revival and extension, as the case may be, of all three of these credits for a stable time period, rather than through periodic extensions, so that businesses, public entities, and the market can plan for increased alternative fuel vehicle use.



Conclusion

Congressman Brady and Congressman Thompson, as your energy working group continues its important work crafting tax policies for the next generation, NPGA urges you to include the policy recommendations described above in any tax reform package. Propane, as a clean, abundant, domestic fuel, satisfies many economic, security, and environmental goals of an updated American energy and tax policy.

Thank you for your time and consideration of this important issue to our industry. For further information, please feel free to contact me or Phil Squair, NPGA Senior Vice President of Public and Governmental Affairs, at (202) 466-7200.

Sincerely,

A handwritten signature in black ink that reads "Richard Roldan". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Richard Roldan
President & Chief Executive Officer
National Propane Gas Association

NPGA is the national trade association of the propane gas industry with a membership of approximately 3,000 companies, including 39 affiliated state and regional associations representing members in all 50 states. Although the single largest group of NPGA members is retail marketers of propane gas, the membership includes propane producers, transporters and wholesalers, as well as manufacturers and distributors of associated equipment, containers and appliances. More than 55 million households use propane gas for space heating, water heating, cooking, outdoor recreation, and other uses. Propane gas is also used in millions of installations nationwide for commercial heating and cooking, in agriculture, in industrial processing, and as a clean alternative engine fuel for over-the-road vehicles and industrial lift trucks.