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RE: Comments: Energy Tax Reform Working Group

On behalf of Securing America's Future Energy (SAFE), a nonpartisan, not-for-profit organization committed to reducing America's oil dependence, I write to express our support for several tax policies that will strengthen our nation's long-term energy security. Specifically, as Congress looks at ways to reform our nation's tax code, we would like to encourage the following:

- Maintaining the $7,500 Plug-In Electric Drive Vehicle Credit (IRC 30D);
- Extending and reforming incentives for alternative fuel infrastructure (IRC 30C); and
- Creating incentives for medium-and-heavy duty alternative fuel vehicle purchases.

As we seek to address America's energy security challenges, it is vital to understand that there is no free market for oil. The global oil market is heavily influenced by a producers' cartel that actively seeks to manipulate global oil supply and prices. In fact, more than 90 percent of proved conventional global oil reserves are held by national oil companies who give more consideration to their country's geopolitical interests than to free market principles. In this context, there is a strong case for government policy.

It is also important to remain cognizant of the substantial economic, fiscal and security implications of our dependence. Oil price shocks have wreaked havoc on the global economy and contributed to every U.S. recession over the past 40 years, and researchers at Oak Ridge National Laboratory have estimated the total economic cost of U.S. oil dependence to be more than $5 trillion since 1970. A study by the RAND Corporation estimated the ongoing expense of oil dependence to the U.S. military alone at between $67.5 billion and $83 billion each year.

It is true that the energy landscape in America is changing. Yet, despite improvements in vehicle fuel efficiency, near-stagnant growth in vehicle miles traveled, and surging domestic oil production, the Department of Energy reports that the average American family spent a record $2,912 on gasoline in 2012. In 2002, the average was just $1,235. This increase in spending of more than 130 percent acted essentially as a tax, providing no additional utility and displacing other economic activity. In fact, increases in household gasoline spending have acted to offset major tax policy initiatives initiated by Congress and both the Bush and Obama Administrations. Most recently, while the 2011 payroll tax cut netted households an additional $108 billion in 2011 compared to 2010, higher gasoline prices cost households an additional $73 billion.

Taken as a whole, U.S. households, businesses and public agencies spent more than $900 billion oil petroleum fuels last year. It is important to note that this level of spending is significant not only in absolute terms, but also as a share of GDP. At more than 6.1 percent of GDP, the nation is now spending as much on petroleum fuels as a share of the economy as it did in 1974. Simply put, the costs of the energy security-related tax credits being considered by Congress must be weighed in the context of the massive, ongoing costs of America's oil dependence.

There are no quick and easy solutions to solving our oil dependence problem, but the key to any effective strategy will be found in our transportation sector, which accounts for more than 70 percent of our oil consumption and is 93 percent reliant on oil-based fuels.

Maintain the credit for New Qualified Plug-in Electric Drive Motor Vehicles (30D). Plug-in electric vehicles (PEVs) are one of the best options that exist to significantly reduce our oil dependence over the long term. Electricity is available in nearly every home and business in the United States. It is generated from a diverse portfolio of largely domestic fuels, of which petroleum accounts for less than 1 percent. Retail electricity prices are also incredibly stable. Using electricity as a fuel in our passenger vehicles and medium-duty trucks offers our nation its best chance to shift our transportation sector away from relying almost exclusively on oil.

The current Plug-in Electric Drive Motor Vehicles credit (Section 30D) is critical to the long-term success of the electric transport industry. PEVs represent a nascent technology competing against a well-entrenched incumbent that has benefited from decades of public support and development. Although the incremental cost of PEVs is currently high, the cost will decrease over time through targeted research and manufacturing scale. We have already seen lithium-ion battery costs decrease from roughly $1,000 per kilowatt hour (kWh) of nameplate capacity in 2008 to between $500 and $600 per kWh today.

It is critical to note that the most important factor in achieving these cost reductions has been increased manufacturing scale and that improvements in production optimization and design standardization are expected to account for more than half of expected decrease in lithium-ion battery costs between today and 2020, when battery costs should fall as low as $310 per kWh. But without a stable, consistent policy, early demand for this technology could falter before concurrent public and private investments have a chance to be successful.

Such an outcome would be self-defeating and squander significant investment that has already been committed. The U.S. government has invested billions of dollars in supporting the development of electric vehicle technology. It is often assumed that the federal government was alone in this investment, but that is not the case. Bloomberg New Energy Finance places global venture capital and private equity investment in advanced transportation at $4.5 billion since 2007. Acquisitions contribute an additional $600 million to the private sector total. Meanwhile, Nissan-Renault alone has reportedly invested $5 billion in the development of the Nissan Leaf, a figure equal to roughly half of its 2007-2012 research budget. Similarly, total investment by GM in the Chevrolet Volt has been reported to be near $1.2 billion.

In the 27 months that PEVs have been on the market, nearly 90,000 units have been sold—roughly twice the number of conventional hybrid vehicles that were sold in their first 27 months on the market in 2000 and 2001, proving that there is significant market potential for these vehicles. The credit should be maintained to continue to provide a consistent message to both the Original Equipment Manufacturers (OEMs) and consumers that the government supports their efforts to dramatically reduce oil consumption in the transportation sector.

Extend and reform the Alternative Fuel Vehicle Refueling Property Credit (Section 30C). Refueling infrastructure is a critical issue for any transportation technology. With more than 150,000 retail stations in place today, the existing gasoline refueling infrastructure is a significant advantage for conventional internal combustion vehicles. Comparatively, there are relatively few publicly available stations serving alternative fuel vehicles (AFVs).

Approximately 13,000 AFV stations were in place in the United States as of 2012, including stations for vehicles powered by natural gas, electricity, biofuels, propane, and hydrogen.

AFV infrastructure deployment suffers from a classic chicken and egg problem. Without sufficient infrastructure, consumers are hesitant to purchase an AFV, because they are not confident they will be able to easily refuel. Meanwhile, infrastructure providers may not make sizable investments in refueling stations until more AFVs are on the road. In order to move past this initial dilemma and spur market forces, short-term government incentives are warranted. The existing AFV infrastructure tax credit has contributed to increased investment in public fueling equipment, and it should be extended for a period of sufficient duration to give investors the confidence they need to continue building out the U.S. AFV fuel system.

Create incentives for medium- and heavy-duty alternative fuel vehicle purchases. Medium- and heavy-duty vehicles account for more than one-fifth of U.S. transportation-related oil demand—a share second only to passenger vehicles—and the significance of these vehicles is expected to grow in the future. In fact, oil demand among medium- and heavy-duty trucks is expected to grow faster than in any other transport segment between now and 2040.

Many of the nation's medium- and heavy-duty vehicles are operated in ways that could make them clear economic beneficiaries of oil-displacement technology. Their daily miles traveled and utilization rates are high, they are centrally refueled, and they are operated on consistent or pre-defined routes. The successful adoption of alternative fuels and advanced drivetrain technologies among this segment of vehicles could have a meaningful impact on U.S. oil consumption. For instance, switching a typical long-haul, heavy-duty freight truck from diesel fuel to liquefied natural gas is the oil-savings equivalent of taking 20 passenger cars off the road. Wider adoption of AFV technology in fleets could also provide spillover benefits in technology, scale, and cost that would improve the attractiveness of vehicles in the light-duty segment.

The incremental cost of medium- and heavy-duty vehicles powered by natural gas and electricity is significant today, reaching $100,000 or more in some cases. However, because the truck market is a smaller-volume market, relatively small improvements in demand can help drive significant cost reductions for manufacturers. A tax credit that helped offset the incremental cost of medium-and heavy-duty trucks powered by non-petroleum fuels would have a meaningful impact on technology uptake and, ultimately, U.S. oil demand. Such a credit should be made available to plug-in hybrid electric vehicles (PHEVs), electric vehicles (EVs), bi-fuel natural gas vehicles (NGVs), and non-conventional hybrids, and should be available to purchasers for three years.

As Congress reviews ways to reform the tax code, I respectfully urge you to consider energy security as a national priority and support tax policy recommendations outlined in this letter.

Sincerely,

Robbie Diamond
Founder, President and CEO
Securing America's Future Energy