NGVAMERICA
Natural Gas Vehicles for America

STATEMENT OF DANIEL GAGE

ON BEHALF OF

NGVAMERICA

UNITED STATES HOUSE OF REPRESENTATIVES

COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON TAX POLICY

Hearing on Post Tax Reform Evaluation of Recently Expired Tax Provisions

March 14, 2018

Introduction

NGVAmerica respectfully submits the following statement in response to the House Ways and Means Committee's request for information on tax provisions effective through the end of 2017 that have now expired. This statement addresses the benefits and importance of the alternative fuel credit found in IRC 6426 and 6427, and the alternative fueling infrastructure credit found in IRC 30C.

NGVAmerica is a national trade association dedicated to creating a profitable, sustainable and growing market for compressed natural gas and liquefied natural gas powered vehicles. 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; non-profit advocacy organizations; state and local government agencies; and fleet operators.

NGVAmerica urges the Committee to support legislation to extend the now expired incentives for alternative fuels and alternative fueling infrastructure. Extending these incentives will support the creation of U.S. jobs, encourage domestic investments in alternative fuel vehicles and fueling infrastructure, expand markets for domestically produced alternative fuels, and provide significant economic and environmental benefits for communities across America.

Comments

Today's natural gas industry is stronger than ever, employing millions of Americans, providing increased revenues to state budgets, powering a larger share of the country's electric utility generation units and providing significant economic benefits to the millions of consumers that rely on natural gas for their energy needs. A report prepared for the American Gas Association estimates that businesses have saved more than $76 billion in energy costs since 2009 due to lower natural gas prices.

The U.S. is now the number one producer of natural gas in the world due to breakthroughs and enhancements in technology and an abundant resource base. U.S. producers are now producing and supplying unprecedented levels of natural gas for the U.S. and world market. Due to the vast natural gas resources that are now economically recoverable, the U.S. now can finally begin to think about displacing a significant share of petroleum imports with domestic fuels and cleaner-burning natural gas. Experts believe that the abundant supply of natural gas will last for many decades. According to the American Gas Association, the U.S. estimated future supply of natural gas (reserves plus resources) stood at 3,141 Tcf at year end 2016 — enough natural gas to meet America's diverse energy needs for more than 100 years. The estimated future supply has more than doubled for the period 1990–

2016.[1] Additionally, increasing supplies of Renewable Natural Gas (RNG) are also now available. RNG is biomethane produced from existing waste streams and a variety of renewable and sustainable biomass sources, including animal waste, landfills, crop residuals and food waste. The combination of new near-zero emission natural gas engine technology and RNG provides the single best opportunity for the U.S. to achieve immediate and substantial nitrogen oxide and greenhouse gas emission reductions in the on-road heavy-duty transportation sectors. RNG production for transportation fuel grew by 900% from 2013 to 2017 and is on pace to continue rapid growth into the future.

Domestic oil production also has increased significantly in recent years. However, the U.S. continues to import close to 8 million barrels of oil per day and *annually* sends hundreds of billions of dollars overseas for this imported oil.[2] That is money that would be better spent here in the U.S. on domestic alternative fuels, helping to improve our domestic economy, helping to transition to a cleaner economy, and providing new job opportunities.

Displacing petroleum with domestic natural gas would provide 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). A 2017 study released by the American Petroleum Institute (API) estimates that the natural gas industry currently supports 4.1 million America jobs with a valued added benefit of $550 billion to the U.S. economy. Expanding the use of natural gas in transportation will *add* to the number employed and to the economic benefit provided.

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 lower costs for years to come because the price outlook for natural gas is stable. EIA's 2018 *Annual Energy Outlook* projects that natural gas will continue to be priced competitively with diesel and gasoline for many years. EIA projects a discount of 80 – 85 cents per gallon for natural gas compared to diesel fuel for the 2018 – 2019 timeframe and at an even greater discount in future years as petroleum prices return to higher levels.[3]

There are about 175,000 natural gas vehicles on the road in the United States, compared to about 22 million worldwide. Despite lagging other countries, the U.S. has in place the

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[1] American Gas Association Playbook, https://www.aga.org/contentassets/6ff34106cf9e4fc08fa22a385e187b93/aga_3610-2018-aga-playbook_clickable.pdf

[2] U.S. Energy Information Administration, 2018 *Annual Energy Outlook* (Reference Case) Liquid Fuels Supply and Disposition (2016 $109.7 billion, 2017 $123.5 billion, 2018 forecast $121.4 billion, and growing to more than $200 billion per year after 2020). Over time, these payments represent trillion of dollars of investment that could be taking place in the U.S.

[3] EIA, *Annual Energy Outlook 2018*, Table 3 Reference Case (prices adjusted from MMBtu to Diesel Gallon Equivalent Units for comparisons).

building blocks for a successful natural gas transportation industry. In the U.S., virtually every heavy-duty truck manufacturer and most transit bus manufacturers offer a selection of natural gas vehicles. Many prominent light duty manufacturers – FCA, Ford, GM - offer factory built products or have arrangements with suppliers to make natural gas vehicles available to their customers. Unfortunately, the United States fails to incentivize manufacturing of these products, unlike countries around the world, where more natural gas vehicle options are available. US manufacturers need clearer signals, better incentives, and stability for markets within which they make decisions about vehicle availability. Fuel providers have also been adding to the number of fueling outlets that offer vehicular natural gas. Today, there are nearly 2,000 natural gas fueling stations in the U.S. This total is up significantly from just a few years ago and now provides coast to coast and border to border refueling options. The capital required to build out these stations represents $250 - $500 million a year in new investment. With fuel credits spurring additional vehicle adoption, private investment in these stations will increase. Natural gas consumption at about 550 million gasoline gallon equivalents represents just a small portion of the overall transportation market, which for on-road use consumes about 175 billion gasoline gallon equivalents.

Natural gas vehicles have the greatest potential of available alternative fuel technologies to displace oil consumption and achieve mass market adoption across all classes of on-road motor vehicles. [4] This statement reflects the fact that natural gas is well suited to use in a broad variety of vehicle platforms including pickup trucks, sport utility vehicles, refuse trucks, smaller sized delivery vehicles, and large trucks and buses. Natural gas also is an excellent fuel for displacing petroleum in many off-road applications such as marine, mining and rail.

The near-term prospects for natural gas are best in high-fuel use applications where the pay-back or return on investment is most economical. High-fuel use applications can include pickup trucks and vans operated by commercial businesses as well as larger trucks operated by shippers and carriers. 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. Truckers also appreciate the quieter operation of natural gas trucks, no more diesel fumes saturating their clothes, and reduced NOx emissions. Noise reduction is a benefit of increasing importance as more medium and heavy-duty vehicles are deployed in residential areas for delivery and waste hauling. Quieter and cleaner burning natural gas trucks ensure neighborhoods see reduced noise and NOx levels as well. For many applications, however, the incremental cost of natural gas vehicles is currently too high, even with the lower fuel price, because these applications simply do not use enough fuel to provide a return on

[4] 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).

investment in the necessary time period (often 2 -3 years for most fleets). Providing incentives for natural gas will make it more economically attractive to a larger percentage businesses and vehicle operators.

As the natural gas industry grows and larger numbers of vehicles are produced, the first-cost or incremental cost of natural gas vehicles will come down because of economies of scale and competition. That process would be greatly accelerated by extending tax incentives and removing tax barriers that currently impede the growth of natural gas vehicle use.

Building out a national fueling infrastructure to support a revolutionary domestic fuel like natural gas is a daunting task. It requires enormous capital and confidence that the demand for the new fuel will materialize. Tax policy can have a positive impact on this effort. Continuing to provide tax incentives will 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 vehicles and natural gas fueling equipment. It also is important that governmental policies ensure access to low-cost 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 invest in this market.

In September 2017, NGVAmerica released a white paper[5] detailing the benefits provided by extending for five years the $0.50 credit for natural gas used in transportation. That white paper found that extending the credit would result in the deployment of 58,000 additional NGVs, providing $9.9 billion of economic growth, $5.8 billion in private sector investment, and ~62,000 new jobs. This paper also found that by stimulating more natural gas vehicle usage, extending the incentive would result in 200 million metric tons of reduced greenhouse gas emission and 82,327 metric tons of avoided NOx emissions and $1.0 billion avoided public health costs. The environmental benefits provided by natural gas vehicles are greatly aided by the fact that today's natural gas engines are the cleanest internal combustion engines available anywhere, and produce emissions results that are 90 percent below federal emission requirements. Also, the increased use of renewable natural gas, which in most cases in carbon neutral or carbon negative, greatly adds to the greenhouse gas reduction benefits of NGVs.

According to the U.S. Environmental Protection Agency, 125 million Americans – almost 40 percent of our population – reside in areas of exceedingly poor air quality, called nonattainment areas.

The EPA has identified six pollutants as "criteria" air pollutants because it regulates them by developing human health-based and/or environmentally-based criteria (science-based guidelines) for setting permissible levels. These six pollutants are carbon monoxide, lead,

[5] https://static1.squarespace.com/static/54df8befe4b0419b74c936c2/t/5a46bdda8165f549188a52bf/1514585563095/NGVAmerica+Economic+Analysis-+Benefits+of+AFTC+5-Year+Extension.pdf

nitrogen oxides, ground-level ozone, particle pollution (often referred to as particulate matter), and sulfur oxides.

Heavy-duty vehicles (HDVs) are the fastest growing segment of U.S. transportation in terms of energy use and emissions, and these vehicles are major emitters of nitrogen oxide (NOx), diesel particulate matter (DPM), and greenhouse gases (GHGs). While HDVs total 7 percent of all vehicles on our roads, they account for 33 percent of America's smog-precursor emissions (NOx) from mobile sources and 20 percent of all transportation-related GHGs. They also consume 25 percent of the fuel used in on-road vehicles. Electric vehicles pose similar environmental challenges unless they are powered by large amounts of hydroelectric or wind energy, which is rare.

Breathing in such particle pollution increases the risk of asthma, lung cancer, heart disease, and premature death, costing tens of billions of dollars each year. Every day in the United States just due to asthma, 30,000 people have an asthma attack, 5,000 visit the emergency room, 1,000 are admitted to the hospital, and 11 people die.[6]

Converting vehicle fleets to natural gas power would greatly reduce these emissions harmful to public health. Cleaner trucks powered by natural gas will result in cleaner air since the newest natural gas engines with Near-Zero – or "Zero Emissions Equivalent" – technology produce 90 percent fewer NOx emissions than the federal standard and 90 percent fewer emissions than the cleanest commercially-available diesel product.

Given the significant energy security, environmental, and economic benefits associated with accelerated growth in the use of natural gas vehicles, NGVAmerica believes Congress should extend the incentives that encourage natural gas vehicles. Although not part of the discussion for this hearing, we also believe that Congress should remove tax policies that serve as direct or indirect barriers to increased use of natural gas. Extending the fuel credit and infrastructure incentive is also important to ensuring that tax policy continues to support a wide variety of alternative fuel technologies and does not just favor one technology.

The fuel credit has broad support, as is evidenced by the multi-party letter[7] which received support from over 300 organizations nationwide. The signatories include users, retailers, customers, fleet managers, utilities, and producers of clean alternative fuels, including natural gas and propane. These businesses, both large and small, seek regulatory, legislative, and tax certainty around the alternative fuels market. Inconsistencies in the tax code, as well as retroactive tax credits, discourage, rather than encourage increased investment in newer, cleaner transportation technologies.

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[6] https://www.cdc.gov/asthma/pdfs/breathing_easier_brochure.pdf

[7] http://www.ngvamerica.org/media-center/propane-natural-gas-vehicle-users-urge-congress-extend-alternative-fuel-tax-credits/

Specific Proposals for Tax Policy Changes

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

Sections 6426 and 6427 of the tax code provide a 50-cent incentive for compressed natural gas (CNG) and liquefied natural gas (LNG) sold for use as a motor vehicle fuel. 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. In many cases, this incentive directly benefits public fleets such as school districts, transit agencies, and other state and local government fleets that own fueling infrastructure. The credit was extended retroactively through 2017 by Congress but now has expired. In recent years, Congress has extended this provision several times after allowing it to lapse.

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 benefits tax-exempt entities because the other federal incentives for alternative fuel vehicles and fueling infrastructure are income tax credits that can only be claimed by taxable entities. The beneficial aspects of this incentive have been undermined by the fact that the incentive has lapsed several times and then retroactively reinstated often only for one or two years. Predictability in the tax code is crucial for those considering investment in natural gas powered vehicles and fleets.

Proposal

Congress should extend this incentive for five years, providing the same tax treatment as other incentives for alternative fuel vehicles. This extended period is important because it provides vehicle buyers and manufacturers greater certainty, which facilitates longer term planning.

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

Section 30C of the tax code provides a 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. This incentive also applies in the case of infrastructure used to dispense other alternative fuels (e.g., electricity, hydrogen, propane). The credit recently was retroactively reinstated for 2017 but expires after that.

A new natural gas fueling station can cost 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 factor in 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 are no low-cost home refueling appliances available. There continues to be interest in developing a low-cost home refueling appliance for natural gas vehicles, so extending the availability of the $1,000 credit for a 5-year period could stimulate the market for such products.

Proposal
To continue to accelerate the growth of NGVs, NGVAmerica supports an extension of these infrastructure facility incentives for a period of five years.

Conclusion
NGVAmerica appreciates the opportunity to provide the Subcommittee with comments on the expired tax credits for natural gas and other alternative fuels. 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. Greater use of domestic natural gas stimulates job growth and provides state and local revenues, and federal royalties. One of the best ways to use more cleaner-burning, domestic natural gas here in the U.S. is to encourage its use as a transportation fuel. This directly offsets petroleum use, provides lower emissions, and stimulates investment and job growth here in the U.S. Now is the time to act to encourage the increased use of natural gas vehicles. 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 or more. Also, a broader discussion of tax policy should identify and remove existing barriers that discourage capital investments in new advanced technologies.

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