



STATEMENT OF NGVAmerica

UNITED STATES SENATE

COMMITTEE ON FINANCE

Community Development & Infrastructure Working Group

April 15, 2015

## **Introduction**

NGVAmerica respectfully submits the following statement in response to the U.S. Senate Finance Committee's request for information on tax reform. This statement specifically addresses current and expired tax code provisions affecting the use of natural gas vehicles. Tax reform should remove tax policies that impede economic growth and business development or that discourage critical business and technology investments. In this regard, NGVAmerica urges the committee to take steps to level the playing field for all alternative fuels and promote broader adoption of alternative fuels and alternative fuel vehicle technologies.

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.<sup>1</sup> Natural gas also is an excellent fuel for displacing petroleum in many off-road applications. 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, the Committee should 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 is important to recognize that the various alternative fuels may require different incentives to stimulate growth. Congress should provide the appropriate incentive for each fuel. Moreover, the adoption and implementation of incentives should provide certainty regarding their duration, so that businesses and consumers can plan accordingly.

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 230 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.

## **Comments**

Due to significant advancements in drilling technology and the vast natural gas resources that are now economically recoverable, the U.S. can displace a significant share of its petroleum imports with domestically-sourced, cleaner-burning natural gas in the transportation sector. Studies by credible experts have concluded that the U.S. has an

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<sup>1</sup> See National Petroleum Council, "Future of Transportation Fuels" (August 2012)" ([http://www.npc.org/FTF-report-080112/Natural\\_Gas\\_Analysis-080112.pdf](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](http://www.nap.edu/catalog.php?record_id=18264)).

expansive natural gas resource base. Indeed, current estimates forecast that the United States has over 100 years of natural gas supply at the 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 hundreds of billions of dollars overseas for imported oil.<sup>2</sup> That money would be much 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 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 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.<sup>3</sup> This 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.

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 2015 *Annual Energy Outlook* projects that natural gas will continue to be priced competitively with diesel and gasoline for many years to come. EIA projects a discount of about 40 – 70 cent for natural gas compared to diesel fuel for 2015 – 2016. This projection assumes nominal oil prices of less than \$60 a barrel for 2015 and \$70 plus oil in 2016. By 2022, the forecast shows natural gas selling at a discount of more than \$1 per diesel gallon, as oil prices return to a level of \$80 to \$90 per barrel.

The decline in oil prices has brought new attention to the factors that drive the price and stability of transportation fuels. Despite the low price of oil, there is still a compelling case for moving away from petroleum to alternative fuels like natural gas. The long-term stability and a low price of natural gas continues to be an attractive hedge against the volatility and unpredictability that exists with oil. From an energy security standpoint, it continues to make sense to encourage greater use of domestic natural gas as a hedge against the turmoil and strife that exists in the Middle East and oil producing regions of the

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<sup>2</sup> U.S. Energy Information Administration, 2015 *Annual Energy Outlook* (Reference Case) Liquid Fuels Supply and Disposition (2013 \$307 billion, 2014 \$249 billion, 2015 forecast \$126 billion). Over time, these payments represent trillion of dollars of investment that could be taking place in the U.S.

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

world. The recent decline in crude oil and related gasoline and diesel prices also masks the underlying long-term oil supply-demand imbalance. Fleets and business realize that it makes sense to continue to transition to natural gas as a transportation fuel.

Today, there are about 153,000 natural gas vehicles on the road in the United States, compared to about 17 million worldwide. 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, 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 more than 1,500 natural gas fueling stations in the U.S. This total is up significantly from just a few years ago. The capital required to build out these stations represents \$250 - \$500 million a year in new investment. 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 gasoline service stations. 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 is most economical. 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 confidence 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 vehicles 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 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.

## Specific Proposals for Tax Policy Changes

### Taxation of Liquefied Natural Gas (IRC 4041)

Liquefied natural gas (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, a gallon of LNG has substantially less energy than a gallon of diesel. In fact, it takes about 70 percent more LNG or 1.7 gallons of LNG to equal the energy content of one gallon of diesel fuel. The excise tax when considered on an energy content basis results in an LNG tax rate that is 170% of the diesel rate.<sup>4</sup> This equates to a diesel gallon equivalent rate of 41.3 cents for LNG. This disparity is a significant disincentive for the use of LNG.<sup>5</sup>

### 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 requires 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

Combined with the higher up-front cost of an 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, the higher federal highway excise tax is a critical barrier to the adoption of cleaner-burning, domestically-fueled LNG trucks.

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<sup>4</sup> The situation is quite different for compressed natural gas (CNG), which competes with gasoline and is taxed like gasoline. 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 energy content. From 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.

<sup>5</sup> 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; this however is changing as an increasingly number of states have moved to tax LNG based on energy content.

## **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 14.1 cents per LNG gallon. This policy change should be made permanent but allow for additional adjustments in the future if the diesel tax 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. This correction is expected to carry only a modest cost. A recent report prepared for the Joint Committee on Taxation<sup>6</sup> indicates that this proposal will cost only \$3 million per year or \$35 million over 10 years.

NGVAmerica supports S. 344 introduced by Senators Michael Bennet (D-CO) and Richard Burr (R-NC), and reported out of the Senate Finance Committee on February 11, 2015. NGVAmerica also supports H.R. 905 introduced by Representatives Mac Thornberry (R-TX), John Larson (D-CT), and Leonard Lance (R-NJ), and H.R.1665 introduced by Representatives Todd Young (R-IN), Mac Thornberry (R-TX) Ron Kind, and John Larson (D-CT). These bills provide appropriate tax treatment for LNG.

## **Federal Highway Excise Tax (FET) on Heavy-Duty Trucks (IRC 4051, 4053)**

The tax code currently imposes a 12 percent federal excise tax (FET) on the sale of heavy-duty trucks, trailers, and tractors. This tax is the highest excise tax on a percentage basis on any product. The FET is an onerous tax burden to customers who want to buy newer, cleaner, safer, more fuel efficient trucks, and the FET is an incredibly volatile means of funding the highway trust fund (HTF). It discourages new truck purchases because it substantially raises the cost of all new truck purchases, diesel and alternative fuel alike by 12%. Trucks are also subject to other taxes such as sales and tire taxes. The cyclical nature of trucks sales means that it is difficult to predict the FET contribution to future highway trust fund revenues.

Many organizations have argued that the FET should be eliminated altogether because it raises the capital cost of purchasing trucks and discourages new sales.<sup>7</sup> NGVAmerica supports this viewpoint. 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 acts as a penalty for alternative fuel trucks because the 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 higher tax increases natural gas truck prices and

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<sup>6</sup> Joint Committee on Taxation, *JCX-32-15 Description of the Chairman's Mark of a Proposal to Convert the Tax on Liquefied Petroleum Gas and Liquefied Natural Gas to an Energy Equivalent Basis*, (February 9, 2015).

<sup>7</sup> See HR 4321 (112<sup>th</sup> 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.

extends the required payback period for these trucks. The FET 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 eliminate the FET on trucks, or at a minimum amend section 4051 so that the incremental cost of natural gas trucks and other advanced technology trucks is exempt from the tax. This particular section already exempts auxiliary power units that are intended to reduce petroleum consumption and pollution. The exemption for auxiliary power units is found in section IRC 4053; therefore, it makes sense that an exemption for the incremental cost of natural gas vehicles and other technologies also be listed in IRC 4053. This change should be permanent. 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 (EPA) 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 emission standards. The 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. NGVAmerica does not question the appropriateness of this electric vehicle credit. It does believe 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, NGVAmerica believes that the tax incentive for purchasing vehicles is the most effective tool because it directly rewards businesses, fleets and individuals for investing in natural gas vehicles. This would directly support all aspects of the natural gas vehicle industry value chain, from equipment suppliers, to vehicle manufactures, fuel sellers, and 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 covered the purchase of dedicated vehicles or vehicles that

operate exclusively on natural gas. The inclusion of bi-fuel vehicles<sup>8</sup> 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 incentive for natural gas vehicles and extend it for a period of five years. The credit 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 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 several times with the most recent occasion extending it through the end of 2014. This incentive generally goes to retailers but can go to users if there is no retail transaction. This incentive directly benefits public fleets such as school districts, transit agencies, and other state and local government fleets that own fueling infrastructure.

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 are income tax credits that can only be claimed by taxable entities.

### **Proposal**

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

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

The Energy Policy Act (EPA) 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,

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<sup>8</sup> 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.

hydrogen, propane). The credit went into effect after December 31, 2005, and expired as of the end of 2014.

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 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 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**

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 committee with comments on 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. Greater use of domestic natural gas stimulates job growth and provides state and local revenues, and also 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, tax policy should remove existing barriers that discourage capital investments in new advanced technologies. NGVAmerica looks forward to the opportunity to provide further assistance to the committee in understanding how these issues impact our industry,

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