

## **Key NGV-Related Provisions in the Energy Policy Act of 2005 (H.R. 6)**

**July 29, 2005**

The following are provisions in the Energy Policy Act of 2005 (H.R. 6) that directly affect the NGV industry. The provisions are listed in section order:

### **Sec. 1341: Alternative Motor Vehicle Credit**

Provides a tax credit to the buyer for the purchase of a new, dedicated alternative fuel vehicle of 50 percent of the incremental cost of the vehicle, plus an additional 30 percent if the vehicle meets certain tighter emission standards. These credits range from \$2,500 to \$32,000 depending on the size of the vehicle. For non-tax-paying entities, the seller of the vehicle can take the credit. The credit is effective on purchases made after December 31, 2005 and expires December 31, 2010. This provision also makes credits available for the acquisition of light-, medium- and heavy-duty fuel cell vehicles, hybrids and dedicated propane, hydrogen and M85 alt fuel vehicles, and light-duty lean-burn diesel vehicles (less than 8500 lbs.).

### **Sec. 1342: Credit for Installation of Alternative Fueling Stations**

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. For non-tax-paying entities, the seller of the fueling equipment can take the credit. The credit is effective on purchases placed in service after December 31, 2005 and expires December 31, 2009. This provision also makes credits available to other alt fuel stations.

### **Sec. 1348: Sunset of Deduction for Clean-fuel Vehicles and Certain Fueling Property**

Repeals the existing \$100,000 tax deduction for refueling property (Sec. 179A) after December 31, 2005.

### **Sec 701: Use of Alternative Fuel by Dual-Fueled Vehicles**

Requires federal agency dual-fueled vehicles acquired to satisfy federal fleet AFV purchase requirements to actually use alternative fuels unless they qualify for a waiver. Waivers would be granted if the fuel is not readily available or is too expensive. This provision was originally proposed by the NGVC and its member companies.

### **Sec. 702: Incremental Cost Allocation**

Requires GSA and other federal agencies that procure alternative fuel vehicles to spread the incremental cost across all vehicles. This will eliminate the current first cost disincentive (incremental price) for federal fleet managers to purchase NGVs. This provision was originally proposed by the NGVC and its member companies.

### **Sec. 703: Alternative Compliance and Flexibility**

Expands compliance options under EPCa by allowing fleets to choose a more flexible petroleum reduction path. Under the new path, fleets that reduce petroleum use by at least as much as if all AFVs that they otherwise would be required to purchase under EPCa used alternative fuel 100 percent of time would be permitted to opt-out of EPCa AFV acquisition programs. To comply with this new option, fleet operators cannot simply reduce the number of vehicles in their fleet. They can, however, purchase smaller vehicles, more petroleum efficient vehicles and alternative fuel vehicles. This provision was originally proposed by the NGVC and its member companies. The original conference report would have reduced the reduction target by any waivers that already had been granted. The NGVC opposed that reduction. The final bill does not include that reduction.

### **Sec. 704: Review of EPCa of 1992 Programs**

Requires DOE to report to Congress within 180 days of enactment of the provision on the effect of EPCa's AFV programs, incentives, etc. DOE is to measure benefits in terms of increased vehicles and fuels, as well as the cost of compliance. DOE shall make recommendations on changes to EPCa. Issues that DOE must address include the:

- number of AFVs acquired by covered fleets
- amount of AF used in AFVs acquired under EPCa
- amount of petroleum displaced
- cost of compliance (including benefits of using AF & AFVs), and
- existence of obstacles to increased use of alternative fuels and biodiesel blends.

This provision was originally proposed by the NGVC and its member companies.

### **Sec 706: Joint Flexible Fuel/Hybrid Vehicle Commercialization Initiative**

Establishes a research program to advance the commercialization of hybrid/flex-fuel vehicles and plug-in hybrid/flex-fuel vehicles. Flex-fuel is not defined in the legislation. The NGVC is working to include report language that accompanies the legislation to clarify that bi-fuel NGVs are flex-fuel vehicles for the purpose of this program. The legislation authorizes \$3 million for FY2006, \$7 million for FY2007, \$10 million for FY2008 and \$20 million for FY2009.

### **Sec. 707: EPCa Emergency Vehicle Exemption**

Exempts from EPCa coverage "vehicles directly used in the emergency repair of transmission lines and in the restoration of electricity service following power outages, as determined by the [DOE] Secretary."

### **Sec. 721-723: Advanced Vehicles Pilot Demonstration Program**

Establishes a competitive grant program to fund up to 30 geographically dispersed advanced vehicle demonstration projects. The goal of the program, which will be administered by Clean Cities, is to reduce emissions, displace fossil fuel, promote advanced technology vehicles and promote sustainable transportation options. Grant recipients will be limited to state and local government agencies and MPOs. No project can receive more than \$15 million. Grant monies can be used to pay for:

- AFVs (including neighborhood electric vehicles)
- Hybrid vehicles (only medium and heavy-duty vehicles)

- Fuel cell vehicles
- Ultra-low sulfur heavy-duty diesel vehicles
- Acquisition and installation of fueling infrastructure
- Operation and maintenance of vehicles, infrastructure and equipment

The legislation authorizes \$200 million for the program. The NGVC assisted in the development of this proposal.

### **Sec. 741: Clean School Bus Program**

Establishes a program to provide grants to school districts and related organizations for the replacement, repower or retrofit of school buses. The program will have the following characteristics:

EPA is directed to “achieve an appropriate balance” between spending for replacement buses versus retrofitting existing buses.

For replacements, grantees may receive the following for the purchase of alt fuel and “clean diesel” school buses:

- 50 percent of the cost of the new bus if they meet tight emission standards, namely:
  - For MY2005 and 2006, 1.8 grams NOx plus NMHC and 0.01 PM
  - For MY2007, 2008 and 2009, 0.2 NOx plus NMHC and 0.01 PM (the 2010 EPA emission standards)
- 25 percent of the cost of the new bus if they meet less strict emission standards, namely:
  - For MY2005 and 2006, 2.5 grams NOx plus NMHC and 0.01 PM (which is the minimum standard for diesel engines)
  - For MY2007, 2008 and 2009, “regulatory requirements” by EPA. This is assumed to mean the phase-in requirement to 2010 which is 1.8 grams NOx plus NMHC and 0.01 PM.

No state can receive more than 10 percent of the monies made available each year.

The legislation authorizes \$55 million for FY2006, \$55 million for FY 2007 and “such sums as are necessary” for fiscal years 2008-2010. This provision originally was proposed by the NGVC, its member companies and a large coalition of clean school bus supporters.

### **Sec. 742: Diesel Truck Retrofit and Fleet Modernization Program**

Establishes a grant program for states to fund fleet modernization programs, with preference to be given to ports and other major hauling operations. Preference also will be given to proposals that “will achieve the greatest reductions in emissions” and “involve the use of EPA or CARB verified emission control technologies.” The NGVC believes that alt fuel technologies qualify and will work to clarify this during the implementation process. The legislation authorizes \$20 million for FY2006; \$35 million for FY2007; \$45 million for FY2008; and “such sums as are necessary for fiscal years 2009 and 2010.”

### **Sec. 751: Railroad Efficiency**

Establishes a new cost-shared public/private program to develop and demonstrate technologies that increase fuel economy; reduce emissions and lower costs of operations for railroads. Natural gas engines are eligible under the program. Legislation authorizes: \$15 million for FY2006; \$20 million for FY2007; and \$30 million for FY2008.

**Sec. 752: Mobile Emissions Reductions Trading and Crediting**

Requires EPA to submit a report to Congress within 180 days of enactment on the trading of mobile source emission reduction credits with owners and operators of stationary source emission sources to meet emission offset requirements within a non-attainment area. This provision was originally proposed by the NGVC and its member companies.

**Sec. 759: Fuel Economy Incentive Requirements**

Requires automobile manufacturers to put a label on all dual-fuel (bi-fuel and flex-fuel) vehicles to inform owners that the vehicle can be operated on an alternative fuel. Applies to all autos manufactured after September 1, 2006.

**Sec. 772: Extension of Maximum Fuel Economy Increase for AFVs**

Extends the CAFE credits received by automakers for producing dedicated, bi-fuel and flex-fuel vehicles.

**Sec. 781-2: Federal and State Procurement of Fuel Cell Vehicles and Hydrogen Energy Systems**

Requires the head of any federal agency that uses a light-duty or heavy-duty fleet vehicle to lease or purchase fuel cell vehicles and hydrogen energy systems where appropriate beginning January 1, 2010. "Hydrogen Energy Systems" is not defined. HCNG vehicles may fall under this category. Legislation authorizes \$15 million in FY 2008; \$25 million in FY2009; \$65 million in FY2010; and "such sums as are necessary for each of fiscal years 2011 through 2015."

**Sec. 791-797: Diesel Emission Reductions**

Establishes a program to make grants and loans available to State and local government agencies and non-profit organizations for reducing emissions from diesel engines. The program focuses on replacing/retrofitting engines in non-attainment areas and would require that at least 50 percent of the federal program funds be used on public fleets. EPA or CARB certified or verified technologies qualify. NGV repowers and replacements will be eligible. Legislation authorizes \$200 million per year for FY 2006 through 2010.

**Sec 1421-1424: Set America Free: United States Commission On North American Energy Freedom**

Establishes a United States commission to make recommendations for a coordinated and comprehensive North American energy policy that will achieve energy self-sufficiency by 2025 within the three contiguous North American nation areas of Canada, Mexico, and the United States.

**Sec. 1818: Natural Gas Supply Shortage Report**

Requires the DOE Secretary to study and develop recommendations for achieving a balance between natural gas supply and demand to, in part, facilitate the attainment of national ambient air quality standards under the Clean Air Act. In performing the study, the Secretary is directed to develop scenarios for decreasing natural gas demand and increasing natural gas supplies that compare the relative economic and environmental impacts of Federal policies that encourage or require the use of natural gas to meet air quality, carbon dioxide emission reduction, or security goals.

**Sec. 1823: Alternative Fuels Reports**

Requires the DOE Secretary to carry out a study on the potential for biodiesel and hythane to become major, sustainable, alternative fuels. The hythane report shall provide a detailed assessment of potential hythane markets and the research and development activities that are necessary to facilitate the commercialization of hythane as a competitive, environmentally friendly transportation fuel.

**Sec. 1831: Review Of Energy Policy Act Of 1992 Programs**

Requires the DOE Secretary to carry out a study to determine the effect that titles III, IV, and V of the Energy Policy Act of 1992 have had on (1) the development of alternative fueled vehicle technology; (2) the availability of that technology in the market; and (3) the cost of alternative fuel vehicles.

**THE FOLLOWING CLEAR ACT-RELATED PROVISION IS INCLUDED IN HIGHWAY BILL (H.R. 3):**

**Sec. 1113: Volumetric Excise Tax Credit for Alternative Fuels**

Provides an excise tax credit (referred to as VEETC) to the seller of CNG or LNG. This credit is different than the fuel credit that had been included in previous versions of the CLEAR ACT. The credit is 50-cent per gasoline-gallon-equivalent for CNG and 50-cents per *liquid* gallon for LNG for the sale of CNG and LNG for use as a motor vehicle fuel. It begins on October 1, 2006 (delayed for budget reasons) and expires on September 30, 2009. Partially offsetting the value of the excise tax credit, however, is an increase in the motor fuels excise tax rate for both CNG and LNG. The CNG rate would increase from 4.3 cents per gge to 18.3 cents. The LNG rate would increase from 11.9 cents to 24.3 cents on a LNG gallon basis. The increased tax rate will go into effect on October 1, 2006. Under this approach, CNG and LNG will pay the same rate of tax into the Highway Trust Fund as all other transportation fuels, but then CNG and LNG would receive an excise tax credit paid out of the general fund. The credit will be paid to eligible recipients on a regular basis without regard to the actual amount of excise tax paid. Propane, hydrogen and some minor fuels also are eligible for this credit.

The following are provisions in the Energy Bill (H.R. 6) that are directed at promoting fuel cell vehicles, hybrid vehicles and non-NGV alt fuel vehicles:

**Sec 711: Hybrid Vehicles**

Directs the Secretary of DOE to “accelerate efforts toward the improvement” of hybrid vehicle and related technologies. No additional money is authorized.

**Sec 712: Efficient Hybrid and Advanced Diesel Vehicles**

Establishes a program to provide grants to domestic automakers to “encourage domestic production and sales of efficient hybrid and diesel vehicles.” The original House version would have authorized \$300 million per year for FY2006-15. The conference version simply authorizes “such sums as may be necessary for each of the fiscal years 2006 through 2015.”

**Sec. 731: Fuel Cell Transit Bus Demonstration**

Establishes a “transit bus demonstration program to make competitive, merit-based awards for five-year projects to demonstrate not more than 25 fuel cell transit buses (and necessary infrastructure) in five geographically dispersed localities.” The legislation authorized \$10 million per year for FY2006-10.

**Sec. 743: Fuel Cell School Buses**

Establishes a cooperative agreement program with private-sector fuel cell bus developers and local government for the development of fuel cell school buses. Legislation requires a report that evaluates the process of converting natural gas infrastructure to accommodate fuel cell powered school buses. Legislation authorizes \$25 million over the period FY2006 through 2009.

**Sec 754: Diesel Fueled Vehicles**

Directs the Secretary of DOE to “accelerate efforts to improve diesel combustion and after-treatment technologies for use in diesel fueled motor vehicles.” No additional monies are authorized.

**Sec. 757: Biodiesel Engine Testing Program**

Establishes a biodiesel engine-testing program to determine the impacts of biodiesel use in advanced diesel engines with low sulfur diesel fuel, including “the impact of biodiesel on emission warranty, in-use liability, and anti-tampering provisions.” Legislation authorizes: \$5 million per year for FY 2006 through 2010.

**Sec. 1826: Fuel Cell And Hydrogen Technology Study**

Requires the DOE Secretary to carry out a study of fuel cell technologies that provides a budget roadmap for the development of fuel cell technologies and the transition from petroleum to hydrogen in a significant percentage of the vehicles sold by 2020.

The following are provisions of interest to the NGV industry that were included in either the Senate- or House-passed Energy Bills but were NOT included in the final Energy Bill approved by Congress:

**HOV Exemption (House)**

Would have allowed states to permit petroleum hybrids in HOV lanes with only one passenger. This provision was not supported by NGVC.

**Expanded Fuel Use Credits under EPCa (Senate)**

Would have significantly loosened the EPCa requirements by giving one EPCa vehicle credit for every 450 gallons of biodiesel used by a covered fleet. This would have eliminated the current 50 percent cap on use of biodiesel credits, would have eliminated the limitation to earn biodiesel credits in only MD and HD vehicles and would have given multiple credits to users of alt fuels (versus only one credit for AFV purchase in place today). This provision was actively opposed by NGVC since it would have eviscerated the EPCa program.

**Lease Condensates as an Alt Fuel (House)**

Would have amended EPCa to include lease condensates in the definition of alternative fuel and replacement fuel. Also would have allocated credits to EPCa fleets for using lease condensates in blends of 50 percent or more in vehicles more than 8500 lbs. Each 1,125 gallons of lease condensate would have used earned one AFV credit. This provision was not supported by NGVC.

**Hybrid Retrofit and Electric Conversion Systems (House)**

Would have established a competitive grant program for hybrid retrofit and electric conversion systems.

**Procurement of AFVs by Non-EPCa Federal Fleets (Senate)**

Would have required federal government fleets not currently covered by EPCa to only acquire AFVs when acquiring passenger cars. This provision was supported by the NGVC.

**Procurement of Hybrid Light-Duty Trucks (Senate)**

Would have required federal government fleets not currently covered by EPCa to only acquire hybrid trucks when acquiring light duty trucks.

**B20 as Alt Fuel (Senate)**

Would have defined a motor vehicle that operates on B20 or fuel blends containing bio-derived hydrocarbons produced from agriculture and animal waste to be an AFV for purposes of several new programs. This provision was actively opposed by the NGVC since defining a vehicle that operates on B20 as an AFV would have made all diesel vehicles AFVs -- even if operated on petroleum diesel.