

Statement for the Record
Of the
National Propane Gas Association

U.S. Senate Finance Committee
Bipartisan Tax Reform Working Groups on
Business
&
Community Development & Infrastructure

April 15, 2015



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The Honorable John Thune
The Honorable Benjamin L. Cardin
Co-Chairs, Business Tax Reform Working Group
Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Dean Heller
The Honorable Michael Bennet
Co-Chairs, Community Development and Infrastructure Tax Reform Working Group
Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

Submitted via: Business@finance.senate.gov
CommunityDevelopment@finance.senate.gov

Dear Co-Chairs Thune, Cardin, Heller, and Bennet:

As the Senate Finance Committee considers reforming our tax system, 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 tax policies that encourage the use of alternative fuels, and 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 percent 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 Use

A 2012 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:

Propane is a relatively clean fuel. 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%.

NPGA would be pleased to further 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 and lowering the rates will not result in tax burdens 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 do not pay income taxes—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 burdens.¹ 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.”

¹ Similarly, if tax reform were to eliminate tax preferences and only lower the corporate tax rates, most of NPGA's members—the bulk of which are small businesses—will be affected negatively.

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. Additionally, 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)); and
- 2) the Alternative Fuel Vehicle Refueling Property Credit (26 USC § 30C)

Since 2005, Congress has provided alternative fuel tax incentives for propane used in on-road vehicles and for the deployment of propane refueling infrastructure. 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. Because of the \$.50/gallon credit and the 30 percent 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 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 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 has extended the fuel credit and refueling property credit through December 31, 2014, NPGA encourages the retroactive extension, 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.

Equalize Highway Taxes on Propane

Under current law, the same excise tax of 18.3 cents per gallon is imposed on gasoline and propane used as highway motor fuels to fund the Highway Trust Fund.

However, propane has a lower energy content compared to gasoline. One gallon of propane has 73 percent of the energy of one gallon of gasoline. In other words, it takes 1.37 gallons of propane to equal the heating value of one gallon of gasoline. Consequently, on an aggregate basis, more excise tax is paid for propane on a volumetric basis than gasoline, even though propane is a cleaner burning fuel.

For example, assume a gasoline vehicle consumes 20,000 gallons in a year and paid Federal excise taxes of \$3,660. To obtain the equivalent heating content of 20,000 gallons of gasoline, one would need to consume 27,400 gallons of propane and pay \$5,014 of Federal excise taxes—a difference of \$1,354 or 37 percent in additional taxes.

By comparison, Congress has already ensured that Compressed Natural Gas (CNG), a competitive transportation energy source to both gasoline and propane, is not taxed on a volumetric basis. CNG is taxed on a gasoline gallon equivalent in order to provide excise tax equivalence to gasoline. The Federal excise tax on CNG is 18.3 cents per energy equivalent of a gallon of gasoline.

On February 11, 2015, the Senate Finance Committee unanimously reported out legislation that would amend propane's excise tax provisions in order to provide Federal excise tax equivalence to gasoline. NPGA applauds the Finance Committee for its leadership on this important issue and urges the Senate to pass this important legislation as soon as practical.

Conclusion

Senators Thune, Cardin, Heller, and Bennet, as your working groups continues their important work crafting tax policies for the next generation, NPGA urges you to include the policy recommendations described above in your recommendations to the full committee. 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.

Sincerely,



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.