

PCK Conference Talking Points

Good morning, it's good to see all of you again.

Most of you know me, but for the few of you that don't I'm Paul Kerkhoven
I'm the Director of Government Relations for the Natural Gas Vehicle Coalition
I'll be leading off this program session and Gil will follow me.

This way you will not be subjected to a filibuster like you poor people were subjected to last year.

During the next few minutes I am going to give you a status report on what is happening with the different legislative issues impacting the NGV market.

The details of the bills are in package of handout materials.

I am going to focus only on the status of the each of the measures.

There's one common theme to the bills I'll discuss -- they're all up in the air.

Everything from now until the election is about the election.

The political parties are far more interested in sending messages to the voters.

We don't know if there will be an energy bill and if there is a new energy bill which version will pass;

The same thing goes for the highway bill and NGV appropriations for FY'05.

And, while it's looking good for the incumbent at the moment, we don't know if there will be a new President.

All right, the Energy Bill:

Earlier this year the Senate failed to pass a comprehensive energy bill - HR.6 - by two votes.

Since it appears that this bill may *not* make it to the finish line, our efforts have been focused on two other bills that have emerged as alternatives;

the Conference Report on the international tax bill - FSC/ETI - the Senate version of which includes the CLEAR ACT, and,

And a slimmed-down version of the energy bill - S.2095 -, prepared by Senate Energy Committee Chairman Pete Domenici (R-NM).

There is growing doubt that we can complete a Conference on the FSC/ETI bill.

Everybody seems to want the bill, but House leaders are still wrestling with several factors. Including:

The political impact of approving a mammoth corporate tax cut package just before the elections; and,

The desire to avoid procedural tactics Democrats may employ on the House floor to embarrass Republicans.

Regarding taxes,

there now appears to be interest in quick action on three tax cuts that benefit middle-class families:

- 1) an increase in the child tax credit,
- 2) expanded relief from the so-called marriage penalty and
- 3) the expanded 10 percent bracket.

Whether this means there is no chance before the election for the energy tax incentives in the FSC/ETI bill remains to be seen.

Let me move onto the slimmed-down version of the energy bill (S.2095)

The energy bill is important because it contains important programs to boost NGVs, such as the green school bus program,

changes to EPA Act,

mobile-to-stationary emissions credit trading study

and a provision to boost federal NGV purchases;

Unless an energy bill passes none of these may get enacted into law this year.

The MTBE issue continues to act as a drag on the energy bill.

That issue involves whether Congress acts to limit the liability of MTBE manufacturers for leaks and other environmental damages.

Although Sen. Domenici has deleted the MTBE issue from S.2095,

there is widespread speculation that when the measure goes over to the House, the House will add it back in.

After all some of the largest MTBE plants are in the congressional districts of Tom DeLay –

Majority Leader in the House and

Joe Barton – Chair of the Energy and Commerce Committee.

There may be a bright spot, however.

Sen. Stevens of Alaska is working to find federal funds to cover the cleanup costs of MTBE.

This could be enough to break the filibuster that is holding up the energy bill.

I want to mention the Green School Bus program just for a minute.

Some of you heard about this program in one of Yesterday's sessions.

The good news is President Bush asked Congress for \$65 million for this program, which is a \$60 million increase.

The bad news unfortunately is that because of severe budget constraints,

the Appropriators in the House included only \$10 million for the program

while the Senate Subcommittee did not include *any* funds for it in its FY '05

Appropriations bill.

But notwithstanding limited funds

we'll continue to work to convince EPA take a balanced approach in funding school bus diesel retrofit projects and NGV projects.

This is one place where there should be some federal funds available in 2005

to replace pre-1991 school buses and to retrofit post-1990 school buses.

So start lining up those school districts.

Let me talk briefly about NGV RD&D Appropriations.

Earlier this year the Department of Energy (DOE) did not include any funding for NGV RD&D its FY 2005 budget request.

DOE's request prompted NGVC Chairman Andrew Littlefair to call for a

comprehensive NGVC member-lobbying day on Capitol Hill.

After many one on one visits and letters signed by 35 Senators and Representatives members,

the House Appropriators included \$3.9 million for NGV RD&D programs for FY '05. The Senate Committee included \$3.2 million, so we know the range we're likely to be in when all is said and done.

The DOE's FY'05 budget request also included \$7 million for the Clean Cities program.

The House Interior Appropriations Subcommittee increased that amount by \$4.0 million.

The Senate Interior Appropriations Subcommittee increased that amount by \$3.0 million

I'll turn now to the Highway bill:

House and Senate Conferees continue to struggle over how much to spend on a new six-year highway and mass transit bill.

This bill includes the Congestion Mitigation and Air Quality Program and funding for natural gas transit buses.

The House has approved a \$284 billion bill and the Senate a \$318 billion bill.

Recently conferees appear to have settled on a six year \$295 billion bill.

Just for comparison, the previous highway bill (T-21) was funded at \$218 billion over six years.

The White House has said it wants lower levels but may reluctantly sign on.

The latest we hear is that the Congress may pass yet another extension on the highway program, and this time for one year.

Unfortunately, this debate has also bogged down, as members now want to add their election year special projects to the extension.

The major problem for this bill lies in the fact that the current 18.4 cents per gallon excise tax on gasoline has not risen since the early 1990s,

and the cost of highway projects far exceeds the amount of money this user fee produces for the highway trust fund.

This means that general revenues need to be added to the mix and that, of course, adds to the deficit.

A proposal put forth by leaders of the House Transportation and Infrastructure Committee calls for raising the federal gasoline tax, but the Bush Administration and House leadership and the Senate oppose this fascinating idea.

How about Airports.

Last year Congress approved the use of Airport Improvement Program Funds and Passenger Facility Charges

for the acquisition of alternative fuel vehicles and infrastructure.

The FAA's action was a direct result of the success of the ILEAV demonstration program

that the Department of Transportation implemented four years ago.

The new FAA program – the Voluntary Low Emission Program – also called VALE,

would provide funding for alternative fueled ground service equipment,
airport service and security vehicles,
and parking lot shuttles and buses.

Super shuttles and taxis are not eligible.

Over the next 4 years there is \$300 million in AIP funds available for airport vehicles
and infrastructure.

Diesel powered vehicles are not eligible for AIP funds

but a first come first serve \$5M diesel retrofit pilot program at 10 airports was
authorized

NGV retrofits are eligible for these funds

The FAA just recently issued draft guidance on this program and the NGVC is
working with the FAA to improve it.

I encourage you to initiate talks with your airports ASAP.

You want to be in the door early on this one.

If you do not have your plans in early you'll have to wait till year.

Gil's now going to talk about the upcoming elections.

CLEAR ACT Provisions in FSC/ETI Bill

The energy tax title that was in S. 2095 is very similar to the tax package that was reported out of the Finance Committee in May 2003 and it is now included in the FSC/ETI bill. The main differences between the S.2095 (FSC/ETI) version and the Energy bill is that the effective dates have been moved forward, in most cases to October 1, 2004. There are no revenue estimates for the proposal. In 2003, the package was estimated to cost \$14.5 billion over ten years (after \$5 billion in offsets). We expect the package to cost within \$3 billion on either side of that amount.

Alternative Motor Vehicles and Fuel Incentives

The alternative vehicles and fuels provisions are similar to the Finance Committee package. It includes several provisions that were dropped in conference, including the new tax credits for electric vehicles, the retail credit for alternative fuels, and the credit for investments in alternative fuel equipment.

Vehicles Credits. The bill provides tax credits for the purchase of three different types of advanced technology vehicles: hybrid motor vehicles, alternative fuel motor vehicles, and fuel cell motor vehicles, and it modifies the current-law credit for electric motor vehicles. In general, the credit amount is determined by calculation of a base credit for attainment of a particular technology and an additional credit if the vehicle attains certain improvements in fuel economy. In addition, all vehicles would need to meet minimum emissions standards to qualify.

Hybrid vehicles. Hybrid vehicles run partially on a rechargeable energy storage system (current hybrids use electricity) and partially on an internal combustion engine (gasoline or diesel). The base credit for purchase of a light duty or passenger hybrid vehicle ranges from \$100 to \$400, depending on the amount of power the vehicle derives from the rechargeable energy source. The credit would be increased by an amount between \$500 and \$3,000 if the vehicle meets certain fuel economy increases. For passenger and light duty vehicles, the credit would be determined as follows:

Passenger and Light Duty Hybrid Motor Vehicles

Base Credit		Additional Credit	
Credit Amount	Based on % of Power from Rechargeable Energy Source	Credit Amount	Based on % Fuel Economy Increase over 2002 City Economy
\$250	More than 4% but less than 10%	\$500	More than 125% but less than 150%
\$500	More than 10% but less than 20%	\$1,000	More than 150% but less than 175%
\$750	More than 20% but less than 30%	\$1,500	More than 175% but less than 200%
\$1000	More than 30%	\$2,000	More than 200% but less than 225%
		\$2,500	More than 225% but less than 250%
		\$3,000	More than 250%

For medium- and heavy-duty trucks and buses, the amounts of the base credit and the additional credit are increased depending on the weight class of the vehicle. They are calculated in a similar manner. For each class of vehicle, the base and additional credit amounts are shown here:

Heavy Duty Hybrid Motor Vehicle Credits by Weight Class

Weight Class (lbs)	Base Credit		Additional Credit	
	Credit Amounts	Based on % of Power from Rechargeable Energy Source (range)	Credit Amounts	Based on Model Year in which Vehicle Achieves 2007 Emissions Standards
10,000 to 14,000 (city step-up van or minibus)	\$1,000	> 20% but < 30%	\$1,500	2006
	\$1,750	> 30% but < 40%	\$2,000	2005
	\$2,000	> 40% but < 50%	\$2,500	2004
	\$2,250	> 50% but < 60%	\$3,000	2003
	\$2,500	> 60%		
14,000 to 26,000 (school bus)	\$4,000	> 20% but < 30%	\$4,000	2006
	\$4,500	> 30% but < 40%	\$5,250	2005
	\$5,000	> 40% but < 50%	\$6,500	2004
	\$5,500	> 50% but < 60%	\$7,750	2003
	\$6,000	> 60%		

More than 26,000 (dump truck, city bus, large semi)	\$6,000	> 20% but < 30%	\$6,000	2006
	\$7,000	> 30% but < 40%	\$8,000	2005
	\$8,000	> 40% but < 50%	\$10,000	2004
	\$9,000	> 50% but < 60%	\$12,000	2003
	\$10,000	> 60%		

- Dedicated alternative fuel vehicles.** Alternative fuel vehicles that run exclusively on natural gas, liquefied natural gas, ethanol, methanol, and liquefied propane gas would qualify for a base credit of 40% of the incremental cost of the vehicle over the vehicle cost when fitted as a petroleum fuel vehicle. An additional credit of 30% of the incremental cost of the vehicle is only available if the vehicle meets the most stringent emissions standard classification (other than the zero emissions vehicle classification) under the Clean Air Act. The amount of the maximum incremental costs and maximum credit amounts for the alternative fuel vehicles are shown here:

Maximum Credits for Dedicated Alternative Fuel Vehicles by Weight Class

Vehicle Weight Class (lbs)	Maximum Incremental Cost	Maximum Base Credit	Maximum Additional Credit
Less than 8,500	\$5,000	\$2,000	\$1,500
More than 8,500 but less than 14,000	\$10,000	\$4,000	\$3,000
More than 14,000 but less than 26,000	\$25,000	\$10,000	\$7,500
More than 26,000	\$40,000	\$16,000	\$12,000

- Fuel cell vehicles.** Fuel cell vehicles use hydrogen fuel to generate electricity. They are zero emissions vehicles and the only byproduct of the chemical electrical production process is water. It is anticipated that fuel cell vehicles will come to market later in the budget window. The proposal provides a base credit for fuel cell vehicles of \$4,000 for each qualified light duty vehicle (larger base credits ranging from \$10,000 to \$40,000 are available for purchase of large trucks and buses). The additional credit for passenger and light duty fuel cell vehicles equals between \$1,000 and \$4,000 if the vehicle meets certain fuel economy increases (of between 150% and 300+% of 2000 average). No additional credit is available for large trucks and buses.

- **Battery Electric Vehicles.** Battery electric vehicles “plug in” rather than recharge on their own like hybrid vehicles. The provision would modify the current-law credit by extending from 2004 through 2006 and making it a \$3,500 base credit. The credit allowable for low-speed electric vehicles equal to the lesser of 10% of the purchase price or \$1,500. The provision also allows an additional credit if the vehicle is capable of driving over 100 miles on a single charge of the vehicle’s rechargeable energy storage system.

Alternative Fuel and Infrastructure Incentives. The bill includes incentives for alternative fuels and alternative fuel refueling infrastructure.

- **Infrastructure.** The provision allows an *installation credit* for alternative fuel property, not to exceed \$1,000 for residential property and \$30,000 for retail.
- **Alternative fuel incentives.** “Alternative fuel” means compressed natural gas, liquefied natural gas, liquefied petroleum gas, hydrogen, and any liquid at least 85 percent of the volume of which consists of methanol or ethanol. The provision provides retailers with a credit per gallon of alternative fuel sold by the retailer in 2004. The credit amount is 40 cents in 2004 and 50 cents in 2005 and 2006.



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NGVC SUPPORTED ENERGY PROVISIONS IN THE ENERGY BILLS

- A tax credit for the retail sale of alternative fuels that ranges from 40 cents per gge in 2004 to 50 cents per gge in 2005 and 2006
- A tax credit for the acquisition of light-, medium- and heavy-duty vehicles that ranges from \$2,000 to \$28,000 depending on the size of the vehicle and its emissions.
- A tax credit of \$30,000 for the installation of new fueling station and \$1,000 for a home refueling unit.
- An extension of the \$100,000 tax deduction for NGV fueling stations
- A \$300 million authorization for a new Green School Bus purchase program for 2005 through 2007 for new alternative fuel school buses and their infrastructure, new “green” diesel buses and diesel bus retrofits.
- A \$200 million authorization for an inter-model advanced vehicle demonstration program under which \$200,000,000 has been authorized for 15 cities to demonstrate NGVs and other clean vehicles
- A mandate that federal agencies must operate their bi-fuel vehicles on the alternative fuel.
- A mandate that GSA must spread the incremental cost of alternative fuel vehicles purchased by a federal fleet over all the vehicles purchased by that fleet.
- A requirement that the EPA prepare a comprehensive report on mobile-to-stationary emissions trading which could lead to the national implementation of such a program.
- For EPCRA:
For purposes of EPCRA compliance, purchasing a dedicated medium-duty vehicle now provides two vehicle credits. The purchase of a dedicated heavy-duty vehicle provides three vehicle credits.

An optional compliance program would be established that gives covered fleets much more flexibility but eliminates most current loopholes.

Investments in fueling infrastructure would be awarded EPCRA credits.

A requirement that, within 6 months, DOE prepare a comprehensive report on EPCRA, including recommendations for Congressional changes in the program.

CLEAN SCHOOL BUSES

In April 2001, with active support of the Natural Gas Vehicle Coalition (NGVC) and the Union of Concerned Scientists (UCS), Rep. Sherry Boehlert (R-NY) introduced the Green School Bus Act – a multi-year, \$300 million grant program to be administered by the U.S. Department of Energy (DOE) providing funds for school districts to replace older diesel school buses with new buses powered by alternative fuels or low-sulfur diesel and infrastructure.

The provisions include:

- \$300 million authorized for Green School Bus Act. \$200 million to be spent on acquisition of AFV school buses and infrastructure and \$100 is for diesel retrofit technologies. 70 percent of the funds shall be used for the acquisition of alternative fuel school buses and supporting infrastructure; and 30 percent for the acquisition of ultra-low sulfur diesel fuel school buses.
- The eligibility standards for ULSD buses include:
 - 1) School District must certify that 15 ppm low sulfur diesel fuel is available and will be used in buses acquired under the program.
 - 2) Emission standards for ULSD buses are 2.5 grams per brake horsepower-hour of NMHC plus NOx and 0.01 grams per brake horsepower-hour of PM in 2004-06.
- Emission standards for alternative fuel buses are 1.8 NMHC plus NOx and 0.01 PM for 2004-06.
- Priority in the DOE grants decision making process will be given to school districts replacing buses manufactured before 1977, and, secondly to buses manufactured prior to 1991.
- Federal funds can be used to pay up to 85 percent of the total cost of qualifying school buses. The grant recipients will be required to assume the other 15 percent of the cost -- although in no case can a grantee's cost exceed \$15,000 per bus. Contracting entities are also eligible.
- Federal funds, which comprise up to 25 percent of the price of the alternative fuel buses, may be used to pay for fueling infrastructure.

Current Status:

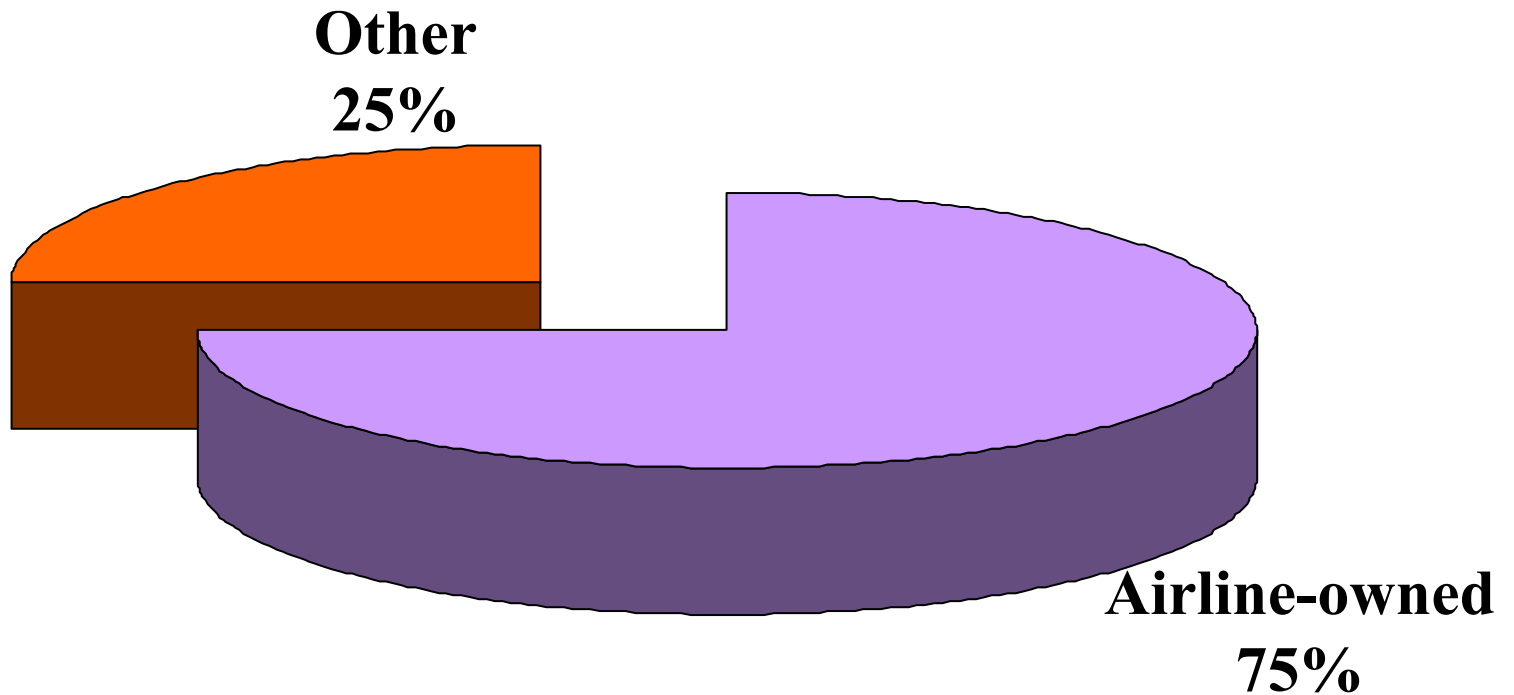
FY2005 VA-HUD Appropriations

- The President has requested \$65 million for the Environmental Protection Agency's Clean School Bus USA program in FY2005;
- The House has proposed to fund the program at \$10 million.
- The Senate has not requested any funds for the program
- Attempts are being made to add the authorizing language described above to the FY 2005 VA-HUD Appropriations bill.

FY2005 Appropriations

	DOE Request (million \$)	House Subcommittee (million \$)	Senate Subcommittee (million \$)
Medium-Duty Truck	\$0	\$1.3	\$1.3
Heavy-duty Truck	\$0	\$1.4	\$0.7
Infrastructure	\$0	\$1.2	\$1.2
Clean Cities	\$7.0	\$11.0	\$10.0

National GSE Fleet is Approximately 72,000



Eligible Infrastructure (tentative)

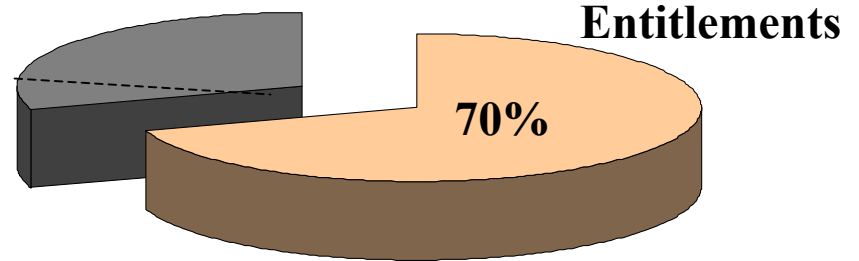
- Gate electrification
(less APU and GSE use)
- Refueling and recharging stations
- Fuel hydrant systems
(less trucking & evaporative emissions)
- Conversions of airport power plants, generators,
and other combustion sources to cleaner fuels

Two Major Airport Funding Programs

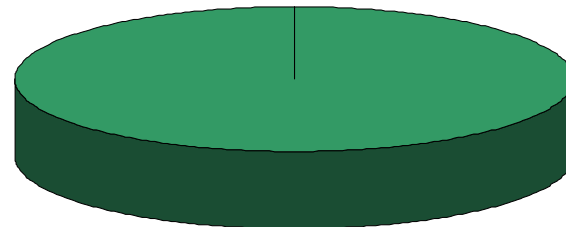


Airport Improvement Program (AIP) ~\$3 Billion/Year

Discretionary (30%)
1/3 is “noise and air
quality set-aside”



Passenger Facility Charges (PFC) ~\$2 Billion/Year



Eligibility by Funding Source



AIP

- New vehicles
- Airport-owned
- Alternative fuels

PFC

- New and retrofit vehicles
- Airport and non-airport owned
- Alternative and cleaner conventional fuels



AIP

GSE Retrofit Pilot Program

- **For GSE retrofits using conventional fuels**
- **10 commercial service airports in NA/MA**
 - ✓ Each grant up to \$500,000
- **Selection criteria:**
 - ✓ Cost effectiveness based on the remaining life of the vehicle
 - ✓ Only emission control technologies certified or verified by EPA
 - ✓ Priority for airport owned GSE
 - ✓ EPA/State assurance of emission credits

Vehicles Must Be Airport Dedicated

- Aircraft ground support equipment (GSE)
- On-road vehicles...

Security vehicles
Parking lot shuttles
and buses

