

2016

Liquid Natural Gas/Compressed Natural Gas Recommendations

Report Requirement

During the 2014 regular legislative session, the Legislature adopted Engrossed Substitute Senate Bill 6440 charging the Department of Licensing to convene a work group to:

1. Evaluate the annual license fee in lieu of fuel tax under RCW 82.38.075 to determine a fee that more closely represents the average consumption of vehicles by weight; and
2. Develop a transition plan to move vehicles powered by liquid natural gas (LNG) and compressed natural gas (CNG) from the annual license fee.

Required members of the work group included representatives from:

- Department of Licensing (DOL)
- Department of Transportation (DOT)
- Trucking Industry
- Manufacturers of CNG and LNG

To ensure a full understanding of the issues, additional work group members included representatives from the following organizations:

- Department of Revenue (DOR)
- Puget Sound Energy
- Washington Refuse and Recycling Association
- Washington State Transit Association
- Waste Connections
- House Transportation Committee staff
- Senate Transportation Committee staff

The work group reported to the transportation committees of the Legislature in December 2014 regarding a new annual license fee that more closely represents the average consumption of vehicles by weight in lieu of the fuel tax.

The work group is now reporting to the transportation committees of the Legislature on a transition plan to move vehicles powered by LNG and CNG from the annual license fee to a fuel tax.

2014 Report Summary

In December 2014, the work group reported to the legislature with a recommendation on an updated fee schedule for the LNG and CNG annual license fee. The workgroup provided four options with the recommendation that changes to the existing fee schedule be postponed until the work group completes its review of the fee schedule in concert with the creation of a transition plan.

The four options provided by the work group in 2014 were as follows:

1. Assess fee based on national averages for natural gas and propane powered vehicles;
2. Use a progressive scale for fees based on lowest gross vehicle weight;
3. Use a regressive scale for fees based on highest gross vehicle weight; and
4. Assess fee based on national categories.

Link to 2014 Report: <http://www.dol.wa.gov/about/docs/leg-reports/2015-legrpt-license-fee-lieu-fuel-tax-report.pdf>

Work Group Outcomes

During 2015, the work group convened to discuss a transition plan to move LNG and CNG vehicles to a fuel tax. Attached to this report is the most recent draft legislation requested by the legislature to implement the transition. An outline of the taxation system in the draft legislation is provided in the following section of this report.

The workgroup decided to use Chapter 82.38 RCW as a model and draft language for a LNG and CNG taxation system that reflects the current fuel taxation system. Propane users would continue to pay the fee in Chapter 82.38 RCW. The vendor estimated it would cost approximately \$200,000 to include a new reporting module for LNG and CNG in the GenTax system.

Ongoing concerns with a LNG and CNG taxation system:

- **Nominal target population:** The workgroup estimated the number of LNG/CNG vehicles in the state at around 1,000. That is a small population of vehicles for a fuel taxation system.
- **Diesel is inexpensive:** Currently, diesel prices have been falling or have remained stable. This is causing many businesses to be less interested in switching to alternative fuel vehicles such as LNG or CNG.
- **Need for dual fuel engines:** Many large shipping vehicles would still need to have dual fuel engines because LNG and CNG fuel does not provide enough torque for heavy vehicles to get up steep hills, for example. This is also causing certain businesses to be less interested in switching to LNG or CNG vehicles.
- **Utility tax exemptions:** LNG and CNG are typically used for utility purposes. It is estimated that there could be up to 95% of the gasses being exempted for utility taxes. This poses a serious concern of turning a utility-heavy fuel source into a taxation system based on transportation purposes. Currently, most of the LNG and CNG use is for heating and cooling, for example, so using a transportation-based system is problematic and not cost-effective.

LNG and CNG Taxation Framework

Due to the nature of LNG and CNG gasses, there will need to be a few different points of imposition of tax which would be as follows:

1. LNG to be taxed upon bulk storage delivery unless:
 - a. There is an exemption certificate* on file with the supplier
 - b. The purchaser is licensed as an Alternative fuel user or
 - c. Fuel is being delivered to another licensed supplier.
2. LNG/CNG to be taxed at dispenser when entered into fuel supply tank of a vehicle (slow fuel and fast fuel) unless:
 - a. There is an exemption certificate* on file with the supplier.
3. LNG/CNG to be taxed upon use on Washington highways if not previously paid (i.e. International Fuel Tax Agreement purchasers).

*Exemption certificates authorizes entry to purchase tax-free fuel and can be downloaded from the Department of Licensing website.

Other factors to the LNG/CNG fuel tax structure outlined in the draft legislation include:

- Penalty and Interest
 - Same rates and conditions as set forth in RCW 82.38
- Collection of Tax
 - Upon terms agreed to by the supplier and purchaser
 - Tax imposed on end user; collected by seller
- Remittance of Tax
 - Quarterly by Supplier and Alternative Fuel User
 - Over \$50,000 must be by electronic funds transfer
- Tax Return and Supporting Schedules
 - Tax returns for both license types and disbursement schedules for non-taxable disbursements by supplier to be developed by DOL
 - Electronic filing and payment will be accepted
- Bonding
 - Same bonding requirements as fuel licensees
 - Collateral in lieu of bond is acceptable
- Refunds and Exemptions Authorized
 - Same as RCW 82.38, as applicable
- Refund process
 - Refunds for non-taxable use of tax paid CNG/LNG will be issued by the department
 - The process will be the same as for other fuels
- Required Records/Retention
 - Will work with stakeholders and place into administrative rules for flexibility

- Unlawful Acts and Practices
 - Same as RCW 82.38
- Revocation, Suspension, Denial of License
 - Same as RCW 82.38
- Tax Evasion
 - Same as RCW 82.38
- Tax Preemptions
 - Same as RCW 82.38

Conclusion

The workgroup was asked to provide a possible taxation system and a transition plan for LNG and CNG gasses. Although the workgroup has provided these resources to the Legislature it is recommended that a transportation-based taxation system not be implemented in the near future. It would not be cost-effective for the State to do so at this time since most of the LNG and CNG gasses are used for utility purposes, not for transportation. It is always possible that as clean alternative fuel vehicles are promoted and become more common-place that these type of vehicles become more common but that does not appear to be the current trend for LNG and CNG.

DOL would like to thank everyone who contributed to this workgroup, the draft legislation, and the reports.