



**STATE BOARD OF EQUALIZATION
STAFF LEGISLATIVE ENROLLED BILL ANALYSIS**

DRAFT

Date:	Enrolled	Bill No:	<u>Assembly Bill 1907</u>
Tax Program:	Use Fuel Taxes	Author:	Ridley-Thomas
Sponsor:	California Natural Gas Vehicle Coalition	Code Sections:	RTC 8351.6
Related Bills:		Effective Date:	01/01/15

BILL SUMMARY

This bill changes the excise tax rate for compressed natural gas from \$0.07 per 100 cubic feet to \$0.0887 per 5.66 pounds, and for liquefied natural gas from \$0.06 per gallon to \$0.1017 per 6.06 pounds.

ANALYSIS

CURRENT LAW

Under the Use Fuel Tax Law (UFTL),¹ the state imposes an excise tax of \$0.18 per gallon for use of fuels. For liquefied petroleum gas (LPG), liquid natural gas (LNG), ethanol, and methanol, which are use fuels, the excise tax rates per gallon are \$0.06, \$0.06, \$0.09, and \$0.09, respectively. Compressed natural gas (CNG) is taxed at \$0.07 per 100 cubic feet.²

More specifically, the UFTL defines “fuel”³ to include any combustible gas or liquid used in an internal combustion engine for propulsion on the highway except fuel that is subject to the tax imposed by the Motor Vehicle Fuel Tax Law (MVFTL) or the Diesel Fuel Tax Law (DFTL).⁴ RTC Section 8651.6 of the UFTL sets the natural gas rate at \$0.07 per 100 cubic feet of CNG used, and at \$0.06 per gallon of LNG used. The owner or operator of a vehicle propelled by LPG, LNG, or CNG may pay an annual flat rate fuel tax based on the type or weight of the vehicle instead of the per gallon or cubic foot rate.⁵

Although the use fuel tax is imposed on the use of the fuel, the vendor who sells or delivers such fuel is required to collect the tax from the user and provide a receipt.⁶

PROPOSED LAW

This bill amends RTC Section 8651.6 to change the use fuel excise tax rate for CNG from \$0.07 per 100 cubic feet to \$0.0887 per 5.66 pounds, and for LNG from \$0.06 per gallon to \$0.1017 per 6.06 pounds.

¹ Part 3 (commencing with Section 8601) of Division 2 of the Revenue and Taxation Code (RTC).

² CNG is reported in the taxable units of 100 cubic feet, instead of gallons. To convert cubic feet to gallons, multiply the cubic feet by 1.2667.

³ RTC Section 8604.

⁴ Part 2 (commencing with Section 7301), and Part 31 (commencing with Section 60001), of Division 2 of the RTC, respectively.

⁵ RTC Section 8651.7.

⁶ RTC Section 8732.

This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the BOE’s formal position

Unrelated to the BOE, the bill makes changes to the Business and Professions Code (BPC) provisions related to the retail sale of natural gas as a motor fuel. In general, the amendments provide for the authorized retail sale of CNG on a gasoline gallon equivalent (GGE), and for LNG to be sold on a diesel gallon equivalent (DGE).

This bill is effective January 1, 2015.

IN GENERAL

The Division of Measurement Standards at the California Department of Food and Agriculture⁷ is generally responsible for the manner in which fuel is sold and measured in California. Current statutes specify that the retail sale of CNG is a sale of a motor fuel.⁸ Additionally, a person selling motor fuel to the public must display a sign or price indicator showing the actual total price per gallon, or liter, including the fuel and sales taxes.⁹

The National Institute of Standards and Technology (NIST) at the United States Department of Commerce¹⁰ is a physical science laboratory that establishes national measurement standards for various products and services. The standards for CNG and LNG are specified in Regulations.¹¹ The regulations¹² provide definitions of CNG, LNG and GGE.¹³ The GGE is equivalent to 5.660 lb. of natural gas. Additionally, the regulations cover the standard fuel specifications for CNG,¹⁴ as well as the classification and method of sale of petroleum products. Both CNG and LNG have labeling specifications,¹⁵ however only CNG has a GGE conversion factor.¹⁶

The [Clean Vehicle Education Foundation](#) (CVEF)¹⁷ provides additional background on the GGE, as well as a technical explanation of the effort to standardize the DGE of both CNG and LNG as a motor fuel. According to the CVEF, the justification for a GGE and DGE measurement is to provide a familiar and acceptable measurement to consumers¹⁸

The [California Natural Gas Vehicle Coalition](#), the sponsor of this bill, provides a recent update on the industry efforts at the state and federal level to change the natural gas measure to GGE and DGE.¹⁹

COMMENTS

- 1. Sponsor and Purpose.** This bill is sponsored by the California Natural Gas Vehicle Coalition and according to the author is intended to codify within California law the GGE for CNG and establish a DGE for LNG to promote tax equity and the use of cleaner alternative fuel.

⁷ <http://www.cdffa.ca.gov/dms/>

⁸ Business and Professions Code (BPC) Section 13404.

⁹ BPC Section 13470.

¹⁰ <http://www.nist.gov/>

¹¹ [NIST Handbook, 130 – 2014 Edition, Uniform Laws and Regulations in the Areas of Legal Metrology and Engine Fuel Quality.](#)

¹² [Uniform Engine Fuels and Automotive Lubricants Regulation.](#)

¹³ Sections 1.12, 1.35, and 1.25, of the Uniform Engine Fuels and Automotive Lubricants Regulation, of the NIST Handbook 130-2014 (hereafter, Regulation).

¹⁴ Section 2.9 of the Regulation. (There was no fuel specification for LNG.)

¹⁵ Sections 3.11 and 3.12, respectively, of the Regulation.

¹⁶ Section 3.11.2.2.2 (Conversion Factor), of the Regulation.

¹⁷ A non-profit national organization that supports the development of alternative fuel systems including natural gas.

¹⁸ <http://www.cleanvehicle.org/committee/technical/PDFs/DGEforCNGandLNGJustificationDocument.pdf>

¹⁹ http://www.cngvc.org/pdf/newsletters/CalNGVNews_040714.pdf

This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the BOE's formal position

2. **The BOE would not have administrative issues with the excise tax rate change.** Although the bill changes the excise tax rates for CNG and LNG, the BOE does not foresee any administrative issues with this change.
3. **Does this bill maintain revenue neutrality?** Although not specified in the author's fact sheet, California Natural Gas Vehicle Coalition indicated in their March 10, 2014 CalNGV newsletter²⁰ that the change in the excise tax rates to a GGE and DGE unit would maintain revenue neutrality on these fuels. This issue is discussed in detail in the Revenue Estimate section.

COST ESTIMATE

CNG and LNG rate changes would require an update to returns, notices, webpages, and related publications. However these costs are absorbable.

REVENUE ESTIMATE

BACKGROUND, METHODOLOGY, AND ASSUMPTIONS

To compare the revenue from existing law to potential revenue from the proposed law, both excise tax rates must be converted to the same unit of measure. Since the GGE and DGE are given in pounds (lbs), the current measure will therefore be converted to pounds, so that the revenue for both the existing and proposed rates can be compared.

The proposed rate for the GGE is \$0.0887 per 5.66 lbs of CNG. This equates to \$0.02 per 1 lb CNG [$(\$0.0887 \div 5.66\text{lbs}) \times 1 \text{ lb} = \0.02 per lb].

The existing CNG tax rate is \$0.07 per 100 cubic feet (cf). This equates to \$0.0007 per 1 cf. According to Cleanvehicle.org, 1 cf of CNG equals 0.0458 lbs; therefore 1 lb of CNG equals 21.83 cf. Combining these two terms yields \$0.02 per lb ($\$0.0007 \text{ per cf} \times 21.83 \text{ cf per lb} = \0.02 per pound).

Therefore the revenue for GGE is equivalent regardless of the unit of measure.

The proposed rate for the DGE is \$0.1017 per 6.06 lbs of LNG. This equates to \$0.017 per 1 lb LNG [$(\$0.1017 \div 6.06 \text{ lbs}) \times 1 \text{ lb} = \0.017 per lb].

The existing rate for LNG is \$0.06 per 1 gallon. This equates to \$0.017 per lb. According to industry data, 1 gallon of LNG weighs 3.5 lbs. Therefore 1 lb of LNG equals \$0.017 [$(1 \text{ lb LNG} \div 3.5 \text{ lbs per gallon}) \times \$0.06 \text{ per gallon} = \0.017 per lb].

Therefore the revenue for DGE is equivalent regardless of the unit of measure.

²⁰ http://www.cngvc.org/pdf/newsletters/CalNGVNews_031014.pdf

REVENUE SUMMARY

Gasoline Gallon Equivalent:

Current rate: \$0.07 per 100 cf = \$0.02 per lb

Proposed rate: \$0.0887 per 5.66 lbs = \$0.02 per lb

Diesel Gallon Equivalent:

Current rate: \$0.06 per gallon = \$0.017 per lb

Proposed rate: \$0.1017 per 6.06 lbs= \$0.017 per lb

There is no change in revenue from the change in measurement.

Analysis prepared by:	John Cortez	916-445-6662	08/28/14
Revenue estimate by:	Patrick Alessandri	916-445-0840	
Contact:	Michele Pielsticker	916-322-2376	
ls			1907abENR14c.docx

This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the BOE's formal position