

HOUSE BILL REPORT

ESHB 1055

As Passed House:

March 9, 2007

Title: An act relating to defining alternative motor fuels.

Brief Description: Defining alternative motor fuels.

Sponsors: By House Committee on Technology, Energy & Communications (originally sponsored by Representatives Hudgins, B. Sullivan, Morris, Dunshee and Chase).

Brief History:

Committee Activity:

Technology, Energy & Communications: 1/17/07, 2/2/07 [DPS].

Floor Activity:

Passed House: 3/9/07, 96-1.

Brief Summary of Engrossed Substitute Bill

- Provides a definition of alcohol fuel, alternative fuel, E85 motor fuel, and nonhazardous motor fuel.
- Replaces the term "alcohol fuel" with the term "E85 motor fuel" for purposes of certain sales and use tax exemptions and business and occupation tax deductions.
- Places restrictions on the use of biodiesel derived from palm oil for purposes of the state minimum renewable fuel standards.

HOUSE COMMITTEE ON TECHNOLOGY, ENERGY & COMMUNICATIONS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 11 members: Representatives Morris, Chair; McCoy, Vice Chair; Crouse, Ranking Minority Member; McCune, Assistant Ranking Minority Member; Eddy, Ericksen, Hankins, Hudgins, Hurst, Takko and VanDeWege.

Staff: Kara Durbin (786-7133).

Background:

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Alternative fuel

Alternative fuel is a fuel derived from non-petroleum sources that can be used to power a motor vehicle. The term "alternative fuel" is not defined in state law. Federal law defines alternative fuel as alcohol fuel, compressed natural gas, liquified natural gas, liquified petroleum gas, coal-derived liquid fuels, and fuels derived from biomass.

Alcohol fuels

Alcohol fuels are made from crops such as corn, wheat, barley, potatoes, sugarcane, and the cellulose of plants such as switchgrass, straw, and trees. Methanol and ethanol are two types of alcohol fuels used in motor vehicles. Ethanol is most commonly produced from corn and sugarcane. Methanol is primarily made from natural gas, but also can be made from renewable sources.

Ethanol

Ethanol is a type of alcohol fuel. The most common blends of ethanol fuel are:

- E10 - 10 percent ethanol and 90 percent unleaded gasoline; and
- E85 - 85 percent ethanol and 15 percent unleaded gasoline

Vehicles must be specially designed to run on E85 and use of the fuel blend is approved for Flexible Fuel Vehicles (FFVs) only. The FFVs are designed to run on E85, gasoline, or any blend of the two. There are more than four million FFVs on the road in the United States.

Typically, an E85 blend is seasonally adjusted to ensure proper starting and performance in different geographic locations. During winter, higher percentages of gasoline is added to E85 to ensure that vehicles are able to start at cold temperatures. According to the American Society of Testing and Materials Standard Specification for Fuel Ethanol for Automotive Spark-Ignition Engines, E85 sold during colder months may contain 70 percent ethanol and 30 percent petroleum to produce the necessary vapor pressure for starting in cold temperatures.

Motor Fuel Quality Act

The Motor Fuel Quality Act (Act) provides for the establishment of quality specifications for all liquid motor fuels, except aviation fuel, marine fuel, and liquefied petroleum gases, and establishes a sampling, testing, and enforcement program. The term "motor fuel" means any liquid product used for the generation of power in an internal combustion engine used for the propulsion of a motor vehicle upon the highways of this state.

The Act contains a definition of biodiesel fuel, diesel, and motor fuel, but does not define alternative fuel, alcohol fuel, or E85 motor fuel.

Minimum Renewable Fuel Standards

In 2006, Washington enacted renewable fuel standards requiring certain special fuel licensees to meet minimum biodiesel sale requirements and obligating state agencies to meet minimum biodiesel use requirements.

Special fuel licensees, other than international fuel tax agreement licensees, dyed special fuel licensees, and special fuel distributors, must provide evidence to the Department of Licensing

that at least 2 percent of total annual diesel fuel sales are biodiesel fuel sales, whenever the earlier of two events occur: (1) the Director of the Department of Agriculture (DOA) determines that feedstock grown in Washington can satisfy the 2 percent requirement; or (2) on November 30, 2008. The reporting level rises to 5 percent biodiesel sales when the Director of the DOA determines that both in-state oil seed crushing capacity and feedstock grown in Washington can satisfy 3 percent of total annual diesel fuel sales.

Tax Exemptions and Preferential Tax Rates for Biofuels

Washington law makes available tax exemptions or preferential tax rates to promote motor fuels containing 85 percent ethanol. However, state law does not use a consistent definition for motor fuels containing 85 percent ethanol.

Summary of Engrossed Substitute Bill:

Definitions

The Motor Fuel Quality Act is amended to include a definition for alcohol fuel, alternative fuel, E85 motor fuel, and nonhazardous motor fuel.

The term "alcohol fuel" is defined as any alcohol made from a product other than petroleum or natural gas that is used alone or in combination with gasoline or other petroleum products for use as a fuel in a self-propelled motor vehicle.

The term "alternative fuel" is defined as all products or energy sources used to propel motor vehicles, other than conventional gasoline, diesel, or reformulated gasoline. Alternative fuel includes, but is not limited to, the following: liquefied petroleum gas, liquefied natural gas, compressed natural gas, biodiesel fuel, E85 motor fuel, fuels containing 70 percent or more by volume of alcohol fuel, fuels that are derived from biomass, hydrogen fuel, nonhazardous motor fuel, and electricity. Onboard electric generation is excluded.

The term "E85 motor fuel" is defined as an alternative fuel that is a blend of denatured ethanol and hydrocarbon of which the ethanol portion is nominally 75 percent to 85 percent denatured fuel ethanol by volume that complies with the American Society of Testing and Materials specification D5798.

The term "nonhazardous motor fuel" is defined as any fuel of a type distributed for use in a self-propelled motor vehicle that does not contain a hazardous liquid as defined in RCW 19.122.020.

Minimum Renewable Fuel Standards

Special fuel licensees, other than international fuel tax agreement licensees, dyed special fuel users, and special fuel distributors, shall not use biodiesel derived from palm oil to satisfy the minimum renewable fuel standards established in RCW 19.112.110, unless two conditions are satisfied: (1) the special fuel licensees can demonstrate that, at the time of production, there was not sufficient Washington grown feedstock available to produce the biodiesel from canola, rapeseed, or mustard oil; and (2) the palm oil was purchased from a company that

maintains active membership in the Roundtable on Sustainable Palm Oil, and implements the Roundtable on Sustainable Palm Oil's directives as they are promulgated to ensure the sustainability of the palm oil.

The business and occupation (B&O) tax deduction for sale of alternative fuel and the retail sales and use tax exemption for distribution of biodiesel or alcohol fuels are amended. These tax provisions are amended to replace the definition of alcohol fuel, or the reference to alcohol fuel blends, with a definition of, or reference to, E85 motor fuel.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony:

(In support) A good definition of alcohol fuel does not exist in current code. This could include E85 and other blends of ethanol fuel.

(Opposed) None.

Persons Testifying: Representative Hudgins, prime sponsor.

Persons Signed In To Testify But Not Testifying: None.