Senate

General Assembly

File No. 683

February Session, 2004

(Reprint of File No. 548)

Substitute Senate Bill No. 218
As Amended by House
Amendment Schedules
"A" and "B"

Approved by the Legislative Commissioner
April 29, 2004

AN ACT CONCERNING CLEAN AND ALTERNATIVE FUEL VEHICLES.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

Section 1. Subdivisions (67) to (69), inclusive, of section 12-412 of the general statutes are repealed and the following is substituted in lieu thereof (*Effective July 1, 2004*):

(67) Sales of and the storage, use or other consumption, prior to July 1, **[**2004**]** <u>2008</u>, of a new motor vehicle which is exclusively powered by a clean alternative fuel. As used in this subdivision and subdivisions (68) and (69) of this section, "clean alternative fuel" shall mean natural gas, hydrogen or electricity when used as a motor vehicle fuel or propane when used as a motor vehicle fuel if such a vehicle meets the federal fleet emissions standards under the federal Clean Air Act or any emissions standards adopted by the Commissioner of Environmental Protection as part of the state's implementation plan under said act.

(68) Sales of and the storage, use or other consumption, prior to July

1, **[**2004**]** <u>2008</u>, of conversion equipment incorporated into or used in converting vehicles powered by any other fuel to either exclusive use of a clean alternative fuel or dual use of any other fuel and a clean alternative fuel, including, but not limited to, storage cylinders, cylinder brackets, regulated mixers, fill valves, pressure regulators, solenoid valves, fuel gauges, electronic ignitions and alternative fuel delivery lines.

(69) Sales of and the storage, use or other consumption, prior to July 1, **[**2004**]** <u>2008</u>, of equipment incorporated into or used in a compressed natural gas or hydrogen filling or electric recharging station for vehicles powered by a clean alternative fuel, including, but not limited to, compressors, storage cylinders, associated framing, tubing and fittings, valves, fuel poles and fuel delivery lines used for clean alternative fuel storage and filling facilities.

Sec. 2. Section 4a-67d of the general statutes is repealed and the following is substituted in lieu thereof (*Effective October 1, 2004*):

(a) The fleet average for cars or light duty trucks purchased by the state shall: (1) On and after October 1, 2001, have a United States Environmental Protection Agency estimated highway gasoline mileage rating of at least thirty-five miles per gallon and on and after January 1, 2003, have a United States Environmental Protection Agency estimated highway gasoline mileage rating of at least forty miles per gallon, **[**and**]** (2) comply with the requirements set forth in 10 CFR 490 concerning the percentage of alternative-fueled vehicles required in the state motor vehicle fleet<u>, and (3) obtain the best achievable mileage per pound of carbon dioxide emitted in its class</u>. The alternative-fueled vehicles purchased by the state to comply with said requirements shall be capable of operating on natural gas or electricity or any other system acceptable to the United States Department of Energy that operates on fuel that is available in the state.

(b) The provisions of subsection (a) of this section shall not apply to cars or light duty trucks purchased for law enforcement or other special use purposes as designated by the Department of Administrative Services. [or to cars or light duty trucks purchased by the state and intended for conversion into natural gas or electric-powered vehicles.]

(c) As used in this section, the terms "car" and "light duty truck" shall be as defined in the United States Department of Energy Publication DOE/CE -0019/8, or any successor publication.

Sec. 3. Subdivision (2) of subsection (b) of section 12-587 of the general statutes is repealed and the following is substituted in lieu thereof (*Effective July 1, 2004*):

(2) Gross earnings derived from the first sale of the following petroleum products within this state shall be exempt from tax: (A) Any petroleum products sold for exportation from this state for sale or use outside this state; (B) the product designated by the American Society for Testing and Materials as "Specification for Heating Oil D396-69", commonly known as number 2 heating oil, to be used exclusively for heating purposes or to be used in a commercial fishing vessel, which vessel qualifies for an exemption pursuant to section 12-412, as amended; (C) kerosene, commonly known as number 1 oil, to be used exclusively for heating purposes, provided delivery is of both number 1 and number 2 oil, and via a truck with a metered delivery ticket to a residential dwelling or to a centrally metered system serving a group of residential dwellings; (D) the product identified as propane gas, to be used exclusively for heating purposes; (E) bunker fuel oil, intermediate fuel, marine diesel oil and marine gas oil to be used in any vessel having a displacement exceeding four thousand dead weight tons; (F) for any first sale occurring prior to July 1, [2004] 2008, propane gas to be used as a fuel for a motor vehicle; (G) for any first sale occurring on or after July 1, 2002, grade number 6 fuel oil, as defined in regulations adopted pursuant to section 16a-22c, to be used exclusively by a company which, in accordance with census data contained in the Standard Industrial Classification Manual, United States Office of Management and Budget, 1987 edition, is included in

code classifications 2000 to 3999, inclusive, or in Sector 31, 32 or 33 in the North American Industrial Classification System United States Manual, United States Office of Management and Budget, 1997 edition; (H) for any first sale occurring on or after July 1, 2002, number 2 heating oil to be used exclusively in a vessel primarily engaged in interstate commerce, which vessel qualifies for an exemption under section 12-412, as amended; (I) for any first sale occurring on or after July 1, 2000, paraffin or microcrystalline waxes; or (J) for any first sale occurring **[**on or after July 1, 2002, and**]** prior to July 1, **[**2004**]** 2008, petroleum products to be used as a fuel for a fuel cell, as defined in subdivision (113) of section 12-412, as amended.

Sec. 4. Subsection (a) of section 12-264 of the general statutes is repealed and the following is substituted in lieu thereof (*Effective July 1, 2004*):

(a) Each (1) Connecticut municipality or department or agency thereof, or Connecticut district, manufacturing, selling or distributing gas or electricity to be used for light, heat or power, in this chapter and in chapter 212a called a "municipal utility", (2) company the principal business of which is manufacturing, selling or distributing gas or steam to be used for light, heat or power, including each foreign municipal electric utility, as defined in section 12-59, and given authority to engage in business in this state pursuant to the provisions of section 16-246c, and (3) company required to register pursuant to section 16-258a, as amended, shall pay a quarterly tax upon gross earnings from such operations in this state. Gross earnings from such operations under subdivisions (1) and (2) of this subsection shall include (A) all income classified as operating revenues by the Department of Public Utility Control in the uniform systems of accounts prescribed by said department for operations within the taxable quarter and, with respect to each such company, (B) all income classified in said uniform systems of accounts as income from merchandising, jobbing and contract work, (C) income from nonutility operations, (D) revenues from lease of physical property not devoted to utility operation, and (E) receipts from the sale of residuals and other by-products obtained in connection with the production of gas, electricity or steam. Gross earnings from such operations under subdivision (3) of this subsection shall be gross income from the sales of natural gas. Gross earnings of a gas company, as defined in section 16-1, as amended, shall not include income earned in a taxable quarter commencing prior to June 30, [2004] 2008, from the sale of natural gas or propane as a fuel for a motor vehicle. No deductions shall be allowed from such gross earnings for any commission, rebate or other payment, except a refund resulting from an error or overcharge and those specifically mentioned in section 12-265. Gross earnings of a company as described in subdivision (2) of this subsection shall not include income earned in any taxable quarter commencing on or after July 1, 2000, from the sale of steam.

Sec. 5. Section 12-217i of the general statutes is repealed and the following is substituted in lieu thereof (*Effective July 1, 2004, and applicable to income years commencing on or after January 1, 2004*):

(a) There shall be allowed a credit for any taxpayer against the tax imposed by this chapter, chapter 209, 210, 211 or 212 in any income year or calendar quarter, as the case may be, commencing prior to January 1, [2004] 2008, in an amount equal to ten per cent of the amount of expenditures paid or incurred during such income year or such quarter, as the case may be, for the incremental cost of purchasing a vehicle which is exclusively powered by a clean alternative fuel.

(b) There shall be allowed a credit for any taxpayer against the tax imposed by this chapter in any income year commencing on or after January 1, 1994, and prior to January 1, [2004] 2008, in an amount equal to fifty per cent of the amount of expenditures, other than those described in subsection (a) of this section, paid or incurred during such income year directly for (1) the construction of any filling station or improvements to any existing filling station in order to provide compressed natural gas, liquefied petroleum gas or liquefied natural gas; (2) the purchase and installation of conversion equipment incorporated into or used in converting vehicles powered by any other fuel to either exclusive use of clean alternative fuel or dual use of such other fuel and a clean alternative fuel, including, but not limited to, storage cylinders, cylinder brackets, regulated mixers, fill valves, pressure regulators, solenoid valves, fuel gauges, electronic ignitions and alternative fuel delivery lines, if such converted vehicles, after conversion, meet generally accepted standards, including, but not limited to, the standards set by the American Gas Association, the National Fire Protection Association, the American National Standards Institute, the American Society of Testing Materials or the American Society of Mechanical Engineers; or (3) the purchase and installation of equipment incorporated into or used in a compressed natural gas, liquefied petroleum gas or liquefied natural gas filling or electric recharging station for vehicles powered by a clean alternative fuel, including, but not limited to, compressors, storage cylinders, associated framing, tubing and fittings, valves and fuel poles and fuel delivery lines.

(c) If the amount of any credit provided in this section exceeds the amount of tax otherwise payable in the income year or calendar quarter, as the case may be, in which such expenditure was paid or incurred, the balance of any such credit remaining may be taken in any of the three succeeding income years or twelve succeeding calendar quarters, respectively. Any taxpayer allowed such a tax credit against the tax imposed under this chapter, chapter 209, 210, 211 or 212 shall not be allowed such credit under more than one of said chapters. As used in this section "clean alternative fuel" shall mean compressed natural gas, liquefied petroleum gas, liquefied natural gas or electricity when used as a motor vehicle fuel and "incremental cost" shall mean the difference between the purchase price of a vehicle which is exclusively powered by a clean alternative fuel and the manufacturer's suggested retail price of a comparably equipped vehicle which is not so powered.

Sec. 6. Section 12-458f of the general statutes is repealed and the following is substituted in lieu thereof (*Effective July 1, 2004*):

On and after July 1, 1994, and until July 1, **[**2004**]** 2008, compressed natural gas, liquefied petroleum gas and liquefied natural gas shall not be subject to the tax imposed under section 12-458.

Sec. 7. Section 12-412 of the general statutes, as amended by section 98 of public act 03-1 of the June 30 special session, is amended by adding subdivision (115) as follows (*Effective October 1, 2004*):

(NEW) (115) On and after October 1, 2004, and prior to October 1, 2008, the sale of any passenger car utilizing hybrid technology that has a United States Environmental Protection Agency estimated highway gasoline mileage rating of at least forty miles per gallon.

This act shall take effect as follows:	
Section 1	*July 1, 2004*
Sec. 2	*October 1, 2004*
Sec. 3	*July 1, 2004*
Sec. 4	*July 1, 2004*
Sec. 5	*July 1, 2004, and applicable to income years commencing on or after January 1, 2004*
Sec. 6	*July 1, 2004*
Sec. 7	*October 1, 2004*

The following fiscal impact statement and bill analysis are prepared for the benefit of members of the General Assembly, solely for the purpose of information, summarization, and explanation, and do not represent the intent of the General Assembly or either House thereof for any purpose:

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 05 $	FY 06 $
Revenue Serv., Dept.	GF - See Below	See Below	See Below
Revenue Serv., Dept.	TF - See Below	See Below	See Below
Admin. Serv., Dept	GF - Cost	Potential Significant	Potential Significant

Note: GF=General Fund; TF=Transportation Fund

Municipal Impact: None

Explanation

Section 1 of the bill as amended precludes a revenue gain of approximately $50,000 to the sales and use tax as a result of extending the sunset date for various exemptions related to motor vehicles (new and modified) that exclusively use alternative fuel and for equipment incorporated into or used in an alternative fuel or recharging station.

Section 2 of the bill as amended will result in potentially significant costs to the Department of Administrative Services (DAS). It is anticipated that it will cost the agency in the range of $2,000 to $4,000 per vehicle to purchase vehicles that meet the best achievable mileage per pound of carbon dioxide provisions in the bill. It is not known at this time how many vehicles DAS will purchase in FY 05 or FY 06.

The table below presents a brief section-by section description of the provisions contained in the bill as amended by House "A" and their associated fiscal impact. Unless otherwise specified the fiscal impact indicated is to the General Fund.

Section	Description	Fiscal Impact
501	The section:	

	1) Extends, from 7/1/04 to 7/1/08, the exemption for sales of propane used as fuel in motor vehicles from the petroleum gross earnings tax;	Precludes a revenue gain of approx $75,000/yr in FY 05, FY 06, FY 07 and FY 08.
	2) Exempts sales of petroleum products used as fuel cell fuel that occurs between 7/1/04 and 7/1/08 from petroleum gross earnings tax.	Revenue loss of approx. $50,000/yr in FY 05, FY 06, FY 07 and FY 08.
502	Extends, from 7/1/04 to 7/1/08, the exemption of sales of natural gas and propane used as fuel in motor vehicles from the public service company's tax.	Precludes a revenue gain of approx, $75,000/yr in FY 05, FY 06, FY 07 and FY 08.
503	Extends, from 1/1/04 to 1/1/08, the clean alternative fuels business tax credit.	Precludes a revenue gain of less than $500,000/yr in FY 05, FY 06, FY 07 and FY 08.
504	Extends, from 7/1/04 to 7/1/08, the exemption of compressed natural gas, liquefied natural gas, and liquid petroleum gas from the motor fuels tax.	Precludes a Transportation Fund revenue gain of approx. $500,000/yr in FY 05, FY 06, FY 07 and FY 08.

There is an annual revenue loss of $100,000 beginning with FY 05 and through FY 08 as a result of the bill as amended by House "B" exempting purchases of passenger cars utilizing hybrid technology from the Sales and Use Tax if such car has a federal Environmental Protection Agency estimated highway mileage of 40 miles per gallon or higher. The $100,000 estimate is based on the sale of 65 to 70 such passenger cars per year assuming an average price of $25,000. There are currently available two different models from two automotive manufacturers.

House "A" and House "B" added provisions, which resulted in the fiscal impacts explained above.

OLR Bill Analysis
sSB 218 (as amended by House "A" and "B")*

AN ACT CONCERNING CLEAN AND ALTERNATIVE FUEL VEHICLES

SUMMARY:
This bill exempts from the sales tax, until October 1, 2008, hybrid passenger cars that achieve a U.S. Environmental Protection Agency (EPA) estimated highway gasoline mileage rating of at least 40 miles per gallon. It extends until 2008, sales and other tax credits and exemptions encouraging the use and sale of, and investment in, alternative fuels, and alternative fuel vehicles, facilities and equipment.

It requires that the fleet average for cars and light duty trucks the state buys achieve the best achievable mileage per pound of carbon dioxide (CO_2) emitted in its class.

*House Amendment "A" extends tax credits and tax exemptions for alternative fuel vehicles, facilities and equipment.

*House Amendment "B" adds the sales tax exemption for hybrid passenger cars.

EFFECTIVE DATE: July 1, 2004, except the provision affecting the state motor vehicle fleet and the sales tax exemption for hybrid passenger cars takes effect October 1, 2004. The provision for corporation business tax credits applicable to income years beginning January 1, 2004,

SALES TAX EXEMPTION

The bill exempts from the sales tax, from October 1, 2004 to October 1, 2008, the sale of any hybrid passenger car with an EPA rating of at least 40 miles per gallon. Hybrid vehicles use two sources of power, such as gasoline and electric power.

It extends, from July 1, 2004 to July 1, 2008, the sales tax exemption for the sale, storage, or use or other consumption of (1) new motor vehicles exclusively powered by a clean alternative fuel; (2) conversion equipment incorporated into or used in converting motor vehicles powered by any other fuel to either (a) exclusive use of a clean alternative fuel or (b) dual use of any other fuel and a clean alternative fuel; and (3) equipment incorporated into or used in a compressed natural gas, hydrogen filling, or electric recharging station for vehicles powered by a clean alternative fuel.

PETROLEUM PRODUCTS GROSS EARNINGS TAX

By law, petroleum refiners or distributors pay a quarterly tax on their gross earnings from the first sale of petroleum products in the state. The bill exempts, from July 1, 2004 until July 1, 2008, the exemption for the first sale of (1) propane gas to be used as motor vehicle fuel and (2) petroleum products to be used as fuel for a fuel cell.

UTILITY COMPANY TAX

By law, certain gas companies' gross earnings do not include income from the sale of natural gas or propane as a motor vehicle fuel earned in a taxable quarter starting before June 30, 2004. The bill extends this exemption until June 30, 2008.

CORPORATION BUSINESS TAX CREDITS

The law allows tax credits for the purchase of alternative fuel vehicles and investments in alternative fuel facilities and equipment for income years or calendar quarters beginning before January 1, 2004. The bill extends these exemptions to January 1, 2008. The credit applies to the corporation business, air carrier, railroad, cable TV, and utility company taxes.

Specifically, the bill extends, until January 1, 2008, the corporation tax credit for the incremental cost of buying a vehicle exclusively powered by a clean alternative fuel. It extends, until January 1, 2008, the corporation tax credit for the (1) construction of any filling station or improvements to any existing filling station to provide compressed natural gas, liquefied petroleum gas, or liquefied natural gas; (2) purchase and installation of conversion equipment incorporated into or used in converting vehicles powered by any other fuel to either exclusive use of clean alternative fuel or dual use of such other fuel and a clean alternative fuel; or (3) purchase and installation of equipment incorporated into or used in a compressed natural gas, liquefied petroleum gas, or liquefied natural gas filling or electric recharging station for vehicles powered by a clean alternative fuel.

MOTOR VEHICLE FUELS TAX

The bill extends, from July 1, 2004 to July 1, 2008, the exemption from the motor vehicle fuels tax of compressed natural gas, liquefied petroleum gas, and liquefied natural gas.

CARBON DIOXIDE REQUIREMENT

By law, the fleet average for cars or light duty trucks the state buys must (1) have an EPA estimated highway gasoline mileage rating of at least 40 miles per gallon, and (2) comply with federal regulations concerning the percentage of alternative-fueled vehicles in the motor vehicle fleet. The bill requires that the fleet average for cars and light duty trucks also achieve the best achievable mileage per pound of carbon dioxide (CO_2) emitted in its class.

The law exempts from these provisions cars or light duty trucks (1) used for law enforcement or other designated special uses or (2) intended for conversion into natural gas or electric-powered vehicles. The bill repeals the exemption for cars and light duty trucks intended for conversion to natural gas or electric power, subjecting them to the new CO_2 requirement, as well as the existing requirements concerning highway mileage and percentage of alternative fuel vehicles.

BACKGROUND

Incremental Cost of Alternative Fuel Vehicles

Incremental cost is the difference between the purchase price of a vehicle that is exclusively powered by a clean alternative fuel and the manufacturer's suggested retail price of a comparably equipped vehicle not so powered.

Clean Alternative Fuel

For purposes of the corporation business tax credit, a clean alternative fuel is compressed natural gas, liquefied petroleum gas, liquefied natural gas, or electricity when used as a motor vehicle fuel. For purposes of the sales tax exemption, a clean alternative fuel is natural gas, hydrogen or electricity when used a motor vehicle fuel, and in certain instances, propane.

Conversion Equipment

Conversion equipment includes storage cylinders, cylinder brackets, regulated mixers, fill valves, pressure regulators, solenoid valves, fuel gauges, electronic ignitions, and alternative fuel delivery lines.

Equipment Incorporated Into Or Used In A Filling Or Recharging Station

This equipment includes compressors, storage cylinders, associated framing, tubing and fittings, valves, fuel poles, and fuel delivery lines used for clean alternative fuel storage and filling facilities.

COMMITTEE ACTION

Environment Committee

Joint Favorable Substitute Change of Reference
Yea 27 Nay 0

Finance, Revenue and Bonding Committee

Joint Favorable Substitute
Yea 45 Nay 0