



Dave Mrowzinski, Director, IGS CNG Services

Interested Party Testimony – House Bill 62 Ohio Senate Transportation Committee

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Testimony on HB 62 Provision that Creates
Compressed Natural Gas (“CNG”) Motor Fuel Tax

Chairman McColley, Vice Chair Uecker, Ranking Member Antonio, and members of the Senate Transportation Committee, thank you for the opportunity to speak to you today regarding House Bill 62, the 2020-2021 state transportation budget bill. My name is Dave Mrowzinski, Director of IGS CNG Services, a sister company of IGS Energy. I am testifying today regarding the provision of HB 62 that would impose an immediate motor fuel tax on compressed natural gas, or “CNG.”

- IGS CNG Services is the largest CNG station owner in Ohio with 9 stations under management in Ohio and a total of 15 throughout the Midwest.
- CNG is a budding industry that has great potential to bring many benefits to Ohio.
- CNG is a cleaner, cheaper and a domestic energy source.
- However, economies of scale have not developed yet, so cost of buying a CNG vehicle is higher than traditional diesel and gasoline.
- HB 62 would impose the motor fuel tax definition on CNG at 28 cents, followed by a 20-cent increase over three years at the diesel tax rate, according to the following schedule:
 - 38 cents on and after October 1, 2019, and before October 1, 2020;
 - 44 cents on and after October 1, 2020, and before October 1, 2021;
 - 48 cents on and after October 1, 2021.
- While IGS believes that vehicles using the road should pay for the repair and maintenance of the system, we believe that an immediate tax is not the right approach for an industry in its infancy.

- The legislature has already recognized the benefit of a phase-in mechanism for the gasoline and diesel tax increases, and therefore it would be unfair to apply the 28-cent tax on CNG overnight.
- While CNG has great potential, recent events have made it more difficult on the industry:
 - Price of diesel dropped dramatically over the last 2 years.
 - Federal tax credit of 50 cents per gallon expired at the end of 2017 and it is unknown if it will return at this time.
- Imposing an additional tax on CNG would cause great harm to an industry that is already facing economic headwinds.
- CNG has less than 1% of market share for vehicles sold so raising the fuel tax would result in limited funds for the State.
- Not only would raising the tax on CNG harm the industry, there are also issues of tax equity that need to be resolved before the motor fuel tax should apply to CNG.
 - For instance, CNG pays the commercial activity tax (CAT) twice, once at the wholesale level when converting natural gas to CNG and then we pay the CAT on the retail level when selling CNG to the end use customer.
- However, diesel and gasoline are not subject to the CAT– there was an exemption applied to these fuels to ensure they would only have to pay a gross receipts tax once.
 - Before applying the motor fuel tax, there would need to be a study of the issue to ensure the CAT or other similar gross receipts taxes are being applied equitably.
- In addition, the language in HB 62 is incorrect or at a minimum unclear as it relates to the gallon equivalency measure applied to CNG. Per the National Institute of Standards and Technology

(NIST) standards, a GGE (gasoline gallon Equivalent) is 5.66 lbs which is called out in the language of the bill. Per NIST, the 5.66 lbs is directly correlated with gasoline, not diesel. It makes little sense to charge the diesel level tax but call out CNG at the gasoline gallon equivalent of 5.66 lbs.

- IGS customers can lock in a fixed price with IGS CNG over 5 years, which allows them to achieve cost savings and long-term protection against fuel price fluctuations.
 - However, new and increased taxes will often be passed through to customers, which creates a negative customer experience.

Companies have invested millions of dollars in building out CNG fleets in the state of Ohio for both economic and sustainability reasons. A large per gallon increase in price could put these deals out of budget, without any warning or ability for customers to plan for an increase over time. For having such a small role in assisting the state repair and improve its roads, a new tax on CNG has real-life impacts on job creators in the state.

- **Recommendation**

- IGS is not opposed to the inclusion of CNG as a motor fuel for purposes of tax, but we urge the committee to apply the motor fuel tax in a way that would not create an undue shock to the industry—specifically a phase-in over 5 years, at the gasoline gallon equivalent.
- It would be unwise to impose a tax on CNG in such an expedited manner without studying how the tax may harm the industry and without looking at the complexities of the tax code to ensure any tax is applied fairly, like avoiding a double retail tax on CNG through the CAT.

- If the Senate intends to retain the study committee language inserted by the House, the issues related to a tax phase-in and equitable tax applications may be best suited for the joint legislative committee's review.

We have an abundance of natural gas in Ohio and it would benefit Ohio greatly to develop a robust CNG industry. Doing so helps the economy, keeps the air cleaner, and gives Ohioan's an affordable domestic fuel source so we are not sending our money to countries overseas.

Thank you for the opportunity to provide testimony today. I would be happy to answer any questions at this time.

Sincerely,

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