

Clean Efficient Automobiles Resulting from Advanced Car Technologies (CLEAR ACT) (S760)

Key Policy Considerations

Overview

The primary purpose of the legislation is to enhance national energy security and diversity goals by reducing the consumption of petroleum. Transportation accounts for nearly 2/3 of all oil consumption and is almost 97% dependent on petroleum. The legislation also helps to improve air quality by providing incentives for low emission vehicles.

This legislation will set the stage for a consumer based and technology led transformation of the transportation industry. All major vehicle manufacturers are introducing new technology and alternative fuel vehicles into the marketplace. These new technologies reduce petroleum consumption and improve air quality as a result of breakthrough improvements in fuel economy or from the use of non-petroleum alternative fuels. Accelerating the introduction of these new technologies into the market is needed to build up production volumes and make them cost competitive with conventional vehicles.

Providing tax incentives for a limited period of time to consumers for the purchase or lease of these vehicles will help offset the higher costs associated with new technology and alternative fuel vehicles. As the vehicles gain consumer acceptance and production volumes increase, the cost differential between these vehicles and conventional vehicles will be reduced or eliminated.

Key Components

Tax incentives for new technology and alternative fuel vehicles under this legislation go directly to the consumer.

Incentives Based On Technology and Performance

To ensure that these technological advances put priority on fuel economy improvements and support the overall objectives to improve energy security and diversity, performance incentives have been incorporated in order for a vehicle to be eligible for the tax credits. These performance incentives are added to a base credit that is provided for introducing the technologies into the marketplace.

The proposed legislation has a broad base of support and is comprehensive in scope. It includes:

- Fuel Cell Vehicles
 - The most promising long term technology offering breakthrough fuel economy of up to 3 times today's levels with zero emissions. A \$4,000 base credit is included along with an additional \$4,000 depending on fuel economy performance. The credit is available for 10 years to accelerate introduction – low volume production is expected to begin in the 2005-2007 timeframe.
- Hybrid Vehicles
 - Electronics that integrate electric drive with an internal combustion engine offer near term improvements in fuel economy. A credit of up to \$1,000 for the amount of electric drive power is included along with up to \$3,000 depending upon fuel economy performance. The credit is available for 6 years to accelerate consumer demand as these vehicles become available in the market and set the stage for sustainable growth (similar timeframe for alternative fuel and battery electric vehicles). To be eligible for the credit, hybrid vehicles must meet or beat the average emission level for light duty vehicles.
- Dedicated Alternative Fuel Vehicles
 - Vehicles solely capable of running on alternative fuels promote energy diversity and significant emission reductions. Natural gas, LPG and LNG are the most commonly used fuels for dedicated alternative fuel vehicles. A base credit of up to \$2,500 is included

with an additional \$1,500 for vehicles certified to "Super Ultra Low Emission" standards (SULEV). Note that "flex fuel" vehicles are not included since they can operate on either gasoline or E85 (ethanol) and are available in the market without any incremental cost.

- Battery Electric Vehicles
 - Vehicles that utilize stored energy from "plug-in" rechargeable batteries offer zero emissions and are not dependent upon petroleum based fuels. A base credit of \$4,000 is included (similar to the fuel cell ... both have full electric drive systems) and an incremental \$2,000 is available for vehicles with extended range or payload capabilities.
- Medium and Heavy Duty Vehicle Provisions
 - Medium and heavy-duty applications of the same vehicle technologies utilized for light-duty (passenger) vehicles offer similar benefits related to energy efficiency, diversity and emission reductions. Vehicle credits are included for individual weight categories and amounts vary with the largest vehicles over 26,000 pounds receiving up to \$40,000 for fuel cell or battery electric, \$32,000 for alternative fuel or \$24,000 for hybrid applications.
- Alternative Fuel Incentives
 - Alternative fuels such as natural gas, LNG, LPG, hydrogen, B100 (biomass) and methanol are primarily used in alternative fueled vehicles and fuel cell vehicles. To encourage the installation of distribution points to support these vehicle applications, a credit of \$0.50 for every gallon of gas equivalent is provided to the retail distributor. This credit is available for 6 years and will support the distribution of these fuels as vehicle volume grows and may be passed on to the consumer by the retail outlet. Note that ethanol is not included in these provisions due to the existing ethanol credit of \$0.82 per gallon equivalent.
- Alternative Fuel Infrastructure
 - Complementary to the credit for the fuel itself, the existing \$100,000 tax deduction is extended for 10 years and a credit for actual costs up to \$30,000 for the installation cost of alternative fuel sites available to the public is included. One of the key hurdles to overcome in commercializing alternative fuel vehicles is the lack of fueling infrastructure. For nearly a century, infrastructure has focused primarily on gasoline and diesel products. The fuel incentive will help the distributors overcome the costs to establish the alternative fuel outlets and support distributors during initial lower sales volumes as the number of alternative fuel vehicles increases.

Broad Coalition Support

A broad and diverse group that includes representatives from automobile manufacturers, the environmental community and alternative fuel groups and organizations endorse the principles embodied in the CLEAR ACT. Ford Motor Company, Honda and Toyota are among the key automotive industry supporters. Environmental coalition support comes from The Union of Concerned Scientists, Natural Resources Defense Council, Environmental Defense and the American Council for an Energy Efficient Economy. Industry coalitions include the Natural Gas Vehicle Coalition, the Propane Vehicle Council, the Methanol Institute and the Electric Vehicle Association of the Americas.