AB 1190 – California Clean Fuel Incentive

Assembly Members Shirley Horton and Jared Huffman, joint authors

IN BRIEF

AB 1190, the Clean Fuel Incentive, encourages the distribution and sales of alternative fuels that have significantly lower greenhouse gas emissions than today's gasoline and diesel fuels. The incentive reduces the sales tax on cleaner fuels - making them more affordable for the consumer and more profitable for the distributor of those fuels.

THE ISSUE

The production and use of motor vehicle fuels accounts for over 40 percent of greenhouse gas emissions -- the leading contributor to global climate change. California cannot meet its goals of reducing global warming pollution unless there is a significant shift in the market away from traditional fuels towards "low carbon" fuels. While the state has a number of mandates requiring greenhouse gas emission reductions, this is the first proposal that will align fuel taxes to reflect the state's priorities by providing a financial incentive to the best (i.e. lowest polluting) fuels.

EXISTING LAW/BACKGROUND

Recently, the "Low Carbon Fuel Standard" (LCFS) was recommended through the Governor's Executive Order as an early action item under AB 32 – the "Global Warming Solutions Act of 2006." The LCFS requires the California Air Resources Board to measure the amount of carbon emitted per mile of travel for all fuels sold in California. It further mandates an overall reduction in fuel lifecycle greenhouse gases of 10 percent by 2020.

Currently all motor vehicle fuels are taxed by the state at the point of sale. The current code includes a state gasoline tax of 18 cents per gallon, which applies to gasoline, gasoline and alcohol fuel blends and natural gas. Diesel and biodiesel are also taxed at 18 cents per gallon under the state's Diesel Tax Law. The state also levies a use tax on kerosene (18 cents per gallon), liquid natural gas and liquefied petroleum gas (6 cents per gallon), compressed natural gas (7 cents per 100 cubic feet) and fuels containing 85% or higher alcohol (E85 and M85, 9 cents per gallon).

Certain transportation uses, including local transit systems, schools and certain common carriers are taxed at a rate of 1 cent per gallon under the Mills-Hayes Act. The tax is managed and collected by the Board of Equalization. The tax is based on volume and no consideration is given to the fuel's effects on greenhouse gases.

THE SOLUTION

AB 1190 builds on AB 32 and the LCFS. Together, they will create an official state rating of all fuels based on the lifecycle amount of carbon from the creation and burning of fuel. This bill groups fuels into three categories based on lifecycle carbon content measured in grams of carbon per mile driven as outlined in the LCFS:
(1) Fuels that contain 33% or less of the carbon-equivalent emissions from gasoline are in the first category and receive an incentive equal to the tax due and thus have no tax to pay
(2) Fuels that contain 66% or less and more than 33% of the carbon-equivalent emissions from gasoline are in the second category and receive an incentive equal to 50 percent of the tax due.
(3) All other fuels are in the third category and pay a very small surcharge in addition to their established tax. The surcharge covers the costs of the incentives granted to lower-carbon fuels. The surcharge is likely to be less than 2/100 of a cent per gallon – or about 40 cents per year for the average consumer. The Board of Equalization (BOE) will administer the incentive program. On a periodic basis the BOE will adjust the penalty to cover the costs of the incentive so the program is revenue neutral.

As oil producers and distributors in California start to sell alternatives to gasoline and diesel, this bill will both accelerate the deployment of those fuels and provide an incentive for earlier action to reduce global warming pollution. For example, there are many ways to produce ethanol, resulting in greatly different greenhouse gas emissions. These different types of ethanol are currently not distinguishable at the pump. With this bill, ethanol with significantly lower greenhouse gas emissions will have a higher value than traditional ethanol because it will not be taxed.

AUTHOR'S STATEMENT

AB 32 and the LCFS have created the regulatory framework and standards in order to make this bill simple to implement with very low overhead costs. The same carbon content calculations used to distinguish fuels for the LCFS are used in AB 1190. This bill provides a significant incentive to accelerate the development and deployment of alternative fuels that create less pollution than today's fuels.

SUPPORT

Environmental Entrepreneurs (Co-sponsor)
Natural Resources Defense Council (Co-sponsor)

FOR MORE INFORMATION

Assembly Member Horton:
stephanie.kimball@asm.ca.gov, 916-319-2078
Assembly Member Huffman:
Rebecca.darling@asm.ca.gov, 916 319-2715
E2: Teryn Hanggi thanggi@nrdc.org, 415 875-6124,
E2 Biofuels Team: Anna Halpern-Lande
ahl@tellurianbiodiesel.com, 415-812-3315