



STATEMENT OF RICHARD KOLODZIEJ

ON BEHALF OF

NGVAMERICA

UNITED STATES HOUSE OF REPRESENTATIVES

ENERGY AND COMMERCE COMMITTEE

SUBCOMMITTEE ON ENERGY AND POWER

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*The American Energy Initiative: Challenges and Opportunities for Alternative Transportation Fuels
and Vehicles*

Introduction

NGVAmerica is pleased to offer the following written statement with regard to this hearing. NGVAmerica is a national organization dedicated to the development of a growing and sustainable market for vehicles powered by natural gas and biomethane. NGVAmerica represents more than 130 member companies, including: vehicle manufacturers; natural gas vehicle (NGV) component manufacturers; natural gas distribution, transmission, and production companies; natural gas development organizations; environmental and non-profit advocacy organizations; state and local government agencies; and fleet operators

Today, natural gas vehicles are uniquely positioned to help the United States achieve a number of critical policy priorities. The increased use of natural gas vehicles can reduce our dependence on foreign oil while reducing greenhouse gas emissions and urban pollution. And, equally important, increased use of natural gas vehicles will benefit the economy by stimulating demand for domestic natural gas and by lowering fuel cost to businesses, fleets and consumers that operate natural gas vehicles.

An Abundant and Economical Domestic Resource

Reliance on foreign oil exacts a high toll on the U.S. in terms of direct economic costs and indirect energy security costs. In the past three years (2008 – 2010), the US spent nearly \$700 billion on imported petroleum. In the coming decade, the EIA forecasts total expenditures for petroleum imports to top \$3.3 trillion dollars. See EIA, *2011 Annual Energy Outlook*, Table 11 (April 2011). Our reliance on oil not only affects our trade balance but makes us vulnerable to price spikes and supply disruptions. And high oil prices results in a windfall for regimes that may not be friendly to the U.S. Fortunately, the U.S. has an unprecedented opportunity to displace petroleum with domestic natural gas. In the past several years, a wealth of new data has been developed demonstrating that the U.S. has an abundant supply of readily available, economically priced, natural gas.

The U.S. Energy Information Administration, the Potential Gas Agency and other expert bodies now estimate that we have up to a 100 years supply of natural gas. The Potential Gas Committee's 2011 bi-annual report indicates that the U.S. now has a

total future supply of 2,170 trillion cubic feet of natural gas. This is 89 Tcf more than estimated in the 2009 report. As was the case with the 2009 report, the 2011 report includes the highest resource estimate in the Committee's history; PGC has now been estimating natural gas supplies for 46 years.

Increased demand for natural gas helps to keep our economy growing by supporting new jobs and economic development. In 2008, U.S. production of 20 Tcf of natural gas supported nearly 3 million jobs ("The Contributions of the Natural Gas Industry to the U.S. National And State Economies", IHS Global Insight 2009, p.1) Even a modest increase in demand for natural gas as a transportation fuel could create tens of thousands of jobs associated with producing natural gas.

Natural gas also benefits our economy because it is a low cost energy that helps businesses grow while at the same time controlling costs. Natural gas is priced much lower than petroleum. The two fuels no longer track one another and haven't for many years. The current contract price for natural gas (NYMEX May delivery) is \$4.377 per million Btu, which equates to a per barrel of oil price of only \$25.39 at a time when oil is trading well above \$100 a barrel. The difference in price relates to the fact that petroleum prices are set by world markets. An increase in demand in China or India leads to an increase in the cost of oil consumed here in the U.S. However, the same is not true for natural gas. The U.S. market for natural gas is currently insulated from most overseas events. Given the fact that there is no way to readily ship large quantities of natural gas from North America to other markets, the supply and demand for natural gas here in the U.S. set the price that consumers pay. Given the abundant supply of natural gas that exists here in the U.S., natural gas prices relative to oil prices are expected to remain much lower in the coming years. In fact, the EIA estimates that differential between diesel fuel and natural gas for transportation could be as much as \$2 per diesel gallon equivalent in the future.

Translating Opportunity into Advantage

How should we use this natural gas? Market price signals tell us that transportation fuel and vehicles are the highest valued application of all natural gas uses. Outside the U.S., demand for natural gas vehicles is growing at a rapid pace. In the last seven years the market for NGVs has more than tripled with a compound growth rate of over 17 percent per year. In fact, NGVs are the fastest growing alternative to petroleum vehicles in the world. In 2003, there were only about 2.8 million NGVs globally. Today, there are over 13.2 million NGVs in operation worldwide. This rapid growth points to the fact that rapid scaling up of NGVs is possible. The International NGV

Association forecasts that, by 2020, there will be 65 million NGVs on the world's roads. Unfortunately, the U.S. currently ranks fourteenth in the world in total number of NGVs.

Most of the new natural gas vehicles sold outside the U.S. are either conversions of light-duty gasoline vehicles or are produced by light duty OEMs, including: Ford, GM, Toyota, Honda, Nissan, Hyundai, Fiat, Volkswagen and Mercedes. Fiat alone makes 14 separate NGV models, and more than 100,000 NGVs were sold in Italy in 2009, comprising some 7% of the new vehicle market. Most U.S. manufacturers currently offer natural gas vehicles in places like Europe, South America and Asia, but only Honda currently offers a light duty OEM NGV product, the Honda Civic GX.

For a number of reasons, including the sheer geographic size of America, the strategy of the US NGV industry has been to focus on high fuel-use fleets: trash trucks, transit buses, short-haul 18-wheelers, school buses, urban delivery vehicles, shuttles of all kinds, and taxis. Today, the U.S. only has about 120,000 NGVs in the US. Vehicle demand has been growing at a slow pace. However, because of the large use per-vehicle, fuel demand actually has been increasingly at a robust pace. NGVAmerica estimates that, last year, natural gas vehicles used about 43 billion cubic feet of natural gas. That equates to about 320 million gallons of gasoline that was not imported. At today's fuel prices, this represents about a billion dollars not spent on foreign petroleum products. Fortunately for the U.S., we currently lead the world in offerings of new medium and heavy duty NGVs. In the past several years, virtually all the major truck and bus manufacturers in the U.S. have stepped up and are now offering factory-built NGVs. The impressive list of manufacturers includes: Kenworth, International/ESI, Peterbilt, Mack, American LaFrance/Condor, Crane Carrier, AutoCAD Truck, Capacity, Thomas Built Bus, Blue Bird Bus, Optima, NABI, El Dorado, New Flyer, Daimler/Orion, Freightliner, Gillis, Workhorse Chassis, Elgin, Allianz/Johnston, Schwarz, and Tyco.

Manufacturers are betting that the U.S. will get serious about its desire to displace petroleum demand and increase the use of alternative fuels like natural gas. With proper government policies and incentives, sales of these trucks and use of natural gas could grow substantially in the coming years. NGVAmerica estimates that current fuel consumption of natural gas for vehicles could grow to one and a quarter *trillion* cubic feet or the equivalent of about 10 billion gallons within 15 years. At the level of fuel prices currently projected, that would lower fuel costs to businesses by up to \$20 billion a year and reduced payments for imported petroleum by more than \$40 billion per year.

NGV America believes that there could be a substantial market for natural gas vehicles in all applications. However, the most immediate opportunity for displacing petroleum and increasing the use of natural gas as transportation fuel lies with light-, medium- and heavy-duty fleets – especially trucks, buses and other heavier vehicles. As noted above, we currently have a large selection of medium and heavy duty vehicles available here in the U.S. This is significant since trucks are the economic lifeblood of America. Everything we buy moves by truck. Reducing the cost of trucking reduces the cost of everything, benefiting businesses and consumers alike.

Enacting Meaningful Incentives

Right now, NGVs cost more to buy than comparable gasoline or diesel powered vehicles. But they cost less to operate. The more miles a vehicle is driven each year, the faster the payback and the more likely the owners can justify the investment in NGVs. For some of the most fuel intensive fleets and vehicle applications, NGVs already are economic. However, to expand the use of NGVs and maximize NGVs' oil displacement potential, we need to rapidly bring the first-cost or incremental cost of NGVs down. And this will only happen with large scale production and increased economies of scale.

H.R. 1380, the New Alternative Transportation to Give Americans Solutions (NAT GAS) Act of 2011 provides the means to accelerate demand for NGVs and to help us achieve economies of scale and build-out much needed fueling infrastructure. That is why we strongly support this legislation. HR 1380 would provide federal incentives for the production, purchase and use of natural gas vehicles and the expansion of the NGV fueling infrastructure. Highlighting broad support for this bill, although only introduced on April 6, H.R. 1380 already has 178 bipartisan co-sponsors. As proposed, these incentives would be available for only a five year period. During that time and long thereafter, it would make NGVs the economic choice for many more fleets. This legislation would accelerate NGV use, which, in turn, would bring more NGV manufacturers into the market, increase competition and drive down the first-cost premium of NGVs.

NGVs are a here-and-now technology. This fact is highlighted by the investments and commitments by fleets already taking place in the market place in the U.S. Highlighted here are some of the growing examples of how natural gas is helping meet the needs of fleets:

- AT&T operates more than 2,400 vehicles powered by natural gas and has a goal of expanding the fleet to 8,000 by 2013;
- UPS has more than 1,100 natural gas powered vehicles, and is expanding its fleet of vehicles powered by liquefied natural gas. The company has said it would convert a much larger share of its trucking fleet to LNG if the fueling infrastructure was in place;
- The Los Angeles County Metropolitan Transportation Authority earlier this year held a retirement ceremony for its last diesel bus, and 2,221 of its buses are now running on compressed natural gas; a number of the other smaller transit agencies around the country have successfully switched their entire fleet over to using natural gas. In Washington, DC, the local transit authority operates nearly 500 natural gas transit buses, and several feeder systems (outlying counties) also operate natural gas buses.
- Ryder System Inc. is purchasing 202 heavy-duty natural gas vehicles that will be used in its Southern California network;
- Waste Management, the largest refuse company in the country, has more than 900 vehicles running on either compressed natural gas or liquefied natural gas;
- The Dallas Area Rapid Transit system recently announced it will purchase 452 natural gas powered transit buses – the largest single order of natural gas transit buses currently in place.

As these fleet examples highlight, we do not need technical breakthroughs to capitalize on the potential of natural gas as a transportation fuel. What we need most is to grow demand for these vehicles faster. Federal leadership in leading the way and providing incentives will make this happen. The NAT GAS Act by providing critical incentives would help jumpstart that growth. In addition, Federal agencies can help by implementing rules that are favorable to the increased use of natural gas and by leading by example through the purchase of natural gas vehicles for their fleets. The NAT GAS Act does not change the current purchase requirements for federal agencies but it does help by allowing the seller or manufacturer to take the tax credits for NGVs that are sold to tax-exempt entities like federal fleets.

Conclusion

The U.S. has an unprecedented opportunity to displace petroleum with domestic natural gas. Now is the time to act to incentivize the increased use of natural gas vehicles. We have an abundant supply of readily available, low-cost domestic natural gas. The fact that this fuel is domestic, low-cost, and clean means that we can achieve

multiple national goals (energy security, clean air, economic security) all the while helping fleets and businesses to lower their costs, thus improving economic prosperity. There has never been a better time than today to take action. Nearly every major truck or bus manufacturer here in the U.S. is now offering factory-built NGV models. We urge the Congress to move swiftly and enact the NAT GAS Act.

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