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To the members of the House Committee on Transportation.
Via hand delivery.

May 11, 2021

Re: SB 1728, Opposition testimony by Public Citizen

Dear Chairman Canales and members of the committee:

Public Citizen appreciates the opportunity to testify against SB 1728 by Chairman Schwertner, relating to the equalization for road use consumption for alternatively fueled vehicles imposed at the time of registration or registration renewal; authorizing a fee.

I. SB 1728 has not proposed equivalent fees, based on the state's own analysis.

SB 1728's stated purpose is to equalize road use consumption fees for alternatively fueled vehicles. The bill would establish a fee for alternatively fueled vehicles of \$200 or \$250 (depending on weight), a fee for hybrid electric vehicles of \$40 or \$50, and a fee for natural gas vehicles that would equal the amount paid by a conventionally fueled vehicle in the same class.

The stated purpose of the bill is "equalization for road use consumption" of vehicle fees. The Texas Department of Motor Vehicles produced a report on what an equal fee would be in December 2020. The report was produced pursuant to Senate Bill 604 (86R) which was passed by the legislature and signed into law in 2019.

According to the Texas DMV:¹

If the objective is to replace the average amount of state motor fuel tax that an equivalent conventional vehicle pays, the amount is estimated to be about \$100 a year for an electric vehicle and a somewhat lower amount for a hybrid.

SB 1728 has proposed a fee that is nearly double that recommended for an alternatively fueled vehicle and perhaps too low for a hybrid electric vehicle. Texas is only responsible for collecting its own state fee, not the federal fee, and a \$100 fee is reasonable for most vehicle. We recommend the legislature follow the outcome of the study that it commissioned and set fees according to Texas DMV guidance.

II. Electric vehicles should be incentivized for their air quality benefits.

The public health benefits of electric vehicle use alone should lead us to incentivize their purchase and use. We absolutely agree (as do 77% of EV drivers in Texas) that EV owners

¹ "Study on Imposing Fees on Alternatively Fueled Vehicles" Texas Department of Motor Vehicles (1 Dec. 2020) at pdf p. 8 available at https://interchange.puc.texas.gov/Documents/49125_64_1098844.PDF.

Public Utility Commission of Texas

Memorandum

RECEIVED
2020 DEC -3 PM 2:19
PUBLIC UTILITY COMMISSION
FILING CLERK

TO: All Interested Parties

FROM: Kristin Abbott, Market Analysis Division
Rustin Tawater, Legal Division

DATE: December 3, 2020

RE: Project No. 49125, *Review of Issues Relating to Electric Vehicles*

Senate Bill 604 of the 86th Legislative Session, Regular Session, instructed the Commission to participate, along with certain other agencies, in a report to analyze the impact of alternatively-fueled vehicles to the state, as well as to evaluate other fee assessment mechanisms on these vehicles as an alternative to motor fuels assessment.

Please find attached to this memorandum a copy of the final Senate Bill 604 Report submitted to the Texas Legislature by the Texas Department of Motor Vehicles on December 1, 2020.



Texas Department of Motor Vehicles

HELPING TEXANS GO. HELPING TEXAS GROW.



Study on Imposing Fees on Alternatively Fueled Vehicles

December 1, 2020

Executive Summary

Senate Bill 604, enacted during regular session of the 86th Texas Legislature, required the Texas Department of Motor Vehicles, in coordination with other specified state agencies, to organize a study on imposing fees on alternatively fueled vehicles (AFVs). The Public Utility Commission of Texas, the Texas Department of Transportation, the Texas Department of Public Safety, and the Texas Commission on Environmental Quality participated in the study and contributed to this report. The study examined the impact of the AFVs industry on the state, the options available to the state for collecting fees from owners of AFVs to replace the loss of revenue from motor fuel taxes, and the feasibility and desirability of establishing a fee for AFVs. The analysis included impacts on the state highway system, vehicle emissions and direct environmental benefits, the state's power grids and electricity markets, and state revenue related to vehicle use. The study examined potential fees on AFVs, including options related to electricity usage, vehicle registrations, and vehicle sales.

An alternatively fueled vehicle is a vehicle capable of using a fuel other than gasoline or diesel fuel. Those other fuel types include vehicles powered by electric and plug-in hybrid electric drives, compressed natural gas drives, and liquefied natural gas drives. The study focused heavily on electric vehicles due to the overall number of electric and hybrid vehicles and the growth in the numbers of such vehicles, especially electric ones. The large majority (almost 80%) of motor vehicles, including AFVs, registered in Texas are passenger vehicles and light trucks with less than 10,000 pounds gross weight. Medium-weight and heavy-weight vehicles are just becoming available as electric-type AFVs. Therefore, the data used in this analysis consists of AFVs in the lowest weight categories.

The Texas Department of Transportation examined the potential impacts of AFVs on the state highway system in terms of funding and road quality. The analysis estimates that for every conventional vehicle a consumer replaces with a hybrid—approximately \$80 per year less in state gasoline taxes will be collected. This is about an 80% decline per year per vehicle. That number increases to a 100% decline if the consumer replaces the conventional vehicle with a fully electric one which would represent approximately a \$100 reduction in state gasoline tax collections per year per vehicle, and similarly a \$95 reduction in federal gasoline tax collections per year per vehicle. However, until the AFV market matures further, it is difficult to reasonably project the impact to state highway funding. The physical impact of AFVs on the state highway system is expected to be proportional, as AFVs weigh roughly the same as other vehicles in their classes.

The Texas Commission on Environmental Quality assessed the projected direct environmental benefit of AFVs on vehicle emissions in the state. The assessment found minimal direct environmental benefits from projected sales of AFVs because federal regulations apply the same emissions and fuel economy standards to all fuel types. Because federal regulations require vehicle manufacturers to meet tailpipe emissions and fuel economy standards based on their fleet averages and not on individual vehicle sales, manufacturers have the option of producing electric vehicles to offset the sales of higher-emitting gasoline and diesel vehicles so that overall fleet average requirements are achieved. However, since emissions and fuel economy standards are very stringent for newer model years, it is expected that overall electric vehicle sales will allow manufacturers to achieve but not exceed their fleet average requirements. Also, manufacturers whose fleet averages exceed federal requirements in certain model years can sell “credits” to manufacturers whose averages do not meet federal requirements. Since manufacturers have a financial incentive to sell credits, it is not expected that sales from electric-only vehicle manufacturers will result in additional emissions reductions overall. Based on certain assumptions, if none of the electric vehicles operating in the state are needed to meet the fleet average requirements, emissions could be reduced by 0.8% for nitrogen oxides and volatile organic compounds, 1.1% for carbon monoxide, 1.3% for particulate matter, and 2.2% for carbon dioxide, sulfur dioxide, and ammonia. In addition, since fuel consumption and tailpipe carbon dioxide emissions are directly correlated, the gallons of fuel consumed could also be reduced by 2.2% under this scenario.

The Public Utility Commission of Texas examined the potential impact of AFVs on the state's electric grids and markets. The analysis considered the market adoption of electric vehicles and the continued development of new

charging technologies and their potential impact on the myriad electric utilities in Texas. While demand for electric vehicles has risen considerably and more types of electric vehicles are expected to be viable in coming years, most electric utilities do not anticipate difficulty managing the electricity demand from charging electric vehicles. However, the adoption of certain charging technologies may require utility system upgrades in localized areas.

As part of evaluating alternatives for levying fees on AFVs, the approaches used in other states were examined. As of early 2020, 29 states levy a registration fee specific to AFVs. Almost all levy a flat fee due at the time of vehicle registration. The average amount levied was approximately \$120 a year.

The examination also consisted of current motor fuel taxes, vehicle registration and inspection fees, and electricity-related revenues collected in Texas. As mentioned above, the average amount of motor fuel tax collected from a hybrid vehicle is significantly less than the average amount collected for a conventional vehicle while the amount collected for an electric vehicle is zero. Vehicles registered in the state pay registration fees without regard to fuel type (except for large, diesel fueled vehicles which pay more but are less than 5% of vehicles registered). Therefore, there is no real difference in vehicle registration-related revenue if an AFV is registered versus a conventional vehicle. Gasoline and hybrid vehicles pay slightly more in inspection fees but only in non-attainment counties, while diesel and electric vehicles pay the same inspection fees. It is not possible to distinguish the amount AFVs currently pay in taxes, fees, and surcharges levied on the sale of electricity from the overall amounts collected.

The examined alternatives for levying a fee in Texas on AFVs included ones based on electricity usage, vehicle registration, and vehicle sales. The sales-based alternatives require larger assessments due to less frequent collection and may be a less consistent revenue source. The electricity usage alternatives have implementation issues but are similar to the motor fuel tax in being able to collect revenue from vehicles traveling through but not registered or based in the state. The registration-based alternatives would be a consistent source of revenue and align closely with existing collection methods.

The most straightforward alternative would be an increased vehicle registration fee. This is a similar approach used by almost every other state that has AFV fees and closely aligns with the current approach to vehicle registration in Texas. If the objective is to replace the average amount of state motor fuel tax that an equivalent conventional vehicle pays, the amount is estimated to be about \$100 a year for an electric vehicle and a somewhat lower amount for a hybrid. The Texas Department of Transportation notes that the increased vehicle registration fee, as is done in some states, can be indexed to the cost of inflation, and that would help keep pace with the rising cost of building and maintaining the state's transportation infrastructure.