

Department of Legislative Services
Maryland General Assembly
2000 Session

FISCAL NOTE

House Bill 41 (Delegate Hubbard)

Environmental Matters

Environment - Motor Vehicle Fuel - Sulfur Content

This bill addresses the concentration of sulfur in motor vehicle fuel manufactured, sold, or offered for sale in the State after October 1, 2004.

Fiscal Summary

State Effect: Potential significant increase in State expenditures for motor fuel. No effect on motor fuel tax revenues is anticipated.

Local Effect: Potential significant increase in local government expenditures for motor fuel.

Small Business Effect: Potential meaningful impact on small business.

Analysis

Bill Summary: The bill:

- prohibits the manufacture, sale, or offer for sale of motor vehicle gasoline that contains a concentration of sulfur that is greater than 40 parts per million per gallon of gasoline after October 1, 2004;
- provides that a person is not in violation of the above prohibition as long as the person manufactures, sells, or offers for sale gasoline during any one-year period that has a sulfur content not greater than 80 parts per million per gallon and during that same one-year period has an average sulfur concentration of less than 30 parts per million per gallon;
- prohibits the manufacture, sale, or offer for sale of vehicle diesel fuel with a concentration of sulfur greater than 50 parts per million after the sooner of: (1)

- October 1, 2004; or (2) October 1 of the year that the Maryland Department of Environment (MDE) reports to the General Assembly that motor vehicle manufacturers have introduced a significant number of diesel-powered sports utility vehicles, minivans, and light trucks;
- makes the above requirements contingent upon MDE's compliance with specified provisions of the federal Clean Air Act;
 - requires MDE to adopt regulations to implement the provisions of the bill;
 - requires MDE, in consultation with the United States Environmental Protection Agency (EPA), to report to the General Assembly by January 1, 2004, on the potential benefits to air quality of establishing maximum and average allowable sulfur concentrations for gasoline that are lower than those specified in the bill; and
 - requires MDE, in consultation with the Motor Vehicle Administration, to submit an annual report to the General Assembly beginning January 1, 2002, on the transition in the motor vehicle manufacturing industry to using diesel engines in sports utility vehicles, minivans and light trucks.

Current Law: Motor fuel sold in Maryland must conform to the standards set by the EPA. The Office of the Comptroller's Motor Fuel Tax Unit is responsible for establishing and enforcing the standards for motor fuel sold in Maryland, including sulfur content.

Background: The Office of the Comptroller sets the State standards for motor vehicle fuel in accordance with the EPA guidelines. Currently, the EPA standard requires that the sulfur content of gasoline not exceed one-tenth of 1%, or 1,000 parts per million (ppm). According to the EPA, this requirement has been easily met as the industry average for sulfur in gasoline has been in the 300 ppm to 400 ppm range.

On December 21, 1999, President Clinton announced the adoption of new regulations involving sulfur reductions in gasoline. The new standards phase-in beginning in 2004. The regulations require that gasoline refined or imported in 2004 must have a sulfur content of no more than 300 ppm and an annual corporate average of no more than 120 ppm. In 2005, the cap remains the same but the corporate average is reduced to 90 ppm and a refinery average of 30 ppm is established. In 2006, the cap is reduced to 80 ppm. The regulations provide for the trading of credits and less restrictive standards for gasoline produced for sale in the West and for small refiners. EPA estimates that the cost to consumers of the new standards will be an increase in the price of gasoline of less than two cents per gallon.

State Expenditures: Under federal law, all states except California are specifically prohibited from prescribing or attempting to enforce controls or prohibitions respecting any fuel characteristic or component of a fuel if the EPA has prescribed a control or prohibition

applicable to such characteristic or component of a fuel. Federal law provides that a state may prescribe and enforce, for purposes of motor vehicle emission control, a control or prohibition respecting the use of a fuel in a motor vehicle or motor vehicle engine if an applicable implementation plan for such state so provides. Because this bill proposes more stringent requirements than the federal requirements, the Comptroller advises that MDE will have to file a revised State Implementation Plan (SIP) with the EPA, and obtain approval from the EPA in order to prescribe and enforce the standards set forth in the bill.

Assuming that a revised SIP is approved, the bill would lower the sulfur content in motor fuel to below the standard that has been certified acceptable by the EPA. In addition, the bill would set sulfur limits below those that the EPA adopted by regulation in December 1999 for fuel sold after 2004.

Most of the motor fuel sold in Maryland is not manufactured in the State but rather shipped in via pipeline. In order to sell fuel that would meet the requirements of the bill, manufacturers would likely have to produce a new type of fuel in addition to the fuel sold in other parts of the country. Furthermore, manufacturers would face the dilemma of transporting the new fuel into the State. It is unlikely that the new motor fuel could be shipped via pipeline because it would intermingle with higher sulfur content fuel along the way and therefore not meet the requirements set forth in the bill. The alternative to the pipeline would be to ship via barge, which is expensive and would likely result in substantially higher motor fuel prices for anyone purchasing motor fuel in Maryland, including Maryland residents and State and local government agencies.

The reporting and enforcement activities required by the bill could be handled with existing budgeted resources of both the Motor Fuel Tax Unit and MDE. It is assumed that MDE could revise its SIP and submit the revised SIP to the EPA using existing resources.

State Revenues: Currently, the tax rate on diesel fuel is 24.25 cents per gallon and the tax rate on gasoline is 23.5 cents per gallon. The Maryland Department of Transportation advises that the bill is not expected to significantly shift the amount of diesel fuel versus gasoline purchased. Accordingly, no effect on motor fuel tax receipts is anticipated.

Local Fiscal Effect: Local governments could pay higher motor fuel prices for fleet vehicles. The extent of any fuel cost increase cannot be reliably estimated at this time.

Small Business Effect: Small businesses and self-employed individuals could pay higher motor fuel prices for their vehicles. Some of these entities, such as taxi cab companies and delivery companies, may rely heavily on vehicle use for their businesses. Small businesses involved in the distribution and sale of motor fuel would also be impacted. However, the

extent of any fuel cost increase cannot be reliably estimated at this time. As a result, the direct impact on small businesses cannot be quantified at this time.

Additional Information

Prior Introductions: Identical legislation was introduced in the 1999 session as HB 17 and was reported unfavorably by the Environmental Matters Committee.

Cross File: None.

Information Source(s): Maryland Department of Environment, Office of the Comptroller (Motor Fuel Tax Unit), Maryland Department of Transportation, Department of Legislative Services

Fiscal Note History: First Reader - February 8, 2000
cm/jr

Analysis by: Lesley Frymier

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 946-5510
(301) 970-5510