

Department of Legislative Services
Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE

House Bill 10 (Delegate Manno)
Health and Government Operations

Oil Sands Responsibility Act

This bill bars the State from using motor fuels derived from unconventional sources, including oil and tar sands, to fuel State vehicles.

Fiscal Summary

State Effect: No effect on State expenditures or revenues, but the bill may pose implementation challenges in the future, depending on potential changes in the configuration of pipelines that supply petroleum products to the State.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: State law contains several mandates governing the use of fuel for State vehicles and equipment, but none related to the use of fuel from oil or tar sands. Since fiscal 2008, 50% of diesel-powered vehicles in the State vehicle fleet must use a blend of fuel that is at least 5% biodiesel fuel. Beginning in fiscal 2009 and in each subsequent year, at least 50% of heavy equipment owned by the State and 50% of heating equipment in State buildings must use a blend of fuel that is at least 5% biodiesel fuel, subject to availability. These mandates do not apply to any vehicle or piece of equipment whose manufacturer's warranty would be voided due to mechanical failure stemming from the use of biodiesel fuel.

Background: Oil sands are underground layers of sand embedded in heavy, tarry oil (called bitumen). Oil sands are extracted either by strip mining or by pumping steam into the ground to extract the bitumen, which is then washed to extract the oil deposits and converted to synthetic crude oil. The largest oil sands deposits are found beneath the boreal forest in Alberta, Canada, which have a proven reserve of 174 billion barrels, giving Canada the second largest oil reserves of any country in the world, with only Saudi Arabia having more. Canada produces more than one million barrels of synthetic crude oil from oil sands each day, which represents the vast majority of its oil production. By 2020, Canada's production of synthetic crude oil is expected to more than triple to 3.5 million barrels per day.

The United States imports more oil from Canada than from any other country. Each year, the United States imports about 2.5 billion barrels from Canada, representing about 10% of total U.S. oil consumption and almost 20% of all U.S. crude oil imports. About 99% of Canada's oil exports are to the United States. Overall, 95% of all energy used for transportation in the United States are petroleum products derived from conventional sources.

The boreal forest is the second largest forest system in the world and a major freshwater source, so production of synthetic crude oil from oil sands has raised significant environmental concerns. A recent study by the RAND Corporation found that life cycle emissions of carbon dioxide during the production of synthetic crude oil from oil sands is 10% to 30% higher than for conventional petroleum. It also found that extraction of bitumen causes significant disruptions to the local environment. Carbon capture technology can reduce carbon dioxide emissions to levels similar to conventional petroleum but is likely to add several dollars to the cost per barrel of synthetic crude oil.

The federal Energy Independence and Security Act of 2007 includes a provision prohibiting federal agencies from purchasing synthetic fuel unless its life cycle emissions of greenhouse gases are less than those for conventional petroleum sources.

State Fiscal Effect: According to the Comptroller's Motor Fuel Tax Office, which monitors the distribution and use of motor fuel in Maryland, the State does not purchase crude oil from Canada, so the bill has no immediate fiscal effect on the State. Synthetic crude oil produced from Canadian oil sands is primarily distributed through pipelines to midwestern and western states. Only two terminals in the State, located in Baltimore and Salisbury, receive petroleum products. The Baltimore terminal receives petroleum through the Colonial pipeline, which originates in the Gulf Coast. The Salisbury terminal previously received Canadian crude oil, which likely contained oil sands crude, but no longer does.

However, the Motor Fuel Tax Office advises that a potential expansion of the North Mid-West pipeline to the Gulf Coast could result in Maryland receiving crude oil from oil sands in the future. If that occurs, the State would have no way of segregating fuel derived from conventional and nonconventional sources. Both the Department of General Services and the Maryland Department of Transportation, which purchase the vast majority of fuel on behalf of the State, indicate that their suppliers cannot distinguish between conventional and nonconventional fuel. Thus, compliance with the provisions of this bill would be virtually impossible, or, given the high volume of Canadian oil imported into the United States, could result in limited supply of petroleum products to the State.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Board of Public Works, Department of Budget and Management, Department of General Services, Comptroller's Office, Maryland Department of Transportation, University System of Maryland, RAND Corporation, U.S. Department of Energy, Department of Legislative Services

Fiscal Note History: First Reader - January 27, 2009
mam/rhh

Analysis by: Michael C. Rubenstein

Direct Inquiries to:
(410) 946-5510
(301) 970-5510