

SUBJECT: Encouraging production and exempting taxation of renewable diesel fuel

COMMITTEE: Energy Resources — committee substitute recommended

VOTE: 9 ayes — Keffer, Crownover, Crabb, Craddick, Farabee, Gonzalez
Toureilles, Hardcastle, Rios Ybarra, Strama

0 nays

WITNESSES: For — (*On original bill:*) (*Registered, but did not testify:* Ken Hodges,
Texas Farm Bureau; Steve Perry, Chevron USA) (*On committee
substitute:*) Gerald McKenna, Neste Petroleum Inc.

Against — None

BACKGROUND: In 2003, the Texas Legislature created a producer incentive program to assist and encourage the production of bio-diesel plants in the state. This program uses definitions and guidelines provided by the Agriculture Code, ch. 16.

Biodiesel is defined as a diesel-equivalent processed fuel derived from biological sources such as vegetable oils, rendered animal fats, or renewable lipids, for use in an internal combustion engine.

DIGEST: CSHB 2582 would amend Agriculture Code, ch. 16 to include renewable diesel in the fuel ethanol and biodiesel production incentive program.

CSHB 2582 would amend Tax Code, sec. 204(a) to exempt renewable diesel from the diesel fuel tax. It also would amend the definition of biodiesel in Tax Code, sec. 162.001 and Agriculture Code, sec. 16.001 to be a motor fuel that:

- was intended for use in engines that were designed to run on conventional, petroleum-derived diesel fuels;
- was derived from agricultural products, vegetable oils, recycled greases, biomass, or animal fats or the wastes of those products or fats;
- was mono-alkyl esters of long chain fatty acids derived from vegetable oils and animal fats;

- met the requirements for fuels and fuel additives established by the United States Environmental Protection Agency (EPA); and
- met the requirements of ASTM specification D-6751.

CSHB 2582 would amend the definition of renewable diesel in Tax Code, sec. 162.001 and would add the definition to Agriculture Code, sec. 16.001 to be a motor fuel that:

- was intended for use in engines designed to run on conventional, petroleum-derived diesel fuels;
- was derived from agricultural products, vegetable oils, recycled greases, biomass, or animal fats or the wastes of those products or fats;
- was a hydrocarbon;
- met the requirements for fuels and fuel additives established by the United States Environmental Protection Agency (EPA); and
- met the requirements of ASTM specification D-975.

CSHB 2582 would amend the Agriculture Code, sec. 16.001, by changing the definition of producer and account to include renewable diesel.

The bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2009.

**SUPPORTERS
SAY:**

CSHB 2582 would promote, encourage, and recognize innovative advances in fuel technology. Advances in technology have allowed industry leaders to develop new processes to create fuels with lower emissions and many favorable characteristics. However, the current definitions of biodiesel in Texas statute do not recognize these advances in technology, thereby hindering their development and investment in Texas. This bill would conform Texas law to federal law and encourage new investment in Texas bio-fuel production.

By including renewable diesel in the production incentive program, second- and third-generation bio-fuels would qualify for Texas programs. This would enhance the market for Texas' agricultural products and further encourage economic development.

Exempting renewable diesel from the diesel fuel tax would not result in lost revenue to the state. There currently is no renewable diesel being

manufactured in Texas. This bill would bring renewable diesel to Texas and actually would be a net tax positive because of the jobs and additional tax revenue it would create.

**OPPONENTS
SAY:**

Exempting fuels from the diesel fuel tax could result in a loss of revenue to the state.

NOTES:

The committee substitute differs from the bill as filed by exempting renewable diesel from the diesel fuel tax and providing other provisions in the section of the Tax Code relating to motor fuel taxes, including definitions.

According to the fiscal note, depending on the amount of diesel fuel used by motor vehicles, there could be an indeterminable amount of revenue loss to the state.

The companion bill, SB 645 by Hegar, was left pending in the Senate Finance Committee on April 20.