

**Department of Legislative Services**  
Maryland General Assembly  
2007 Session

**FISCAL AND POLICY NOTE**  
**Revised**

Senate Bill 261  
Finance

(Senator Garagiola, *et al.*)

Economic Matters

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**Task Force on Renewable Alternative Fuels**

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This bill establishes the Task Force on Renewable Alternative Fuels, staffed by the Maryland Department of Agriculture (MDA). The task force must • study ways to integrate biodiesel and other renewable fuels into motor fuels used in State and local public fleets; • study incentives or mandates to integrate biodiesel and other renewable fuels in the private and public sector; • determine the economic and environmental impact on Maryland, including agriculture, regarding the use of biodiesel and other renewable fuels; and • examine Maryland energy policy in terms of existing sources and quantities of renewable fuels available and sources, types, and quantities of renewable alternative fuels available within three years. The task force must report its findings and recommendations to the Governor and specified committees of the General Assembly by December 31, 2007.

The bill takes effect July 1, 2007 and terminates June 30, 2008.

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**Fiscal Summary**

**State Effect:** None. Any expenses for task force activities, reimbursements for task force members, and staffing costs for MDA are assumed to be minimal and absorbable within existing budgeted resources.

**Local Effect:** None.

**Small Business Effect:** None.

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## Analysis

**Current Law:** Diesel is considered special fuel, which is defined as a product usable as fuel in an internal combustion engine that is not gasoline. Diesel is subject to a 24.25 cent per gallon motor fuel tax.

The Renewable Fuels Incentive Board may pay credits for biodiesel produced from December 31, 2007 to December 31, 2017. The credit is up to 20 cents per gallon for biodiesel made from soybean oil and 5 cents per gallon for biodiesel made from other sources. Beginning in fiscal 2008, the State must ensure that half of the diesel-powered vehicles in the State fleet use diesel fuel that consists of at least 5% biodiesel.

**Background:** According to the U.S. Energy Information Administration, in 2005, the U.S. imported 60% of its oil; this percentage is expected to increase to 66% in the year 2030. The use and production of domestically-produced renewable fuels, such as biodiesel, could help reduce the nation's dependence on foreign oil and have environmental benefits.

Biodiesel is a fuel made for diesel engines from domestically produced renewable fats and oils, such as soybean oil. Blends of 20% biodiesel with 80% petroleum diesel (B20) can be used in unmodified diesel engines. Biodiesel can be used in its pure form (B100), but may require certain engine modifications to avoid maintenance and performance problems. Pure blends of biodiesel may not be suitable for cold climates, as B100 made from soybean oil gels at 32° Fahrenheit, as opposed to 16° Fahrenheit for petroleum diesel.

Biodiesel meets the standards set by the U.S. Environmental Protection Agency (EPA) for ultra-low sulfur diesel. It burns cleaner than traditional diesel, offers significant particulate matter and hydrocarbon reductions over petroleum diesel.

According to the EPA, B20 reduces emissions of particulate matter by about 10%. However, B20 also increases nitrogen oxide emissions by approximately 2%. B100 reduces emissions of particulate matter by roughly 40%.

Biodiesel production is anticipated to grow from 30 million gallons annually to 150 million gallons annually. MDA estimates that as of February 2007, biodiesel costs \$2.70 per gallon to produce. In contrast, the American Trucking Association advised that as recently as January 2007, the New York Mercantile Exchange price (which does not include transportation costs or taxes) for ultra-low sulfur diesel was \$1.62 per gallon.

The federal Energy Policy Act of 2005 contains numerous provisions meant to encourage use of ethanol and other biofuels, including establishing an Advanced Biofuels Technologies Program to develop at least five technologies for coproducing value-added bioproducts while producing biodiesel. In addition, there is a \$1 per gallon biodiesel tax credit that is in effect until 2008.

**Additional Comments:** In November 2006, the National Biodiesel Board advised that one-third of biodiesel samples sampled between November 2005 and July 2006 were out of specifications for incomplete processing. This can affect significantly fuel quality and engine performance. The National Biodiesel Board advised that the industry has asked government agencies to adopt fuel quality standards for biodiesel and enforce them.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 660 (Delegate Cardin, *et al.*) – Economic Matters.

**Information Source(s):** Mid-Atlantic Petroleum Dealers Association, National Biodiesel Board, American Trucking Association, U.S. Environmental Protection Agency, U.S. Energy Information Administration, Comptroller's Office, Maryland Department of Agriculture, Department of Legislative Services

**Fiscal Note History:** First Reader - February 13, 2007  
ncs/hlb Revised - Clarification - February 14, 2007  
Revised - Correction - March 7, 2007  
Revised - Senate Third Reader - March 24, 2007

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