

Remarks to US Senate Committee on Energy and Natural Resources

Jim Arthurs – President, Cummins Westport Inc.

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Good morning. My name is Jim Arthurs and on behalf of my colleagues at Cummins Westport, and our parent companies Cummins Inc. and Westport Innovations, it's a pleasure to be here.

The company I represent, Cummins Westport, was formed as a joint venture between Cummins and Westport in 2001 after both companies recognized the potential of natural gas as a fuel for transportation. Cummins Westport designs, engineers and markets natural gas engines for medium and heavy-duty transportation applications such as commercial trucks and buses. Our engines are designed in Columbus, Indiana and built in Cummins engine plants in Rocky Mount, North Carolina and Jamestown, New York. Since 2001, we have delivered over 34,000 natural gas engines to customers in North America and around the world.

Today, natural gas provides about 27% of the energy used in the US, and is widely used in the commercial, industrial and residential segments. But it accounts for only a small portion -- less than 3% -- of the energy used for transportation. The main source of energy for transportation -- about 93% -- is petroleum, much of which is imported.

With domestically produced natural gas becoming an abundant, low cost source of energy for America, we have a tremendous opportunity to reduce the cost of transportation, and reduce oil imports, by shifting some of the energy used for transportation from petroleum to natural gas.

Twenty years ago, Cummins began offering natural gas engines to America's transit bus market. Early demand for these engines was driven by the desire to reduce emissions, but in recent years we have seen more transit systems switch to natural gas because of the low cost of fuel. Today, over 20 percent of new transit buses sold in America are powered by natural gas. And that number is growing.

A similar success story happened with garbage collection trucks. Our 9 liter engine was introduced into this segment in 2007. After just six years, about half of new garbage trucks sold in the US run on natural gas and, increasingly, on renewable natural gas captured from landfills and other sources.

Unlike the transit bus and garbage truck markets that together account for about 10,000 new vehicles per year, annual sales of heavy duty trucks are about a quarter of a million units – and they each use 15 to 20,000 gallons of fuel per year. So, new trucks sold each year use about 4.5 billion gallons of fuel annually and perhaps 30 to 40 billion gallons over their lifetime. Moving some of this fleet to natural gas would have a material impact on America's oil consumption and imports.

And the change is happening. Fuel providers like Clean Energy and Shell are making significant investments in fueling stations on the major interstate truck routes. In April, we at Cummins Westport started production of a new 12 liter natural gas engine for heavy duty trucks and most of America's heavy duty truck manufacturers are offering it in their trucks this year. And many of America's trucking fleets have been exploring the benefits and practicality of using natural gas trucks. The adoption of natural gas as a fuel for truck transportation is now underway.

So what are the impediments, and how can the US government help this transition? The biggest impediment is that the initial cost of natural gas trucks is higher than diesel trucks, primarily because production volumes are still low and natural gas fuel tank systems are more expensive than the simple fuel tanks used on a conventional diesel truck. The cost of natural gas trucks will come down in the future as production volumes rise and economies of scale take hold. There has been much discussion about providing incentives to offset higher costs for early adopters of natural gas trucks.

However, most of us in the industry understand that significant incentives for new natural gas trucks would be difficult in the current fiscal climate. But we do believe it is possible for the US government to remove some current disincentives for natural gas trucks.

The first disincentive relates to how liquefied natural gas is taxed. Specifically, LNG is taxed under the federal excise tax system at a rate that is 70% higher than diesel fuel on an energy equivalent basis. This means a trucker using LNG pays several thousand dollars more, every year, in fuel tax. This should be corrected.

Second, heavy duty trucks are subject to 12% federal excise tax and the additional cost of a natural gas truck is subject to this tax. Truckers that buy a natural gas truck pay anywhere from \$4,000 to over \$10,000 more excise tax than they would if they bought a diesel truck. We believe waiving or offsetting this additional tax would remove a significant disincentive to buying a natural gas fueled vehicle.

Third, natural gas fuel tanks weigh more than diesel tanks. This weight reduces the amount of paying cargo that a trucker can carry under their weight limits, meaning they get less revenue per trip than a diesel truck. Providing a modest allowance for the additional weight of natural gas fuel tanks would eliminate this disincentive. In fact, the State of Ohio recently passed just such a measure.

I believe these three actions are modest. They require no outlay of federal funds, but together they would help level the playing field, in terms of excise tax and payload, between natural gas and diesel trucks. They will also give our customers more flexibility when it comes to choosing the best fuel option for their business.

Finally, I do think it is important for Congress and the Administration to continue to fund programs like Clean Cities and increase R&D spending focused on the use of natural gas in the transportation sector. A great example is the ARPA-E MOVE program that is trying to find improved technologies for storage of natural gas on vehicles. Improving natural gas vehicle technology will benefit US consumers with better and less expensive products, and it will benefit US manufacturers as they are able to export these products

to global markets. Natural gas use in the transportation sector has come a long way but we still have a long way to go.

The US has an opportunity to reduce the cost of transportation of goods, reduce oil imports and establish global manufacturing leadership by offering modest policy support for the use of natural gas in heavy duty trucking. I urge you to consider these policy recommendations.

I look forward to our discussion. Thank you.

About Cummins Westport Inc.

Cummins Westport Inc. designs, engineers and markets spark-ignited natural gas engines for medium- and heavy-duty transportation applications such as trucks and buses. Cummins Westport is a joint venture of Cummins Inc. (NYSE: CMI), a corporation of complementary business units that design, manufacture, distribute and service engines and related technologies, including fuel systems, controls, air handling, filtration, emission solutions and electrical power generation systems, and Westport Innovations Inc. (NASDAQ: WPRT/TSX: WPT), a global leader in alternative fuel, low-emissions technologies that allow engines to operate on clean-burning fuels such as compressed natural gas (CNG), liquefied natural gas (LNG), hydrogen and biofuels such as landfill gas. www.cumminswestport.com

About Cummins

Cummins Inc., a global power leader, is a corporation of complementary business units that design, manufacture, distribute and service diesel and natural gas engines and related technologies, including fuel systems, controls, air handling, filtration, emission solutions and electrical power generation systems. Headquartered in Columbus, Indiana, (USA) Cummins currently employs approximately 46,000 people worldwide and serves customers in approximately 190 countries and territories through a network of approximately 600 company-owned and independent distributor locations and approximately 6,500 dealer locations. Cummins earned \$1.65 billion on sales of \$17.3 billion in 2012. Press releases can be found on the Web at www.cummins.com.

About Westport Innovations Inc.

Westport Innovations Inc. is a leading global supplier of proprietary solutions that allow engines to operate on clean-burning fuels such as compressed natural gas (CNG), liquefied natural gas (LNG), hydrogen, and renewable natural gas (RNG) fuels such as landfill gas and help reduce greenhouse gas emissions (GHG). Westport technology offers advanced LNG fueling systems with direct injection natural gas engine technology for heavy-duty vehicles such as highway trucks and off-road applications such as mining and rail. Cummins Westport, our joint venture with Cummins Inc., designs, engineers and markets spark-ignited natural gas engines for medium- and heavy-duty transportation applications such as trucks and buses. Westport is also one of the global leaders for natural gas and liquefied petroleum gas (LPG) fuel in passenger cars, light-duty trucks and industrial applications such as forklifts. To learn more about our business, visit westport.com, subscribe to our RSS feed, or follow us on Twitter @WestportDotCom.