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VIA ELECTRONIC FILING TO http://www.arb.ca.gov/lispub/comm/bclist.php

Clerk of the Board
Air Resources Board
1001 I Street
Sacramento, CA 95814

**Subject: Clean Vehicle Rebate Project FY 2014-15 Funding Plan**

Members of the Board:

The Alliance of Automobile Manufacturers[1] and the Association of Global Automakers, Inc.[2] (Global Automakers) appreciate the opportunity to comment on the FY2014-15 Clean Vehicle Rebate Project (CVRP) funding plan. We support and share California's goal of expanding the market share for zero emission vehicle (ZEV) technology.

California has the highest combined sales of battery electric vehicles (BEVs) and plug-in hybrid electric vehicles (PHEVs) in the United States. This is no accident – it is the combination of financial incentives at the state and local level, carpool lane access, free or reduced parking, substantial infrastructure, high population centers, an ideal climate, significant education and outreach, and highly engaged stakeholders. California's commitment to ZEV technology at every level of the California administration is unmatched in the United States, and we appreciate the leadership of ARB in developing this comprehensive program to support ZEV technology.

Over the last several months, we have worked with staff on the proposed CVRP funding plan, and we support many of the proposed recommendations. However, we recommend alternatives in several areas that we believe will enhance the CVRP and avoid disruptions to the nascent and fragile ZEV market. In fact, ZEVs have been commercially available for only about three years, and while the market is growing, BEVs and PHEVs combined still represent just over two percent of the new vehicle market in California. Plus, fuel cell vehicles (FCVs) are just now entering the market and will need ongoing support as a new ZEV technology. In short, the

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[1] Alliance members include BMW, Chrysler, Ford, General Motors, Jaguar Land Rover, Mazda, Mercedes-Benz, Mitsubishi, Porsche, Toyota, Volkswagen, and Volvo. Please visit www.autoalliance.org for further information.

[2] Global Automakers' members include Aston Martin, Ferrari, Honda, Hyundai, Isuzu, Kia, Maserati, McLaren, Nissan, Subaru, Suzuki, and Toyota. Please visit www.globalautomakers.org for further information.

market for ZEVs is not yet self-sustaining and will need California's continued support for growth to be maintained.[3]

As discussed in greater depth below, this letter recommends the following alternatives to the staff's proposal:

1. **Maintain the current rebate amount, but add a contingency to adjust the rebate amount no later than December, 2014, based on updated rebate projections.**

2. **Eliminate the contingency measure that would allow the Executive Officer to reduce or eliminate rebates for certain PHEVs.**

3. **Eliminate the two per lifetime cap on rebates.**

4. **Raise the threshold for re-evaluating the need for rebates to 150,000 for PHEVs.**

The members of the Alliance and Global Automakers are committed to ZEV technology. Within the next year, a total of 23 BEVs and PHEVs will be on the market, and three major automakers have announced commercial launches of FCVs in 2015. These vehicles represent tens of billions of dollars in research, development, production, and promotion.

As the ARB staff identifies, the demand for CVRP rebates continues to grow. This rapid increase in demand for rebates is a direct result of a significant number of new ZEV models and large price and lease rate reductions on these vehicles over the past few years.

ARB estimates the 2016 incremental cost of a BEV or PHEV is between $13,000 and $24,000 compared to a similar conventional gasoline vehicle and between $19,000 and $34,000 for a FCV[4]. Balancing this reality with our shared goal of increasing the number of ZEVs on California roads has led auto manufacturers to develop competitive price and lease options for these BEVs and PHEVs that influence consumer choice when taking into account the current level of available state and federal rebates. For example, monthly leases for BEVs and PHEVs range from $99 to $299, with zero or near-zero down when the CVRP is considered.

With this in mind, we offer the following recommendations to the staff's proposed FY2014-15 CVRP Funding plan:

1. **Maintain the current rebate amount, but add a contingency to adjust the rebate amount no later than December, 2014, based on updated rebate projections.**

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[3] California's ZEV program mandates significant increases in ZEV volumes starting with 2018. The CVRP remains an important incentive to enhance and encourage ZEV sales, and we expect the CVRP, along with other incentives, will continue to be needed for the foreseeable future.

[4] See ARB Initial Statement of Reasons (ISOR), "Advanced Clean Cars, 2012 Proposed Amendments to the California Zero Emission Vehicle Program Regulations," page 60, Table 5.4, "Incremental technology package prices above average MY2016 baseline technology (2009)". http://www.arb.ca.gov/regact/2012/zev2012/zevisor.pdf.

We understand and appreciate that budgetary restrictions might require a reduction in the rebate amount and further, that at some point, rebates will no longer be necessary. However, lowering the BEV and PHEV rebate amounts now could disrupt the market, which is still in the early stages of technology introduction, and negatively affect sales. Moreover, at this time, we do not believe it is clear that reductions will be necessary in FY2014-15. We expect ZEV market growth, but not at the same rate as the last two years for the following reasons:

a. <u>New Model Introductions</u>: Unlike the past few years, new BEV and PHEV models in the coming year will enter a very competitive market with a significant number of comparable models. For example, just two years ago, a new BEV entering the market faced only two competitors (Nissan Leaf and Mitsubishi iMiEV). Today, 10 BEVs are available in California: Nissan Leaf, Mitsubishi iMiEV, BMW i3, Chevy Spark EV, Fiat 500e, Ford Focus Electric, Honda Fit EV, Smart EV, Tesla Model S, and Toyota RAV 4 EV. The same is true in the PHEV market, where two models were available in May, 2012, compared to seven models today.

   The effect of the increase in number of models offered is that new models may lower sales of other, similar ZEV models rather than generate new ZEV sales. We expect ZEV sales to increase as new models are introduced, just at a lower rate.

b. <u>Price Stability</u>: The past few years have seen dramatic reductions in the retail price and lease rate of ZEV vehicles. For example, some lease rates have dropped almost 50 percent. (These price and lease-rate reductions do not necessarily represent reductions in the cost of ZEV technology but more likely reflect marketing efforts to incentivize sales.) As lease rates dropped, ZEVs became affordable to a greater and greater number of new car buyers. As noted earlier, monthly leases for BEVs and PHEVs range from $99 to $299, with zero or near-zero down when the CVRP is considered. These lease rates are well within the price range of virtually every new car buyer.

   While it is possible prices might be further reduced, the past year has seen relatively stable prices. We are unaware of any reasons to believe that further price reductions would drive sales growth as they did over the last couple of years.

We believe the factors above will combine to slow the growth rate of ZEV sales, and thus, the increase in CVRP rebate demand in the coming year. The proposed $121 million FY2014-15 CVRP budget represents a 30 percent increase over the current year budget and is at the low end of staff's projection. We believe this amount may accommodate the demand for rebates in the next year without modifying the rebate amount.

However, in case ZEV growth exceeds our expectations, we recommend that the staff monitor rebates on a monthly basis, and the Executive Officer recommend changes to the Board no later than December, 2014, if it appears the CVRP will be oversubscribed. If necessary, this would allow CVRP rebate adjustments on January 1, 2015, when it would be transparent to customers and dealers, since this is a typical date for program changes.

We support granting the Executive Officer authority to establish a waiting list. Providing this authority allows the Executive Officer to consider other factors, such as the availability of additional funding, to prevent market disruptions.

Finally, Alliance and Global Automakers support ARB's plan to offer rebates of $5,000 for FCVs. FCVs are still in the earliest phase of commercialization, and there are only a limited number of models currently offered, with a couple more models expected in 2015. As noted above, the 2016 incremental cost of a FCV is between $19,000 and $34,000. It is appropriate to offer a rebate of $5,000, which as ARB recognizes, is "consistent with the rebate levels offered to BEVs when these vehicles were in that same stage of commercialization."[5]

2. **Eliminate the contingency measure that would allow the Executive Officer to reduce or eliminate rebates for certain plug-in hybrid electric vehicles (PHEVs).**

We do not support the contingency that would allow the Executive Officer to reduce or eliminate rebates for some PHEVs. Such decisions have significant impact on consumers, automakers, and the market in general and should be the subject of public debate including a discussion and decision by the Board.

The current CVRP uses the definitions from the ZEV regulations because vehicles that qualify as ZEVs increase the electric miles driven, reduce greenhouse gas and criteria pollutant emissions, and generally support the goals shared by automakers and ARB alike. The cost of bringing a new advanced technology vehicle to market likely exceeds a billion dollars. It would be inappropriate, and unfair, to reduce or eliminate a very important incentive from vehicles based on one attribute and without a public discussion and Board decision.

3. **Eliminate the two per lifetime cap on rebates.**

The proposed funding plan would place a lifetime cap of two rebates per individual. Every ZEV purchased or leased increases the number of ZEVs in California and thus adds to the electric miles traveled. In short, every ZEV placed in service is one step further toward the goal of increased ZEV market penetration. Consumers purchasing their second, third, or fourth ZEV are among the most enthusiastic ZEV owners. At this stage in the ZEV market, these are the ZEV ambassadors and should be rewarded, not penalized, for their interest in and loyalty to these advanced technologies. By encouraging ZEV ambassadors to move on the latest technology, eliminating the cap should support the development of the secondary market for these vehicles. In combination with the well thought-out light-duty pilot projects, we believe this is consistent with development of disadvantaged communities and other underserved markets.

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[5] See ARB "Proposed Fiscal Year 2014-15 Funding Plan for the Air Quality Improvement Program and Low Carbon Transportation Greenhouse Gas Reduction Fund Investments", page 38.
http://www.arb.ca.gov/msprog/aqip/fundplan/fy1415_funding_plan_aqip_ggrf_final.pdf.

In addition, the cap may present a challenge to ZEV owners whose lifestyle or business needs change over time. The vehicle needs for a family may change when new children are born, or a business owner using a ZEV may have to change vehicle types as his or her business expands. As newer ZEVs enter the market, additional vehicle types may become available which may present more appropriate features for ZEV owners to consider beyond what may have been previously available. This could include delivery vans, larger sedans, SUVs, etc. In addition, customers may be attracted to new features such as active safety technologies, vehicle-to-vehicle communication, wireless charging or updated infotainment options which may have also previously been unavailable. Customers who find themselves restricted under a cap may feel inhibited in taking advantage of the newer vehicle types or technologies.

We recommend eliminating the lifetime cap on rebates at this time.

4. **Raise the threshold for re-evaluating the need for rebates to 150,000 for PHEVs.**

The Long Term Plan section of the proposed funding plan includes the following:

> "When advanced clean cars represent around 5 percent of total new passenger car sales in California, they begin to shift out of the early adopter market (1-2 percent of sales) and fast-follower (2-5 percent of sales) market segment. Once the advanced car market reaches beyond the fast-follower market, vehicle prices may be reduced enough where CVRP rebates may not be necessary, although additional research in this area is suggested below."[6]

We agree that once ZEVs reach five (5) percent of the total light-duty vehicle market, they begin leaving the "early adopter" and "fast-follower" phases. However, in 2013, BEVs and PHEVs each represented about 1.25 percent of the new vehicle market. Sales will need to quadruple for either BEVs or PHEVs to reach the 5 percent level. The proposed funding plan equates 5 percent market share to issuing CVRP rebates to a total of 150,000 FCVs, 150,000 BEVs, and 75,000 PHEVs over multiple years. The total number of vehicles sold over multiple years is not the same as market share. For example, if 15,000 BEVs are sold each year, the 150,000 rebate threshold will be reached in 10 years; however, BEVs would represent less than 1 percent of the market, far below the 5 percent threshold. It is unclear when we will reach 5 percent market share for any of these three technologies, and as a result, it is also not clear how these numbers were calculated in relation to obtaining 5 percent of the market.

Nonetheless, the threshold for PHEVs should be the same as the threshold for BEVs and FCVs. According to ARB's latest cost estimate,[7] the cost of PHEVs is almost identical to that of BEVs in 2016 (in some vehicle categories PHEVs are slightly more expensive, in others

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[6] *Ibid.* page 40.

[7] See ARB Initial Statement of Reasons (ISOR), "Advanced Clean Cars, 2012 Proposed Amendments to the California Zero Emission Vehicle Program Regulations," page 60, Table 5.4, "Incremental technology package prices above average MY2016 baseline technology (2009)". http://www.arb.ca.gov/regact/2012/zev2012/zevisor.pdf.

slightly less) primarily because the key cost driver for both BEVs and PHEVs is the battery. Consequently, there's no reason to believe the vehicle prices associated with PHEVs will behave differently from prices associated with BEVs, or that the two technologies should have different thresholds for evaluating the need for incentives.

We support and will participate in the review to determine if the CVRP incentives are still needed for PHEVs and BEVs; however, the threshold for both BEVs and PHEVs should be identical.

The Alliance and Global Automakers have and will continue to advocate for increased CVRP funding in the legislature and within the Administration. Additionally, we believe that future Cap and Trade revenues are both an appropriate and ample source of funding for this program and look forward to engaging in future administrative and legislative processes to allocate those funds.

In closing, we appreciate staff's hard work over the last few years, and ARB's support and commitment to the CVRP. We look forward to working with you to ensure its continued success.

Sincerely,

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