Union of Concerned Scientists
Citizens and Scientists for Environmental Solutions

July 22, 2013

Chairman Mary Nichols and Board Members
California Air Resources Board
Headquarters Building
1001 I Street
Sacramento, CA 95814

Re: Comments on the AB118 Air Quality Improvement Program funding plan for FY13-14

Dear Chairman Nichols and Members of the Board,

The Union of Concerned Scientists supports the efforts of the Air Resources Board to enable investment in technology advancing projects while also providing immediate emissions reductions through the Air Quality Improvement Program (AQIP). The AQIP program has been successful in stimulating the adoption of low and zero-tailpipe emission cars and trucks. The adoption of these cleaner vehicles provides direct improvements to air quality and reduces emissions and also increases consumer awareness, provides market certainty, and complements California's alternative fueling infrastructure investments.

One particularly successful AQIP program is the Clean Vehicle Rebate Program (CVRP). This program has provided incentives for over 22,000 plug-in and hydrogen electric vehicles over the last 3 years. Because of the CVRP, we now have thousands of drivers that are producing no tailpipe emissions as they drive their vehicles in California. The demand for electric vehicles is also encouraging manufacturers to increase the number of electrified vehicles available, and 12 models of plug-in vehicles are now available at California car dealerships, with more models coming soon. The incentives for larger vehicles like medium and heavy-duty trucks have also been successful, with over 1,500 hybrid and electric vehicles purchased with the help of the Hybrid and Zero Emission Truck and Bus Voucher Incentive Project.

Although the AQIP programs have been successful, there is still a continuing need for incentives at this early stage of the electric vehicle market. Ending support prematurely could slow or even reverse the positive trends in electric vehicle sales and acceptance. While state incentives are smaller in magnitude than the federal tax credit, they play an important role in the financial attractiveness of an electric vehicle purchase. A recent study by the Electric Power Research Institute shows that California incentives can significantly change the total cost of vehicle ownership and the payback period for an electric vehicle as compared to a conventional gasoline

car.[1] Because of the importance of the AQIP program and the limited funding available, UCS is making several recommendations to ensure the viability and success of AQIP.

Multi-year planning for incentive programs such as CVRP is needed

The current planning process for CVRP is on an annual basis and this process has struggled to keep pace with the rapidly changing demand for electric vehicles. ARB staff has identified the need for a long-term plan for light-duty clean vehicle incentives. We agree with this assessment, and urge ARB to develop and adopt a multi-year plan for AQIP incentive programs.

In order to have a stable CVRP program, the total program cost will need to match allocated program funding. The most straightforward approach would be to have volumetric targets for clean vehicle sales and incentives that are lowered as the targets are met. This approach would help level the costs of the CVRP program, as increased CVRP demand would lower the rebate amount. Setting long-term targets and coordinating reductions in incentive amounts would give certainty to buyers and sellers of electric vehicles. This approach is similar to other successful incentive programs, such as the California Solar Initiative.

Increasing CVRP funding to support current rebate levels is the best option

The funding of incentives at the current levels for the next fiscal year is the best way to ensure continued progress of the EV market in California. Additional funding will be required beyond the CVRP allocation and likely above the total AQIP funding level. Incentives are very important to payback period at current vehicle prices, so every effort should be made to find funding for CVRP at the current rebate levels of $2500 and $1500 for BEVs and PHEVs respectively. Based on current sales rates, this option would require $40-$60 million dollars for FY13-14, requiring up to $45 million additional funds over the $15 million currently allocated.

If additional funding is not secured, the CVRP rebate amounts should be reduced in future years.

If additional funding is not identified, UCS recommends decreasing the rebate amounts to a level that would allow the program to be functional for the full fiscal year. By decreasing the amount, the CVRP program will increase the number of rebates that can be given out and a larger number of purchasers will receive a clean vehicle incentive. Having the CRVP program operational for 12

[1] "Total Cost of Ownership Model for Current Plug-In Electric Vehicles," Electric Power Research Institute, June 2013.

months will allow all electric vehicle manufacturers and buyers to receive assistance, regardless of the time of year when the sale takes place. Without this change, new models that are introduced in the late fall and spring will not be supported by the CVRP incentives.

The CVRP program has used $28M and given over 14,000 rebates during the 2012-2013 fiscal year (through May), and is currently receiving rebate applications at a rate of $1 million per week. If electric vehicle adoption is assumed to grow in FY13-14, ARB should conservatively plan for 25,000 CVRP applications during the year. At a funding rate of $15M per year, the average rebate would have to be reduced to an average amount of $600. If however CVRP was funded at a rate of $30 million per year, similar to this year, the average rebate could be set at $1,200.

Other recommendations for program improvements:

A. **ARB should consider allocating funds for additional outreach in areas that currently have low existing CVRP participation rates.** The current CVRP statistics show that there are areas of California that are underrepresented in the program. The addition of local incentives, like the additional credit in the San Joaquin Valley, is a useful policy. However, ARB should investigate opportunities to increase awareness of the CVRP program through outreach efforts, targeted in areas that have historically low CVRP participation rates, either by air quality district or by ZIP code. Outreach could be directly targeted to consumers or to the automotive dealerships to publicize CVRP incentive availability.

B. **ARB should consider providing vouchers or pre-purchase applications, instead of post-purchase rebates.** If program funds are insufficient and there is not a wait list (as is currently planned), the current post-purchase rebate program could result in disappointed consumers and reduce consumer interest and acceptance of EVs and clean vehicle programs.
   In addition, a pre-purchase application process could allow ARB to have multiple rebate levels (depending on vehicle model, applicant's location, or other factors). There has been concern that increasing the number of rebate levels would be confusing to consumers. However, a pre-purchase application process would allow the program administrator to inform the consumer of the actual rebate amount prior to purchase.

C. **ARB should incorporate a separate class of CVRP support for fuel cell electric vehicles.** Fuel cell electric vehicles are a critical part of California's long-term air quality and emissions goals. This technology should receive similar support as the initial plug-in electric vehicles incentives ($5,000). A higher level of support is warranted, as the initial fuel cell electric vehicles will likely have higher purchase prices (as compared to conventional cars). Based on manufacturers' stated production plans, few fuel cell electric vehicles will apply for FY13-14 CVRP funds, and so this provision would have minimal impact on the short-term financial viability of CVRP. However, setting a higher rebate

amount now will signal ARB's support for future fuel cell electric incentives to vehicle manufacturers and early adopters of fuel cell vehicles.

D. **ARB should evaluate options for increasing electric vehicle purchases by car sharing and rental car operations in California to increase consumer access to the technology.** Car sharing programs can create consumer awareness without a large financial commitment from the consumer, and increasing the number of drivers who have experience with an electric vehicle can help build market acceptance for plug-in vehicles. Rental and sharing programs can also help expand the electric vehicle experience beyond new car buyers.

Conclusion

ARB has developed successful programs that are improving air quality and reducing emissions through the support of cleaner vehicles. Programs like the CVRP are still needed to incentivize the transition to cleaner transportation options. In order to continue the effectiveness of these programs, ARB needs to make long-term plans for these programs. A key component of these plans should include a defined transition to lower incentive levels as cleaner technologies become less expensive and widely adopted.

David Reichmuth
Senior Engineer, Clean Vehicles Program
Union of Concerned Scientists

Don Anair
Deputy Director, Clean Vehicles Program
Union of Concerned Scientists