Eo 5-23 Lori A.

5-16-07

Governor Arnold Schwarzenegger
California Air Resources Board
State Capitol
Sacramento, CA 95814

Dear Governor Schwarzenegger
Members of the California State Legislature or CARB:

As our elected Governor, your responsibility to the people of California is tremendous. When you took office, California was in serious need of an honest, hardworking, no bull kind of leader. I am proud to say I voted for you and have never regretted it. You have made good, practical decisions on budget cutbacks and issues. During each of your campaigns you were very vocal about making California a better place for companies to do business. You know that with the rising cost of insurance and workman's compensation, companies have been and will continue to leave California. This is a huge financial loss in tax dollars that other states, or countries, will benefit from.

Another major problem California has is the proposed regulations the California Air Resources Board (CARB) is currently considering for the off-road heavy equipment industry. If this regulation is implemented in its current drafted form, it would have a devastating impact on the construction and equipment rental throughout California. On May 25, 2007 these regulations will be proposed to the board for consideration. The proposed regulations submitted by the staff of Air Resources Board would put many construction and heavy equipment rental companies out of business and chase even more companies out of California.

Our company is comprised of heavy equipment that is rented for local jobsite use or purchased by our customers. We have been a family business since 1965 and have maintained unique qualities that smaller family businesses can provide for their customers and employees. We have grown slowly over the years to absorb the expensive costs of equipment in an extremely competitive, fluctuating market. The construction market has been slow for about ten months and is projected to stay in a down turn for another eighteen months. Our company and many other construction, equipment rental companies are just getting by in the current downward construction market.

Under the new proposed regulations our fleet fits into the large category. The average age of our fleet is 1996.6 and total horsepower is 9690. If these new regulations are approved in 2010 we would be required to re-power four machines and retrofit seven machines. We had Hawthorne Machinery, our Caterpillar dealership, quote us the cost of re-powers and retrofits for our fleet. The total cost of the re-powers is $640,000 making them a Tier 3 engine replacement. A cost for the Verified Diesel Emission Control System (VDECS) is $140,000 ($20,000 per machine). The total cost for the first year is $780,000 to achieve compliance with the proposed regulations. It would take six years to finish the retrofits (VDECS) on our machines at a total cost of $820,000 including the

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first year. The total cost for re-powers from our tier 0 machines to tier III machines after six years would be a minimum of $1,440,000. For our fleet to meet the requirements of this regulation we would spend $2,260,000 for the first six years and still have four more years left until the final compliance date. The cost per horsepower for our fleet is $233 for the first six years. The staff report contains tables Vll-1 and Vll-2 on page 41. Vll-1 table shows an expected total cost for the regulation, our fleet fits into the second category with an average age of ten years old. The expected total cost from the staff report for our fleet would be $115 per horsepower. The realistic cost for our fleet is $233 per horsepower for just the first six years. Table Vll-2 shows an expected annual cost of $89,000 a year for a fleet just like ours. Our actual cost would be $376,666 a year. The costs for adding new equipment would more than double our current costs. We would be forced to purchase new equipment instead of fairly new used equipment. This would create a negative income on our rentals because the rental rates won't cover the payments based on industry standards and competitive pricing.

We know about the Carl Moyer Funds program, but cannot use it because of certain restrictions. If we used the Carl Moyer program, we couldn't sell our equipment to another District without paying heavy fines and penalties. We have re-powered four machines from tier 0 to tier 1 in our fleet. We wanted to make these machines tier 3 but Caterpillar hasn't developed a solution for these machines. These re-powers and any in the future would be paid without help from a funds program. For our sales in the equipment industry we need to provide quality tractors with no restrictions to our customers.

Reduction of PM and NOx is necessary for our environment. The staff that prepared these regulations consistently under-estimated the actual costs for fleet owners. This was evident on our fleet when the actual costs would be 100% more per horsepower than the staff reports estimation. On page 39, the proposed regulations estimated the total cumulative cost between 2009 and 2030 to be $3.0 to $3.4 billion. The construction industry estimates this cost to be $9 to $11 billion. We realize the staff has spent a lot of time and money developing this report, but with regulations this important the economic impacts written should be accurate. It's wrong to present this report to the CARB for approval with a statewide cost estimate that's at least $6 billion off. It's unscrupulous to underestimate the economic impact of a regulation on an industry by 200% and still present this for approval by the board. If this regulation is approved in its current form, many good companies will go out of business or leave California. Some people would say, "good; less people less crowded and less smog." A good leader would not allow this to happen, but instead, would approve practical regulations, allow time for manufacturing technology advances to fulfill our environmental needs, propose realistic financial environmental responsibilities to the construction and equipment industry.

With these proposed regulations, our company will not survive after 42 years of business in San Diego. We all know that changes are needed to help our environment and the off-road equipment should be regulated to make a difference. Starting the regulation in 2015 for large fleets would allow manufactures to have tier 4 available, more time for engine re-power solutions and newer used equipment would be available for affordable pricing.

Currently Caterpillar has tier 3 re-power solutions for less than 10% of the equipment fleets. If CARB would lower the fleet regulations to 10% retrofits to meet the PM requirements, 5% re-powers to meet the NOx requirements, and correctly project financial economic impacts, our company, the construction and equipment rental industry could adequately absorb these costs and fulfill the requirements for environmental improvements.

Thank You

Jeep Tharp
Equipment Superintendent