Honda Comments on the
2012 ZEV Revisions – 15 - Day Notice

Thank you for the opportunity to comment on the Revisions posted as "**Attachment A**: Proposed 15 Day Regulation Order."

1. Regarding the Optional §177 State Compliance Trading and Transferring (Page A-9, A-10, A-21, A-22)

   > "Manufacturers may trade or transfer specified model year ZEV credits, used to meet the same model year requirements in subdivision 1962.1(d)(5)(E)3.c, within the West Region pool, and will incur no premium on their credit values. For example, for a manufacturer to make up a 2016 model year shortfall of 100 credits in State X, the manufacturer may transfer 100 (2016 model year) ZEV credits from State Y, within the West Region pool."

   The highlighted language implies that a manufacturer can only meet a specified MY requirement with the same model year credit. However, the agreement between the LVMs and the §177 States is to freely allow transfers (and trading with a penalty) from states with banked credits to states with obligations. This Optional Compliance Path is based on an agreement between the LVMs and the §177 States. The agreement says that transferring and trading within the pools could not start until MY2015 for TZEVs and MY2016 for ZEVs, however, there is no constraint that the credits traded could not be from prior years. Indeed, the framework agreement (attached, key sections highlighted) shows that we anticipated ZEV credits would come from as early as MY2012; and MY2012 was specified only because MY11 ZEV credits are downgraded to TZEV within two years. Honda believes that the clear intent is to enable LVMs with excess credits banked in one state, regardless of how or when those credits were obtained to utilize those credits in other states where there is an obligation.

2. Regarding the sales reporting requirements (Page A-11, Section 1962.1(d)(5)(E)3.d.iii and Page A-22, Section 1962.2(d)(5)(E)2.b.ii). VINs should not be required for TZEVs because these vehicles do not have a placed-in-service requirement. We recognize that §177 States want to track activity in their states. OEMs will be submitting reports about actual state sales, however, OEMs should only be required to report VIN-level, placed-in-service information **only** for ZEV vehicles that travel.

   iii. Make, model, ~~vehicle identification number,~~ credit earned, and section 177 state where delivery for sale of each TZEV occurred ~~and section 177 state where delivery for sale and placement in service of each ZEV occurred~~ to meet manufacturer's requirements under subdivision 1962.1(d)(5)(E)3.c.

   ii. Make, model, ~~vehicle identification number,~~ credit earned, and section 177 state where delivery for sale of each TZEV and ZEV occurred ~~and~~ to meet manufacturer's requirements under subdivision 1962.2(d)(5)(E)2.a.

3. Regarding the failure to meet certain obligations in MY2018 – MY2021 (page A-23, Section 1962.2(d)(5)(E)2.c). This proposed part of the regulation is too severe a constraint on the OEM. Honda believes the clear intent of the §177 States/LVM agreement was to have a rather severe penalty for not achieving the **increased** ZEV volumes of MY16 and MY17. That severe penalty is the loss of all benefits of the optional compliance path, and reversion to the basic compliance obligations. In later years (MY18 – MY21), the **decreased** volumes should have the same penalties as the underlying regulation. Imagine an OEM who has met all of the **increased** obligations in MY16 and MY17, and taken advantage of the decreased obligations in other model years. Imagine an OEM that met or exceeded the **increased** requirements of the optional path in MY16 and MY17, and took advantage of the **decreased** obligations in Model Years '18, '19 and '20, but in the last year, MY '20, fell just short of the ZEV goal. This OEM would be required to go back to MY15, six years earlier, and recalculate all their obligations as if they had never been on the optional path. This is too severe and will deter most LVMs from participating in this option.

Thank you for the opportunity to comment on these very important rule modifcations.

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Final Joint LVM / Section 177 States Proposal

January 23, 2012

Background:

- Current CARB Staff proposal (December 7th ZEV ISOR):
  - Extends travel for BEVs through 2017
  - Aggressively ramps up volumetric requirements for BEVs and TZEVs between 2017 and 2018
- Section 177 states would like to:
  - Start to grow the BEV markets in their states/region prior to 2018
  - Provide for a steady growth of the BEV market
- LVM's would like to:
  - Reduce the overall volumes of BEVs and TZEVs
  - Enable pooling within key regions to simplify compliance

Principles

Except for the changes described below, all other provisions of the proposed CA ZEV regulations would continue to apply.

- This proposal is conceived as an Optional Compliance Path, which OEMs may choose to follow *in toto* instead of the CARB Staff Proposal. OEMs may not pick and choose pieces of this alternative approach.
  - The deadline for OEMs to opt in to this Optional Compliance Path is September 1, 2014.
  - After September 1, 2014, an OEM that has opted in shall be committed to complying with this Optional Compliance Path through MY 2021.
  - After September 1, 2014, an OEM that has not opted in this Optional Compliance Path must comply with the base path (the CARB Staff Proposal) and is precluded from later switching to the Optional Compliance Path.
- This proposal does not affect a participating OEM's obligations in CA; only their obligations in Section 177 States are affected as depicted in the tables below:

	2015	2016	2017	2018	2019	2020	2021

ZEVs	Existing Minimum ZEV Requirement (% of sales in the applicable state or region)	3.00%	3.00%	3.00%	2.00%	4.00%	6.00%	8.00%
	177-state Adjustment for Optional Compliance Path	**0.00%**	**25%**	**50%**	**62.5%**	**75%**	**87.5%**	100%
	Minimum 177-State ZEV Requirement (% of sales in the applicable region)	**0.00%**	**0.75%***	**1.50%***	**1.25%**	**3.00%**	**5.25%**	8.00%

*The 2016 and 2017 requirements are *in addition* to the existing 3% obligation that may be met with "traveled" ZEV credits.

		2015	2016	2017	2018	2019	2020	2021
TZEVs	Existing Optional TZEV Requirement (% of sales in the applicable state or region)	3.00%	3.00%	3.00%	2.50%	3.00%	3.50%	4.00%
	177-state Adjustment for Optional Compliance Path	**75.00%**	**80.00%**	**85.00%**	**90.00%**	100%	100%	100%
	New 177-state Optional TZEV Requirement (% of sales in the applicable region)	**2.25%**	**2.40%**	**2.55%**	**2.25%**	3.00%	3.50%	4.00%

- AT-PZEV and PZEV requirements in Section 177 States are not affected by this proposal.
- Under this optional compliance path, there is an increased obligation to place BEVs in Section 177 States in MY 2016 and 2017, which is in addition to the OEM's existing obligations. For example:
    - Under the Staff Proposal, an OEM that is obligated to provide 100 BEVs may place 100 BEVs anywhere (CA or Section 177 States) and "travel" the credits, meaning that the credits for each vehicle are allowed to be counted as if the vehicle was sold in CA, and also as if it were sold in each state with whatever sales fraction of CA is represented by the share of that state's sales and CA sales.
    - As under the Staff Proposal, the 100 BEVs required in CA would be "proportionately required in each state.
    - The increased BEV obligation in Section 177 States in MY 2016 (25%) and MY 2017 (50%) is in addition to the aforementioned credits (i.e., 100% of CA's credit obligation plus 25% of the Section 177 obligations in MY 2016).
- Under this proposal, TZEVs shall not qualify for travel credits and BEVs shall not qualify for travel credits after MY 2017.
- The increased BEV obligation in Section 177 States in MY 2016 (25%) and MY 2017 (50%) cannot be met with traveled credits.

- Credits from vehicles used to meet these increased BEV obligations cannot travel.
- OEMs can meet the increased BEV obligations in Section 177 States with non-traveled ZEV credits carried forward from model years 2012 – 2016. This is consistent with CARB's underlying regulation wherein an OEM, if they have the option of traveling a credit, may choose to keep the full credit where the vehicle was originally placed.
- Under this proposal, no carry-back of credits from MY2018 and beyond is allowed for meeting the increased BEV obligations in Section 177 states.
- After the increased BEV obligation in Section 177 States is met, additional sales of BEVs may earn travel through MY 2017.
- Pooling:
    - Two compliance pools will be created outside of CA: an East Region (including: CT, ME, MD, MA, RI, NJ, NY, and VT) and a West Region (Including: OR).
    - Section 177 States shall allow pooling of TZEV credits starting in MY 2015 and BEV credits starting in MY 2016.
    - No pooling is allowed for AT-PZEVs or PZEVs.
    - Trading between the East and West pools is allowed at a 30% premium. For example, a manufacturer can earn 100 credits in the Western pool by placing vehicles worth 130 credits in Eastern pool. In this example, the 130 credits traded for compliance in the Western pool could not be used for compliance in the Eastern pool.
- BEV and TZEV pooling is available only to those manufacturers that choose the Optional Compliance Path.
- The states intend that this Optional Compliance Path be available to Large Volume Manufacturers (LVMs), and can also be made available to Intermediate Volume Manufacturers (IVMs), subject to all of the principles stated herein. All parties reserve the right to reevaluate this proposal and/or any subsequent agreement in the event of other significant changes to California's proposed regulation, including changes to CA volume requirements.

It is anticipated that the affected parties will either be silent or supportive of CARB Staff's modifications to the proposal to implement this agreement.