



January 24, 2012

Clerk of the Board  
California Air Resource Board  
1001 I Street  
Sacramento, CA 95812

**RE: Comments on the Proposed 2012 Amendments to California's Advanced Clean Cars, Zero Emission Vehicle Regulations**

Dear Chairman Nichols, Members of the Board and Staff:

[1] CODA Holdings, Inc. ("CODA" or "the Company") is pleased to have the opportunity to comment on the December 7, 2011 proposed amendments to the Zero Emissions Vehicle (ZEV) regulations submitted by the California Air Resources Board (CARB) staff. CODA believes the proposed amendments will have a substantial impact on our business and our home state of California, and are critically important to an intensive, state-wide effort to meet long-term air quality, climate change and other challenges we face as one of the world's largest economies and vehicle markets. Additionally, CODA believes that the ZEV regulations play a critical role in a national effort to secure the safety of our economy by reducing dependence on fossil fuels.

[2] Although we support the proposed amendments in concept, and applaud the staff for its efforts, we believe that the program can be further strengthened, with slight modifications, to ensure that the best interests of California residents and businesses are considered.

**[3] CODA Proposed Amendments**

- 1. Maintain Carry Forward Provision For Lower Tier Credits**
- 2. Eliminate or Cap the Federal Over-compliance Pathway**
- 3. Expand Current or Develop Third-Party ZEV Credit Market**

**[4] CODA Proposed Amendments (in detail)**

- 1. Maintain Carry Forward Provision for Lower Tier Credits**

CODA agrees, in concept, with Staff's justification to remove the carry forward provision: it would incentivize investment near-term, which is critical if the industry is to take off as needed. *However, CODA proposes that (i) the carry-forward provisions be revised to incentivize only "cleaner" and "newer" technologies, such as pure ZEVs, while (ii) the existing limitations in the carry-forward provisions remain in place for older, less*

**advanced technologies with lower tier credits, i.e. SULEV, NEV, PZEV to allow the lower value credits to expire in accordance with current rules.** The rules should be revised to encourage new clean technology innovations, such as pure ZEVs, to be brought to market. The cost of developing such technologies is extremely high, and the ZEV program should be designed to facilitate new innovations, rather than provide OEMs with a “crutch” to delay making future changes. As is evident by the large sums of banked lower tier credits manufacturers currently obtain, the level of investment needed to develop and commercialize these vehicles was and is substantially lower than pure ZEVs. If the carry forward provision is removed across the board, as currently proposed, the ZEV mandate in the near-term model years would be substantially weakened or nullified, and related investment and progression will slow down. It is important that the ARB provide regulatory certainty for companies, like CODA, who have invested in new technologies based, in part, in good faith that existing rules would remain substantially intact.

## **2. Eliminate or Cap the Federal Over-compliance Pathway**

CODA opposes the Federal over-compliance pathway as we believe the costs of advanced technology are grossly overstated, and most automakers will exceed the federal GHG mandate relatively easily. Just last week, for example, the press reported that one automaker already complies with the Federal 2016 rules. CODA proposes that the Federal over-compliance pathway be eliminated, or at the very least capped in such a way that the ZEV program would continue to be effective. **We concur with the recommendation made by several environmental Non-Government Organizations (NGOs) and advanced technology providers that the Board should adopt a resolution that would cap reductions in ZEV credits from the over-compliance provision to no more than 10% across the industry during the time period when such reductions are available.**

## **3. Expand Current or Develop Third-Party ZEV Credit Market**

One critical element of the ZEV program allows manufacturers to trade credits in accordance with their respective compliance strategies. Importantly, CODA and other California-based vehicle OEMs focused exclusively on the clean vehicle market have or expect to have vast credit surpluses, and such clean vehicle companies must rely upon the sale of ZEV credits to apply them (by generating revenue through sales to other OEMs)—this revenue is critical for such companies because such revenue can offset the high cost of innovation and development of emissions-friendly products. Without such cost-offsets, many clean, innovative products would be prohibitively expensive for the average consumer, which could lead to delay in both innovation and market acceptance of clean technologies.

In addition, a substantial percentage of the investment taking place in the sector currently flows to early stage companies. Thus, prospective investors may rely upon forecasts of ZEV-based trading revenue when evaluating a decision to back companies exploring such innovations. This is no easy task for investors, let alone OEMs, as ZEV trading is conducted privately, and OEM compliance strategies are diverse and closely guarded. Therefore, determining the current and future value of ZEV credits is challenging and lacks certainty.

**ARB could resolve this problem by creating a transparent, expanded ZEV trading market system or a third-party system.** This expanded system will accurately monetize the credits' value and ensure their liquidity and validity by allowing more trades and more frequent reporting of the value of the trades. Additionally, this system has the potential to reduce ARB operating costs and legal risks, while retaining its enforcement power. Critically, it would provide more transparency and certainty for investors committed to the sector, which would complement the program's stated goals.

ARB Staff and the Board have recognized the merits such an idea and are currently evaluating and/or establishing something similar for the Low Carbon Fuel Standard (LCFS) and the cap-and-trade program under AB 32. Importantly, with the expansion of the ZEV program in line with Staff's current recommendation, credit trading among manufacturers will be more commonplace, which makes now an appropriate and critical time to consider such measures.

**CODA proposes that the Board adopt a resolution directing staff to develop regulatory language governing an expanded or third-party system within six months, or a timeframe that the Board deems reasonable.** CODA would be pleased to work with staff to facilitate this effort.

#### **[5] CODA Background**

CODA Holdings, Inc. is a privately-held company headquartered in Los Angeles, California with global operations. The Company's mission is to be the leading technology provider to reduce dependence on fossil fuels and the harmful social, economic and environmental consequences that follow. Our core technology competency is centered on electric propulsion design and manufacture, and we have three key business lines.

Firstly, we are an original equipment manufacturer (OEM) of vehicles through our automotive division, CODA Automotive. Our second division, EnergyCS, leverages our expertise in electric propulsion and battery management system technology to accelerate the internal advanced vehicle programs within other vehicle and component manufactures. Our third division, CODA Energy, is focused on enhancing grid reliability and stability, and accelerating the deployment and maximizing the effectiveness of renewable energy technology by commercializing production of cost effective distributed and grid scale stationary energy storage systems. We acknowledge and understand that electric vehicle advancement must coincide with clean energy deployment if we are to successfully address long-term environmental challenges, and have designed our business model accordingly.

Our expanded headquarters, which we opened in the third quarter of 2011, is located in Los Angeles, where over 250 employees work. CODA also operates an advanced battery research and development facility in Monrovia, California and assembles vehicles at a plant in Benicia, California. CODA also works closely with a number of suppliers with operations throughout the state.

CODA recently commenced production of our four-door, five-passenger all-electric vehicle – the 2012 CODA sedan – and has begun investing heavily in the development of future CODA vehicles. EnergyCS is an established business CODA acquired in 2011, which continues to

develop technology and serve customers across the globe. CODA Energy is finalizing the research and development of our grid-scale and distributed stationary energy storage systems and will begin commercializing production of such systems this year.

Through these efforts we have increased our full time employee (FTE) headcount in California exponentially over the past several years, have invested hundreds of millions of dollars in our in-state operations, and today, support hundreds of jobs throughout the state both directly and indirectly.

[6] As noted by staff, the ZEV regulations have substantial economic impacts in California. CODA agrees with staff's assessment that the ZEV program will result in a net-positive job increase over time by increasing demand for advanced clean vehicle technology and related components, as CODA and several of our peers on the cutting-edge of clean vehicle design, research and development, and manufacturing have invested heavily in California-based operations. We urge you to also consider the global impact of these regulations. The ZEV program has successfully driven down the cost of advanced vehicle technology since its inception, which, in turn, has helped to and will increasingly facilitate the deployment of clean vehicles far beyond our state and national borders.

CODA applauds ARB staff for continuing the efforts that began in the 1990's with respect to the ZEV program. We are pleased to see ARB engaging stakeholders at all levels to ensure that the program meets its intended goals with minimal negative impact, short and long-term, to the state's economy and business community.

[7] CODA thanks Staff and the Board for the opportunity to comment on these important issues. During these next few critical years, it is crucial that we continue to work together to ensure the near and long-term viability of this transformative program. Well-functioning ACC regulations will stimulate demand for clean vehicles, promote further investments in California, reduce the burden that high gas prices place on consumers and wane our dependence on fossil fuels.

Should you have any questions regarding this submission, please feel free to contact me at (310) 717-3813 or [mssloustcher@codaelectric.com](mailto:mssloustcher@codaelectric.com).

Sincerely,

A handwritten signature in black ink, appearing to read "Matt Sloustcher", with a long horizontal flourish extending to the right.

Matt Sloustcher  
Sr. Manager, Government Relations