California New Car Dealers Association

January 25, 2012

Ms. Mary Nichols,
Chairman
Air Resources Board
1001 I Street, Sacramento, California 95814

RE: Comments on Proposed Amendments to the California Zero Emission Vehicle Regulation

Dear Chairman Nichols:

The California New Car Dealers Association (CNCDA) is a statewide trade association which represents the interests of nearly 1,300 franchised new car and truck dealers. CNCDA members are primarily engaged in the retail sale of new and used motor vehicles, but also engage in automotive service, repair, and parts sales. We are writing to provide comments regarding the proposed amendments to California's Zero Emission Vehicle (ZEV) Regulations, which will require that ZEVs and Transitional Zero Emission Vehicles (TZEVs; primarily plug-in hybrid electric vehicles (PHEVs)) make up 15.4 percent of new vehicles produced and delivered to our dealer members in California by 2025.

General Comments

While our dealer members have consistently supported the incorporation of advanced technology into the vehicles they sell and service, regulations mandating the incorporation of such technology must be balanced to take into account customer acceptance. Consumers do not make purchasing decisions based upon regulatory mandates. As ZEVs and TZEVs continue to become part of the pool of available vehicles, the factors that guide consumer purchasing decisions have not changed. New vehicle purchase and lease decisions are made on a myriad of factors including styling, safety, resale value, and comfort features, but the primary factors are: cost, convenience, and utility.

Cost. Because the purchase or lease of a vehicle is the second largest financial transaction that most Californians make, they carefully review the financial impact of their purchase or lease decision. "Fixed" costs include upfront costs (downpayment, taxes and fees), and any necessary accessories or equipment (including home charging station equipment and/or installation expenses), the monthly installment payments, the total negotiated selling price or capitalized lease price of the vehicle, and costs of financing. While also important, consumers put less weight in "variable" costs over which they *can* exercise some control, such as fuel costs (which the consumer can control by limiting the amount of driving and by shopping at various fueling stations), maintenance costs, and repairs. When variable costs increase, however (such as when fuel prices are extraordinarily high), variable costs can become as important as fixed costs.

The fixed costs of ZEV and TZEV ownership are very high compared to comparable gas-powered vehicles in the same class. In 2020, CARB predicts that the average price for a Battery

Electric Vehicle (BEV) will be $12,900 more than a comparable gas-powered vehicle, while Fuel Cell Vehicles (FCVs) will cost $12,400 more, and PHEVs $10,900 more.[1] These price increases do not take into account the price of home or office charging equipment and installation. Since ZEVs and TZEVs (as currently envisioned) will be primarily made up of subcompact and compact vehicles, these increases are relative to the least expensive vehicle classes available to the public—further highlighting the technological price disparity. While incentivization will (and *must*) play a role in consumer acceptance of ZEVs and TZEVs, as it has hybrid electric vehicles, the heavy incentivization of hybrid vehicles has led to only very limited consumer adoption of such vehicles (see discussion below).

Convenience. For generations, Californians have had regular access to gasoline fueling stations and have become accustomed to knowing that, wherever they may be in California, a fueling station will be nearby when needed. The importance of this "safety net effect" that comes with quick and convenient fueling options cannot be overstated. For drivers of BEV and FCVs, there is no such safety net: fueling considerations *must* be taken into consideration with any travel—particularly for long distances. Hydrogen Fueling stations are extremely scarce, with only 6 stations in the entire state currently open to the public (all in the Los Angeles Area), and only 16 more stations announced or in development.[2] Electric stations, while increasingly available, are still relatively scarce, and vehicle charging is time consuming. 480-Volt "quick-charge" facilities—necessary for mass adoption of BEVs—remain rare, and achieving a reasonable charge still takes approximately 30 minutes—much longer than gasoline refueling.

Consumers seeking to purchase a PHEV or BEV must alter their behavior: at the very least by being distance-conscious and pre-locating charging stations before travel, but likely also installing a charging station in their home and/or office—triggering expensive electrical work and permitting requirements. This creates a Catch-22 for ZEV and TZEV adoption: the attractiveness of purchasing such vehicles is diminished without the convenience of an adequate fueling infrastructure, while prospective investors in fueling stations are leery of building such stations until they will be provided with steady demand from vehicle purchasers.

Utility. Equally important as cost and convenience is whether a vehicle will meet the needs of the purchaser. In 2011, California consumers purchased approximately 1.3 million new vehicles, 60.4 percent of which were passenger cars, 26.3 percent SUVs, and 13.3 percent pickups and vans.[3] SUV, pickup, and van purchasers are particularly focused on utility and cannot usually satisfy their driving needs with a passenger car. A family with five children will need an SUV or minivan. A family with a boat or camping trailer needs a truck or van. A construction crew needs a pickup or van. These vehicle purchasers will not be in the market for ZEVs or TZEVs that cannot meet their needs in a completely reliable manner. Currently, the only ZEV that is truly commercially available to the public is the Nissan Leaf, while the only commercially available TZEV is the Chevrolet Volt PHEV.

[1] ISOR, p. 62.
[2] California Fuel Cell Partnership, http://cafcp.org/stationmap, accessed January 22, 2012.
[3] AutoCount Data from Experian Automotive, from 4th Quarter 2011 Auto Outlook Report, January, 2012

While several other subcompact and compact TZEVs and ZEVs are currently in development, a large segment of California's vehicle consumers—those needing SUVs, trucks, and vans—will not be in the market for ZEVs and TZEVs, notwithstanding the fact that the ZEV regulations mandate the production and delivery of ZEVs based upon a percentage of *all* vehicles produced by a covered vehicle manufacturer and delivered for sale in California. Accordingly, the ZEV regulations will mandate that a very large proportion of *passenger vehicles* in California will be made up of ZEVs and TZEVs. Using (for sake of example only) last year's 1.3 million new vehicle sales figure as an estimate of 2025 vehicle sales by covered manufacturers, the 15.4 percent mandate would require 200,200 ZEVs and TZEVs be delivered for sale in California. If 40 percent of new vehicle sales will continue to be made up of SUVs, pickups, and vans, ***over 25%*** of the 785,000 passenger vehicles delivered for sale would necessarily be ZEVs or TZEVs under the regulation—an incredibly high adoption rate of new technology that would be without precedent in the automotive industry.

Factor-Weighting. Crucially, these three factors are judged on a continuum: the better the price and utility a new product provides, the more willing a prospective purchaser will tolerate inconvenience and demonstrate a willingness to change their day-to-day routine. Likewise, if a new vehicle offers great utility and convenience, customers will be willing to pay more for the vehicle. The impediment to adoption of ZEVs and TZEVs is that *all* such vehicles require sacrifices in terms of fixed costs, convenience, *and* utility. The benefits of such vehicles are in the form of variable (fuel) costs and environmental friendliness. Getting past these drawbacks in a manner that will allow for 15.4 percent of California's new vehicle fleet to be made up of ZEVs and TZEVs will require effort and investment well beyond that possible in the timeframe envisioned by this regulatory proposal.

Like it or not, internal combustion engine vehicles still offer consumers the best value proposition. They are cheaper, have a long history of proven dependability and durability, and have little or no refueling or range issues.

Specific Concerns with the Proposed Regulations

Unrealistic Assumption of Consumer Demand. The proposed regulations require that large volume vehicle manufacturers manufacture and deliver for sale a fleet of vehicles that consists of 15.4 percent ZEVs and TZEVs in model year 2025: a mere 13 model years away. This 13 model year time period is the same length of time that hybrid electric vehicles have been available to the public (beginning with the 1999 Honda Insight). After 13 years of heavy marketing and incentivization (including state and federal tax credits and several years of access to carpool lanes), hybrid sales made up approximately 2.1 percent of sales nationwide in 2011[4] (down from a high of 2.7 percent in 2009), and approximately 4.3 percent of sales in California. Unlike with ZEVs or TZEVs, purchasers of hybrid vehicles required absolutely no change in driving or fueling behavior (meaning that there is no impediment to consumer adoption). If after 13 model

[4] Calculated using manufacturer-reported numbers for hybrid sales of 268,807 in 2011, as posted on www.hybridcars.com/market-dashboard.html (Accessed 1/23/2011) divided by manufacturer-reported total sales figures of 12,778,335 reported to Auto News Data Center, January 4, 2012.

years of hybrid vehicle availability, marketing, and incentivization, adoption is in the low single digits, we fear that the adoption rate will be even lower for ZEVs and TZEVs which will require dramatic changes in consumer driving and fueling behavior. Rather than setting vehicle manufacturers, new car dealers, and alternative vehicles themselves up for another predictable failure, ARB should adjust the mandate to reflect a goal that is realistic and attainable.

Increased Cost of ZEV Production Will Lead to Market Distortions. CNCDA is concerned with the impact that the aggressive ZEV requirements will have upon the market prior to the technology being perfected and universally accepted by consumers. When pricing BEVs and FCVs for the California market, the ZEV Regulations will impose artificial market forces on affected manufacturers, who will be faced with choosing between two basic pricing strategies: (1) price the vehicles at or above cost, sell what they can, and then either ration the sales of their traditional vehicles or face enforcement efforts, or (2) price ZEVs under their cost and subsidize the loss by increasing the price of their traditional vehicles. The latter approach, which CNCDA believes likely, will have the perverse effect of artificially decreasing new car sales and making used cars more attractive purchase options in California.

Conclusion

Based upon the foregoing, we encourage ARB to work with CNCDA and representatives of the various vehicle manufacturers to amend the regulatory proposal to do some or all of the following:

- Reduce the mandated percentage of ZEV and TZEV vehicles that must be produced and delivered for sale in California to reflect a goal that is realistic and attainable;
- Increase compliance flexibility by providing credit for the sale of hybrid vehicles and restoring the travel provision for all ZEVs and TZEVs;
- Provide stronger incentivization for consumers to purchase ZEVs and TZEVs; and
- Persuade the state and municipalities to purchase more ZEVs and TZEVs.

CNCDA appreciates this opportunity to comment on the proposed regulatory language. We look forward to working with ARB to address our concerns in the near future. If you have any questions or comments concerning this letter or the Advanced Clean Cars Regulations in general, please feel free to contact me at (916) 441-2599, or at jmorrison@cncda.org.

Sincerely,

Jonathan Morrison
Director of Legal & Regulatory Affairs