



May 21, 2018

Chair Mary Nichols and Members of the Board  
California Air Resources Board  
1001 I Street  
Sacramento, CA 95812

**RE: Volkswagen Mitigation Trust D – Proposed Beneficiary Mitigation Plan**

Dear Chair Nichols and Members of the Board:

We are writing on behalf of Tesla to share our comments and support for the proposed Beneficiary Mitigation Plan (BMP) for the Volkswagen (VW) Environmental Mitigation Trust that was released by staff of the California Air Resources Board (CARB) on April 20, 2018.

Tesla's previous comments on the BMP focused on light-duty (LD) and heavy-duty (HD) zero emission vehicles (ZEVs) and provided several key principles and strategies for how the BMP can optimally allocate funds to maximize NOx reductions. We continue to support the focus of funds first and foremost on the replacement of diesel vehicles with ZEVs, and we are pleased to see this is reflected in the guiding principles outlined in the proposed BMP.<sup>1</sup> In general, the guiding principles in the proposed BMP appear to capture key areas for consideration for investing program funds including prioritizing expenditures that are surplus to regulatory requirements and complementary and additional to other investments being made by government and the private sector in California.<sup>2</sup>

Feedback from our previous comments has been incorporated in the proposed BMP, and Tesla is generally supportive of staff's current proposed funding allocations for the eligible mitigation actions. Specifically, we support allocating \$90 million to Zero Emission Class 8 Freight and Port Drayage Trucks given the expected NOx reduction benefits as outlined in Appendix A. Some outstanding items discussed in our previous comments continue to be relevant in the consideration of the proposed BMP, however. This includes allocating the full 15% of eligible funds for investment in LD ZEV charging infrastructure. Additionally, program administration will be a key element that drives the ability of the BMP investments to meet the NOx reduction target. We, therefore, continue to recommend maintaining simplicity as a principal element for developing program administration and implementation requirements.

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<sup>1</sup> Proposed BMP, p.3

<sup>2</sup> Proposed BMP, p.3.

## Support Allocation for Zero Emission Class 8 Freight and Port Drayage Trucks

Two of the guiding principles staff developed for the proposed BMP include 1) focusing on zero emission technologies where available and 2) providing investments statewide to transform the heavy-duty sector.<sup>3</sup> These principles directly align with the State's priorities in terms of increasing sustainable freight and driving toward zero-emission goals, including the 2030 and 2050 targets. As staff indicates in the plan, investing in zero-emission technologies including Class 8 vehicles, at the early stages of the market, will be critical to "help commercialize these technologies and bring down costs through economies of scale."<sup>4</sup> At the same time, the proposed funding allocation attempts to provide an appropriate balance between long-term market transformation investments and near-term mitigation of the excess NOx that is required under the Mitigation Trust. In previous comments, we highlighted how important it is that BMP funding target the remaining high NOx emitting fleet, as existing regulations will not meet the entire reduction need, and further narrow the NOx reduction gap by replacing these vehicles with HD ZEVs wherever feasible.<sup>5</sup>

Additionally, we support the inclusion of HD ZEV infrastructure in the funding categories for HD ZEVs. Staff's recommendation to incorporate "the infrastructure funding into the per-vehicle funding provides each fleet the flexibility to use the additional, incorporated funds to meet their individual fleet's infrastructure needs, while also allowing for a streamlined funding process" is appropriate.<sup>6</sup> Furthermore, staff recommends that funds should not be combined with any other CARB-implemented funding or other funding to avoid any double-counting of NOx reductions.<sup>7</sup> We agree with this principle, and there should be an opportunity to utilize additional funding for the HD make-ready infrastructure provided by other state agency programs if needed.

Finally, given the ability to scale funding over time, staff's recommendation to allocate \$27M for the first installment of this funding allocation is appropriate. If funding will be disbursed in several installments and 70% of the allocation will be focused on expanding the HD ZEV market in future years, using a first-come, first-served basis model, similar to the approach for other CARB HD programs like the Hybrid and Zero-Emission Truck and Bus Voucher Project (HVIP), is important and we generally support utilizing a first-come, first-served structure.

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<sup>3</sup> Proposed BMP, p.3.

<sup>4</sup> Proposed BMP, p.5.

<sup>5</sup> Tesla Comments, December 20, 2017. Available at: <https://www.arb.ca.gov/lists/com-attach/41-wv-mititrust-plws-W2IUyIFhVjIHMAAy.pdf>

<sup>6</sup> Proposed BMP, p.16.

<sup>7</sup> Proposed BMP, p.16.

### Increase Allocation for Light-Duty Zero-Emission Vehicle Infrastructure

Staff proposes to allocate \$10M to LD ZEV infrastructure and provides various types of eligible funding categories (e.g. Level 2 and DC Fast Charging) with a focus on filling in gaps not served by other funding programs.<sup>8</sup> We support including various types of LD charging infrastructure, per the discretion outlined in the consent decree, and continue to reiterate the importance of filling the gap for multi-unit dwellings (MUDs) and workplaces, especially for those potential ZEV buyers that may not have access to home charging. Furthermore, we agree that applicants should be encouraged to “combine this funding with other available charging station funding sources for multi-unit dwellings.”<sup>9</sup>

While we understand that Mitigation Trust D is focused on NOx reduction targets and the staff proposal does not plan to quantify direct NOx reduction benefits from the LD infrastructure category to avoid the potential for double counting, we continue to believe that considering allocating the full, eligible 15% of funds to LD ZEV infrastructure is important. Therefore, we encourage staff when evaluating any unspent funds, if reallocating these unspent funds will not have a negative impact on meeting the NOx reduction target, to consider increasing funds for LD ZEV infrastructure up to the 15% eligibility limit. In Tesla’s previous comments on the BMP, we provided additional explanation for why allocating the full 15% eligibility limit is important.<sup>10</sup> Finally, since staff proposes to disburse these funds through a competitive solicitation process, it will be important to work with the statewide program administrator to determine key categories for evaluating competitive solicitations. For instance, scalability, in terms of cost per charging station and deployment impact, will be an important factor to consider.

### Program Administration Should be Simple and Efficient

Staff proposes identifying local air districts, on a statewide basis, to administer each of the four-proposed vehicle and equipment project categories and that the LD ZEV infrastructure category will be administered by a non-profit organization or government entity.<sup>11</sup> Tesla supports administration on a statewide basis to drive efficiencies and improve customer experience. We encourage further consideration and evaluation of whether utilizing an existing program administration framework such as HVIP could be utilized for the administration of the HD categories on a statewide basis. At the same time, it will be necessary for CARB staff to work with the program administrator(s) to provide simplicity in disbursement of funds. Finally, it will be important to ensure that any unspent program administration funds, below the 15% reserve, are re-distributed proportionally to funding areas based on demand, need and potential impact on NOx reduction.

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<sup>8</sup> Proposed BMP, p.33.

<sup>9</sup> Proposed BMP, p. 32.

<sup>10</sup> Tesla Comments, December 20, 2017. Available at: <https://www.arb.ca.gov/lists/com-attach/41-ww-mititrust-plws-W2IU1FhVjIHMAAy.pdf>

<sup>11</sup> Proposed BMP, p.37.

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Tesla appreciates the opportunity to provide feedback on the proposed BMP in advance of its consideration by the CARB Board. As discussed above, Tesla is generally supportive of the funding allocations and project categories and provides additional recommendations to help guide a ZEV-centric strategy. Thank you for CARB's leadership on this issue.

Sincerely,

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