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June 25, 2018

California Air Resources Board
1001 I Street
Sacramento CA 95814

Re: Proposed Amendments to California Emission Control System Warranty Regulations and Maintenance Provisions for 2022 and Subsequent Model Year On-Road Heavy-Duty Diesel Vehicles and Heavy-Duty Engines with Gross Vehicle Weight Ratings Greater Than 14,000 Pounds and Heavy-Duty Diesel Engines in such Vehicles

(Submitted Electronically: http://www.arb.ca.gov/lispub/comm/bclist.php)

Dear Chair Nichols and Members of the Board:

The American Trucking Associations (ATA) appreciate the opportunity to comment on the California Air Resources Board's Proposed Amendments to California Emission Control System Warranty Regulations and Maintenance Provisions posted on May 8, 2018. ATA is the national trade association that represents the U.S. trucking industry and is a united federation of motor carriers, 50 state trucking associations, and national trucking conferences created to promote and protect the interests of the trucking industry.

ATA member companies purchase trucks throughout the United States and are sensitive to increases in equipment and maintenance costs. Specific to California, some fleets have had to change their business models to satisfy the requirements of the Truck and Bus Rule. This has accelerated fleet turnover while also increasing debt loads and maintenance costs. The next compliance milestone for this rule will occur in 2023 when trucks which were purchased to meet the initial compliance requirements will need to be replaced with newer trucks. In addition, the Board's planned low-NOx emissions standard is scheduled to be implemented at nearly the same time. Due to the alignment of these regulations with these proposed amendments, capital costs associated with new truck purchases in California will be uniquely affected and result in impacts that have not been addressed in the analysis. ***We ask the Board to reevaluate the costs involved with this proposal and/or consider an alternative approach which incentivizes the additional cost of the extended warranty coverage.***

(1) <u>Discrepancies exist between survey costs and the costs projections used in the ISOR.</u>

Some of the key findings of the Institute for Social Research (ISR) survey are (ISOR, Appendix H, p. vii):

- Of those that have an extended warranty, more than half, (55%) say their extended warranty package cost them over $2,500.
- Owner/operators indicated that the average cost of repairs over a range of 508,000 miles was $4,177 per vehicle (for vehicles needing repairs). *(emphasis added)*

In contrast, the Initial Statement of Reasons (ISOR) attributes the following finding to the ISR survey (ISOR, p. III-20).

- Owner/operators indicated that the average cost of repairs per vehicle was $2,131 per vehicle, while the average current mileage was 508,000 miles. The repair cost is similar to that deduced from CARB's warranty data… *(emphasis added)*

Finally, Table IX-8 of the ISOR projects the increased costs passed onto vehicle purchasers due to the proposed amendments on a per-vehicle basis to range from $149 to $633.

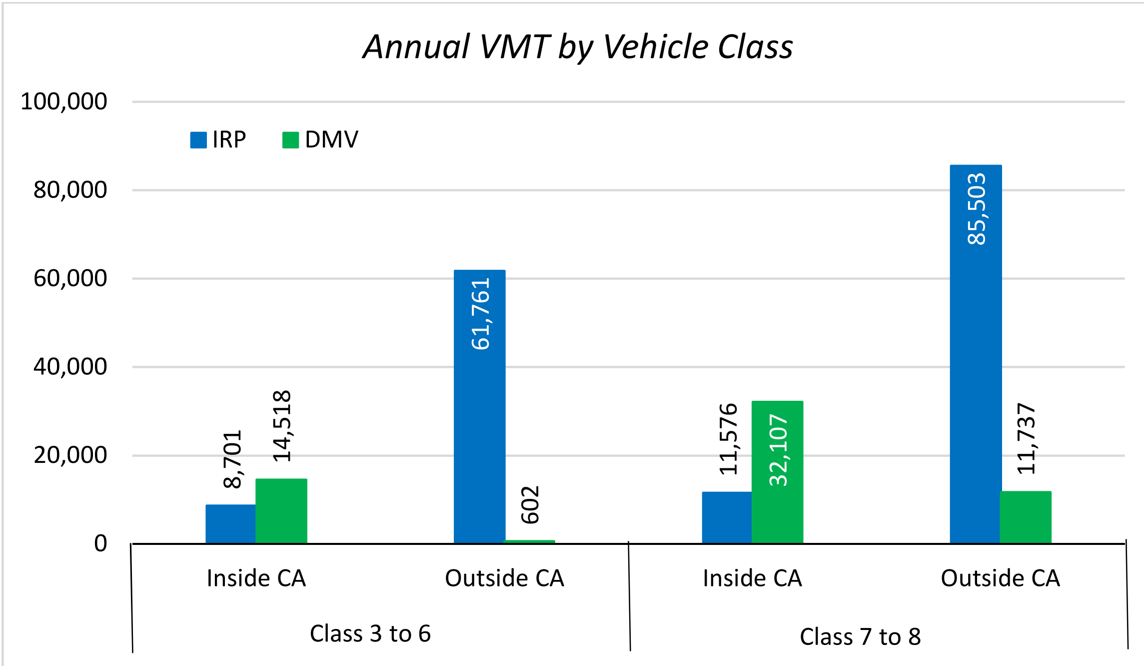
These statements indicate that companies currently purchase extended warranties for several thousand dollars and, by enacting these amendments, companies will now receive extended warranty coverage for a few hundred dollars. It is difficult to reconcile these numbers. The trucking industry is concerned the amendments will add thousands of dollars to new truck purchases for those who currently do not purchase extended warranties and also increase the cost of existing extended warranties as a result of manufacturers having to process claims across a larger population of affected vehicles.

2) Decreased or shifted purchases as a result of the additional warranty cost are not addressed.

The ISOR estimates annual statewide capital costs increases from extending the minimum warranty period will range from $1.3 to $12.3 million (ISOR C-19 to C-20), although, as discussed above, costs may be higher. Either way, this will amount to several thousands of dollars per truck for a company that currently does not purchase an extended warranty. Given the economics of supply and demand, this increase in cost is expected to decrease demand, resulting in an overall decrease in new truck purchases or a shift of purchases to less expensive options outside the state (not to mentioned situations where warranties will be voided). In either case, the purported benefits from the proposed amendments will be less. The ISOR's cost-benefit analysis does not account for the economic or environmental impacts associated with decreased or shifting purchases as a result of the proposed amendments.

3) Mileage accumulation rates need to be reexamined prior to adoption.

At the most recent annual Transportation Research Board meeting, a poster titled, *Preliminary Findings from the California Vehicle Inventory and Use Survey (CA-VIUS)*, presented the following data.



Source: Cambridge Systematics, *Preliminary Findings from the California Vehicle Inventory Survey (18-02215) - B437*, Transportation Research Board Annual Meeting, Poster Session 256: Truck Efficiency: Routing, Platooning, Energy Consumption, and Safety (2018).

As illustrated by this initial data, Class 7 to 8 California-registered trucks (listed as "DMV") average roughly 45,000 miles annually. This is more than one-third fewer annual miles than the projections used by EMFAC to develop the proposed amendments (ISOR, C-12 to C-13). As California-registered trucks will be most affected by this proposal, incorrect mileage assumptions can lead to new truck buyers having to pay for a level of warranty protection they do not require.

The difference between the CA-VIUS data and EMFAC estimates raises questions about the mileage accumulations which were used. For example, the CA-VIUS Class 7 to 8 IRP data aligns more closely with the EMFAC mileage estimates; however, the majority of this mileage is traveled outside the state, which would decrease the presumed benefits of the proposed amendments. This discrepancy between data sources should be further evaluated prior to adoption to ensure an accurate characterization of the affected truck population.

4) An incentive-based approach should be used to reduce potential economic impacts.

The ISOR indicates one of the benefits of the proposed amendments is to protect heavy-duty vehicle owners from having to pay for future repair costs resulting from recent changes to the state's Heavy-Duty Inspection Programs (ISOR, III-5). In other words, the extended warranty amendments, while increasing the cost of new truck purchases, will serve as an insurance policy against future costs. With approximately 40+ percent of the heavy-duty vehicle population already meeting the requirements of these proposed amendments (ISOR III-6), an alternative option would be for the state to offset the cost of the extended warranty with a voluntary program directed at the state's new truck buyers. This approach could use incentive funding to encourage buyers to avoid future costs associated with maintenance. This would not only help reduce some of the adverse economic impacts for new truck buyers but would also support the state's truck dealership network; while allowing the state to continue to reduce emissions. The state has a long history of using incentive-based approaches to advance emission reductions and, given the purported cost-effectiveness of the proposed amendments, should consider the use of incentives as a practical alternative.

ATA appreciates the Board's thoughtful consideration of these comments.

Sincerely,

Michael Tunnell
Director, Energy & Environmental Affairs
American Trucking Associations