PENSKE

Art Vallely
President

September 22, 2022

Tony Brasil, Branch Chief California Air Resources Board
1001 I Street
Sacramento, CA 95814

RE: Comments on Proposed Advanced Clean Fleets Regulation

Dear Mr. Brasil:

Thank you for the opportunity to provide comments on the California Air Resources Board's (CARB) draft language for the Advanced Clean Fleets (ACF) Regulation High Priority and Federal Fleet Requirements. Penske Truck Leasing Co., L.P. ("Penske") is a nationwide leader in low-emission transportation and has made a company-wide commitment to a comprehensive transition to zero emission vehicles.

Penske shares CARB's long-term emission reduction goals. Our commitment to a shift to zero emission transportation technology is reflected by our investments over the last five years in multiple medium- and heavy-duty electrification projects. Penske operates one of the largest commercial electric truck fleets in the United States, with vehicles from numerous OEMs at six (6) Penske sites in California, which are fully equipped with medium- and heavy-duty EV charging infrastructure. These projects have afforded Penske invaluable experience working with CARB, California utilities, major vehicle manufacturers (including startups), charging infrastructure manufacturers and developers, battery providers, and customers in the deployment and operation of new battery-electric transportation services across the entire supply chain.

On behalf of the entire Penske team, we want to thank CARB and its staff, as well as the CARB Board, for continuing to engage with us throughout the ACF regulation process. Penske's commitment and growing familiarity with ZEVs, coupled with our comprehensive and incomparable understanding of charging infrastructure and real-world commercial fleet applications, uniquely positions us to be a resource for CARB on front-line data and information on the availability, use, and application of ZEVs, and allows us to serve as a partner in CARB's efforts to draft, adopt, and implement a successful ACF regulation.

The proposed language released in August 2022 for the "High Priority and Federal Fleet Requirements" of the Advanced Clean Fleet Regulation was improved over earlier iterations. However, we continue to have concerns about the treatment of rental vehicles operating in California for less than 10 days, incentive-funded vehicles, and infrastructure delays. As detailed in previous comment letters, Penske continues to believe that the following changes would further improve the regulation and reduce the probability of unexpected adverse impacts.

Rental Vehicles Operating in California For 10 Days or Less

As you know, short-term rental vehicle owners have a unique inability to control consumer utilization of vehicles into and throughout the state of California. These minimal entries into the state of California are not coordinated or managed as part of a master fleet utilization strategy, but instead end up in California due to temporary customer decisions, often unplanned and uncoordinated with the owner.

The ACF rental provision makes significant improvements on the prior ACF proposed language by allowing a quarterly snapshot of the average California rental fleet. We appreciate that this provision acknowledges the important role and specific challenges faced by short-term rental and leasing companies. Penske's customers –

both large and small – have depended and will continue to rely on our well-established expertise to try, assess, and ultimately minimize their risk as they move to adopt zero-emission technology.

However, **we strongly believe that a complete exemption from the rental fleet average is still needed for rental vehicles that operate in California less than 10 days consecutively and no more than 30 days cumulatively, in a single year**. As we have discussed with ARB staff and Board Members many times since this draft rule was first released in August of 2021, Penske is concerned that, **as written, we will never be able to achieve full compliance under the Advanced Clean Fleet Rulemaking due to the immutable fact that we cannot control which vehicles our rental customers bring in from out-of-state**.

To mitigate this concern, we believe that a 10-day consecutive/30-day cumulative rental vehicle buffer, as outlined above, will allow greater flexibility, ensuring that companies like Penske have the tools needed to reach compliance and lead the transition to zero emission trucks.

Counting Vehicles Funded by Grants

Battery electric vehicles still carry very significant economic risk for fleets as the technology has not yet reached a stage of maturity and reliability and interchangeable operability. We have been fortunate enough to work in concert with CARB and several other funding agencies in California and across the U.S. to secure funding to support our early demonstrations and vehicle deployments. Grants have been essential in helping to reduce the substantial upfront capital risk for us and many of our customers who have had opportunities to deploy and utilize these units through our partnership.

Grant funding is becoming harder and harder for fleets to access at a time when they need it more than ever. The cost of battery electric yard trucks, for example, remains 2-3x the cost of the diesel version—for the vehicle alone. This does not even consider the cost and complexity of adding charging infrastructure. The Advanced Clean Fleet regulation is pushing the manufacturers to bring more of these products into market which will hopefully reduce this cost differential at some point in the future, but we are simply not yet there.

While we recognize that state agencies do not like to "pay for compliance" as a common practice, we recommend that CARB consider parting with precedent for this uniquely precedent-departing ACF regulation. This rule is more than an emission-reduction rule. It is mandating a complete energy transition, including a complete transition in vehicles, energy infrastructure, energy management, procurement, maintenance, and contracting, with all the concurrent expenses.

We appreciate the revisions to the provision surrounding Vehicles Acquired with Incentive Funds; however, we believe that additional clarity is needed that would ensure additional flexibility for fleets to utilize incentives in the early years of the regulation. Specifically, we recommend the following:

- Grandfather in all incentive-funded vehicles received prior before January 1, 2024, as defined by the date of the "notice of proposed award," to count for full and immediate compliance towards the milestone targets set by ACF.
- Consider delaying implementation of this provision until Model Year 2030, with bi-annual review of market conditions between 2024-2030 to determine ongoing maintenance of this provision.

Penske's average customer is the small fleet—the company with less than a dozen trucks—and yet increasingly stringent grant funding programs often prohibit leasing. This already limits our customers – disproportionately small businesses – from affordably accessing these trucks. The ACF provision limiting grant-funded vehicles from counting towards compliance further stresses economics for small businesses by transitioning the leasing and rental supply to zero-emissions without concurrent support for small-fleet pricing economics. We all collectively—the vehicle manufacturers and charging industry as well as regulatory bodies—need to understand that, in the early years of the ACF regulation, this is still nascent technology that requires extraordinarily expensive investment in infrastructure, vehicles, facilities and training. We should be finding ways to reduce barriers for fleets to adopt these technologies and not create new ones via strict limitations on the use of incentive funding for ACF compliance.

Infrastructure Delay Timeline

Despite Penske's commitment to zero-emissions, infrastructure remains a significant hurdle in virtually all our project development efforts. While we welcome the addition of a one-year, one-time delay for vehicle orders due to infrastructure delays, our experience indicates this will be insufficient to address and align vehicle deliveries with infrastructure availability. **Fleet scale infrastructure projects of 5+ MW take 3-5 years *in a best-case scenario*, meaning the initial 1/1/2025 deadlines are already an impossible target for most fleets, even with a one-year implementation delay.** Given that many fleets in California either lease their operating facilities or own facilities without appropriate power or layouts to support fleet-scale infrastructure, real estate acquisition will add 1-2 years onto many infrastructure development and construction projects.

The following chart underscores the scope of the compliance challenge. Even with a one-year, one-time, allowable compliance delay, fleets will not have real-world access to fleet-scale infrastructure for another 1.3-4.5 years beyond even that modified deadline.

	1st compliance date (Milestone Group 1)	Infrastructure delay sunset	Infrastructure availability date (est)	Years w/out Infrastructure After Delay, i.e. Non-Compliance
3-5 MW Owned Site Timelines	1/1/2025	1/1/2026	3/31/2027	1.3 years
5-10+ MW Owned Site Timelines	1/1/2025	1/1/2026	6/30/2028	2.5 years
5-10+ MW Real Estate Acquisition Plus Development Timelines	1/1/2025	1/1/2026	6/30/2030	4.5 years

A vehicle purchase delay due to infrastructure challenges should be made based on realistic, project-specific timelines for in-progress infrastructure projects, not a single-use, single-year, one-size-fits-all exemption. It's also vital to include the array of infrastructure arrangements and associated challenges under the allowable delay. Any fleet with validated infrastructure development progress on owned sites, shared sites, and contracted-agreement retail sites should be eligible for a delay. "Delays beyond their control" should also include factors beyond the narrow scope of construction-specific delays, including real-estate acquisition, permitting, and supply chain delivery delays.

The following Gantt chart shows the real-world timelines associated with utility design and contracting, permitting, construction, and real estate acquisition based on larger-scale projects in California to-date. As noted by Black & Veatch, which has completed 40% of all U.S. high-power charging projects, grid/substation upgrades and connection times for 5+ MW projects take 24 months or longer, which must be added to the other required infrastructure development steps including electric demand profiles, utility contracts, utility engineering and design, permitting, equipment ordering, and construction[1]. The schedules clearly demonstrate that ***many fleets will face challenges meeting the first four deadlines of the ACF regulation,*** despite having active and appropriate fleet-scale infrastructure development projects.

[1] Black & Veatch, "10 Steps to Build Sustainable Electric Fleets: Optimal Charging Networks to Ensure Triple Bottom Line Benefits" 2022

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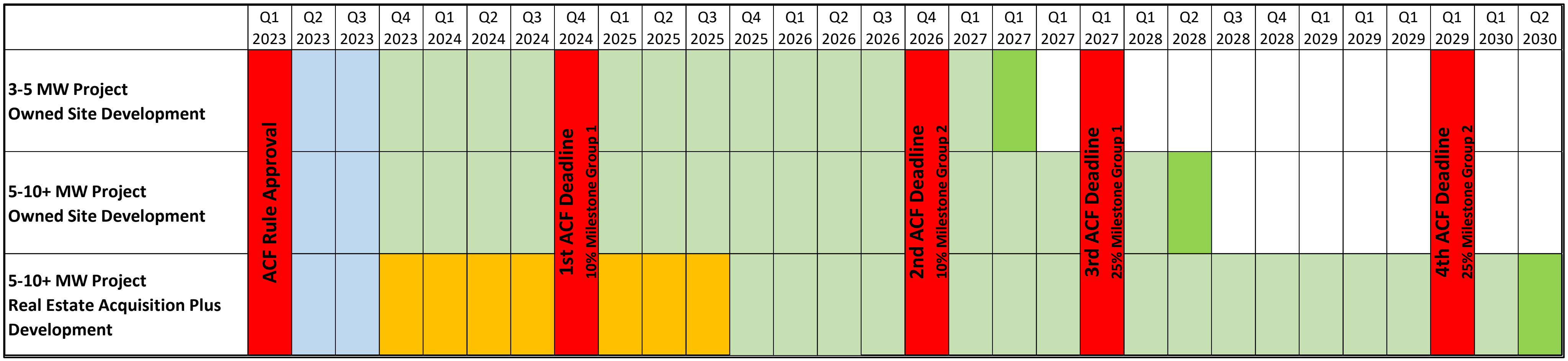
Fleet-Scale Infrastructure Development Timelines as Aligned with Proposed Advanced Clean Fleet Rule Deadlines



Legend:

ZE/Infrastructure Assessment, Including Initial Vehicle and Site Selection
Design and Project Scoping, Utility Approval, Finalize Design, Contracts, Permitting, Construction
Site Commissioning
Real Estate Acquisition

Responsibility for Compliance: Leasing

While we appreciate ARB's improvements regarding compliance responsibility as it relates to full-service leases, we remain concerned that the language as currently drafted continues to be confusing. As such, to address full-service leases, alleviate confusion, and capture larger fleet operators who lease and operate such vehicles in the state of California, the ACF rule should state that, for entities that lease at least 50 vehicles pursuant to "full service" or "operating" leases, the fleet owner for purposes of compliance should be the entity that:

- operates such vehicles under its own motor carrier authority;
- is responsible for operational DOT-related safety obligations;
- is responsible for operating said vehicles in accordance with all state and federal laws (e.g., hours of service, CDL requirements, etc.); or
- has control over the use and operation of the vehicle (i.e., the lessee).

Conclusion

Penske has and will continue to partner with state regulators, local agencies, and fleets throughout California to implement zero-emission truck projects. We believe our experience will support CARB's goals by enabling more rapid rollouts of ZEVs via lower-risk leasing, maintenance, outsourcing, and charging efforts. These market-leading efforts will also help define and refine secondary market pathways, residual value calculations, and long-term maintenance planning. We will follow up with staff and Board Members directly to continue to share our experiences around technology, infrastructure, and operations to help support an efficient and effective transition to ZEVs in California.

Thank you for this opportunity to contribute to the development of a successful Advanced Clean Fleet rule. We look forward to continued engagement with CARB on the issues raised herein.

Sincerely,

Art Vallely

Art Vallely
President