



FIRELAKE
CAPITAL MANAGEMENT

January 24, 2012

Mary Nichols
Chairman
California Air Resources Board
1001 "I" Street
P.O. Box 2815
Sacramento, CA 95812

Re. Advanced Clean Cars Rules

Dear Chairman Nichols,

There's a formula for success that California businesses use to great advantage, in everything from film and aerospace to computers and high tech industries: leadership = market development = jobs.

We incubate great ideas here, bring them to market, and then - most crucially - lock in our leadership position so we keep the jobs those ideas create in California.

Our state is home to another forward-looking industry: advanced technology vehicles and systems. Since long before the rest of the country, California has led in standards reducing automobile emissions and promoting cleaner, more efficient vehicles.

California is a global leader in advanced energy technology. Just one example: in the 18 months through the first half of 2011, California alone attracted more than 60 percent of the worldwide venture capital investment in electric vehicles - more than \$1.3 billion. With worldwide demand for cars soaring, the need for solutions like these will only continue to grow.

Other states look to California to lead. Under federal law, states across the nation can and do adopt our industry-leading clean car standards. And, this year California partnered with the federal government to formulate the latest round of national emissions standards, while also developing its own emissions standards plus regulations to promote advanced vehicle technologies.

As a venture capitalist who invests in advanced technologies, let me make one thing clear: American and California companies are fully capable of meeting these standards, while simultaneously creating jobs and superior value - dollars saved - for consumers.

So why would anyone object to vehicles that cost far less to own and operate over their lives while also improving public health and cleaning up our environment?

Sadly, the answer is that some vested interests don't want to see things change.

But as an investor I can tell you something else: our current over-reliance on fossil fuels to power our vehicles must change. For example, the price we pay at the pump does not include all the costs associated with burning oil, what economists call 'externalities'. It does not include the national security costs for protecting the oil supply chain – what I call the 'unpriced premium' on imported oil, totaling on average \$225 billion yearly for the past 30 years– or the costs to public health and the environment.

That's where this ties back into jobs and California's economic future. When gasoline is mispriced it also leads to a misallocation of investment, resources, and the energy of our people (jobs). California's advanced vehicle standards help address this market distortion, helping to support jobs and grow California's economy.

So California's policy leaders must stay strong in adopting the next round of advanced vehicle standards. Policy clarity is essential to investment. Leaders must be clear that the policy will not change and will be in place for a long period of time; policy uncertainty drives capital away.

The California Air Resources Board members must stand firmly by the proposed advanced vehicles package. If they do, California's workers win, our job creating industries win, our environment wins, and our state and national economies get a big boost when we need it most.

If they don't, there is significant risk: investment capital will not stay in California. Capital flows like a river, to wherever in the world investors can find the best return. And when it comes to advanced transportation, there is no doubt that other countries are fully engaged in competing for this capital and the jobs it creates. They're already implementing strong standards of their own that drive demand.

That leaves California with only two choices: lead (support jobs) or fall behind (lose jobs).

California's formula for success works: leadership = market development = jobs. We are already advanced transportation leaders, and the California Air Resources Board should not allow the fruits of our labor slip away.

It is critical to get these standards right. Then, government can leave the rest to private sector investors, who will help create jobs and a strong, domestic advanced clean vehicles industry.

Sincerely,



Martin Lagod
Managing Director
Firelake Capital Management