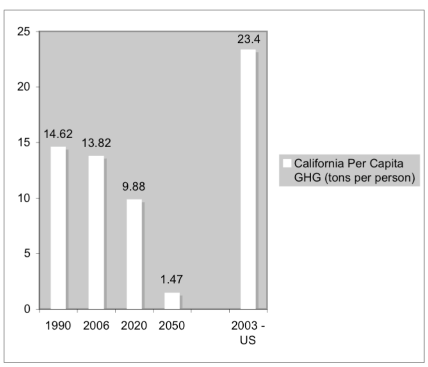
Ms. Sara Urakawa
California Department of Insurance
Rate Enforcement Bureau
45 Fremont Street, 21st Floor
San Francisco, CA 94105

June 17, 2008

Dear Ms. Urakawa:

Thank you for the opportunity to comment on implementation of mileage-based insurance in California. As the Chair and Vice-Chair of the Economic and Technology Advancement Advisory Committee (ETAAC) created by the California Global Warming Solutions Act of 2006 (also known as AB32), we strongly support mileage-based insurance (often called "pay as you drive").

As you know, climate change is an urgent priority for the State of California. Dramatic decreases in greenhouse gas emissions are urgently needed to achieve California's 2020 and 2050 greenhouse gas reduction goals and avoid the worst effects of climate change.



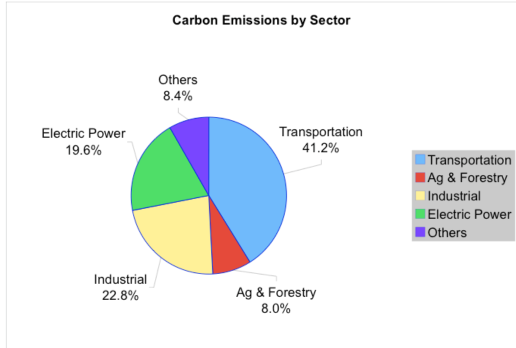
Transportation, especially road transportation, is the biggest source of greenhouse gas emissions in California. We need to create new incentives for people to drive less, in addition to cleaner vehicles and fuels, to achieve these goals. Mileage-based insurance can create large reductions in emissions by converting insurance from a fixed cost to a variable cost so that drivers will choose to reduce mileage that they do not wish to pay for.

We offer you the following comments to highlight three major categories of benefits and three important criteria for implementation. The three categories of benefits are cost-savings, fairness, and environmental benefit. The three criteria are broad implementation, transparency, and privacy protection. We offer these comments on behalf of the International Council on Clean Transportation and Environmental Entrepreneurs, who both led the work of ETAAC (www.etaac.org).

Cost-savings:
Mileage-based insurance provides more accurate and lower-cost insurance to low-mileage drivers. It is also more efficient for the overall system. Drivers who choose to

drive less reduce accident costs per mile and total costs for all other drivers because accidents decrease with decreased traffic densities[1].

Environmental benefit:



There are many environmental costs that drivers do not pay, including local air pollution and greenhouse gas emissions. While mileage based insurance will not make drivers pay for these social costs, providing incentives for drivers to reduce mileage will also reduce the total amount of these harmful pollutants as an additional benefit. A five percent reduction in driving is equal to eliminating the carbon dioxide emissions of one million passenger vehicles.[2] While the amount of reductions will depend on how mileage-based insurance is implemented, the following table illustrates the potential benefits of encouraging reductions in vehicle miles traveled (VMT) through mileage-based insurance[3]:

Emissions Reductions (tons per day)	5% VMT Reductions by 2012:	10% VMT Reductions by 2012:
Carbon Dioxide (CO_2)	17878	35756
Volatile Organic Compounds (VOC)	19.7	39.3
Carbon Monoxide (CO)	138.2	276.4
Nitrogen Oxides (NO_x)	13.2	26.3
Fine Particulates (PM_{10})	1.6	3.1

Fairness:

The current system unfairly punishes low-mileage drivers who tend to be low-income and female[4]. A fairer system would take into account miles driven so that higher-mileage drivers, who expose themselves to greater risk of accident and injury, pay a greater share into the insurance pool. Likewise, low-mileage drivers who incur a lower risk of accident and injury should pay a smaller share into the insurance pool. A fairer system would remove inherent subsidies to higher mileage drivers and allow all drivers to save further

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[1] Aaron S. Edlin and Pinar Karaca Mandic, "The Accident Externality from Driving", Journal of Political Economy, 2006, vol. 114 no. 5.

[2] Based on EMFAC2007 base-case passenger vehicle populations. A recent study by the Puget Sound Regional Council found reductions in vehicle miles traveled of 12% during a road pricing per mile pilot, demonstrating that consumers are responsive to clear per mile price signals (p.12, summary report available at http://www.psrc.org/projects/trafficchoices/summaryreport.pdf). Volatile organic compounds emission adjusted to account for greater decrease in VMT rather number of starts and stops, per above study.

[3] Todd Litman estimates reductions of 10% or more. See for instance "Distance-Based Vehicle Insurance Feasibility Costs and Benefits, Victoria Transport Policy Institute, February 19, 2007. PM10 does not include fugitive road dust.

[4] Pay-As-You-Drive Pricing For Insurance Affordability, by Todd Alexander Litman, Victoria Transport Policy Institute, May 17, 2004.

by reducing driving. Unavailability of low-mileage policies may be pricing low-income consumers out of the market, so a mileage-based policy could potentially increase access to vehicles and improve mobility for this segment of the population.

Broad Implementation:
The environmental and other benefits of mileage-based insurance will be maximized with the broadest possible application of per mile insurance pricing. Implementation can be phased to allow customers and insurance companies to gain familiarity with mileage-based insurance, test different verification alternatives, and resolve implementation questions. Of course, it is important to begin initial implementation as soon as possible, since these benefits will accrue each year, and implement as broadly as possible by the implementation date of January 1, 2012 for AB32 measures.

Transparency:
Consumers will only change behavior in response to pricing if the prices are visible. Currently, any modest mileage based discounts are essentially invisible to consumers. Insurance companies may be understandably reluctant to share pricing information that may lead more consumers to make unverifiable "low-ball" mileage estimates. Clear communication of mileage based insurance prices, including effective outreach, will be essential to changing behavior and must be the norm once mileage rates are verifiable. We strongly encourage you to examine existing systems in North America and other countries with monthly billing, or as a separate insurance charge when consumers purchase fuel[5], as part of clear communications to consumers.

Privacy Protection:
Several electronic mileage verification systems also can be designed with the technical capacity to also collect additional information beyond mileage. Consumers must be able to control electronic collection of information besides mileage, and chose whether to share any of this additional information. Any additional information they share must be protected from further use or disclosure beyond accurate billing.

We appreciate the Department's leadership on making mileage based insurance a reality in California. Please feel free to contact us if you have any questions regarding our comments. You can also contact Ed Pike of the ICCT at (415) 399-9019, ed@theicct.org; or Diane Doucette of E2 at (415) 875-6100, or diane@E2.org.

Sincerely,

Dr. Alan Lloyd
President, ICCT
Chair. ETAAC

Dr. Bob Epstein
co-founder, E2
Vice-Chair, ETAAC

[5] Note that paying for mileage-based insurance when purchasing fuel is different than "pay-at-the-pump" proposals to charge for insurance on a per-gallon basis.