ICCT Statement at the January 24, 2012 Hearing on
EPA/NHTSA NPRM on 2017-25 Vehicle CAFE/GHG Standards

INTRODUCTION
My name is Alan Lloyd and I am President of the International Council on Clean Transportation (ICCT). Previously, I was Secretary of the California Environmental Protection Agency and Chairman of the California Air Resources Board (CARB). I am happy to present comments on the proposed vehicle standards on behalf of the ICCT, and these will complement the comments presented last week by my colleague, John German, Senior Fellow and Program Director at the ICCT. As you know, the ICCT has broad expertise in all areas of transportation and fuels and our primary mission is to provide technical information to support regulatory agencies worldwide in improving air quality and reducing greenhouse gas emissions.

My testimony will focus on two areas; I will also comment briefly on the recognition for electric drive vehicles. The first is to provide my perspective on the excellent manner in which you have moved from the 2012–16 rule to the current proposed 2017–25 rule. Secondly, I will provide comments on the cost estimates that are included in the proposed rule, since costs are often an issue raised by the regulated community. As a previous Chair of the California Air Resources Board, I feel I can provide some historical context about this line of debate.

FROM A.B. 1493 TO THE PROPOSED RULE
My last act as Chairman of the California Air Resources Board was to preside over the 2004 board meeting to adopt the regulation required by AB 1493. This historic regulation and legislation was made possible by the vision, fortitude, and commitment to the environment by State Senator Fran Pavley, together with the support of Governor Davis and Governor Schwarzenegger. At the national level, you, working together with the California Air Resources Board and the automobile manufacturers, then passed the rule requiring fleetwide reductions in greenhouse gases for the 2012-16 timeframe. This was an excellent example of the provisions of the Clean Air Act in action -- the regulation to control greenhouse gases from vehicles was passed in California, adopted by the Section 177 states and subsequently, at the national level. This cooperation shows the California/EPA relationship working exactly as planned in the Clean Air Act and this is continuing today in the proposed rule making to limit greenhouse gases in the 2017 to 2025 timeframe. I want to congratulate you and the staff of the EPA, as well as of the California Air Resources Board and the National Highway Traffic Safety Administration, for building on the earlier rule and aggressively setting the stage so that the U.S. can not only catch up, but surpass other countries in the world in the desire to improve fuel economy, reduce greenhouse gases, and reduce dependence on fossil fuels.

I also applaud federal policy in identifying the positive role of electric vehicles as a critical technology to address urban and greenhouse gas pollution, fuel economy and reduced dependence on fossil fuels. Electric drive technologies are inherently clean with zero tailpipe emissions, and coupled with renewables, they are capable of zero well-to-wheels emissions and will be necessary to reach 2050 greenhouse gas reduction targets of over 80%.

As we often hear from the automobile manufacturers and with merit, they need consistent long-term signals so that they can plan for investment in ongoing technology development. With this rule, you have provided exactly the emission reduction trajectory that the manufacturers will need to follow, allowing them to invest their resources in the technologies that will permit them to reach these targets.
COSTS OF IMPLEMENTING THE RULE

Last week, John German included some comments about costs in his testimony. However, I want to emphasize that the cost estimates in the proposed rule are supported by strong technical analysis, and the $2,000 price tag is likely to be overly conservative. I will elaborate using a few specific points below.

The ICCT agrees that the best way to derive direct technology cost estimates is to conduct real world tear down studies. Not only is this likely to be more accurate than supplier and manufacturer estimates, but the results are public, greatly increasing the transparency of the cost information. The ICCT also agrees with EPA’s assessment of indirect costs that specifically addresses the factors that increase the retail price compared to the direct costs, and the general approach of assigning technologies to several complexity classes for determining the indirect cost multipliers (ICM). The use of a generic Retail Price Equivalency (RPE) markup to cover a wide range of factors that are not consistent over different technologies often results in overestimating the costs, and we would recommend the agencies to scrap the sensitivity analyses conducted using the RPE markups.

In our work, as well as work supported by the EPA and CARB, the issue of light weighting of vehicles has proven to be one of the most exciting and fertile areas for improving fuel economy without incurring exorbitant costs or jeopardizing safety. As stated by Mr. German, “previous lightweight material cost studies did not assess part interactions and secondary weight reductions. While they may have accurately reflected historical costs for lightweight materials, they all overstate the cost of future vehicle weight reduction. Studies in progress by Lotus and FEV are using highly sophisticated simulation models to optimize part materials and design. The results of these studies will be far more accurate of future designs and must be used to assess weight reduction costs for the final rule”. We believe that these studies, which will be available for inclusion in the final rule, are likely to show costs of lightweighting to be lower than envisioned in the proposed NPRM as well as the final 2012-16 rule.

Another area where costs included in the draft rule are too high, are those for the parallel or P2 hybrid. The P2 systems evaluated by FEV for EPA assumed no reduction in IC engine size (the electric motor provided a performance increase), no reduction in battery size, and did not account for the cost savings due to removing the automatic transmission torque converter. The ICCT is presently engaged in an exercise to evaluate the costs of P2 systems with these issues in mind, and we expect that the updated P2 costs will be lower than the agency estimate. These updated costs should be included in the final rulemaking.

These are but two examples where we feel that the costs in the proposed rule are likely to be high and we feel fully confident that the technology benefits representative of another 13 years of development would result in costs much lower than the $2,000 estimate. From my experience as Chairman of the California Air Resources Board, actual rule implementation costs seen by the consumer are much less than were predicted by the regulated community when standards were adopted. This trend continued with testimony during the Board hearing for AB 1493 adoption, during which the industry predicted $3,000 increase per vehicle. Actual costs, as you have found during the 2012-16 rulemaking, are expected to be lower than $950 dollars.

IN SUMMARY, I want to applaud you and the staff in addition to the California Air Resources Board, National Highway Traffic Safety Administration, and the automobile manufacturers for setting these national standards, and laying out a clear path for the future. Through your efforts and the strong administration support, you have created a dynamic in which all parties are working together, and excitement and jobs are being created again. Finalization of this proposed rule would catapult the U.S. to a global leadership role in addressing fuel economy, climate change, and reduction in fossil fuels. We applaud your great efforts. I know personally - this is extremely taxing and stressful work.