May 10, 2024

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Clerks' Office
California Air Resources Board
1001 I Street
Sacramento, California 95814

Subject: Low Carbon Fuel Standard – Light-Duty Vehicle Residential Base Credits

The Alliance for Automotive Innovation[1], Tesla, and Rivian ("Joint Automakers") appreciate the opportunity to comment on the proposed changes to the Low Carbon Fuel Standard (LCFS).[2] Automakers have long supported the California LCFS; however, CARB is at risk of missing an opportunity to double-down on the regulation's signature strengths in support of growing the light-duty (LD) electric vehicle (EV)[3] market. Specifically, CARB should use the current rulemaking to reform and restore the LD Clean Fuel Reward (CFR) by giving automakers the opportunity to manage the reward program using proceeds from residential charging base credits. This represents the highest and best use of those credits, consistent with the foundational principles of the LCFS regulation and cognizant of the reality that LD EV sales now count on mainstream consumers. Sustained and broadly available purchase incentives for car buyers remain as important as ever for achieving California's EV goals.

The Joint Automakers recommend reestablishing the CFR program as a point of purchase incentive. Less than four years ago, this program was established with unanimous support from automakers, utilities, and CARB to provide a point of purchase reward of up to $1,500 for new EVs. The CFR was reduced to $750 and then eliminated altogether on September 1, 2022. This program incentivized residential customers – *the very customers who generate the LCFS credits that fund this program* – to choose electricity rather than gasoline to fuel their vehicles. Moreover, the CFR was provided at the time of purchase, avoiding the weeks- or months-long wait associated with other rebate programs. It also provided an ongoing revenue stream, rather than dependency on the annual state budget allocation. Lastly, it was one of the few remaining

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[1] From the manufacturers producing most vehicles sold in the U.S. to autonomous vehicle innovators to equipment suppliers, battery producers and semiconductor makers – Alliance for Automotive Innovation represents the full auto industry, a sector supporting 10 million American jobs and five percent of the economy. Active in Washington, D.C. and all 50 states, the association is committed to a cleaner, safer and smarter personal transportation future. www.autosinnovate.org.

[2] California Air Resources Board. (2024). Notice of Public Hearing to Consider Approving for Adoption the Proposed Low Carbon Fuel Standard Amendments. Retrieved January 26, 2024, from https://ww2.arb.ca.gov/sites/default/files/barcu/regact/2024/lcfs2024/lcfs_notice.pdf

[3] Note: In these comments EV includes battery electric vehicles and plug-in electric vehicles.

financial incentives in California for LDVs. Its demise came at a time when EV sales were becoming more dependent on purchases by mainstream consumers. These consumers need more encouragement than early adopters to purchase an electric vehicle.

Additionally, no industry is investing more than automakers to develop the EV market. By 2030, the auto industry is expected to invest more than $1.2 trillion globally[4] in everything from critical minerals and critical mineral processing, to battery cell and pack production, to vehicle development, certification, and production, to charging stations and consumer education. Moreover, automakers are developing telematics, vehicle-to-home (V2H), and vehicle-to-grid (V2G) technologies that benefit the electric grid. Nonetheless, automakers are currently excluded from receiving any of the base residential charging credits generated by their investment.

The Joint Automakers continue to support CFR directed to LD EVs. However, rather than providing the LCFS credits to utilities, participating EV automakers and a third-party administrator approved by CARB (CFR Program Administrator) should administer the program and provide the EV Purchase reward. Automakers have decades of experience administering vehicle rebates and can do so far more efficiently than utilities. Indeed, utilities are sitting on credits worth over $400 million[5] that should have gone to CFR incentives. Automakers know more about their delivery and sales plans than anyone and can leverage that knowledge to better forecast CFR program expenses. Automakers also have direct access to the best data on home charging rates and can leverage that data to better forecast CFR program revenues.

To provide a stable and predictable EV incentive, CARB and automakers should set the CFR EV purchase reward annually based on estimated revenue from LCFS credit generation from

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[4] See https://www.reuters.com/technology/exclusive-automakers-double-spending-evs-batteries-12-trillion-by-2030-2022-10-21/ Retrieved May 7, 2024.

[5] Estimation:

- 10,705,332 MT of base credits generated between 2019 and 2023
    - Source: https://ww2.arb.ca.gov/resources/documents/low-carbon-fuel-standard-reporting-tool-quarterly-summaries
- $128.23 /MT weighted average price over that period
    - Source: https://ww2.arb.ca.gov/resources/documents/lcfs-credit-transfer-activity-reports
- = $1,372,737,229 worth of base credit value generated
- 67% should have gone to CFR rewards
    - Source: page 32 of regulations: https://ww2.arb.ca.gov/sites/default/files/2020-07/2020_lcfs_fro_oal-approved_unofficial_06302020.pdf
- = $919,733,944 should have gone to CFR rewards
- $450,540,222 were the reported total program expenses ($416.8 million in CFR rewards + $33.7 million in administrative expenses)
    - Source: https://cleanfuelreward.com/reporting#mark-equity
- = **$469,193,722 in underutilized money** through the end of 2023

residential EV charging. Unlike utilities that require minimum cash reserves (around $10 million) and thus needed to quickly change the CFR program, participating automakers could continue the CFR throughout the year and then adjust the CFR reward in subsequent years.

The Joint Automakers commit to working with CARB and other stakeholders on setting the minimum percentage of residential base EV charging credits that would be required to support a resilient minimum CFR with the remainder dedicated to equity projects. While details would still need to be worked out, the Joint Automakers recommend the following actions:

1. Split the residential base EV charging credits between equity projects and the automaker-managed CFR.
2. Put all CFR revenue towards light-duty vehicles.
3. Allocate base credits to participating automakers from their fleets sold starting January 1, 2025.
4. Put all EVs on the road before January 1, 2025 into a “community pool”. A third-party administrator would receive the base credits for those vehicles, sell the credits, and then add the revenue to the community pool. If any automaker had CFR outlay shortfall greater than their base credit revenue, the automaker would get a “make whole” payment from the community pool administrator.
5. Add the existing balance in the utility CFR program (estimated at over $400 million) into the community pool.

Again, we sincerely appreciate the opportunity to work with CARB on proposed changes to the LCFS regulations.

Respectfully,

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