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DOF Comments on SRIA

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Catherine Mandler
California Air Resources Board
1001 I Street
Sacramento, CA 95814

February 25, 2020

Dear Ms. Mandler:

Thank you for submitting the standardized regulatory impact assessment (SRIA) and summary (Form DF-131) for the Heavy Duty Omnibus Low Nitrogen Oxide Regulation, as required in California Code of Regulations, title 1, section 200(a)(1) for major regulations. Proposed text of the regulations were not submitted, therefore comments are based solely upon the SRIA and other publicly available information.

The proposed regulations impose stricter exhaust emissions standards and testing requirements for new heavy-duty truck engines sold in California starting in 2024 to reduce truck emissions by 90 percent of 2020 levels. The proposed regulations will help meet California's federal and state emissions targets and will lead to increased upfront costs of \$600 to \$7,000 per new truck and additional annual cost of up to \$2,000 over the lifetime of the vehicle. Compliance costs to truck manufacturers, which are assumed to be located out-of-state, are estimated to reach around \$160 million annually by 2032. Local governments operate around 11 percent of the state's fleet and will incur around \$120 million in direct costs through 2032. All costs are assumed to be passed on to Californian end-users in the truck transportation industry. Incorporating impacts from California Air Resources Board's proposed regulation on clean trucks as part of the baseline, the SRIA estimates that the proposed regulations will reduce statewide nitrogen oxide emissions by over ten percent annually by 2032, leading to health benefits. Higher truck costs will also lead to increased revenue to state and local governments of \$80 million and \$9 million, respectively, through 2032. The SRIA analyzes two alternatives: 1) the proposed regulations would go into effect two years earlier leading to faster emission reductions but also to \$126 million more in costs through 2032; and 2) engine manufacturers would volunteer to nationally certify to a less stringent emissions standard leading to \$927 million less in costs, however California's air quality goals would not be achieved.

Finance generally concurs with the methodology used to estimate impacts of proposed regulations, with two exceptions. First, while we appreciate the discussion on the interactions of the proposed regulations with other proposed regulations, the main impact analysis must be done relative to the legal baseline, which only accounts for existing regulations. The SRIA must incorporate a comprehensive discussion of impacts relative to the legal baseline, done in level of details similar to the current analysis which includes the proposed clean truck regulations as part of the baseline.

Second, the SRIA must discuss the disparate impacts of the regulations on businesses and individuals. This should be done by clearly describing the number and concentration of affected

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entities by region, business and fleet size, and industry, and by expanding the cost analysis from the up to \$9,000 cost per truck to cost per affected entity. In addition, given the existence of concurrent heavy duty truck regulations, the additional effect of these proposed regulations might be particularly burdensome for small businesses and select industries. On the benefits side, health effects from improved air quality will vary based on differences in initial air quality across regions and among different socio-economic groups.

These comments are intended to provide sufficient guidance outlining revisions to the SRIA. The SRIA, a summary of Finance's comments, and any responses must be included in the rulemaking file that is available for public comment. Finance understands that the proposed regulations may change during the rulemaking process. If any significant changes to the proposed regulations result in economic impacts not discussed in the SRIA, please note that the revised economic impacts must be reflected on the Standard Form 399 for the rulemaking file submittal to the Office of Administrative Law. Please let us know if you have any questions regarding our comments.

Sincerely,

A handwritten signature in blue ink, appearing to read "Irena Asmundson".

Irena Asmundson
Chief Economist

cc: Mr. Lenny Mendonca, Director, Governor's Office of Business and Economic Development
Mr. Kenneth Pogue, Director, Office of Administrative Law
Mr. Richard Corey, Executive Director, California Air Resources Board