APPENDIX C

SUMMARY OF DOF COMMENTS TO THE PROPOSED 2015 ZEV REGULATION AMENDMENT SRIA

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ARB summarized the comments received from Department of Finance (DOF) on July 22, 2015 in response to the Standardized Regulatory Impact Assessment (SRIA) prepared as part of the proposed amendments to the Zero Emission Vehicle (ZEV) Regulation. The original SRIA is located after the comment responses at the end of this Appendix.

1. DOF Comment: As proposed ZEV Regulation amendments were not attached, DOF is unable to conclude if the SRIA covers all impacts that may occur as a result of the amendments that will be submitted to the Office of Administrative Law for public comment.

ARB acknowledges that the complete proposed ZEV Regulation amendments were not available at the time the DOF reviewed the SRIA for those proposed amendments. Regulatory language will be included in Appendix A of the Initial Statement of Reasons (ISOR), and additional information and analysis will be found within the ISOR when it is available for public review.

2. DOF Comment: Impacts of the amendments are sensitive to the assumption that manufacturers would generate credits from battery swaps on a small subset of ZEVs under the baseline.

ARB recognizes that the impacts are sensitive to the assumptions made in the SRIA, particularly that credits would be generated by a small subset of ZEVs. That sensitivity is the basis for the proposed amendment, as the Board directed staff to reduce the amount of credits that could be generated by a small subset of the fleet.

3. DOF Comment: The SRIA should include a discussion of the impact of fewer ZEV credits available on the ZEV credit market and the resulting costs and/or benefits.

Manufacturers that cannot be considered independent and produce more than 4,500 vehicles per year in California, as averaged over the previous three years, are subject to the Zero Emission Vehicle Regulation.[1] The same requirements apply to independent low volume manufacturers that produce 10,000 vehicles per year in California averaged over the previous three years. For manufacturers subject to the ZEV Regulation requirement, the amount of a manufacturer's ZEV credit requirement is dependent on the volume of its vehicle sales for that year.

Manufacturers that are not subject to the ZEV requirement may generate ZEV credits

[1] An independent manufacturer is an automotive company which does not fall under the ownership of another parent company (e.g. Mazda or Tesla).

through sales of certified ZEV vehicles in California in the same way their larger, regulated counterparts are required to do. Those manufacturers not subject to the requirement may then choose to sell ZEV credits to other manufacturers with a ZEV credit requirement. Furthermore, manufacturers subject to the ZEV Regulation requirement may also generate more ZEV credits than their requirement through sales of vehicles. Those manufacturers may sell excess ZEV credits to other manufacturers in the same way that small volume and independent low volume manufacturers may sell their ZEV credits.[2] Manufacturers subject to the ZEV requirement may choose to purchase those surplus ZEV credits and use them to comply with the regulation instead of producing ZEV vehicles that would generate credits.

Due to the nature of the ZEV credit market and the producers and users of credits, the market is difficult to fully characterize. ARB does not regulate the ZEV credit market beyond ensuring only users and producers of credits have ownership of those credits, and that manufacturers subject to the ZEV credit requirement are meeting it. Given sufficient demand for ZEV credits, if the supply shrinks, it can be expected that the price per credit will increase. The inverse of that can also be true. If supply increases, but demand stays fixed, then the price per credit should decrease. However, all manufacturers with a ZEV requirement may choose to comply with the regulation by producing the requisite number of credit-earning vehicles. This could effectively reduce demand for ZEV credits in the market to zero.

ARB has no knowledge of the financial agreements made between manufacturers to buy and sell ZEV credits. The data that ARB does have regarding reporting numbers and compliance is considered confidential and cannot be used to characterize the market on a manufacturer by manufacturer basis. It is possible that if an unregulated manufacturer begins earning fewer ZEV credits due to regulatory change, the market may respond by increasing the value of a ZEV credit. This scenario may then induce an increase in the production of ZEVs. However, for reasons given in the explanations above, there is not sufficient publically available information to show the impact to the ZEV credit market and ZEV vehicle sales.

4. DOF Comment: The impact assessment focused primarily on regulatory costs, but should also include a more substantial discussion of regulatory benefits.

ARB agrees with DOF in that an overall decrease in surplus credits could induce faster adoption of ZEVs, and the emissions reductions from the faster adoption do have health benefits. However, due to the nature of the ZEV market, potential changes in the adoption rate can be difficult to project and quantify. The number of credits awarded per vehicle is dynamic and depends on the technology. Different technologies earn more or fewer ZEV credits, on a per vehicle basis, depending on several factors. If a fleet mix were to change from ZEVs that earn fewer ZEV credits to favor ZEVs that earn more

[2] An independent manufacturer falls under the low volume manufacturer requirement, by contrast a non-independent (e.g. Ferrari, Bentley, Scion) fall under the small volume rule because they all have larger parent companies.

ZEV credits, there would be a reduction in the total number of ZEV if manufacturers choose only to meet their compliance requirement. For example, the fast refueling provision allows certain ZEVs to earn more ZEV credits than their non-fast refueling counterparts. Those extra ZEV credits would increase the supply of credits to the market where those credits would be purchased by another manufacturer to comply as opposed to producing the required vehicles. This effectively reduces the number of vehicles that may be on the road in the future.

On the other hand, all manufacturers can produce enough ZEVs to comply with their ZEV credit obligation regardless of any surplus ZEV credits that may be on the market. It is likely that manufacturers will produce enough ZEVs to meet each of their individual obligations, thus keeping them from having to purchase credits from another manufacturer. The number of credits on the market may have no bearing on the number of vehicles, resulting in no change in the projected number of vehicles on the road.