Anthony Oliver
1001 I Street
Sacramento, CA 95814

February 25, 2022

Dear Mr. Oliver:

Thank you for submitting the standardized regulatory impact assessment (SRIA) and summary for the Advanced Clean Cars II proposed regulations, as required in California Code of Regulations, title 1, section 200(a)(1). Proposed text of the regulations were not submitted, therefore comments are based solely upon the SRIA and other publicly available information.

The proposed regulations require that all new cars and light truck vehicles sold in California are zero emission vehicles (ZEVs) by 2035 (starting with 26 percent of total sales in 2026), and create durability and warranty standards for zero emission vehicles as well as cleaner emissions standards for new combustion engine (conventional) vehicles. The SRIA assumes that manufacturers' compliance costs will be passed on to California consumers (at a retail mark-up of 1.5 times the manufacturer costs), leading to statewide costs of $1 billion in 2026, increasing to $26 billion by 2035. The regulations are expected to increase the cost of vehicle ownership by an average of just under $6,000 per car between 2026 and 2035, largely driven by the higher purchase price of ZEVs and by increased power consumption. Consumers are also expected to save just over $6,000 per car on average between 2026 and 2035, due to reduced gasoline usage, maintenance, and repair costs. The regulations are expected to lower emissions, generating health benefits valued at $36 million in 2026 and increasing to $1.3 billion by 2035. State and local impacts include incremental vehicle costs and savings for new ZEVs purchased, increased sales tax revenue, and a large reduction in gasoline tax revenue. State gas tax revenue is expected to decrease by $45 million in 2026 and by $1.6 billion by 2035, which is partially offset by an increase in registration and license fee revenue (expected to increase by $37 million in 2026 and by $1.3 billion in 2035).

Finance generally concurs with the methodology, with the following exceptions. First, the SRIA must justify the following assumptions: 1) the SRIA assumes that, without the regulations, ZEVs make up a constant 12 percent of new vehicle sales starting in 2030, after increasing from 10.7 percent in 2026. However, this is inconsistent with current market trends and existing state regulations and manufacturers' commitment towards electrification. The share of ZEVs in California increased from 0.5 percent in 2011 to 12.4 percent in 2021 (based on the California Energy Commission's (CEC) New ZEV Sales dashboard). The baseline should continue to reflect an increasing share of ZEV sales beyond 2030 or the SRIA should provide a justification for assuming a constant share, as the current approach likely overestimates costs and benefits. 2) The SRIA assumes that private sector adoption of charging infrastructure will occur at a voluntary rate commensurate with the regulated new ZEV sales volume. Slower adoption may hinder consumers' willingness to purchase ZEVs and faster adoption may accelerate the rate at which benefits are realized. The SRIA should include a sensitivity analysis to show how impacts may vary under different infrastructure adoption scenarios or justify the current adoption rate assumption. 3) The SRIA should disclose assumptions regarding the potential for refiners to increase gasoline exports as a result of domestic demand for gasoline decreasing, as this would lead to smaller benefits from reduced upstream emissions. 4) The SRIA should discuss why the "mid-demand" scenario from the CEC's gasoline price projections is most representative despite significant anticipated reductions in gasoline demand, and the price trajectory of gasoline is assumed to be the same under the baseline and with the regulations.

Additionally, the SRIA must include comprehensive estimates of disparate impacts. While Finance acknowledges that the cost estimates for rental car businesses provided in the SRIA, the SRIA must also include estimates for any other groups of small businesses disproportionately impacted or otherwise disclose why other transportation-intensive industries are not expected to bear disproportionate costs. Similarly, some state agencies and local government entities own a larger share of the government fleet and are expected to bear a disproportionate share of the government ownership costs. The SRIA currently reports statewide costs for state and local government but does not discuss fleet costs for disproportionately impacted agencies. Finally, the SRIA does not discuss the potential disparate impacts of mandating incrementally higher-priced vehicles on lower income individuals or the potential for higher used car prices as the more expensive cleaner cars cycle into the used car market and as the stock of cheaper conventional cars is being gradually depleted.

These comments are intended to provide sufficient guidance outlining revisions to the impact assessment if a SRIA is required. The SRIA, a summary of Finance's comments, and any responses must be included in the rulemaking file that is available for public comment. If any significant changes to the proposed regulations during the rulemaking process 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,

[Signature on File]
Somjita Mitra
Chief Economist

cc: Ms. Dee Dee Myers, 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