



Minnesota Automobile Dealers Association

SCOTT LAMBERT, PRESIDENT • 200 LOTHENBACH AVE. • WEST ST. PAUL, MN 55118-3505 • (651) 291-2400 • 1-800-652-9029 • FAX (651) 291-2894
<http://www.mada.org>

December 6, 2019

Sheena Denny
Office of Administrative Hearings
600 North Robert Street
St. Paul, Minnesota 55164-0620

VIA E-MAIL: sheena.denny@state.mn.us

Re: Planned New Rules Governing Passenger Vehicle Greenhouse Gas Emissions, *Minnesota Rules*, Chapter 7023

To whom it may concern:

The Minnesota Automobile Dealers Association (MADA) is a non-profit trade association representing 371 franchised new car and truck dealers located across Minnesota. In 2018, our industry directly employed 20,672 Minnesotans with a payroll of \$1.1 billion. Sales were over \$15.3 billion and generated more than \$1 billion in sales tax revenue; the bulk of which was motor vehicle sales taxes supporting Minnesota's transportation infrastructure.

Our members support taking action to keep Minnesota's air clean and help mitigate the impacts of climate change. However, we do not support adopting California regulations for Low Emission Vehicles (LEV) and Zero Emission Vehicles (ZEV).

Under the Clean Air Act, California was granted the authority to set its own vehicle emissions standards, under a waiver granted by EPA. The Clean Air Act also permitted other states to adopt the California standards, but as the Minnesota Pollution Control Agency has stated, "states must adopt California's standards exactly and avoid creating any requirements different from those established by California." In 1967, California created the California Air Resources Board (CARB) to improve California's air quality. Despite instituting three iterations of a low emissions vehicle mandate since 1990 and adopting ZEV, CARB has said it cannot improve the state's air quality to get out of non-attainment.¹ As a result, California is now considering more stringent emissions standards.

Minnesota is not California. Their population is almost eight times bigger than Minnesota's. They have 24 million vehicles on the road; we have only 4.75 million. They average 18 days of weather below freezing in their state capitol; we average 153. Their top selling vehicle is a Honda Accord; ours is a Chevy Silverado. Most notably, they have 148 areas of the state that don't meet federal air quality standards, also known as non-attainment areas. We have none.

¹ California Air Resources Board website: <https://ww2.arb.ca.gov/resources/fact-sheets/pollution-standards-authorized-california-waiver-crucial-tool-fighting-air>

Uncertainty and Economic Losses with LEV

California's current LEV regulations only impact vehicles through model year 2025. And, they have yet to draft the rules for model year 2026 and beyond. Essentially, the Walz Administration is asking that we adopt a regulatory system that may be quickly be out of date or adopt a system we have no idea what it will look like. Again, we oppose the wholesale adoption of a system based on another state that we have no authority to tailor or change to fit Minnesota. Adopting a temporary system or one in flux, creates great uncertainty for Minnesota dealers and consumers alike.

Another factor leading to the uncertainty around this proposal, is the open question whether Minnesota even has the authority to set its own vehicle emissions standards. The Environmental Protection Agency (EPA) has withdrawn California's authority to adopt and enforce state rather than federal standards. Although California and other states, including Minnesota, are litigating whether they have the authority to adopt state standards, it is extremely difficult to predict the outcome and even challenging to estimate when a decision might be made. Given all this uncertainty, the proposed rulemaking is, at best, premature and, at worst, could be meaningless.

Even if California's authority is reinstated, California will have different vehicle standards than the federal government, but it is uncertain what those standards be. At this time, only Ford, Honda, Volkswagen, and BMW have signed on to California's standards. General Motors, Fiat Chrysler, and Toyota have not. Will that limit what vehicles Minnesotans have access to? Governor Walz has said with these rules, you'll be able to keep your Ford-150², but will you be able to keep buying a Chevy Silverado? We do not believe it is advisable or prudent for the state to undertake an exercise it may not have the authority to do or where the timing or scope of any authority is undecided.

In public hearings on the proposed standard, staff from the MPCA has not disputed that the LEV standard will make the price of all new vehicles sold in Minnesota more expensive, and they reference Colorado's estimated increase in price of \$863³ (well below the \$1,000-\$2,500 increase estimated by the Colorado Auto Dealers Association.) This amount, while a fraction of the cost of a new motor vehicle, is enough to deter a customer from its purchase. The retail car industry is a hyper-competitive market where consumers will drive hundreds of miles to get the best deal. Proponents of the rule have said that since Minnesota dealers will have a captive market, the increase in price won't matter. But captive market or not, if the vehicle is beyond a customer's means or limits, the new car won't be bought.

Also, the price change will have an adverse impact on cross-border sales and dealer trades. Minnesota dealers draw customers from our surrounding states, as evidenced in the attached heat map showing where dealership customers come from. An increase of \$863 in the price of vehicles is enough to halt those visits and their corresponding sales. According to dealers in Fergus Falls, customers from North and South Dakota comprise approximately 40% of their sales, the loss of which would be enough to put those dealers out of business.

Similarly, dealers often will look to other dealers to locate a specific vehicle for a customer and do a trade to acquire that inventory. If the wholesale costs of Minnesota vehicles are more than those of vehicles in neighboring states, dealers will lose an important tool they use to get the vehicles they need to serve their customers and control their inventory.

A cursory look at a map of states (attached) that have adopted the LEV and ZEV mandates illustrate these cross-border issues. While those states have adjoining or nearby states to sell and trade with, Minnesota will be an island onto itself.

² Pioneer Press. *Governor Walz: Minnesota Will Require Car Makers to Sell More Electric Vehicles*. (September 25, 2019) <https://www.twincities.com/2019/09/25/gov-walz-minnesota-to-follow-california-standards-for-low-zero-emission-cars/>

³ Colorado Department of Health and Environment. *Regulatory Analysis for Proposed Colorado Air Quality Control Commission Regulation Number 20*. <https://www.pca.state.mn.us/sites/default/files/aq-rule4-10e.pdf>

From an environmental perspective, price increases that encourage the sale of used vehicles versus new do nothing to encourage Minnesotans to get into cleaner, less emitting vehicles. Since over 44% of Minnesota's passenger fleet is 11 years or older⁴ (before the advent of federal greenhouse gas emissions standards), "expensive" LEVs could slow fleet turnover, keeping less fuel efficient and more polluting vehicles on the road, which is the exact opposite of the MPCA's stated goal.

Based on the potential negative environmental and economic impacts of LEV, MADA does not believe its adoption warrants the trade-off of lost vehicle sales and corresponding motor vehicle sales tax and tab fee revenue for roads and bridges, along with the potential for dealership closings and lost jobs in Greater Minnesota.

False Hope and Promises of ZEV

MADA also believe the ZEV mandate is misdirected. It's totally premised around the fact that there isn't enough electric vehicle (EV) supply in Minnesota, which ignores the fact that there is a lack of demand.

There are three factors that impact the low demand of EVs: utility, price, and range.

According to Deloitte's 2014 Global Automotive Consumer Study⁵, the most important factor that influences a consumer's transportation choice is its utility – or how its functionality fits a consumer's lifestyle. We've seen that borne out in Minnesota – with Chevy Silverado and Ford F-150 pick-ups being the top selling vehicles year after year, and sales of crossovers, SUVs, and trucks accounting for over 82% of annual vehicle sales. Minnesotans want the towing capacity to haul their boats and recreational vehicles; they need the third row to carpool the kids to sporting events; and they want all-wheel drive for winter commuting. Unfortunately, the EV options available to them are limited. Although announced, there are no pick-ups yet, only a handful of crossovers or SUVs (which portends the depth of the future pickup market), and only seven vehicles with any towing capacity, which is limited to 5,000 pounds. While EVs appeal to some, generally they don't fit the lifestyle of many Minnesotans.

With EVs costing on average \$10,000-\$15,000 more than the comparable conventional vehicle⁶ (see attached examples), the up-front costs of ownership are a deterrent. Consumer interest in purchasing alternative powertrains is growing, but the Deloitte survey also points to the fact that consumers don't want to pay a lot more to have them, with most respondents preferring a price bump of no more than \$300-\$2,000 for the technology. While claims that the initial price difference will be made up over the life of the car, customers typically focus on the sales price; understandably so given if you can't afford the car, it is irrelevant whether you may benefit from alleged future savings.

Lastly, while the driving range of electric vehicles is increasing every year, it has not caught up to the mileage that you can get on a full tank of gas, leaving consumers nervous about their options when traveling beyond their regular commute. And Minnesota's cold climate exacerbates that anxiety – since below freezing weather can reduce an EV's range by 20-40%.

The current market dispels any claim that new regulations are necessary to promote the availability of EV models in Minnesota. Despite the disadvantages noted above, EV models are available in Minnesota. In fact, 66% of EV models are available in Minnesota (see attachment), counter to MPCA's claim that "less than half are available at Minnesota auto dealers."⁷ Of the 14 models not available in Minnesota, three are limited to California and four are being discontinued, meaning there are only six of 42 models lacking from the Minnesota marketplace, or 85% of EV models are available in Minnesota.

⁴ Minnesota Department of Transportation. *Vehicle Registration Funding Methods*. (December 2, 2019) <https://www.lcc.leg.mn/vrtf/12022019/Vehicle-Registration-Task%20Force-MnDOT-and-DPS-12.2.2019.pptx>

⁵ Deloitte. *2014 Global Automotive Consumer Study*

⁶ <https://www.mckinsey.com/industries/automotive-and-assembly/our-insights/making-electric-vehicles-profitable>.

⁷ Minnesota Pollution Control Agency. <https://www.pca.state.mn.us/air/clean-cars-mn-why>

New regulations are not the most efficient or effective means to promote EVs - financial incentives are. The MPCA in its own 2019 report, *Accelerating Electric Vehicle Adoption: A Vision for Minnesota*, published in conjunction with the Minnesota Department of Transportation and Great Plains Institute, states that incentives are “THE MOST IMPORTANT FACTOR IN EV ADOPTION.”⁸ (Interestingly, not once does the report mention adopting ZEV in Minnesota as part of the vision.) The National Association of State Energy Officials⁹ agrees with the assessment after doing a study that found vehicle purchase programs the most effective way to sell more EVs. The experience of states with robust incentives to reduce the upfront costs has also borne this out. Georgia had a \$5,000 EV tax credit on the books, but it was repealed in 2015, causing EV sales to drop 90% from 10,540 EVs sold in Georgia in 2014 to 1,829 in 2015.¹⁰ Other states that have instituted similar tax credits or rebates have seen sales of EVs increase by two-four times the national average. Incentives helps drive demand for the market, bringing more EV options and leading to lower vehicle costs, even without a ZEV mandate.

Additionally, ZEV requires the manufacturers only to deliver more vehicles for sale in Minnesota; it doesn't not require consumers to buy them. It also gives automakers the option to buy or trade credits to meet the requirement. Currently, manufacturers are meeting the ZEV requirements in the ten ZEV states largely through the use of credits. As of October 2018, manufacturers had banked over 816,000 battery electric vehicle credits and 251,000 plug-in hybrid electric credits, enough to comply with the respective ZEV regulations through 2022 **with no new ZEV sales**¹¹. If ZEV does not translate to increased EV sales (which it likely won't for the aforementioned reasons) or credits are used to meet the mandate, there would be no improvement in greenhouse gas reductions; meaning no environmental gains from the proposed rules.

The MPCA has insisted that ZEV “does not require anyone to purchase an EV.”¹² Ironically, while the ZEV mandate does not require consumers to purchase EVs, Minnesota dealers, in fact, will be required to “purchase” EVs. Dealers purchase their inventory from manufacturers when they deliver it for sale, and there are significant interest costs when doing so – tens of thousands of dollars per month for a mid-sized dealer. If that inventory does not sell to a consumer, the dealer's carrying costs mount and limit the number of other new vehicles they can take in, hurting the dealers' ability to attract customers. The previously identified lack of consumer demand for EVs, especially with regard to the limited number of truck models, makes it a distinct possibility that under ZEV, dealers could be forced to buy inventory they can't sell.

The MPCA contends that ZEV will bring every EV model to every dealership and city in the state. This is blatantly false:

- 1) Not every franchise is available in every region, despite MPCA's insinuation that they would be (see attachment). There is no obligation on any manufacturer to grant a franchise anywhere; even if there is a party that wants to be a dealer.
- 2) Despite representations to the contrary, not every dealer will offer EVs. Some manufacturers require dealers to make investments in infrastructure and personnel, costing upwards of \$25,000-50,000, to be authorized to sell EVs. A dealer will only make this investment if they have the resources and believe they can recoup the costs. Dealers, especially outside the metro area, will be hesitant to spend money to become certified to sell EVs.

⁸ Minnesota Pollution Control Agency. *Accelerating Electric Vehicle Adoption: A Vision for Minnesota*.

<https://www.pca.state.mn.us/sites/default/files/p-gen4-13.pdf> (page 21)

⁹ National Association of State Energy Officials. *PEV Policy Evaluation Rubric: A Methodology for Evaluating the Impact of State and Local Policies on Plug-in Electric Vehicle Adoption*

https://www.naseo.org/data/sites/1/documents/publications/PEVPolicyRubricMethodology_NASEO.PDF

¹⁰ Marketplace. *Georgia EV Sales Sputter without Tax Credit*. <https://www.marketplace.org/2016/01/08/world/georgia-ev-sales-sputter-without-tax-break/>

¹¹ Union of Concerned Scientists. <https://www.ucsusa.org/resources/what-zev>

¹² Minnesota Pollution Control Agency. <https://www.pca.state.mn.us/sites/default/files/aq-rule4-10j.pdf> (slide 13)

The Sierra Club's recently released report *Rev Up Electric Vehicles: Multi-State Study of the Electric Vehicle Shopping Experience*,¹³ which examined EV availability in the 10 ZEV states, acknowledged both of these realities.

Lastly, the MPCA has continually told the public in meetings that Minnesota should adopt ZEV because "it works in the other ZEV states," pointing to the experiences of Colorado and Maine. Granted, Minnesota has more in common with these two states in terms of weather and fleet than California, but the jury is still out on whether ZEV even works in those states.

Colorado's rule, while promulgated, is not in effect until model year 2022, making claims of successful implementation premature. Significantly, Colorado was already one of the top states for EV sales (2.78% in 2018) before ZEV was enacted, largely because it offers EV vehicle purchase incentives of up to \$5,000. With the tax credit, it will also be easier for manufacturers to rack up early adoption credits before ZEV goes into effect, lessening their concerns about meeting the steep increase in EV sales (8%) required by ZEV in 2025.

In contrast, Maine has been a ZEV state since model year 2001, but only 0.8% of all vehicle sales in 2017 were EV sales. It's doing better in 2019 with 1.24% EV sales so far, just slightly more than Minnesota, which is at 1.13%.¹⁴ Because of Minnesota's larger population and vehicle market, Minnesota has sold almost four times as many EVs as Maine since 2011: 8,990 to 2,879. The Electrification Coalition, which ranks EV policy in ZEV states, gave Maine the lowest rating because "it offers no financial incentives for consumers or for the installation of charging stations."¹⁵ According to the Global Automakers, its progress towards having sufficient EV sales to comply with ZEV requirements in 2025 is 4.4%.¹⁶

Ultimately, instead of putting forward rulemaking that proposes Minnesota adopt a California plan over which Minnesota has no control, that divides Minnesotans, hurts local business and limits consumer choices, MADA requests Governor Walz to begin a collaborative effort to develop Minnesota specific policies and programs that focus on infrastructure and incentives that have been shown to be the means to effect changes in vehicle use that will achieve the environmental gains Minnesotans are seeking.

Respectfully submitted,



Scott Lambert
President
Minnesota Automobile Dealers Association

¹³ https://content.sierraclub.org/creative-archive/sites/content.sierraclub.org/creative-archive/files/pdfs/1371%20Rev%20Up%20EVs%20Report_09_web.pdf

¹⁴ <https://www.globalautomakers.org/advocacy/environment-and-energy/electric-drive/ev-sales>

¹⁵ Electrification Coalition. *Zev State Policy Rankings* (June 2018) https://www.electrificationcoalition.org/wp-content/uploads/2018/07/zev_state_policy_rankings_6_11_2018.pdf

¹⁶ <https://www.globalautomakers.org/advocacy/environment-and-energy/electric-drive/ev-sales/maine>