

April 9, 2021

Honorable Robert Wieckowski  
Senate Budget & Fiscal Review Subcommittee No. 2  
Resources, Environmental Protection & Energy  
State Capitol, Room 5019  
Sacramento, California 95814  
By email: [SBUD.Committee@senate.ca.gov](mailto:SBUD.Committee@senate.ca.gov); [Joanne.Roy@sen.ca.gov](mailto:Joanne.Roy@sen.ca.gov)

Re: California 2021-22 Fiscal Year (FY) Budget Relating to Clean Vehicle Incentive Funding

Dear Chair Wieckowski:

I write on behalf of Hyundai Motor North America (Hyundai) to comment on California's Zero Emission Vehicle Programs and Strategies, specifically relating to the state's Clean Vehicle Rebate Project (CVRP). Hyundai is proud to call California home, with its North American headquarters located in Fountain Valley. Hyundai employs more than 2,000 in-state individuals working in product planning, design, development, engineering, and sales. Hyundai has worked extensively with California on fuel cell electric vehicle (FCEV) technology for over a decade and was one of the first to market with the 2007 Tucson FCEV. I write to urge the Senate Budget & Fiscal Review Subcommittee on Resources, Environmental Protection & Energy to support at least \$250 Million in CVRP funding in California's 2021-22FY Budget, as well as reliable CVRP funding through 2030.

#### **A. Hyundai is Preparing for 100% ZEV in California**

Hyundai's bold electrification strategy positions the company well to answer the Governor's recent call to automobile manufacturers that 100% of new passenger car and truck sales be Zero Emission Vehicles (ZEVs) by 2035. This unprecedented overhaul of California's light-duty vehicle sector will considerably reduce greenhouse gases and criteria pollutants within the state. However, success will ultimately turn on whether California can convince its consumers to prefer ZEVs over traditional gasoline vehicles (ICE Vehicles). Hyundai's own consumer research supports general market research findings that consumer apprehension about ZEVs remains primarily due to cost, range, and infrastructure barriers. Hyundai is and has been investing significant resources to understand and address these issues in product development over the last several years. Below I describe several of our recent investments, and I hope this letter opens the dialogue for more discussions, budget-related or not, on how Hyundai hopes to support California's goal to decarbonize the light-duty vehicle sector

##### **i. Hyundai's E-GMP helps to deliver lower-cost Battery Electric Vehicles (BEVs)**

The recent release of Hyundai's revolutionary electric global modular platform (E-GMP) symbolizes

a new era at Hyundai. Our revolutionary E-GMP is a dedicated EV chassis designed for use in more than 20 forthcoming vehicles globally and, accordingly, represents Hyundai's most recent development to reduce the cost of battery technology. Hyundai will launch our all-electric subbrand, IONIQ, later this year with the IONIQ 5 as the first U.S. vehicle built on the E-GMP.

**a. Hyundai Offers Significant Countermeasures to Alleviate Customers' Range Anxiety**

Hyundai is committed to helping customers overcome range anxiety related to BEVs. That is why the E-GMP will deliver approximately 300 miles of range, on par with Tesla's Model 3, and well above the industry average. In fact, the IONIQ 5's all-electric range, due to its E-GMP chassis, will easily outperform several of the most popular BEVs currently in the market, including the Nissan Leaf, Chevy Bolt and Audi e-tron.

In addition, Hyundai has invested significantly in DC fast-charging technology to reduce time needed for vehicle charging, returning to the customer a little more personal time. Our fast-charging technology enables customers to achieve an eighty percent (80%) charge in 18 minutes or, if the customer is short on time, 60 miles in 5 minutes.

We are continuing to pursue additional offerings for our customers that will ease range anxiety and encourage their transition from an ICE Vehicle to a BEV.

**B. Despite Hyundai's and Industry's Significant EV Investments, the 100% ZEV Mandate is Unachievable Without California Incentives to Encourage Consumers to Purchase Electric Vehicles**

Our research, and syndicated market forecasts, indicate that consumers remain in the early adopter phase for EVs in California. We expect California consumers to transition to the early majority phase post-2025, when BEVs will achieve price parity with ICE Vehicles in some segments. There is still significant work to be done to achieve mass market adoption, specifically attracting new customers to EVs. Hyundai fully supports Governor Newsom's proposed EV infrastructure investments; however, the lack of CVRP funding will severely hamper the potential of those investments if consumers do not choose EVs over ICE Vehicles.

**i. Georgia Serves as a Case Study**

Incentives are a significant driver in transitioning a new technology from early adopter phase to mass market. When incentives are prematurely eliminated, they can and often do have drastic market-inhibiting results. Georgia was, for a time, the second largest market for EVs in the U.S., until the Georgia Legislature eliminated the state's clean vehicle incentive program in 2015. New EV registrations quickly plummeted by nearly 90%, and since then, sales have fallen by approximately

80% due to an ongoing dearth of government incentives. While California indisputably leads Georgia in EV market penetration – and did before the elimination of the Georgia incentive – Hyundai cautions the government against believing that California consumers will inevitably pursue EVs if CVRP funding is unavailable. Notably, on the FCEV side, there is no meaningful state alternative incentive program to encourage consumer purchase of these vehicles. Despite funding availability from other programs, such as the private Clean Fuel Reward program, such incentives are available at notably lower levels than those offered by the CVRP. As consumer vehicle preferences have shifted to larger vehicles such as SUVs, purchase price is increasing, and incentives should take this into account.

In other words, higher incentives are needed to spur purchase consideration and ultimate purchase for the next generation of EVs in California. Accordingly, to the extent non-CVRP incentives are available, they should be used to augment, not suppress, CVRP incentives until BEVs begin to achieve price parity with ICE Vehicles, which is expected in the second half of this decade.

**ii. Neither the Clean Cars 4 All (CC4A) Nor the Privately-Funded Clean Fuel Reward is an Adequate Substitute for the Loss of CVRP Funding**

There are two existing consumer incentive programs being put forth as replacements for the loss of CVRP funding. However, for the following reasons, the CC4A and Clean Fuel Reward programs cannot replace the CVRP. Please see Attachment 1 for a comparison of the CVRP, CC4A and the privately funded Clean Fuel Reward.

First, the Governor's proposal includes \$150 Million for a suite of smaller-scale ZEV incentive programs which, while important, are insufficient to support the Governor's aggressive call for 100% ZEV by 2035. For example, Hyundai lauds the CC4A program for its ability to reach the state's lowest income consumers in scrapping and replacing the dirtiest vehicles. However, it is limited in scale and cannot deliver the changes to consumer purchasing behavior needed to realize a fully electric California. CC4A is available in just four of the state's 35 air districts and has funded approximately 10,000 rebates – less than one percent of CVRP's 405,000 (est.) rebates.

In addition, the privately-funded Clean Fuel Reward is an important incentive, but it offers different advantages and comes with some drawbacks. First, it was launched at the end of 2020 and therefore is largely unknown to consumers, which restricts its ability to motivate consumer adoption of EVs. The program also does not incorporate an income cap and is available to all consumers; moreover, the rebate is available at a far lower amount of up to \$1,500 than the CVRP, which offers up to \$7,000 to consumers. Further, unlike the CVRP, the Clean Fuel Reward fails to provide additional funds for low and moderate income consumers. In addition, there are significant policy questions the state needs to consider in light of the fact that it is a privately-funded incentive. Examples include: Will California's decision to defund a state-sponsored consumer incentive program undermine the state's call for 100% ZEV? What signal does it send to California consumers

and the rest of the country about California's investments in an emissions-free light duty transportation sector? Will failure to fund the CVRP leave Californians behind while EVs still have not reached price parity with ICE vehicles? We believe that taken together, these considerations make it clear that the CC4A program and the Clean Fuel Reward are inadequate substitutes for CVRP, and instead should co-exist alongside the CVRP.

### **C. Without CVRP Funding, California Will Abandon Its Significant Hydrogen Investments**

Perhaps by oversight, the Governor's Proposed Budget removes all serious consumer incentive programs to support Fuel Cell EVs. The Clean Fuel Reward program only reaches Plug-in Hybrid and Battery Electric Vehicles; Fuel Cell EVs are omitted. Given the technology's relative nascence and therefore higher price point, existing incentive programs targeting the state's lowest income consumers are unlikely to yield rebates used for Fuel Cell EVs. Yet, this technology is critical to a 100% ZEV portfolio; ARB Board Members acknowledged as much as recently as the December 2020 Board Meeting. Accompanying funding support through the CVRP is necessary to help Fuel Cell EVs gain a foothold in the state well ahead of the Governor's 2035 ZEV deadline.

Moreover, CVRP statistics show a recent uptick in consumer interest for Fuel Cell EVs, with more than 87% of all FCEV rebates occurring in the past four years. We are concerned that consumer interest in these vehicles will begin to wane rather than accelerate with the loss of CVRP funding.

Additionally, the state's failure to fund Fuel Cell EVs through the CVRP is tantamount to voiding the state's hundreds of millions of dollars in hydrogen infrastructure investment to date. The Governor's current proposal to securitize \$1 Billion for future ZEV infrastructure contemplates in no small part hydrogen station funding. As earlier stated, we staunchly support infrastructure funding but also seek complementary consumer incentives to optimize such investments.

Finally, CVRP funding for FCEVs provides a dual benefit for the state. First, the funding will directly support more light-duty Fuel Cell EVs on California roads, improving California's air. Second, light-duty Fuel Cell EVs help drive down the cost associated with medium- and heavy-duty Fuel Cell EVs, which supports California's regulatory efforts to decarbonize these transportation sectors by 2045. Fuel Cell EVs are expected to comprise a greater market share in the medium- and heavy-duty sectors than in the light-duty sector. Because the medium- and heavy-duty sectors are dirtier overall than the light-duty sector, these cost-savings present an opportunity to accelerate the market uptake.

### **D. Current Year CVRP Funding Will Be Exhausted by End of April Further Underscoring the Need for \$250 Million in Funding for FY2021-22**

It is reasonable and appropriate that the State of California provide minimum CVRP funding for FY2021-22 in the amount of \$250 Million due to recent events. Just last month, ARB confirmed that

current year funding for the CVRP will be exhausted by April 2021. Further, ARB's three-year funding cycle needs assessment for FY2021-22 identifies a range of funding from \$217 Million to \$511 Million; \$250 Million is at the low range of ARB's own projections. In addition, according to a March 2, 2021, New York Times article, California's overall tax revenue is up by 1.2% for 2020. Moreover, California raised approximately \$650 Million in revenues through the February Cap and Trade Auction, and a second auction is expected to yield similar if not greater revenues next month. In light of these facts, the \$250 Million in program funding is more than reasonable. While CVRP funding would ideally come from the Greenhouse Gas Reduction Fund, we ask that any shortfall be addressed through an alternative source such as a General Fund augmentation.

### **E. The State Auditor's Recent Report Criticizing Air Resources Board's (ARB) Administration of Clean Vehicle Incentive Programs Should be Used to Reform, Not Remove, the CVRP**

Although the recent State Auditor's Report identifies areas for improvement in ARB's administration of vehicle incentive programs, Hyundai is concerned about elimination or underfunding of the CVRP. This would be a mistake because California is at a critical juncture in the EV market. Despite some shortcomings, the CVRP is the state's most well-known clean vehicle incentive program, in part, because it is available everywhere for new clean vehicle sales. Many other incentive programs are available on a limited basis or have narrower program criteria.

Hyundai recognizes the merit of the State Auditor's findings specifically as they relate to the Legislature's ability to make informed funding decisions. Hyundai would gladly support and participate in reform efforts to improve the CVRP, including development of Point-Of-Sale application and key metrics to ensure maximum program effectiveness as called for in the State Auditor's Report.

### **E. Conclusion**

In summary, Hyundai requests the Subcommittee provide at least \$250 Million in CVRP Funding for 2021-22FY, as well as reliable CVRP funding through 2030, in order for industry to achieve the Governor's vision for 100% ZEV new car sales by 2035. We appreciate your consideration of the matters raised herein and welcome the opportunity to further discuss clean vehicle consumer incentive funding with your Subcommittee members. Please feel free to contact me at [oboyle@hmausa.com](mailto:oboyle@hmausa.com) with any questions.

Sincerely,

*Olabisi Boyle*

Olabisi Boyle (Apr 9, 2021 12:30 PDT)

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