

**FCA Testimony on
The Safer Affordable Fuel Efficient (SAFE) Vehicles Proposed Rule for Model Years 2021-2026**

The Dearborn Inn - Dearborn, Michigan
September 25, 2018

Good morning, I am Steve Bartoli, Vice President – Global Fuel Economy and GHG Emissions Compliance, from Fiat Chrysler Automobiles (FCA US LLC). Thank you for providing the opportunity to comment on your proposed Safer Affordable Fuel Efficient Vehicle rule today.

FCA US is a North American automaker based in Auburn Hills, Michigan. It designs, manufactures, and sells or distributes vehicles under the Chrysler, Dodge, Jeep, Ram, FIAT and Alfa Romeo brands. In 2017, FCA sold over 2 million vehicles in the U.S. FCA has more than 60,000 employees in the U.S., and since 2009, the Company has created more than 28,000 jobs and invested more than \$10 billion in the U.S. Improving the fuel economy and greenhouse gas emissions of our products is important to FCA, our customers, U.S. energy security and the environment.

FCA supports continued improvements in fuel economy from today's levels, and we have been investing in fuel saving technologies across our product lineup. Some highlights at FCA include; our new family of downsized and boosted direct injection engines, implementation of wide-ratio 8 and 9 speed transmissions, the class leading Pacifica Plug-in Hybrid Electric Minivan, the introduction of 48V mild hybrids on V6 and V8 Ram Pick-ups, the application of stop-start technology across multiple products, and our announcement of a Plug-in Hybrid Electric Jeep Wrangler.

Notwithstanding FCA's investment and our competitors' similar investments in their products, in model year 2016, for the first time since the new standards were put in place, the industry as a whole could not comply with the fleet standards without using credits earned in previous years. That noncompliance gap – which independent IHS forecasts estimate will grow to almost 3-1/2 miles per gallon by model year 2020 – was a wake-up call that assumptions made seven years ago about the U.S. auto market need to be revisited.

The process we are engaged in today was first envisioned in 2012 when NHTSA, EPA and ARB recognized they were forecasting fuel economy levels thirteen model years into the future. The agencies and industry agreed at that time that a Mid Term Evaluation was necessary to evaluate the standards and adjust up or down as needed to ensure continued alignment with consumer response to, and the evolution of, fuel saving technologies.

Let me be very clear, FCA supports the policy choice in favor of ongoing fuel economy improvements in the fleet, but that policy needs to be based on market realities as they have evolved since 2012. In business and in government, we have to make decisions based on the best information available to us at the time, but we also must be nimble enough to adjust our plans when the facts on the ground change.

The auto market today is different from what we all – regulators and industry, alike – thought it would be in 2012. From FCA's perspective, the three most significant changes to the assumptions we made then are: (1) sustained, lower gas prices; (2) a dramatic shift in consumer preference from cars to utility vehicles; and (3) the lack of penetration of alternative fuel technology.

First, the most significant change to the 2012 assumptions has been sustained, low gas prices. In the original regulation establishing standards for MYs 2017 – 2025, gas prices were predicted to be over \$4 per gallon by 2018 while today's actual prices are under \$3 per gallon. For the NPRM, the agencies lowered fuel price assumptions through 2025 by 30 to 40% using Department of Energy forecasts – a significant drop from the levels projected in 2012. When gas is relatively inexpensive, fuel economy improvements save customers less money at the pump. Consumers in turn have less incentive to pay for expensive fuel saving technology, instead choosing to invest in other features or vehicle attributes – like a more capable powertrain, a better infotainment package, or other features.

Second, the last several years have witnessed an organic shift in consumer buying patterns away from higher-fuel-economy small and midsize passenger cars toward more capable

crossovers and utility vehicles. Industry and regulators clearly did not anticipate this market shift in 2012. The forecasts referenced by the agencies at that time showed cars increasing from 50% to 57% of annual vehicle sales by 2025. Instead, cars have actually dropped to 36% of the total fleet by 2017 – the opposite of the expected trend. Over the same period, the utility vehicle market share has grown from 30% to over 40%.

This shift in consumer preference presents a compliance problem, even in a footprint-based standards system. A utility or crossover vehicle that has the same powertrain and technology as a sedan with the same footprint will require more energy. In a world of low gas prices, that has proven to be a trade-off that consumers are willing to make for the versatility of a crossover or SUV. But it is one of the main contributing factors to the growing industry compliance gap and it needs to be addressed in this rulemaking.

Finally, while industry is shifting more focus to electrification development, the combination of low gas prices and consumer concerns over product cost and range have inhibited uptake. The reality that residual values of electrified vehicles can be as much as 40% below those with a conventional powertrain compounds the financial concerns for prospective consumers. Over the last decade the industry has almost tripled the number of hybrid and plug-in electric product offerings. These technologies are available across a range of vehicle types and price points. Plug-in hybrid and battery electric vehicles are eligible for significant federal tax credits and, often, state tax credits or other incentives such as High Occupancy Vehicle lanes or parking access, but only account for 1.5% of US market share. Further, the combined U.S. market share of all hybrid and plug-in electric products has remained virtually flat at roughly 3%.

FCA continues to support working towards One National Program that allows us to build one fleet that complies with all NHTSA, EPA and ARB regulatory requirements. We agree with EPA and NHTSA that the most direct way to align the program with market realities is through adjusting the footprint curves that define a vehicle's basic fuel economy requirements. But we also recognize California's commitment to expanding electrification of the fleet. FCA is willing

to work with all parties on a data-driven final rule that results in market-facing fuel economy improvements that also support greater penetration of alternative powertrains.

Thank you for your time today. FCA continues to evaluate the proposed rule and will submit detailed comments. In closing, I want to reiterate that FCA is committed to working constructively with all government stakeholders to achieve a successful, sustainable outcome that builds upon the progress made to date for our customers and our employees.

Thank You