

# Comments on CAFE Light Truck NPR & PRIA

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Resources for the Future

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# Main Points

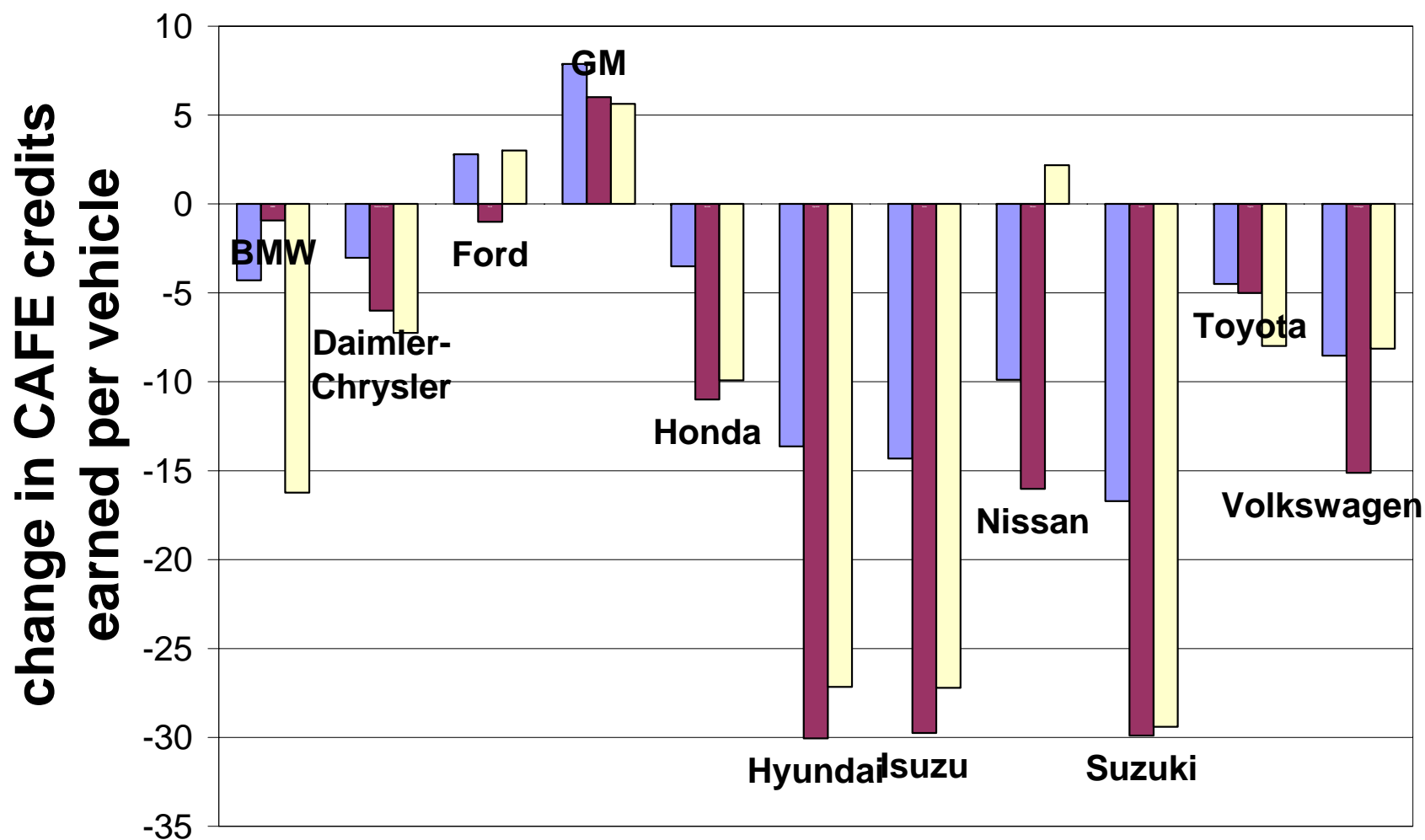
- Use of categories affects distribution of costs among manufacturers; shifts away from full-line manufacturers.
- New cost-benefit approach does not substantially alter overall costs.
- Standard now sensitive to benefit estimates.
- Uncertainty exists about costs.

# Underlying Notion of Reforms

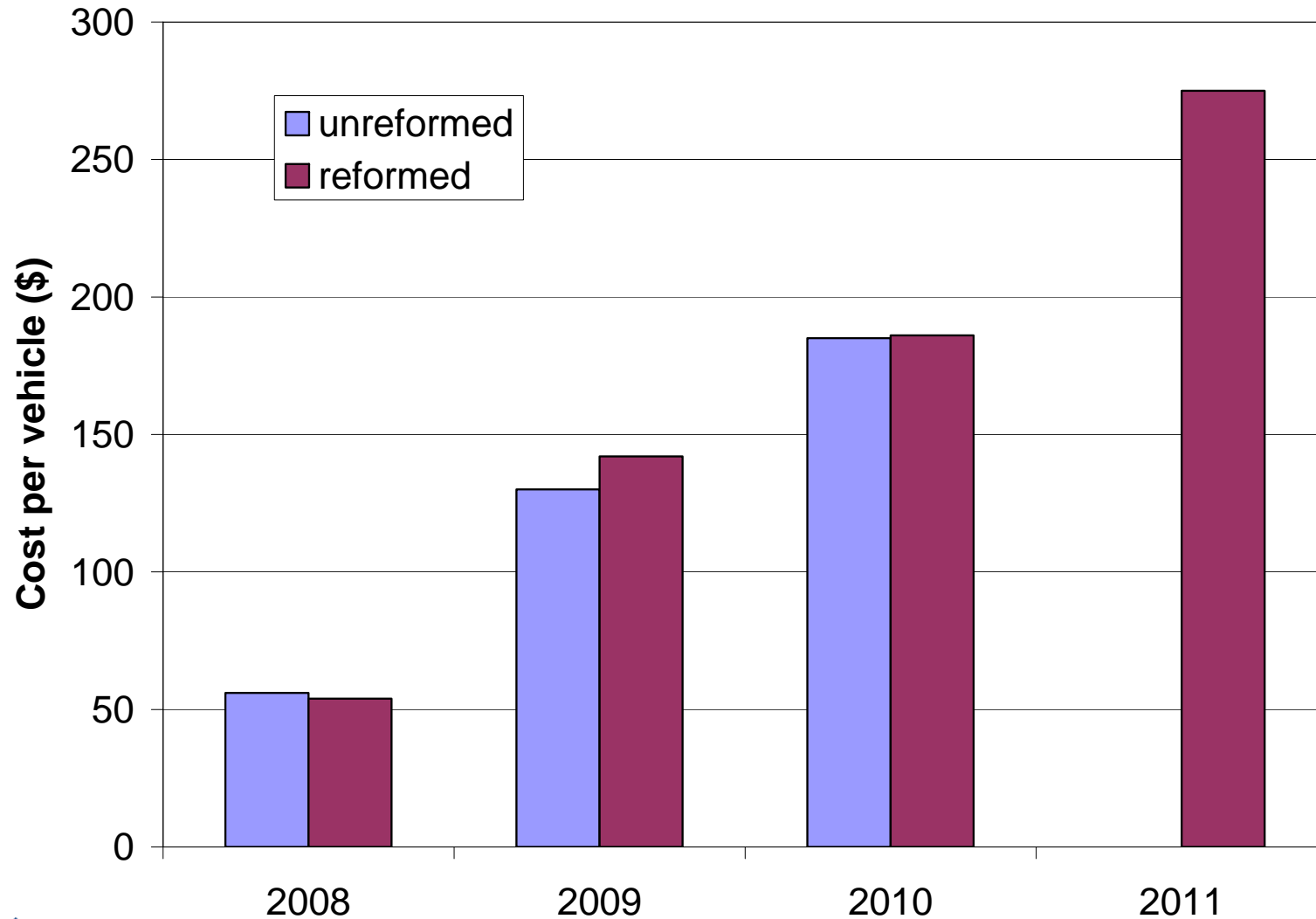
- Categories used to define relative fuel economy targets based on size.
  - Will lead to different standards for each manufacturer based on fleet composition.
- (2011) Increase entire schedule of targets until incremental cost exceeds incremental benefit.
- NHTSA benefits:
  - Starting point: incremental benefit to society per gallon saved equals (pre-tax) fuel savings. \$1.14.
  - End point (add in all other consequences): total societal benefits are slightly *less* than fuel savings.

# Relative Effect of Reforms

reformed versus unreformed, applied to 2002-2004 data



# Reformed versus Unreformed Cost

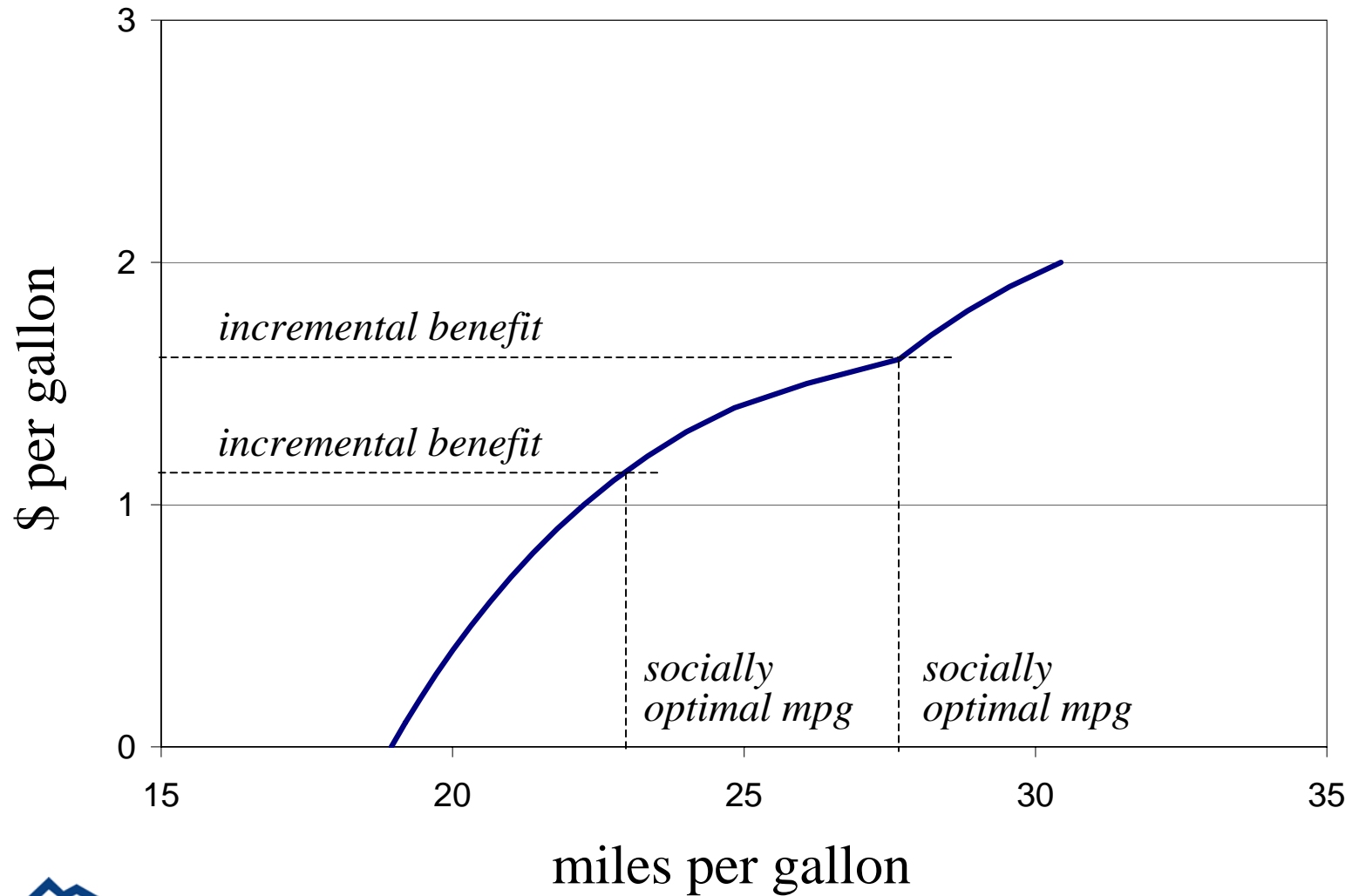


# General Cost Conclusions

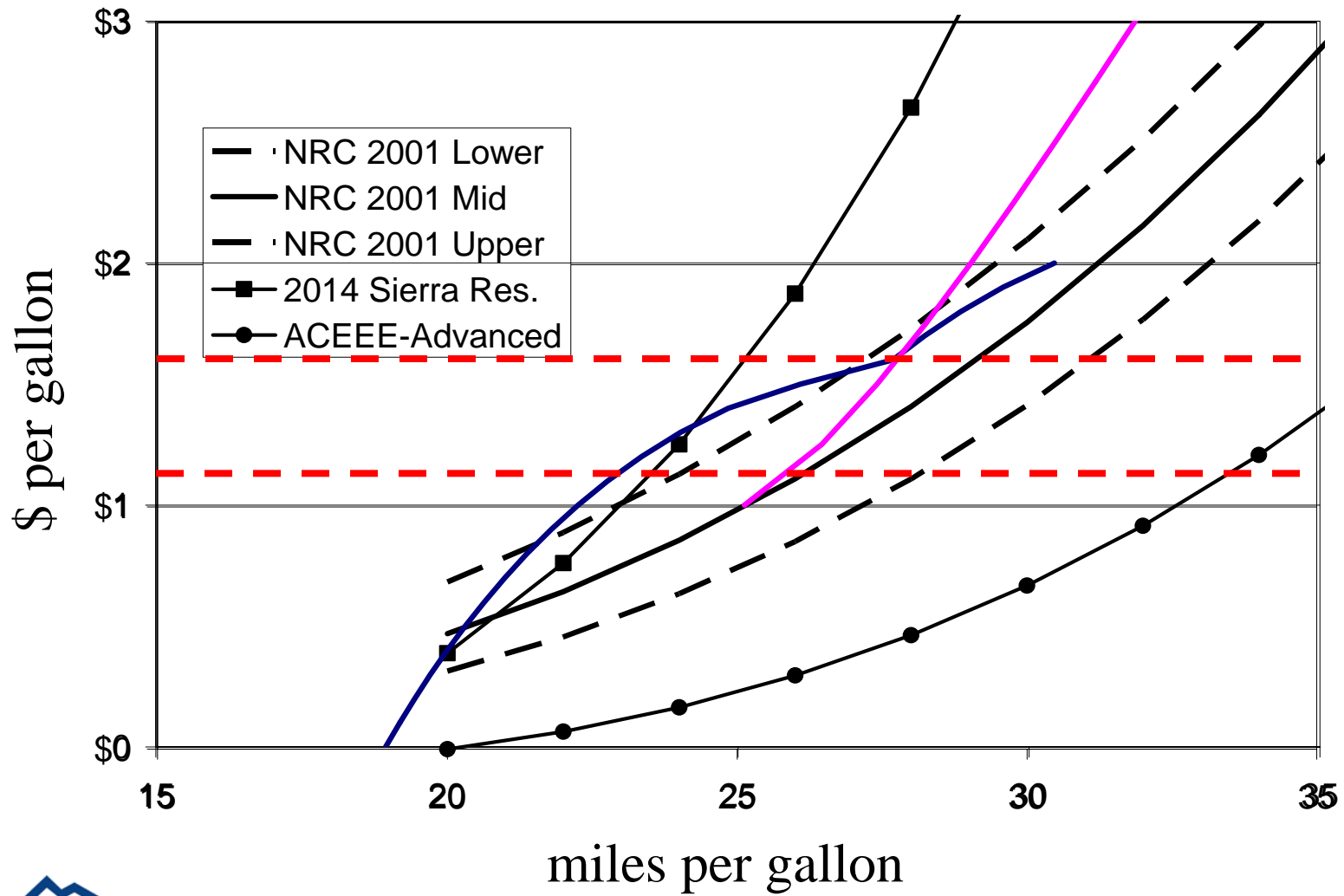
- Reforms do not substantially alter costs compared to trend in unreformed costs.
- Distribution of costs shifted away from full-line manufacturers.

# Incremental Cost per Gallon

(NAS Study, author's calculations)



# More Light Truck Studies



# Observations on Cost

- Estimates vary by  $\pm 2$  mpg even within same study; range of 10 mpg at \$1.10/gallon across studies.
- \$0.50 rise in estimated incremental benefits translates into 2-4 mpg increase in benefit maximizing standard.
- Need to think carefully how updated gasoline price forecasts will be incorporated.

# Summary

- New approach shifts distribution of costs away from manufacturers focused on largest classes and towards those focused on smallest.
- Overall burden is not different under new cost-benefit approach.
- Standard is now sensitive to benefit assumptions; \$0.50 / gallon translates into 2-4 mpg
- Uncertainty exists about technology costs with a potentially large influence on choice of standard (suggesting use of a “safety valve” in future legislation).