

Light-Duty Vehicle Regulations Provide New Incentives for Automaker Production of NGVs

The recently-finalized light-duty vehicle regulations for MY 2017-2025 provide new incentives for automakers to produce natural gas vehicles, as well as special provisions for NGVs in dual-fuel (bi-fuel) configurations and in pickup trucks. VNG played a central role in securing these incentives and will continue working with automakers and other stakeholders to build policy momentum for NGVs.

VNG offers a nationwide retail CNG fueling facility program as an owner-operator to support development of the light-duty NGV market throughout the U.S.

New Benefits for NGVs in Light-Duty Vehicle Rules

With current natural gas prices allowing for fuel cost savings of 40% or more compared to gasoline, the value proposition of natural gas vehicles (NGVs) for fleet operators and consumers is increasingly clear. However, VNG has long recognized that supportive government regulations are also critical to facilitating automaker production of NGVs, and worked vigorously to secure support for natural gas in new federal light-duty vehicle Corporate Average Fuel Economy (CAFE) and greenhouse gas (GHG) standards for model years 2017-2025. VNG's initiative included a series of meetings with key decision-makers at EPA, NHTSA, and the White House, as well as extensive written comments.

These efforts by VNG and other stakeholders have achieved notable successes, yielding greater incentives for NGVs than the agencies originally proposed – including significant benefits *immediately* in the 2012-2016 period. Under the final rules, NGVs (including dual-fuel/bi-fuel models that can run on either natural gas or gasoline) now essentially receive the same degree of compliance incentives as plug-in hybrid electric vehicles (PHEVs), including **EPA multipliers**, the **CAFE Petroleum Equivalency Factor**, and **utility factors for dual-fuel vehicles** (as summarized below). The rules also favor the use natural gas in pickup trucks, as well as automakers that deploy significant numbers of NGVs before 2015.

- **New EPA “Multiplier” Incentives:** Each NGV will be counted as more than one vehicle for greenhouse gas (GHG) compliance calculations from 2017-2021, magnifying their value for automakers. As with PHEVs, the multiplier begins at 1.6 in 2017, then declines to 1.45 in 2020 and 1.3 in 2021. EPA originally planned to only give these incentives to EVs, PHEVs, and fuel cell vehicles, but ultimately included natural gas as well due to “persuasive” public comments discussing the importance of NGVs as a “bridge to hydrogen” – a core argument first advanced by VNG and subsequently by Natural Gas Vehicles for America.

- **Continued Use of Petroleum Equivalency Factor for Dedicated NGVs:** The new rules continue to utilize the Petroleum Equivalency Factor (PEF) incentive for determining the CAFE value of CNG and other alternative fuels, providing enormous compliance benefits far exceeding even long term program targets. For instance, with the PEF, a 15 MPG dedicated NGV is treated as a 100 MPG gasoline vehicle – *twice* the overall fleetwide average fuel economy of 49 MPG targeted for the rules by 2025.

Unfortunately, an act of Congress will be needed to enable automakers to receive the PEF benefits for dual-fuel NGVs, due to temporary statutory restrictions on CAFE credits for these vehicles that EPA and NHTSA call “absurd.” VNG is developing legislation to fix this problem and will work with stakeholders and allies in Congress to pass it as soon as possible.

- **Dual-Fuel NGV Utility Factors:** New “utility factor” rules for both dual-fuel NGVs and PHEVs assume drivers will use alternative fuels the vast majority of the time, due to much lower costs compared to gasoline. This utility factor value depends on CNG range: for instance, a vehicle with 180 miles of CNG range would be assumed to use CNG 94.4% of the time. Dual-fuel NGVs must have a CNG range of at least *twice* their gasoline range to qualify for this incentive; otherwise, 50% CNG use is assumed.
- **Advantages for Use of CNG in Pickup Trucks:** The new regulations provide less stringent targets for pickup trucks in recognition of the special challenges they face in reducing emissions. Natural gas is thus a potential game-changer for this segment, allowing automakers to meet the entire 20% reduction in GHGs required by EPA between 2017 and 2025 *without* making sacrifices in performance. The rules also provide bonuses for manufacturers that use low-emission technologies such as natural gas in at least 10% of their pickups, further enhancing their compliance value.
- **Special Carry-Forward Rule Encourages Early Deployment of NGVs:** The GHG benefits of NGVs can be further increased by accelerating production in the early years of the program, from 2012-2015. NGVs produced through 2015 generate special GHG credits (equal to an 85% reduction in GHGs) that can be “carried forward” and used to meet compliance requirements in any year through MY 2021.

VNG is encouraged by these positive steps by the federal government to recognize the unique role natural gas can play in meeting national energy independence and emissions goals, and looks forward to working with automakers and other stakeholders to further improve the policy environment for NGVs at both the national and state level.

FOR MORE INFORMATION, please contact Paul Kouroupas, Vice President, Regulatory & Government Affairs, at 973-886-7675 or pkouroupas@vng.co