



ELECTRIC VEHICLES:

Tesla CEO: Calif.'s ZEV mandate weak; credits don't sell

Anne C. Mulkern, E&E reporter

Published: Thursday, October 27, 2016

Tesla Motors Inc. CEO Elon Musk yesterday blasted California's rule on clean cars as flimsy and urged the state to improve it.

Palo Alto, Calif.-based Tesla, a maker of luxury plug-in electric vehicles, earns state-issued credits for making electric cars. California's Air Resources Board (ARB) requires automakers selling in the Golden State to make a growing number of zero-emission vehicles. Automakers that fail to manufacture enough so-called ZEVs can buy environmental credits from other automakers.

But these days, the credits aren't much in demand, Musk said.

"The CARB ZEV credit mandate is incredibly weak and needs to be fixed," Musk said, during a conference call on the company's third-quarter earnings. "When you have a weak mandate, obviously the value of those credits declines considerably.

"There are some quarters when you can't even find a buyer for those credits," he added. "When we can find a buyer, it's typically 50 cents on the dollar."

Tesla reported \$139 million in ZEV credit revenue. It came as the car company reported a rare profit, of \$22 million, compared with a loss of \$229.9 million in the same period a year earlier. But it also came as the company received a black eye on its dependability, **ranking** as one of the least reliable car companies in the nation in *Consumer Reports*.

The only other time Tesla has made a profit was in the first three months of 2013, and that was buoyed in large part by the sale of ZEV credits. Out of total revenues that quarter, 12 percent came from selling ZEV certificates ([ClimateWire](#), May 9, 2013).

"We're able to have our best quarter ever," Musk said of the most recent results. "It's very exciting. It's definitely one of the best moments ever in Tesla."

On the ZEV mandate, Musk did not say how California should strengthen the rule, and a Tesla spokeswoman did not immediately respond to a question asking for clarification. A ARB spokesman also did not respond to a request for comment on Musk's criticisms.

California's ZEV mandate requires automakers to manufacture a greater portion of emissions-free cars each year until hitting 15.4 percent of an automaker's fleet in 2025.

Competitors making own ZEVs

California's ZEV mandate is actually tied to the range a car can go, as opposed to the number of cars sold. Electric cars and hybrids these days can go farther on a charge than when the ZEV rule started. Because of that, carmakers can make fewer of the cars and still meet the mandate, said Gil Tal, a researcher at the University of California, Davis' Institute of Transportation Studies.

Tal said Tesla wants California to require automakers to make a certain number of cars, instead of basing the rule on the range the cars can travel emissions-free. Tesla also wants ARB to require more full-battery cars versus allowing hybrids to meet the mandate.

Other automakers aren't buying Tesla's credits because those competitors often can get more value by making the ZEV themselves, Tal said. It can count toward their EPA fuel economy mandate or corporate average fuel economy (CAFE) standards, which allows them to sell more sport utility vehicles. And they don't have the risk of not making a car and trying to buy credits and finding they are not available.

"That's the market," Tal said. In some ways, the mandate is working as California had hoped, he said.

"More and more companies are going to make these cars, then the value, the willingness to pay for these additional credit goes down," Tal said. While "it's bad for Tesla ... the idea of the ZEV mandate is that car companies will slowly be pushed to make these zero-emissions cars," he said.

Work on self-driving cars accelerating

Tesla said last week that it will be adding autonomous car features to all of its cars, including the Model 3, aimed at mainstream buyers. That car is supposed to be made next year. Tesla would need approval from regulators to turn on full autonomy in cars; however, it can make some driver-assist features available.

"We already see a significant improvement in safety with the semiautonomous features," Musk said. And he added, in response to an analyst's question, "We'd be happy to share info with our competitors that would help improve safety."

Autonomous driving is seen as both a potential positive and negative for climate. It could mean fewer people buy cars and that there will be more car sharing. But it also could mean cars will be driving by themselves, waiting for someone to order a ride, analysts have said.

Tesla saw negative publicity in May, when the driver of a Tesla Model S was killed when his vehicle slid under a semitractor-trailer crossing a two-lane highway, after neither the driver nor the autopilot function stopped the electric car.

Musk said yesterday that over the long term, autonomy will be seen as an enhancement to safety, but that it could take a while to accumulate the data to prove it.

Globally, there is a one fatality on average for every 60 million miles driven, he said. Tesla cars are driving about 1 million to 1.5 million miles per day on autopilot.

When there's data on 6 billion autonomous miles, and seeing the impact where there likely would be fewer fatalities, he said, "you really start to get quite statistically significant. You can start to make quite a strong argument at that point that it would be morally wrong not to allow autonomous driving."

Musk also said he was optimistic that merging with partner SolarCity wouldn't hurt the company's finances, saying that the solar company would be "at least neutral" and could be "a cash contributor."

"This is what appears to be the case. ... Things are looking good," Musk said. Shareholders still must approve that merger.

One stock analyst asked whether Tesla would scale back the growth of SolarCity "even though it's not the greater good for the environment" in order to improve the company's cash flow.

"We have to look at this long-term," Musk said. "If SolarCity's losing lots of money, then that's not good for the long term. Investors will not support such a situation. There may be some intermediate slowdowns, but this is actually with an eye towards ultimately moving way faster."