TOYOTA

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Via Electronic Mail & FedEx

Lisa Baroody
California Energy Commission
Project Manager
Advisory Committee for the Alternative and
Renewable Fuel and Vehicle Technology Program
1516 9th Street
Sacramento, CA 95814-5512

Re: *Docket No. 09-ALT-1*
2010-2011 Investment Plan for the Alternative and Renewable Fuel and Vehicle Technology Program with Request for Changes

Dear Ms. Baroody and Members of the Advisory Committee:

Please accept these comments on behalf of the Advanced Powertrain – Fuel Cell Hybrid Group Toyota Technical Center. These comments are limited to the recommendations concerning proposed hydrogen expenditures to support refueling infrastructure for light duty fuel cell vehicles (FCVs).

We appreciate the work of the Commission to update its Investment Plan for 2010-2011 and the opportunity to submit the following comments on the Advisory Committee's Draft Investment Plan (DIP). Toyota is one of several manufacturers, committed to begin commercial sales of FCVs in California soon. Our commercialization program begins with a serious demonstration program over the next three years with consumer sales starting in 2015.

Toyota is a carmaker, not an energy producer or distributor. However, the ultimate success of our investment and making landmark environmental progress sometimes depends on matters that are nearly impossible for us to control. Today, the basic problem can be stated as follows: *FCVs will need a reliable supply of H2 - to be dispensed at a reasonable price- to consumers in convenient locations.*

How to achieve these primary objectives has been the subject of much discussion in Washington, Sacramento and in many budgetary and regulatory proceedings. *Yet despite extensive discussions and proceedings, there is still no fundamental agreement about the role of government to help resolve the basic problem - and there are fewer results.* We think that 2010 is the year that further appropriations should more carefully considered to advance strategic objectives and that things should proceed more systematically.

One basic critique of the DIP is that the proposed expenditures for hydrogen are unclear and there seems to be no stated criteria for selecting projects and even less clarity about anticipated guidelines for making awards. It is unclear how occasional public seed money can lead to the requisite private investment that is essential to both guaranteeing that stations are built and that they successfully operate without being dependent in the long-term on public subsidies.

In order to accommodate Toyota's initial sales plans, at least twenty new refueling stations must be operational by 2015. And of course, these estimates should be adjusted to ensure that all FCV manufacturers achieve success. If the DIP continues down the current pathway, AB 118 funding for hydrogen will rely on public dollars for seed money first and only a few number of stations will ultimately be developed. Equally important, this approach provides no assurance that the ventures will be successful in the long-term. If projects are not on sound financial footing at the outset, they may fail in quantity and quality, including long-term sustainability.

We think there is a better way for AB 118 funds to be invested and to attract venture capital investment. Toyota supports a new model that is more conductive to long-term success, public accountability. We think there is a way that attracts true and lasting public-private participation. Toyota urges the CEC to revise the DIP to make twenty competitive challenge grants over the next two years. Based on estimates that each station costs $3m, the grants should reimburse each successful venture $1m from AB 118 investment funds upon the successful development of each station and operation for 24 months.

This approach will meet the high expectations of the Legislature, the LAO and taxpayers. It will establish a different pathway toward attracting vigorous and competitive public and private investment in hydrogen infrastructure. It will help ensure that many stations will be developed based upon models that start and end with joint investment and sacrifice. It is a model that leaves room for integration with ongoing regulatory efforts, but it does not hinge on any future regulatory effort or appropriation to be successful.

Thank you for considering our views. 2010 is a critical year for investors. We believe that this approach maximizes the goals of AB 118 and urge the CEC to develop challenge grant guidelines consistent with the above recommended alternative.

Sincerely,

Takehito Yokoo
General Manager, Advanced Powertrain Department
Toyota Motor Engineering & Manufacturing North America, Inc.