Jul 23, 2012

Chrysler Group Testimony to Senate Committee on Energy and Natural Resources, Washington, D.C.
Good morning Chairman Bingaman, Ranking Member Murkowski, and Members of the Committee. Thank you for the opportunity to discuss natural gas and increasing its use as a fuel in the transportation sector. I am Reg Modlin, Director of Regulatory Affairs at Chrysler Group LLC. I am responsible for overseeing the product environmental and safety regulatory planning activities for the company.

Chairman Bingaman, it was a pleasure talking with you about natural gas and natural gas vehicles during Chrysler's ride and drive held here in Washington in June. During the ride and drive, we featured our bi-fuel compressed natural gas (CNG) Ram 2500 pick-up truck. Chrysler appreciates your Committee holding this hearing because transportation fuels, particularly alternative fuels such as natural gas, play an important role in Chrysler's strategy for regulatory compliance and reduction of greenhouse gas (GHG) emissions.

Chrysler supports a goal to reduce transportation greenhouse gas emissions by 80 percent by 2050. The use of alternative fuels, such as natural gas, plays a significant role in achieving that goal. The plentiful supply of natural gas in the United States can reduce the country's dependence on petroleum-based transportation fuels, enhance the nation's energy security, and reduce greenhouse gas and smog-forming emissions. These are all important reasons for looking to natural gas as an alternative fuel in the transportation sector.

As an automobile manufacturer, Chrysler's goal is to fulfill our customers' needs with regard to vehicle performance, utility, safety, styling, comfort, and affordability. We create customer value by providing a diverse portfolio of vehicle technologies that enable customers to choose the best package to fit their needs. Fuel choice between gasoline, diesel, ethanol, electricity, and natural gas is one important option considered by a customer. Vehicle range between refueling, fuel cost, and convenient refueling infrastructure are related to a customer's fuel choice.

In the more recent past, customers have not embraced natural gas powered vehicles for a variety of reasons including higher initial vehicle cost, inability to conveniently refuel, and fuel price volatility. Without seeing interested customers, automobile manufacturers have been reluctant to offer natural gas powered products in the show room. However, the abundant supply of natural gas in the United States, which is now more accessible due to advances in production technology, could be a significant development for the transportation sector.

Natural gas powered vehicles offer consumers a good value proposition because natural gas prices are expected to remain stable for the foreseeable future, natural gas will likely continue to hold a strong price advantage compared to gasoline and diesel fuels, and natural gas is increasingly available via an expanding retail infrastructure. As a result, we are excited about the potential for natural gas powered vehicles becoming successful in the marketplace.

We believe that the market for natural gas vehicles could reach approximately 10 percent of new vehicle sales over time. Currently, natural gas vehicles comprise less than 1 percent of new vehicle sales. Growing the on-road natural gas vehicle fleet from current levels to 10 percent is projected to take about 20 years. Even with this anticipated growth, the amount of natural gas needed for transportation will remain relatively small, which is not expected to significantly impact the price of natural gas.

Chrysler has a long history of producing natural gas powered vehicles. In the 1990s and early 2000s, Chrysler produced dedicated CNG powered full-size vans, minivans, and pick-up trucks. Although these products were discontinued because of market conditions and lack of consumer demand, Chrysler continued to be watchful for the potential re-emergence of a natural gas powered vehicle market.

Our strategic partner, Fiat, is a world leader in producing CNG vehicles, having manufactured more than 500,000 passenger and commercial vehicle applications of CNG technology since 1997. Fiat commands more than 80 percent of the European market for CNG vehicles and its CNG powered products span all vehicle segments, from small passenger cars to buses and large trucks.

The United States can learn a lot from the Italian experience. The CNG vehicle market in Italy from 2001-2009 proved to be a success for several reasons including product incentives that fully offset bi-fuel CNG hardware costs, CNG costs that were half the cost of gasoline, refueling stations that were widely available, and vehicles that provided a robust driving range. The take-away is: Incentives + Range + Infrastructure + Fuel Cost = Customer Acceptance.

The wide availability of refueling stations is fundamental to the success of the market experience in Italy. Italy has nearly 900 public CNG stations, which translates into approximately 28 stations per 3,861 square miles for a country of about 116,000 square miles and a population of about 60 million people. With those numbers, the refueling infrastructure in Italy is adequate to support the application of bi-fueled vehicle designs; however, more stations are needed to support dedicated CNG products.

The refueling infrastructure situation in the United Sates is much different. Of the approximately 1,000 public and private stations in the United States, 135 are located in California. This is of interest because California is comparable to Italy with a population of about 38 million and a land area of approximately 164,000 square miles. California's CNG station density is about 3 stations for every 3,861 square miles – still far less than Italy's 28 stations for similar geographical coverage.

Similar to the situation in Italy, the station density in California will require that bi-fueled vehicles be offered to make customers comfortable with a CNG vehicle purchase. For the rest of the country, where the CNG station density is far less per square mile than in California, the need for a bi-fuel vehicle option is even greater.

With that history and experience, Chrysler's decision to re-enter the CNG vehicle market was a conscious one. We designed our CNG Ram 2500 to satisfy customer needs by providing a "worksite" vehicle capable of carrying a work crew, and, in recognition of the limited CNG station infrastructure, made the vehicle bi-fuel with a back-up gasoline

system.

We chose the heavy-duty pick-up truck segment because our large and small fleet owners provide a willing customer base. The bi-fuel CNG Ram 2500 offers these customers the operating range and total cost of ownership necessary to operate their businesses efficiently and profitably. Production has begun, and vehicles will begin arriving at dealerships for fleet customers in August.

We are proud that Ram is the only brand in North America to offer a complete factory-built pick-up truck that comes off our production line fully assembled, factory tested, factory warranted, and shipped directly to our 2400 authorized dealers who are trained to provide a full range of services on the vehicles.

The CNG Ram 2500 is built as a bi-fuel vehicle with CNG tanks holding up to an equivalent of 18.2 gallons of gasoline and an 8-gallon reserve gasoline tank. The vehicle's range on CNG is 255 miles and the total range of the vehicle, including use of the 8-gallon gasoline reserve, is 367 miles. An optional 35-gallon reserve gasoline tank will extend the vehicle's range to about 745 miles. The vehicle is designed to deplete the CNG fuel before seamlessly switching to using gasoline.

The federal government can be a key partner in expanding the role of natural gas as a transportation fuel. As I have discussed, creating a value proposition for the customer is critical for the successful penetration of natural gas powered vehicles in the marketplace. The ultimate goal is to have customers choose to buy a product without a government incentive.

Currently, though, other alternative fuel vehicles, such as battery electric vehicles, are eligible for incentives that create an un-level playing field for potential retail CNG vehicles. We support technology neutral policies, and providing equivalent incentives for natural gas powered vehicles would create parity between natural gas powered vehicles and other alternative fuel vehicles. Incentives do not have to be financial.

For example, if Congress modified the definition of "dedicated CNG vehicle" to include "range-extended CNG vehicle" (a "range-extended CNG vehicle" is a product with a small gasoline fuel tank to ease customers' "range anxiety" of running out of fuel), customers would be able to take advantage of non-financial opportunities offered in some regions, such as access to High Occupancy Vehicle (HOV) lanes.

There is also a role for the states in responding to the challenges in promoting the widespread use of natural gas as a transportation fuel in the United States. In an effort led by Governor Mary Fallin of Oklahoma and Governor John Hickenlooper of Colorado, 13 states are supporting a multi-state Memorandum of Understanding (MOU) that outlines a coordinated effort among states to promote natural gas market development, CNG vehicle production, and state fleet purchases of CNG vehicles.

The goal of pooling multiple state fleet needs is to create a market for natural gas powered fleet vehicles and enable manufacturers to plan for expanding their CNG product offerings. We understand that a Request for Proposal (RFP) will be published this week, and awards based on responses to the RFP are expected to be issued in October.

Chrysler Group LLC believes that natural gas powered vehicles have strong potential to compete in the retail transportation market. The abundant – and now more accessible – supply of natural gas in the United States, could be a significant development for the transportation sector. Natural gas powered vehicles offer consumers a good value proposition because natural gas prices are expected to remain stable for the foreseeable future, the fuel holds a strong price advantage compared to gasoline and diesel fuels, and it is becoming more readily available via an expanding retail infrastructure.

Other advantages include enhancing the nation's energy security, diversifying transportation energy choices by reducing our dependence on oil, creation of jobs, and reduction of greenhouse gas and smog-forming emissions.

Challenges lay ahead in expanding the retail fueling infrastructure and increasing product offerings of natural gas vehicles. As those challenges are overcome, though, the value proposition for the customer will become increasingly clear and customer acceptance will occur.

Thank you for allowing me the opportunity to testify on this important issue. I will be happy to address any questions.

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