Memorandum

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From: David Ory, MTC; Guoxiong Huang, SCAG; Bruce Griesenbeck, SACOG; Clint Daniels, SANDAG

Re: Automobile Operating Cost for the Second Round of Sustainable Communities Strategies

Date: October 13, 2014

This memorandum summarizes our collective thinking regarding fuel price assumptions for the second round of sustainable communities strategies (SCSs)[1].

Background

The Regional Targets Advisory Committee (or RTAC) formed by the California Air Resources Board (ARB) recommended that MPOs use "consistent long-range planning assumptions statewide, to the degree practicable, including … existing and forecasted fuel prices and automobile operating costs."[2] For the first round of sustainable communities strategies, we agreed to use the following sets of assumptions:

- Base Year Fuel Price: Region-specific, set during model calibration
- Year 2020 Fuel Price: $4.74 (Year 2009 dollars, $2009);
- Year 2035 Fuel Price: $5.24 ($2009);
- Effective Fleet-wide Fuel Efficiency: Region-specific, derived from ARB's Emission Factor (EMFAC) software;
- Year 2020 Non-fuel-related Operating Cost (if included in region-specific automobile operating cost calculations): $0.09 ($2009);
- Year 2035 Non-fuel-related Operating Cost (if included in region-specific automobile operating cost calculation): $0.11 ($2009).

This set of assumptions were used to compute the assumed perceived automobile operating cost for each MPO. The resulting values are shown in Table 1.

[1] The first round beginning with SANDAG's 2011 RTP/SCS; the second round beginning with SANDAG's 2015 RTP/SCS.

[2] See page 10 of *Recommendations of the Regional Targets Advisory Committee Pursuant to Senate Bill 375: A Report to the California Air Resources Board*.

Table 1: Assumed Perceived Automobile Operating Costs ($2009) for First Round of SCSs

MPO	Base Year Cost (year)	Year 2020 Cost	Year 2035 Cost	Avg Annual Growth (Base to 2035)
SCAG	$0.23 (2005)	$0.32	$0.32	1.1%
MTC	$0.18 (2010)	$0.28	$0.28	1.8%
SACOG	$0.21 (2008)	$0.27	$0.29	1.2%
SANDAG	$0.19 (2008)	$0.22	$0.21	0.4%

Using the above assumptions, we achieved consistency in forecast year fuel price as well as the approach to computing perceived automobile operating cost. Unfortunately, we were not able to achieve consistency in base year assumptions. Achieving consistency across MPOs for base year input is more difficult than achieving consistency across forecast year input because base year input is part of the expensive and time consuming model development process.

The result of using consistent forecast year assumptions and inconsistent base year assumptions were uneven changes in the assumed increase in perceived automobile operating cost across MPOs. For example, between 2010 and 2035, MTC assumes a 1.8 percent average annual increase in perceived automobile operating cost; between 2008 and 2035, SANDAG assumes a 0.4 percent average annual increase. It is worth noting that the base year differences may reflect actual base year differences (i.e., fuel prices changing from 2005 to 2010) and do reflect regional differences in the assumed average fleet-wide fuel efficiency. In any case, the differences in growth rates make it difficult to claim that the perceived automobile operating costs were handled in a consistent manner.

Proposed Approach

Our proposed remedy for the above-described problem is *not* to try and achieve consistent base year assumptions. The model calibration process is difficult enough without adding the constraint of a single perceived automobile operating cost introduced at an unknown time in the model development cycle. Rather, we propose using a consistent growth in fuel price between the SB 375 base year of 2005 and the forecast years used in the SCS, specifically the target years 2020, and 2035. In addition, we propose using a consistent non-fuel-related operating cost as well as consistent data sources for effective fleet-wide fuel efficiency and base year gas price.

The following subsections outline the approach. Note that the below assumptions do not account for potential increases in fuel costs from California's Cap-and-Trade program.

Fuel Price Assumptions

The Department of Energy issues an annual forecast of motor vehicle gasoline prices. The 2013 forecast[3] is paired with historical information from 2005 to compute a consistent fuel price ratio that will be used by each MPO. The target value for the calculation is not the midpoint between the low and high forecast,

[3] The data can be found here: http://www.eia.gov/forecasts/archive/aeo13/source_oil.cfm.

but rather three-quarters of the way between the low and high forecasts, plus 32 cents ($2010) – the 32 cents accounts for gasoline generally being more expensive in California than the rest of the nation. These calculations are shown in Table 2.

Table 2: Department of Energy Forecasts and Resulting Growth Ratio (Prices in Year 2010 Dollars)

Year	Low	High	Low plus 75% Diff + 32 cents	Ratio to 2005
2005	---	---	$2.82*	---
2015	$2.70	$3.77	$3.82	1.35
2020	$2.54	$4.17	$4.08	1.45
2025	$2.53	$4.39	$4.25	1.51
2030	$2.52	$4.77	$4.53	1.61
2035	$2.53	$5.18	$4.84	1.72
2040	$2.57	$5.70	$5.24	1.86

* – Historical price taken from http://www.eia.gov/dnav/pet/pet_pri_gnd_a_epm0_pte_dpgal_a.htm, and converted to year 2010 dollars.

To compute an MPO-specific forecast year fuel price, the growth ratios in Table 2 are paired with base year prices. We propose using base year prices from a consistent source, specifically the retail gasoline price data from the Oil Price Information Service (OPIS); these prices will be introduced during our next round of model development activities. The assumed base year prices are shown in Table 3 for each of the MPO areas for years 2005 through 2012. These prices will be used in subsequent model development activities[4].

Table 3: Historical Gas Prices per OPIS (All prices in Year 2010 dollars)

Year*	MTC	SCAG	SACOG	SANDAG
2005	$2.83	$2.85	$2.74	$2.84
2008	$3.68	$3.53	$3.53	$3.35
2010	$3.17	n/a	$3.09	$2.92
2012	$3.87	$3.90	$3.85	$3.64

* - The base year prices are only shown (and, in some cases, only purchased) for 2005 and potential model calibration years. For example, SCAG intends to use a 2012 calibration year, and, as such, did not purchase the year 2010 prices from OPIS.

[4] Some MPOs will be recalibrating their models and generating a "new" "forecasts" (or "backcasts") of year 2005. Others will not. Those generating new forecasts will use the fuel prices listed in Table 3; those not generating new forecasts will leave their prices as they were set in their model development processes.

Non-Fuel-Related Operating Costs

As noted above, the calculation of perceived automobile operating cost is assumed to have two components: fuel costs and non-fuel-related costs. Similar to the base year fuel price, we propose using base year non-fuel-related operating costs from a consistent source, specifically the American Automobile Association (AAA). The assumed non-fuel-related base year prices are shown in Table 4; these are national estimates that we'll assume apply to each of the MPO areas. These prices will be used in subsequent model development activities.

Table 4: Non-Fuel-Related Operating Costs (Prices in Year 2010 dollars per mile)

Year	Maintenance	Tires	Maint. + Tires
2005	$0.0437	$0.0062	$0.05
2006	$0.0453	$0.0065	$0.05
2007	$0.0437	$0.0069	$0.05
2008	$0.0452	$0.0076	$0.05
2009	$0.0447	$0.0082	$0.05
2010	$0.0444	$0.0096	$0.05
2011	$0.0461	$0.0103	$0.06
2012	$0.0524	$0.0105	$0.06

The above data can be used to estimate forecast-year non-fuel-related costs. Using a simple linear regression and extrapolation, the forecast year values shown in Table 5 can be computed. Similar to the gasoline price, the MPOs will use the computed ratio to calculate the forecast year values from whatever values were or are assumed for year 2005.

Table 5: Forecast Year Non-Fuel-Related Operating Costs Ratios (Prices in Year 2010 dollars)

Year	Estimate	Ratio to 2005
2005	$0.050	---
2012	$0.063	1.26
2015	$0.062	1.25
2020	$0.069	1.38
2025	$0.075	1.50
2030	$0.081	1.62

2035	$0.087	1.75
2040	$0.093	1.87

Effective Fleet-wide Fuel Efficiency

The computation of perceived automobile operating cost requires an assumption be made about the effective passenger-vehicle[5] fuel efficiency. ARB's EMFAC software provides two estimates of carbon dioxide (CO_2) emissions. The first estimate is for a hypothetical future in which fuel and vehicle regulations are not enacted; this hypothetical future is used only for computing emissions for SB 375 purposes (method A). The second estimate is for the expected future in which fuel and vehicle regulations are enacted (method B). This future is assumed for all non-SB 375 purposes, including federally-mandated conformity analyses. Unfortunately, the EMFAC software only provides a fuel consumption result for the first set (method A) of CO_2 emissions. The effective fleet-wide fuel efficiency needs to be calculated from the second estimate. Each MPO will use the following equation to compute the effective fleet-wide fuel efficiency:

$$FE = \frac{VMT}{\frac{(CO_2)_B \cdot FLCFS}{(CO_2)_A} \cdot FC_A}$$

where VMT is passenger-vehicle miles traveled, $(CO_2)_A$ is the passenger-vehicle CO_2 estimate from method A, $(CO_2)_B$ is the passenger-vehicle CO_2 estimate from method B, and FC_A is the passenger-vehicle fuel consumption from method A. FLCFS is an adjustment factor to account for Low Carbon Fuel Standards (LCFS) CO_2 reduction factors assumed in EMFAC 2011. LCFS is a fuel standard that requires a reduction of at least 10 percent in the carbon intensity of California's transportation fuels by 2020 (see Table 5-2, http://www.arb.ca.gov/msei/emfac2011-technical-documentation-final-updated-0712-v03.pdf). FLCFS is set at 1.11 to offset this reduction factor in the fuel efficiency calculations as the reduction from LCFS is related to carbon content rather than fuel consumption. The calculation assumes a linear relationship between CO_2 emissions and fuel consumption.

Using the effective fuel efficiency derived from EMFAC presents a "chicken or egg" problem, as one cannot generate the fuel-efficiency estimate unless an input assumption about operating cost is made, but the operating cost assumption requires a fuel-efficiency estimate. In practice, each MPO will select a representative fuel efficiency estimate during the SCS development process that will be carried through SCS adoption.

Region-Specific Calculations

Detailed calculations are provided below for each of the MPO regions. The regions differ as to whether they will update the year 2005 simulation results using the prices presented in Table 3 and Table 4; either way, consistent ratios for fuel prices (presented in Table 2) and non-fuel-related prices (Table 5) are applied to either the updated or non-updated 2005 assumptions.

[5] Defined as EMFAC vehicle types LDA, LDT1, LDT2, and MDV.

MTC: Assuming updated Year 2005 Simulation Results

Using the above information, MTC will compute the year 2005, 2020, and 2035 perceived automobile operating cost estimates using the approach detailed in Table 6.

Table 6: MTC Region Example Calculations Assuming Updated 2005 Results (Prices in Year 2010 dollars)

Year	Quantity	Value
2005	Region-specific fuel price (Table 3, dollars per mile)	$2.83
	Non-fuel-related price (Table 4, dollars per mile)	$0.05
	Effective passenger vehicle fuel efficiency (EMFAC, miles per gallon)	20.09
	Perceived automobile operating cost (cents per mile)	19.1¢
2020	Consistent fuel price ratio (Table 2)	1.45
	Region-specific fuel price (Ratio x 2005 price)	$4.09
	Consistent non-fuel-related price ratio (Table 5)	1.38
	Region-specific non-fuel-related price	$0.07
	Effective passenger vehicle fuel efficiency (EMFAC, miles per gallon)	25.15[†]
	Perceived automobile operating cost (cents per mile)	23.1¢
2035	Consistent fuel price ratio (Table 2)	1.72
	Region-specific fuel price (Ratio x 2005 price)	$4.85
	Consistent non-fuel-related price ratio (Table 5)	1.75
	Region-specific non-fuel-related price	$0.09
	Effective passenger vehicle fuel efficiency (EMFAC, miles per gallon)	28.85[†]
	Perceived automobile operating cost (cents per mile)	25.6¢

[†] - Value may change during the planning process.

SCAG: Assuming Updated Year 2005 Simulation Results

Using the information contained in this memorandum, SCAG will compute the year 2020 and 2035 perceived automobile operating cost estimates using the approach detailed in Table 8.

Table 7: SCAG Region Example Calculations (Prices in Year 2010 dollars)

Year	Quantity	Value
2005	Region-specific fuel price (Table 3, dollars per gallon)	$2.85
	Non-fuel-related price (Table 4, dollars per mile)	$0.05
	Effective passenger vehicle fuel efficiency (EMFAC, miles per gallon)	18.63
	Perceived automobile operating cost (cents per mile)	20.3¢
2020	Consistent fuel price ratio (Table 2)	1.45
	Region-specific fuel price (Ratio x 2005 price)	$4.12
	Consistent non-fuel-related price ratio (Table 5)	1.38
	Region-specific non-fuel-related price	$0.07
	Effective passenger vehicle fuel efficiency (EMFAC, miles per gallon)	23.63[†]
	Perceived automobile operating cost (cents per mile)	24.3¢
2035	Consistent fuel price ratio (Table 2)	1.72
	Region-specific fuel price (Ratio x 2005 price)	$4.89
	Consistent non-fuel-related price ratio (Table 5)	1.75
	Region-specific non-fuel-related price	$0.09
	Effective passenger vehicle fuel efficiency (EMFAC, miles per gallon)	26.40[†]
	Perceived automobile operating cost (cents per mile)	27.3¢

[†] - Value may change during the planning process.

SACOG: Assuming Static Year 2005 Simulation Results

Using the information contained in this memorandum, SACOG will compute the year 2020 and 2035 perceived automobile operating cost estimates using the approach detailed in Table 8.

Table 8: SACOG Region Example Calculations (Prices in Year 2010 dollars)

Year	Quantity	Value
2005	Region-specific fuel price (Table 3, dollars per gallon)	$2.74
	Non-fuel-related price (Table 4, dollars per mile)	$0.05
	Effective passenger vehicle fuel efficiency (EMFAC, miles per gallon)	19.50
	Perceived automobile operating cost (cents per mile)	19.1¢
2020	Consistent fuel price ratio (Table 2)	1.45
	Region-specific fuel price (Ratio x 2005 price)	$3.96
	Consistent non-fuel-related price ratio (Table 5)	1.38
	Region-specific non-fuel-related price	$0.07
	Effective passenger vehicle fuel efficiency (EMFAC, miles per gallon)	24.92[†]
	Perceived automobile operating cost (cents per mile)	22.8¢
2035	Consistent fuel price ratio (Table 2)	1.72
	Region-specific fuel price (Ratio x 2005 price)	$4.70
	Consistent non-fuel-related price ratio (Table 5)	1.75
	Region-specific non-fuel-related price	$0.09
	Effective passenger vehicle fuel efficiency (EMFAC, miles per gallon)	28.30[†]
	Perceived automobile operating cost (cents per mile)	25.4¢

[†] - Value may change during the planning process.

SANDAG: Assuming Static Year 2005 Simulation Results

Using the information contained in this memorandum, SANDAG will compute the year 2020 and 2035 perceived automobile operating cost estimates using the approach detailed in Table 9.

Table 9: SANDAG Region Example Calculations (Prices in Year 2010 dollars)

Year	Quantity	Value
2005	Region-specific fuel price (Table 3, dollars per gallon)	$2.84
	Non-fuel-related price (Table 4, dollars per mile)	$0.05
	Effective passenger vehicle fuel efficiency (EMFAC, miles per gallon)	18.89
	Perceived automobile operating cost (cents per mile)	20.0¢
2020	Consistent fuel price ratio (Table 2)	1.45
	Region-specific fuel price (Ratio x 2005 price)	$4.11
	Consistent non-fuel-related price ratio (Table 5)	1.38
	Region-specific non-fuel-related price	$0.07
	Effective passenger vehicle fuel efficiency (EMFAC, miles per gallon)	23.98[†]
	Perceived automobile operating cost (cents per mile)	24.0¢
2035	Consistent fuel price ratio (Table 2)	1.72
	Region-specific fuel price (Ratio x 2005 price)	$4.87
	Consistent non-fuel-related price ratio (Table 5)	1.75
	Region-specific non-fuel-related price	$0.09
	Effective passenger vehicle fuel efficiency (EMFAC, miles per gallon)	27.20[†]
	Perceived automobile operating cost (cents per mile)	26.7¢

[†] - Value may change during the planning process.

Comparisons across SCS Rounds

Table 10 compares the fuel price and resulting automobile operating cost results across SCS rounds for each MPO *assuming* the effective fleet-wide fuel efficiency number remains unchanged from the first to second round – this number will change during the planning process.

Table 10: Fuel Price and Automobile Operating Cost Comparison across SCS Rounds (Prices in Year 2010 Dollars)

Year	Quantity	MTC		SCAG		SANDAG		SACOG	
		Rnd 1	Rnd 2	Rnd 1	Rnd 2	Rnd 1	Rnd 2	Rnd 1	Rnd 2
2005	Fuel price	$2.79	$2.83	$2.83	$2.85	$2.68	$2.84	$2.70	$2.74
	Auto. Oper. Cost	21.2¢	19.1¢	23.8¢	20.3¢	19.2¢	18.9¢	19.7¢	19.1¢
2020	Fuel price	$4.74	$4.09	$4.74	$4.12	$4.74	$4.11	$4.74	$3.96
	Auto. Oper. cost	28.7¢	23.1¢	31.9¢	24.3¢	22.6¢	24.0¢	27.0¢	22.8¢
2035	Fuel price	$5.24	$4.85	$5.24	$4.89	$5.24	$4.87	$5.24	$4.70
	Auto. Oper. cost	28.6¢	25.6¢	32.3¢	27.3¢	21.7¢	26.7¢	28.9¢	25.4¢
Ratios	2020 to 2005	1.34	1.21	1.34	1.20	1.18	1.20	1.37	1.20
	2035 to 2005	1.33	1.34	1.36	1.34	1.13	1.33	1.47	1.33

Next Steps

This memorandum proposes a consistent approach for computing fuel price for each of our MPOs for the second round of sustainable community strategies. After collecting your feedback and modifying our approach accordingly, we will share this approach with ARB and the other MPOs across the state.

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