Power and Fuel Economy Tradeoffs, and Implications for Benefits and Costs of Vehicle Greenhouse Gas Regulations

Gloria Helfand
Andrew Moskalik
Kevin Newman
Jeff Alson
US Environmental Protection Agency
Potential for tradeoffs with other attributes

• When CAFE standards began in the late 1970s, vehicles became smaller and less powerful for a while.

• With tighter standards, might other vehicle attributes suffer?

• Would the public respond negatively to vehicles subject to the standards, if there are impacts on other vehicle characteristics?
Are times different?

• Vehicle greenhouse gas and fuel economy standards have been tightening annually since Model Year 2012
• Standards are now based on vehicles’ footprints
  • Larger vehicles meet more lax standards than smaller vehicles
  • Reduced incentive to downsize vehicles
• Technology has been improving over time
  • Resulting in increases in performance and other improvements
• Will GHG reductions/fuel economy increases result in reduced performance relative to absence of the standards?
Relevance for BCA and policy analysis

• What is the appropriate without-standards reference case?
  • Would performance keep increasing, as in the past?
• Will GHG reductions/fuel economy increases result in reductions in performance, as in the late 1970s?
  • Are tradeoffs between performance and fuel economy physical laws of nature?
  • How does innovation affect this relationship?
  • Might there be ancillary benefits as well?
• If
  • Performance would have increased in the absence of the standards
  • Tradeoffs are unavoidable
• Then foregone power is a potential opportunity cost of the standards
  • And should be accounted for in the BCA
Existing studies

- Existing studies typically assume a constant elasticity between horsepower and fuel economy
  - The curve shifts over time due to innovation

- Standards may stimulate innovation
  - Porter hypothesis
  - If so, it is possible that standards may lead to net gains in both performance and fuel economy

The typical regression

• Ln (Fuel economy) = β₀ + β₁ *Ln(Horsepower) + β₂ *Ln(Weight) + β₃a,b,etc *Year Fixed Effects + β₄a,b,etc *maybe a technology or two
  • β₁, β₂ measure the elasticities of Horsepower (HP) and Weight (WT) for Fuel economy (FE)
    • These are claimed to be technological relationships
  • β₃+ measure the effects of innovation
    • Potentially affected by regulatory policy

• Data come from observations on vehicles produced
  • Top-down approach
Some concerns with this approach

• The data are not a random sample of all possible combinations of power & fuel economy
  • Only vehicles produced
    • Mix of vintages
  • Potentially not an accurate estimate of technological relationships

• Units of measurement matter
  • Do people care about horsepower (HP), or acceleration (e.g., 0-60 time)?
  • If the relationship between HP & 0-60 time is not constant, measuring HP may lead to biased results
    • Both for the performance-fuel economy tradeoff and for estimating innovation rates
      • E.g., if it’s possible to get more acceleration from constant HP, then focusing on HP misses an innovation pathway.

• Variables in the regression affect the coefficient values
  • Including a technology in the regression separates its effect out of the effects of performance, weight, or innovation
This study

• We use a “bottom-up” approach to avoid these issues
  • Advanced Light-Duty Powertrain and Hybrid Analysis (ALPHA) tool is a full-vehicle simulation model
  • We “sweep” the relationship between power and fuel economy for a standard sedan
  • This avoids sample-selection issues, by holding constant as much as possible
  • Results are specific for that vehicle type, but the pattern is likely to be more general

• Variations in the sweep:
  • 5 different model-years, reflecting different technology vintages
  • Different ways of measuring key variables
    • Performance: HP or 0-60 acceleration time
    • Fuel economy: “official” MPG, or US06 mpg, meant to represent aggressive driving

• We then run a series of regressions of performance on fuel economy
  • As with existing research, using a constant elasticity and dummies for time period
  • Allowing the elasticities to vary as well as the intercepts
The “car” used – midsized sedan (e.g., Camry)

<table>
<thead>
<tr>
<th>Year</th>
<th>Average HP/Wt (Min-Max)</th>
<th>Weight</th>
<th>Average HP (Min-Max)</th>
<th>Average 0-60 (Min-Max)</th>
<th>CFR MPG (Min-Max)</th>
<th>US06 MPG (Min-Max)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>0.032 (0.027 – 0.037)</td>
<td>3625</td>
<td>116 (96 – 134)</td>
<td>14.5 (12.3 – 17.2)</td>
<td>22.7 (20.6 – 24.8)</td>
<td>21.6 (20.8 – 22.4)</td>
</tr>
<tr>
<td>2007</td>
<td>0.050 (0.042 – 0.059)</td>
<td>3625</td>
<td>183 (151 – 215)</td>
<td>7.7 (6.6 – 9.2)</td>
<td>30.2 (28.0 – 32.4)</td>
<td>25.6 (25.0 – 26.1)</td>
</tr>
<tr>
<td>2013</td>
<td>0.053 (0.043 – 0.063)</td>
<td>3625</td>
<td>191 (154 – 228)</td>
<td>7.2 (6.1 – 8.8)</td>
<td>34.6 (32.2 – 36.9)</td>
<td>27.0 (26.1 – 27.6)</td>
</tr>
<tr>
<td>2016</td>
<td>0.056 (0.042 – 0.073)</td>
<td>3625</td>
<td>191 (154 – 228)</td>
<td>7.3 (6.3 – 8.8)</td>
<td>40.4 (37.0 – 43.2)</td>
<td>30.9 (30.1 – 31.1)</td>
</tr>
<tr>
<td>2025</td>
<td>0.050 (0.043 – 0.057)</td>
<td>3625</td>
<td>181 (154 – 208)</td>
<td>6.9 (6.1 – 7.8)</td>
<td>45.1 (43.8 – 46.3)</td>
<td>30.9 (30.7 – 31.2)</td>
</tr>
</tbody>
</table>

Weight held constant to hold as much as possible constant other than power & fuel economy

CFR MPG: combined unadjusted fuel economy, used for compliance but not for fuel economy label
US06 MPG: a drive cycle meant to better represent fuel economy during more aggressive driving
How our regression differs

• Implications of constant weight
  • Because weight (WT) is constant, it is not included in the regressions
  • There is little difference in results using horsepower (HP) and results using 0-60 time
    • In engineering terms, HP/WT and 0-60 acceleration time (0-60) are closely correlated
    • HP and 0-60 are typically less closely correlated
    • But, because WT is constant here, HP and 0-60 end up closely correlated too

• We allow the power-fuel economy elasticities to vary over time
• No technology fixed effects
• We use 2 measures of FE: CFR MPG and US06 MPG

\[ \ln (\text{Fuel economy}) = \beta_0 + \beta_1 \ln(\text{Horsepower or 0-60 time}) + \beta_2 \ln(\text{Weight}) + \beta_{3a,b,\text{etc}} \times \text{Year Fixed Effects} + \text{maybe a technology or two} + \beta_{4a,b,\text{etc}} \times \ln(\text{Horsepower}) \times \text{Year Fixed Effects} \]
CFR MPG, Varying vs. Constant Fuel Economy-Performance Elasticity

(Lines are regression, dots are raw data)

- MPG decreases as HP increases
- Significant shifts over time
- Varying the elasticities fits the data better
CFR vs. US06 MPG (Lines are regression, dots are raw data)

- CFR MPG is the regulatory measure; US06 MPG is aggressive driving
  - Real world is in between
- CFR produces higher mpg than US06
  - Axis is rescaled!
- US06 suggests less response of mpg to changes in performance
- For US06, almost no difference between 2016 and 2025
Does the Fuel Economy-Performance Elasticity Change over Time? -- Yes

- For all combinations of fuel economy & performance measures, the elasticity shrinks over time
- The elasticity is not sensitive to performance measures
  - Because of the bottom-up, ceteris paribus approach
- The elasticity is sensitive to how fuel economy is measured
  - The US06 measure is less sensitive

Percent Change in Fuel Economy for a 1% Change in Performance

Note that fuel economy decreases as horsepower increases, but it increases as 0-60 time increases.
Are measures of innovation sensitive to metrics? -- Yes

- Using CFR MPG with HP appears to produce different magnitudes than other measures
  - The other measures are more similar to each other
- With time-varying elasticities,
  - Innovation decreases over time with HP
  - Innovation increases over time with 0-60 acceleration
  - This is consistent with getting faster 0-60 time from constant HP
- With constant elasticities, innovation always shows increases
How much fuel expenditure is incurred by a 1% improvement in performance?

Assumptions: 15 years 12,000 miles/year 4% discount rate $2.50/gallon fuel cost

CFR MPG: used for certification

<table>
<thead>
<tr>
<th>Year</th>
<th>HP</th>
<th>0-60</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>$73</td>
<td>$71</td>
</tr>
<tr>
<td>2007</td>
<td>$41</td>
<td>$43</td>
</tr>
<tr>
<td>2013</td>
<td>$27</td>
<td>$29</td>
</tr>
<tr>
<td>2016</td>
<td>$25</td>
<td>$29</td>
</tr>
<tr>
<td>2025</td>
<td>$9</td>
<td>$11</td>
</tr>
</tbody>
</table>

Constant $21 - $41 $23 - $47

US06 MPG: aggressive driving

<table>
<thead>
<tr>
<th>Year</th>
<th>HP</th>
<th>0-60</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>$25</td>
<td>$25</td>
</tr>
<tr>
<td>2007</td>
<td>$12</td>
<td>$13</td>
</tr>
<tr>
<td>2013</td>
<td>$8</td>
<td>$9</td>
</tr>
<tr>
<td>2016</td>
<td>$2</td>
<td>$2</td>
</tr>
<tr>
<td>2025</td>
<td>$0</td>
<td>$-1</td>
</tr>
</tbody>
</table>

Constant $5 - $8 $6 - $9

- A 1% improvement in performance increases over time, but the cost of it is dropping.
- Values are similar for HP and for 0-60, but are much lower for US06 than for CFR MPG
  - Drivers experience less of an opportunity cost than CFR MPG implies
How much fuel expenditure is incurred by a 1-unit improvement in performance?

Assumptions: 15 years 12,000 miles/year
4% discount rate $2.50/gallon fuel cost

<table>
<thead>
<tr>
<th>CFR MPG: used for certification</th>
<th>1 HP</th>
<th>1 sec 0-60</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>$62</td>
<td>$456</td>
</tr>
<tr>
<td>2007</td>
<td>$22</td>
<td>$491</td>
</tr>
<tr>
<td>2013</td>
<td>$14</td>
<td>$356</td>
</tr>
<tr>
<td>2016</td>
<td>$12</td>
<td>$372</td>
</tr>
<tr>
<td>2025</td>
<td>$5</td>
<td>$139</td>
</tr>
<tr>
<td>Constant</td>
<td>$11-$36</td>
<td>$328-$471</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>US06 MPG: aggressive driving</th>
<th>1 HP</th>
<th>1 sec 0-60</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>$22</td>
<td>$163</td>
</tr>
<tr>
<td>2007</td>
<td>$6</td>
<td>$147</td>
</tr>
<tr>
<td>2013</td>
<td>$4</td>
<td>$111</td>
</tr>
<tr>
<td>2016</td>
<td>$1</td>
<td>$27</td>
</tr>
<tr>
<td>2025</td>
<td>$0</td>
<td>$8</td>
</tr>
<tr>
<td>Constant</td>
<td>$3-$7</td>
<td>$63-$101</td>
</tr>
</tbody>
</table>

- A 1-second improvement in 0-60 time is much larger than a 1-HP improvement
- Drivers experience a lower opportunity cost for higher performance than CFR MPG implies
- Opportunity cost is dropping over time
Conclusions

• The top-down approach to estimating the tradeoff between power and fuel economy does not capture what happens for an individual powertrain.

• The tradeoff between power & fuel economy has dropped over time
  • The cost of the tradeoff depends on the metrics being measured, and on the basis for comparison
  • Drivers’ experienced tradeoffs are lower than those suggested by test-cycle MPG

• Measures of innovation are sensitive to metrics

• Economists may want to talk to engineers about this issue
  • And vice versa
Appendix
Comparison of Knittel & EPA HP vs MPG data

Knittel and EPA MPG vs HP

- Knittel data: 1980, 2006, Horsepower vs. MPG, with trucks and diesel vehicles removed