Testimony of

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before

House Select Committee on

Energy Independent Global Warming

regarding

Energy Independence Implications

of the Auto Bailout

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Mr. Chairman and Members of the Committee, I appreciate the opportunity to testify before you today. I am co-founder and Chairman of Bright Automotive, an Indiana based company developing a 100 mile per gallon plug-in hybrid electric vehicle (PHEV) for mass production. Bright Automotive is led by former executives and technologists from the automotive industry – highly experienced in developing and producing advanced technology vehicles and components. I am accompanied today by the CEO, Mr. John E. Waters, and the VP of Marketing & Sales, Mr. Lyle Shuey. These gentlemen have over 20 years of automotive background each, which is typical of our team.

As part of a small, innovative automotive company, I hope to share an important perspective with this Committee. I would like to start by sharing this view and then advance to comments on the broader scope of this hearing.

Bright Automotive has focused its business on efficiently and effectively responding to the nation's call for advanced technology vehicles. We have developed a large format vehicle that is currently classified as a "light truck", a designation that includes minivans and SUVs. Our vehicle has a specific focus on meeting customer needs and will achieve efficiencies greater than 100 MPG. The vehicle will be priced competitively and, because it uses 20 percent of the fuel used by the current competition, consumers will quickly recoup the incremental cost of the vehicle.

We are on track, provided the availability of funds, to be in production at an annual rate of 50,000 vehicles per year in 2012. Contrary to both existing and new entrants in the automotive industry, we have chosen to immediately ramp to scale and are addressing a larger sized vehicle class. We have chosen this path for both greater impact and greater economics. We are focused, experienced, and have a solid business model to rapidly introduce innovative and sustainable products.

At the core of our vehicle offering is the collaboration of engineering experts with years of experience at General Motors, Chrysler, Delphi, Johnson Controls, Mitsubishi, Peterbuilt, Takata and Toyota. Starting from scratch, we have created a revolutionary platform, where a "platform" is the industry term for the underpinning vehicle architecture that is modified into multiple specific models. Our process focused on optimizing platform physics, including: lightweighting, best-in-class aerodynamics, low rolling resistance tires and sustainable materials, integrating these key differentiators with an advanced electric powertrain. This combination is the key to efficient, breakthrough vehicles of the future. As our design shows, even a large vehicle can surpass traditional efficiency barriers, and achieve 5x more miles per gallon of gasoline.

Congress recognized the need for increased vehicle efficiency in the Energy Independence and Security Act of 2007, which materially raised the national fuel economy standards for the first time since 1975. In order to support the required capital needs of improving the efficiency of our nation's vehicle fleet, the Act

included a funding mechanism to assist automakers in producing Advanced Technology Vehicles. This mechanism Section 136. It is a $25 billion direct loan program currently being administered by the Department of Energy.

Section 136 is a critical component of the transformation of the American Automotive Industry. In order to dramatically increase the efficiency of the US vehicle fleet, the industry needs to focus on 1) new platforms and materials, 2) developing and bringing to scale batteries, motors, power electronics and other strategic components and importantly 3) ensuring funds are available for the 'ecosystem' of innovation that is emerging.

This innovation transition is being led by a mix of large and small companies. Tremendous innovation resides within small companies in both vehicle development and specific components such as batteries. These companies are poised for growth and are a platform for a dynamic increase in jobs and US leadership. Funds from Section 136 are a critical component to many of these companies and many have or will apply to the Department of Energy prior to the initial December 31, 2008 deadline.

Comments at last week's hearings on the automotive industry suggested that using Section 136 funds to provide immediate liquidity to the Big 3 is an easy solution. On the contrary, it critically harms the industry's ability to achieve its mandated transformation. Others commented that Section 136 is for the Big Three. This false statement is neither the way the legislation nor the interim final rule reads, nor is it fundamentally fair in pursuit of the objectives of the legislation. Taxpayer-supported incentives meant to achieve a specific intent must be open to all US companies and should be allocated to programs and companies that provide the greatest return relative to funds invested. Given the history of small businesses as a source of innovation in our country, a set aside for competitive smaller firms of not less than 20 percent of the loan authority would ensure that innovation is sufficiently funded. Section 136 is the foundation for America's future leadership in the automotive industry. It is critical to the Big 3's business plans but also is absolutely critical to the future of the smaller, highly innovative companies across the country.

At Bright Automotive we have expended tremendous resources to provide dramatic and scaled impact on the fuel efficiency of the nation's vehicle fleet. It is our perspective that Section 136 funds would be available to companies, old and new, to provide breakthrough solutions for the transportation sector. Without Section 136, Bright Automotive will be challenged, in the current capital market environment, to fund its engineering development and manufacturing plan. This same challenge holds true for a number of other manufacturers and critical component suppliers. New companies are not constrained by many of the issues recently discussed regarding the Big 3. However, the current capital environment is no more forgiving, and building cars is an expensive proposition – but building the right, fuel efficient cars is in our national interest.

In announcing this hearing, the Select Committee on Energy Independence and Global Warming has asked three questions.

1. Will the auto industry meet the fuel economy rules passed by Congress and signed into law nearly a year ago, which could revitalize the industry?

   In short, they can. The Energy Independence and Security Act of 2007 mandates a national fuel economy standard of 35 miles per gallon in 2020. It is possible to not only meet these standards but to significantly exceed them in an economic manner. Bright Automotive's first vehicle is an example of the opportunity, as we take one of the least efficient categories of vehicle and deliver a highly efficient product. Achieving and exceeding these standards is critical to the revitalization of the transportation industry. Bright Automotive has found overwhelming interest in highly efficient products from our potential customers.

2. Should American taxpayers expect even higher fuel economy performance in return for their investment of additional billions in loans?

   Yes. This is a moment of alignment of national interest and industrial interest. Higher performance is achievable. The technology is available today and significant penetration can be achieved by 2012 to 2015. Achieving higher fuel efficiency on an industry-wide scale will require immense effort, focus and discipline. However, we have the engineers who led the world in developing these technologies 15 years ago. We have the infrastructure and workforce to bring them to market. Bright Automotive and others are designing and building vehicles to achieve these very objectives

3. Do the auto companies' plans impair their ability to meet the current fuel economy regime?

   In their proposals, each of the companies lays out their plan to meet federal requirements. They also outline varying degrees of financial restructuring. In my opinion, it is important the final path forward for each of these companies includes vehicles that are far more efficient than those in the current vehicle fleet.

I have also been asked to address certain specific questions.

1. What is Bright Automotive's approach to the vehicle market compared with that of established industry players and other new or aspiring entrants into this space? What do you view as most important to designing and building vehicles that will be successful and profitable in the future?

Bright Automotive is intensely focused on providing solutions to the nation's transportation (and energy) crisis. Drawing on the deep automotive experience of our team, we have created a breakthrough blend of lower mass, improved aerodynamics and an advanced hybrid electric powertrain. We have designed our vehicle for large-scale production to maximize its impact. Bright Automotive believes the key to successful and profitable vehicles is a relentless focus on customer needs coupled with an engineering discipline that maximizes vehicle efficiency.

2. Should tax payer-financed loans be used to help General Motors, Chrysler, and Ford survive the present financial crisis?

   Yes. As an industry participant, it is clear that an unmanaged failure by one of these three companies would be highly disruptive to the industry at a time where every link in the chain is under stress. Our business and that of our supplier partners would be impacted by such a failure.

3. What impact does the government's decision have in terms of the U.S. auto industry remaining viable over the long term, creating the transportation solutions of the future, employing significant numbers of Americans over the coming decades, and helping to solve the nation's energy security problem?

   A decision by the government to provide secured loans to the Big 3 is critical to the viability of the industry for the long term. First, it goes without saying that this intervention must lead to companies that have competitive financial structures and can operate independently. Secondly, and the reason that we are testifying here today, is that this government investment creates the opportunity to encourage and support the Big 3 in addressing the nation's energy interests.

   Specifically, it is in the nation's best interest to have a vehicle fleet that leads to cleaner air, reduced carbon emissions, freedom from imported oil and automotive companies leading in innovation. The challenge to date has not been one of engineering but of leadership and financing. It is a difficult risk for a company under financial stress to take on breakthrough programs that would achieve these national goals. Vehicle platforms at the big companies are billion dollar initiatives, and history has proven it is easier to make incremental changes than dramatic ones. Correctly structured government support is the way to accomplish these goals.

4. Where should any financial assistance come from? Should it come from the $700 billion Troubled Assets Relief Program (TARP) fund?

Should the $25 billion in Department of Energy Section 136 loans already appropriated by Congress for purposes of retooling auto manufacturing facilities to build efficient, high-tech cars be opened up for general cash flow purposes to General Motors, Chrysler, and Ford? What impact will this have on the ability of these companies to meet fuel efficiency standards already in law? What impact would this have on industry innovation more generally?

As I am not an expert on all of the available sources of funds for a federal loan to an automaker, I will refrain from comment where might funds come from. Rather, as Chairman of an innovative company working very hard to deliver the type of product that is critical to the nation's economic, strategic and environmental future, I am compelled to express that Section 136 is vital to the automotive industry broadly. Section 136 is critical to funding the programs and projects that are required to achieve the targets set forth in the Energy Independence and Security Act of 2007. Without the current extreme crisis in financial markets, it is still very difficult to fund the major investments required for advanced automotive programs. Each of the Big 3 cited Section 136 as a critical component of their plans. In addition, Bright Automotive is one of a group of newer companies that are leading the industry with innovations that are the key to an efficient automotive future. Section 136 is the critical path for these major steps to be brought to market rapidly. Every year, the country buys millions of new vehicles which will remain in operation for the next 16 years. We *cannot delay the transition* to more efficient vehicles, and Section 136 is the necessary tool to assist innovative companies answer the nation's need.

5. Should tax payer assistance be tied to additional requirements from the industry? If so, what kind? Do you believe it is appropriate to include language in a legislated assistance package that authorizes California and other states to implement California's greenhouse gas emissions standards?

   A viable industry/company is directly linked with a more efficient product offering. Further, it seems inconsistent and counter-productive for a company to be suing the taxpayers that are both its lender and customer.

6. What is your long-term vision for transportation in the United States and elsewhere? To what extent do you believe General Motors, Chrysler, and Ford can be a part of that system? Is there a present role for additional federal policy to help U.S. industry drive that transition?

While I think there are paths for alternate technologies, the most promising pathway that is emerging favors lightweighting, electrification and synergistic electric infrastructure. The future is a smart, electrified fleet (with a mixture of hybrids, plug-in hybrids and full electric vehicles) that intelligently communicates with the electrical grid, heavily incorporates renewable energy, and accelerates the decarbonization of the two largest US energy consumers: electricity (i.e., buildings) and transport.

The future of the automobile is that it becomes the solution. Our current problem is that China, Europe, and Japan seem to understand the efficiency thesis and are aggressively pursuing solutions. Our three large domestic automakers have the engineering capability and market presence to help America accelerate into this area. Federal policy can stimulate this transition in the near-term using funding mechanisms like Section 136. However, Section 136 will be most effective if it remains a viable instrument for smaller innovative companies as well. Further policy efforts could assist the consumer in making a net present value positive purchase even if it is more expensive in the first transaction. The concept of “feebates.” could be a positive stimulus where an assessed fee on the least efficient vehicles is used to fund a rebate on the most efficient vehicles in the category. Feebates could provide dramatic incentive for the customer to make the most efficient choice. It would also spur intense competition to remain more efficient than other products on the market.

Thank you for your attention. On behalf of Bright Automotive, I appreciate your interest in this matter and will be pleased to respond to any questions.

Bright Automotive is not a federal contractor or grantee. Bright Automotive has submitted a proposal for loan funding to the Department of Energy under Section 136 of EISA.