

Statement for the Record by Tesla Motors, Inc.

**Testimony of
Diarmuid O'Connell
Vice President of Business Development
Before the
House Committee on Transportation**

February 6, 2015



Good morning. My name is Diarmuid O'Connell and I am the Vice President of Corporate and Business Development for Tesla Motors, Inc. I would like to thank Chairman Guerrero and the honorable members of the House Transportation Committee for allowing Tesla the opportunity to testify today and provide support for House Bill 6682 and Senate Bill 198.

I. Background

Tesla Motors, Inc. is an American manufacturer of all electric vehicles. Founded in 2003 by five Silicon Valley engineers seeking to end our country's dependence on oil in the light duty transportation sector – particularly foreign oil – this U.S. company's core mission is to accelerate the world's transition to electric vehicles.

Tesla's strategy to accomplish this mission is to roll out compelling, world-class leading, electric vehicles at ever decreasing price points, while increasing production, thus achieving economies of scale as we iterate the technology. Tesla started with the two-seat, market inspiring Tesla Roadster, a sports car capable of going from 0 to 60 mph in 3.6 seconds with 245 miles of range on the U.S. EPA's city/highway test cycles. In 2012, we introduced our next vehicle line starting with the award winning Model S. Capable of 265 miles of range on a single charge under the U.S. EPA's more stringent five cycle test with a zero to 60 mph time as little as 3.2 seconds, and standard seating for five adults, the Model S was named Motor Trend Magazine's 2013 Car of the Year. Automobile Magazine and Yahoo Automotive also named Model S their automobile of the year. With a price point starting just under \$70,000, the Model S is nearly half the cost of the Tesla Roadster with greater range and utility. Consumer Reports called it "the best car they ever tested" and recently awarded Model S the highly coveted "recommended" rating. Tesla will be releasing its Model X crossover sport utility vehicle based on the Model S platform later this fall and a lower priced, smaller vehicle platform within the next two years.

Despite great reviews, popular support and growing sales, local consumers' right to buy our vehicles is being threatened. Our business model is based on direct sales to consumers, rather than the traditional franchised dealer model. Direct interaction with consumers allows the Company to educate consumers about our vehicles, as well as the benefits of electric vehicles as a whole. Electric vehicles are the first new technology in automobiles to successfully challenge the incumbent technology in nearly 100 years. As a result, successful introduction of this new technology depends on a strong education component. On average, it takes Tesla several hours to explain the new technology and benefits to consumers. Thus, we strongly believe that direct interaction with consumers is vital to the successful adoption of electric vehicles. We have found that consumers appreciate the opportunity to learn about the advantages of electric drive without the pressure of sales. With approximately 35,000 Model S vehicles being produced in 2014, half of which were for overseas markets, independent franchise dealers simply cannot sell Tesla vehicles profitably – at least not without selling traditional internal combustion engine (ICE) vehicles as well. This sets up a fundamental conflict of interest between selling electric vehicle technology and traditional ICE technology. One cannot tout the benefits of electric drive without naturally denigrating the incumbent



technology. As a result, in order to successfully launch this market at this nascent stage of the technology, Tesla must be able to reach the consumer directly.

II. Connecticut Actions

State-by-state automotive franchise laws were enacted decades ago to prevent a manufacturer from unfairly opening stores in direct competition with affiliated franchised dealers who had already invested time, money and effort to promote their businesses. These laws were created to protect, for example, the Ford dealer from direct competition and other abuses by its sole supplier, Ford, the manufacturer. Understandably, Connecticut's franchise laws were enacted without contemplating a new manufacturer such as Tesla, and the current statutes may be interpreted to prohibit manufacturer direct sales, whether a manufacturer establishes independent franchised dealers or not.

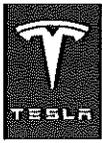
These laws are being exploited by franchised dealers to prevent car companies with non-traditional sales models, such as Tesla, from entering the market. Tesla has not, nor has ever had any, franchise dealers, anywhere. Instead, Tesla has always sought to sell its vehicles directly to consumers. Due to the constraints of the Connecticut franchise laws, Connecticut residents must go to Massachusetts or New York to purchase a Tesla—and are thereby forced to spend their money outside of the state.

Other states, such as Massachusetts and New Hampshire, recognized early on that franchise laws should not stifle inter-brand competition and innovation. These states updated their laws or affirmed existing laws to expressly recognize and clarify that Tesla's technology and business were welcome in their states. We are calling upon Connecticut to do the same.

Tesla is also a part of the Connecticut community. The Company already purchases nearly \$2 million per year in parts and components from Connecticut-based businesses. We have opened a gallery and service center in Milford, which add between \$7-10 million in direct economic activity in their first year of operation and generate up to 25 jobs per location. Tesla has also installed 3 Supercharger stations throughout the state, in Darien, Milford and West Hartford, which allow up to 200 miles of range replenishment in as little as 30 minutes. Allowing Tesla to sell directly, as part of the broader landscape of interbrand competition, which allows the Connecticut consumer choose how they want to purchase a car, simply makes sense.

III. Support of Proposed Legislation

Chairman Tony Guarrera filed House bill 6682 and Senator Art Linares filed Senate Bill 198, amending the language of the motor vehicle franchise law to clarify the intent of this law and effectively open up direct sales in the state of Connecticut for manufacturers that have no existing franchise dealers. Connecticut consumers benefit from this amendment in being able to choose how they buy their Tesla. Further, there is no risk to consumers, because the Tesla's sales model still provides them with all the same warranty, liability, and consumer protections provided by law and applicable to all licensed operations. There simply is no legitimate reason



to exclude manufacturer owned and operated stores, except to protect the monopolistic business interests of existing dealers from legitimate inter-brand competition. In fact, the bill *protects* existing dealers in that existing franchise law remains intact. The bill is limited to allowing manufacturers with no franchise agreements whatsoever in the state to apply for and receive a license to sell directly to consumers. The bill will not allow other manufacturers who have chosen the franchise model to abrogate their prior agreements.

We at Tesla ask that you support the legislation introduced by Chairman Guerrero and Senator Art Linares and support our business model in Connecticut. Thank you for the opportunity to provide this testimony. I welcome any questions about our support of the legislation or Tesla.