Ministry of Transport
TE MANATŪ WAKA

RECEIVED
- 7 DEC 2015
Office Hon. Simon Bridges

BRIEFING

# ELECTRIC VEHICLES PACKAGE: DRAFT CABINET PAPER

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| **Reason for this briefing** | To provide you with the attached draft Cabinet paper which seeks agreement to the electric vehicle package that we discussed with you on 12 November 2015, and to seek feedback that will enable us to finalise the paper. |
| **Action required** | Note the contents of this briefing, clarify your direction on the threshold for the road user charges exemptions for light and heavy electric vehicles, and provide comment to officials.<br><br>Separate advice on levy options will be provided by the Ministry of Business, Innovation and Employment before the end of the year. |
| **Deadline** | At your earliest convenience. |
| **Reason for deadline** | N/A |

**Contact for telephone discussion (if required)**

| Name | Position | Telephone: Direct line | Telephone: After hours | First contact |
|---|---|---|---|---|
| [redacted] | Senior Adviser | [redacted] | | |
| | Principal Adviser | | | |
| Erin Wynne | Manager, People and Environment | | [redacted] | ✓ |

***MINISTER'S COMMENTS:*** Withheld under section 9(2)(a) of the Official Information Act 1982

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|---|---|---|---|
| **Date:** | 7 December 2015 | **Briefing number:** | OC03083 |
| **Attention:** | Hon Simon Bridges (Minister of Transport) | **Security level:** | In-Confidence |

**Minister of Transport's office actions**

☐ *Noted* ☐ *Seen* ☐ *Approved*

☐ *Needs change* ☐ *Referred to*

☐ *Withdrawn* ☐ *Not seen by Minister* ☐ *Overtaken by events*

## Purpose of briefing

1. Attached is a draft Cabinet paper, which seeks agreement to the electric vehicles (EVs) package we discussed with you on 12 November 2015.

2. This briefing summarises the decisions sought by the Cabinet paper, and highlights the following matters on which you may wish to provide further direction prior to the paper being finalised:

   2.1. the timing of an EV Bill and the interim arrangements for implementing key initiatives within the EV package

   2.2. the thresholds for the road user charges (RUC) exemptions for light and heavy EVs

   2.3. the source of funding for the contestable fund (the Ministry of Business, Innovation and Employment (MBIE) will provide you with further advice on this issue separately)

   2.4. the reviews of the tax depreciation rate and fringe benefit tax on EVs

   2.5. proposed next steps, including formal departmental consultation.

## Decisions sought by the paper

3. Based on our meeting with you of 12 November 2015, the draft Cabinet paper seeks agreement:

   3.1. for the Energy Efficiency and Conservation Authority (EECA) to reprioritise $1 million per year for five years to an EV information campaign that focuses on fleet buyers and industry coordination, with some general public communication

   3.2. to establish a contestable fund of $6 million per annum for five years to co-fund industry and government initiatives

   3.3. to amend the Electricity Industry Act 2010 so that the electricity levy can be used for the contestable fund

   3.4. to direct MBIE to investigate the feasibility of joint public and private sector fleet procurement

   3.5. to direct EECA and MBIE to conduct an EV demonstration across the government fleets, initially involving 24 vehicles and that the estimated cost of $500,000 be funded from the contestable fund

   3.6. to support government procurement of EVs with a 'kickstarter' of $1 million, funded from the contestable fund, for government agencies to cover the cost differential between a conventional vehicle and an EV

   3.7. that the EVs package include the target of EVs making up two percent of the vehicle fleet by the end of 2021

3.8. for the NZ Transport Agency to (without changing the current investment settings in the Government Policy Statement on land transport 2015/16 – 2024/25) undertake a range of activities to support EVs and associated charging infrastructure

3.9. extending the RUC exemption to electric heavy vehicles and that the exemptions for the light and heavy vehicle fleets apply until two percent of each fleet are electric

3.10. to direct the Inland Revenue Department (IRD) to review the depreciation rate and the method used to calculate fringe benefit tax as they relate to EVs

3.11. to direct the NZ Transport Agency to review the classification of plug-in hybrid electric vehicles (PHEVs) as part of a wider review of the vehicle licensing classification system, to address an issue with the payment of ACC levies by PHEV owners

3.12. that central government convene a group to provide ongoing leadership and coordination for the total government-industry package.

4. The total value of the package is $27.3 million over 4 years in terms of new funding. The value of the RUC exemption for light EVs is about $600 per vehicle per year, assuming current RUC rates. The value of a RUC exemption for heavy EVs would depend on what RUC vehicle type an EV is. Some examples are below.

| **RUC vehicle type** | **Annual value of RUC exemption per vehicle per year if electric (assuming current RUC rates)** |
|---|---|
| Trolley bus, like those used in Wellington | $6,140 |
| Medium sized 2-axle delivery truck | $2,840 |
| 2-axle rubbish truck | $5,560 |

## Legislative change and impact on implementation of EV package

5. Legislation is needed to enable a levy to cover the costs of the contestable fund, and to exempt heavy EVs from RUC. As discussed with you, it is envisaged that the legislative changes will be progressed through an EV Bill. An EV Bill is not currently on the legislative programme for 2016, but we will work with MBIE to submit a bid to be included on the 2016 programme.

6. In our view, the amendments would be technically easy to secure, and should not absorb much of the House's time. However, we estimate it could take about 12-18 months for an EV Bill and associated regulations to come into force. The Cabinet paper is currently silent about the timing of an EV Bill and its impact on agencies' ability to deliver the EV package.

7. If we wait until the legislation is in place, the contestable fund will not be available until 2017 at the earliest. This would also delay measures to assist EV uptake by government fleets.

8. We instead propose that funding for 2016/17 be met from EECA reserves and reprioritisation to enable the fund to be available sooner. Arrangements to fund the contestable fund through a levy would need to be in place during the 2017/18 year. Appendix 1 summarises how agencies propose to implement the EV package.

**Clarifying the RUC exemption thresholds for light and heavy electric vehicles**

9. At our 12 November meeting, we discussed extending the RUC exemption:

   9.1. to electric heavy vehicles

   9.2. until EVs make up two percent of the fleet or 2025 – whichever comes first.

10. We would like to clarify the thresholds that apply to the RUC exemptions for light and heavy EVs. Based on our 12 November conversation, there are three ways in which the thresholds for the RUC exemptions could apply.

11. The attached draft Cabinet paper proposes to extend the RUC exemption to electric heavy vehicles and that the exemptions for the light and heavy EV fleets apply until two percent of each fleet, respectively, are electric.

12. Based on our modelling and the proposed EV uptake targets, we expect two percent of the light vehicle fleet to be electric by the end of 2021. The two percent threshold for the light vehicle fleet equates to an estimated maximum loss of foregone revenue of around $39.7 million per year once the threshold is reached.

13. We cannot estimate when two percent of the heavy vehicle fleet is likely to be electric because of the limited data available on heavy EV uptake. The draft Cabinet paper is therefore silent on exactly how long the RUC exemption for heavy EVs would apply. This means we cannot say what the estimated value of foregone revenue would be once two percent of the heavy vehicle fleet is electric. Instead, we have estimated the maximum annual foregone revenue if the two percent threshold is met in 2025 ($24 million) or in 2030 ($29 million).[1]

*Alternative options for setting thresholds for the RUC exemptions*

14. Another option would be to seek agreement to extend the RUC exemption to electric heavy vehicles and that the exemptions for the light and heavy EV fleets apply until two percent of the *total* fleet is reached. Under this option, the exemption for both light and heavy EVs would apply until the end of 2021. We estimate that a two percent threshold for the *total* vehicle fleet equates to an estimated loss of foregone revenue of around $40 million once the threshold is reached.

[1] The estimated foregone revenue increases because projected RUC revenue increases each year.

15. Alternatively, the RUC exemption for light EVs could apply until the end of 2021 (by which time they are expected to make up two percent of the light vehicle fleet), and the exemption for heavy EVs could apply until 2025 (consistent with the end date discussed with you on 12 November). The threshold for the light vehicle fleet equates to an estimated maximum loss of foregone revenue of around $39.7 million per year once the threshold is reached. We cannot estimate what a 2025 threshold for the heavy vehicle fleet equates to in terms of foregone revenue, but it would be very unlikely to exceed $24 million.

16. The current recommendations in the draft Cabinet paper do not preclude adopting this approach following work on the design of the legislative amendment and subsequent regulations. However, if this is the approach to the threshold that you wish to adopt, the Cabinet paper could be more explicit.

*We consider that the thresholds in the draft Cabinet paper are acceptable*

17. We have not fully assessed the benefits and risks of each of the options set out above. The key issue is whether the Government accepts the estimated loss of foregone revenue under each option.

18. One risk of the option in paragraph 14 is that it may not incentivise any significant penetration of heavy EVs in the New Zealand market because current technical constraints mean that heavy EVs will be limited in their applications for the next decade.

19. The fact that we do not have a sound basis for estimating when heavy EVs are likely to make up two percent of the heavy vehicle fleet is also a risk.[2] We consider that this risk can be managed following work on the design of the legislative amendment and subsequent regulations.

**MBIE would like to consider a range of options for funding the contestable fund**

20. As we discussed with you, the Cabinet paper currently seeks agreement to amend the Electricity Industry Act 2010 so that the levy on electricity industry participants can be used for the contestable fund (it can currently only be used to fund electricity efficiency measures).

21. In MBIE's view, it is prudent to consider other options as another levy may be more appropriate. MBIE considers that this, and potentially wider levy changes, are warranted given changing environmental and energy priorities, which require a greater focus on transport energy.

22. Other levies that could be expanded are the levies on:

    22.1. electricity generators and gas suppliers (primarily used for safety regulation)

    22.2. petrol/diesel consumers (used for specified activities relating to engine fuels).

[2] We could attempt to develop a model for heavy EV uptake. The results would be highly speculative because the future price and supply of heavy EVs is subject to even greater uncertainty than that for light EVs.

24. We understand that you have had initial discussions with MBIE about this matter, and that you have sought further advice on options and timing by the end of 2015. Any decisions you make following that advice will be reflected in the draft Cabinet paper.

**IRD suggests reviewing both tax deprecation rates and fringe benefit tax on EVs**

25. At our meeting of 12 November, you directed us to include in the draft Cabinet paper a mandate for IRD to undertake a review of either the tax depreciation rate for EVs, or the method for calculating fringe benefit tax on EVs. You also asked whether IRD could model the potential impacts of amending the tax regime on EV costs.

26. IRD does not currently have sufficient information to say which tax may be acting as a larger disincentive to EV uptake or model these impacts. IRD suggests undertaking both reviews to quantify any potential disincentive that the existing tax regime creates for the purchase of EVs. Initial information from the reviews would help inform which (if any) of the reviews should be completed with a view to amending whichever tax disincentivises EV uptake the most.

**Next steps for seeking decisions on the EV package**

*Proposed timeline*

27. We understand that the first meeting of the Economic Growth and Infrastructure Committee (EGI) is likely to be 10 February 2016. Below is the indicative timeline if you would like the EV package considered by EGI on 10 February:

| | |
|---|---|
| Week of 7 December 2015 | Draft Cabinet paper to your office |
| Prior to Christmas 2015 | Receive any comment from you on the draft Cabinet paper |
| Week of 11 January 2016 | Formal departmental consultation |
| No later than Tuesday 26 January 2016 | Final Cabinet paper and Regulatory Impact Statement(s) to your office |
| Thursday 4 February 2016 | Lodge paper with Cabinet Office |
| Wednesday 10 February | EGI considers EV package |
| Monday 15 February | Cabinet considers EV package |

*Departmental consultation*

28. We have only consulted EECA and MBIE's Energy Markets Policy team on the draft Cabinet paper. We have not yet consulted the NZ Transport Agency on the draft Cabinet paper. The information in the draft Cabinet paper is based on our engagement with the NZ Transport Agency during the development of the EV package.

29. We will need to undertake formal consultation prior to finalising the paper. We would like your agreement to formally consult the following agencies: the Treasury, the Department of Prime Minister and Cabinet, the NZ Transport Agency, MBIE's Government Procurement teams, IRD, the Department of Internal Affairs, the Ministry for the Environment, and the Ministry of Foreign Affairs and Trade.

*Regulatory Impact Analysis (RIA) requirements*

30. In order to meet RIA requirements, the final Cabinet paper needs to be accompanied by a Regulatory Impact Statement (RIS) for the proposed amendments to the RUC exemptions for EVs. We have prepared a first draft of the RIS, which will undergo internal quality assurance before being submitted to your office.

31. MBIE do not consider that a RIS is required at this stage for the proposal to amend an existing levy so that it can be used for the contestable fund. We will test this with Treasury's RIA team in due course to ensure that the EV papers that are considered by Cabinet comply with the relevant requirements.

**Recommendations**

32. The recommendations are that you:

(a) **note** the proposed arrangements for implementing the EV package set out in Appendix 1

(b) **note** that there are three options for framing the thresholds for the RUC exemptions within the Cabinet paper

(c) **agree** that the draft Cabinet paper includes thresholds that would see the exemptions for the light and heavy EV fleets applying until two percent of each fleet, respectively, are electric — Yes/No

(d) **note** that IRD recommends the EV package include a mandate for it to review both the depreciation rate for EVs and the method for calculating fringe benefit tax for EVs

(e) **provide** officials with any comment that you have on the draft Cabinet paper before the end of 2015 — Yes/No

(f) **agree** for the Ministry of Transport to undertake formal departmental consultation with the agencies listed in paragraph 29 — Yes/No

(g) **note** that we plan to provide you with a final Cabinet paper by 26 January 2016.

[redacted]
**Senior Adviser**

Erin Wynne
**Manager, People and Environment**

Withheld under section 9(2)(a) of the Official Information Act 1982

***MINISTER'S SIGNATURE:***

***DATE:*** 21 Jan 2016

**Appendix 1: Summary of EV package implementation**



| | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | Governance |
|---|---|---|---|---|---|---|
| **Info campaign** | Being established – already reprioritised from energy appropriation. | $1 million from EECA retained earnings and/or reprioritisation of energy appropriation. | $1 million per annum reprioritised from energy appropriation and/or electricity levy. | | | EECA to design and implement with oversight from MBIE. |
| **Contestable fund** | Being established – funding reprioritised from baseline. | Estimated $5.3 million from EECA retained earnings and reprioritisation of energy appropriation. | $6 million per annum from electricity levy. | | | EECA to administer with oversight from MBIE. Ministers of Transport, Energy and Resources, and Economic Development to approve funding framework. |
| **Public-private procurement** | Being investigated – funding from MoT/MBIE. | To be confirmed. If feasible, tender process could take 6-12 months. Funding from contestable fund. | Costs to be determined as part of feasibility investigation. Funding from contestable fund. | | | MBIE procurement to investigate. Feasibility study will recommend which agency to implement, if applicable. |
| **Demonstration** | Being set up – funding from agencies' baselines. | Trial may be initiated in second half of year. Up to $500,000 from contestable fund. | Monitoring and reporting being carried out. Currently estimated at $60,000 per year. Funding from contestable fund. Potential to be scaled up. | | | EECA to implement with relevant assistance from MBIE procurement. |
| **Kickstarter** | Being set up – funding from agencies' baselines. | Up to $1 million per annum from contestable fund. | | | | EECA to administer with relevant assistance from MBIE procurement. |