

EXTENDING ROAD USER CHARGES EXEMPTION TO HEAVY ELECTRIC VEHICLES

Reason for this briefing	Cabinet has agreed to extend road user charges exemption to heavy electric vehicles. This briefing sets out the Ministry's proposed approach to implement this policy and notes the associated issues.
Action required	Note the Ministry's proposed approach to extending road user charges exemption to heavy electric vehicles.
Deadline	19 August 2016.
Reason for deadline	To enable the Ministry to contribute to drafting instructions for the Energy Innovation Bill (the Bill). The Ministry of Business, Innovation and Employment intends to finalise instructions for the Bill by the end of August 2016.

Contact for telephone discussion (if required)

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

Date:	11 August 2016	Briefing number:	OC04244
Attention:	Hon Simon Bridges (Minister of Transport)	Security level:	In-Confidence

Minister of Transport's office actions

- | | | |
|---------------------------------------|---|--|
| <input type="checkbox"/> Noted | <input type="checkbox"/> Seen | <input type="checkbox"/> Approved |
| <input type="checkbox"/> Needs change | <input type="checkbox"/> Referred to | |
| <input type="checkbox"/> Withdrawn | <input type="checkbox"/> Not seen by Minister | <input type="checkbox"/> Overtaken by events |

Purpose of report

1. This briefing sets out the Ministry's proposed approach to extending the road user charges (RUC) exemption to heavy electric vehicles and notes the associated issues.

Cabinet decisions on electric vehicles road user charges exemptions

2. On 21 March 2016, as part of the electric vehicles package, Cabinet agreed:
 - 2.1. to extend the RUC exemption for light electric vehicles until they comprise two percent of the light vehicle fleet, which is expected to occur by 31 December 2021
 - 2.2. that the RUC exemption for light electric vehicles be extended to heavy electric vehicles, including trolley buses, until heavy electric vehicles comprise two percent of the heavy vehicle fleet or 31 December 2025.

There is currently no definition of a heavy electric RUC vehicle in the Road User Charges Act 2012

3. The Road User Charges Act 2012 (the Act) defines a light electric RUC vehicle as a RUC vehicle with a gross vehicle mass of 3,500 kilograms or less, and motive power wholly or partly derived from an external source of electricity.
4. There is currently no definition of a heavy electric RUC vehicle in the Act. In order to extend the RUC exemption to heavy electric vehicles, the Act will need to be amended to include such a definition.

Options for extending the RUC exemption to heavy electric RUC vehicles

Option One: Mirror the current definition of light electric RUC vehicles

5. This option would mirror the current definition of light electric RUC vehicle to cover vehicles with a gross vehicle mass over 3,500 kilograms.
6. Under this option, the definition for a heavy electric RUC vehicle would be:

"A RUC vehicle with a gross vehicle mass of more than 3,500 kilograms, and with motive power wholly or partly derived from an external source of electricity."
7. This definition is relatively broad and would enable vehicles with a range of different technologies, including Wrightspeed and other forms of plug-in hybrid technology, to benefit from the RUC exemption.

Risks of including 'partly derived' in the definition

8. One of the risks from adopting a broad definition is that it could lead to uptake of vehicles that have some ability to run on electricity, but are predominantly powered by fossil fuels.
9. This risk is greater for heavy vehicles than light vehicles due to the much greater RUC savings. This creates an incentive for operators to game the system.

10. Operators could modify new or existing vehicles in ways that meet the letter of the law but do not enable the vehicle to be propelled by electric power to any significant degree. For example, it may be possible for an operator to fit a low powered auxiliary electric motor and small battery pack to a vehicle, which would not result in any significant reduction in fossil fuel usage.
11. One possible solution is to introduce performance requirements, such as minimum travelling distance or battery capacity, that need to be met before a vehicle is classified as a heavy electric RUC vehicle.
12. However, stakeholders have expressed concern that any performance targets that are set would likely be arbitrary, and could exclude vehicles that are genuinely capable of being powered by electricity from the RUC exemption.
13. The Ministry and NZ Transport Agency largely share this concern. There would be significant challenges in both defining a performance standard that a vehicle “partly derived from an external source of electricity” should meet and in verifying that a vehicle meets the standard.
14. Currently, the Ministry is not aware of any available electric vehicle technology that would allow operators to modify their vehicles cheaply in order to meet the definition of a heavy electric RUC vehicle. Any modifications would likely require significant investment and operators would want to ensure the modifications provide a real benefit in terms of fuel saving, even when the RUC exemption has lapsed.

Risks relating to heavy trailers

15. Under RUC legislation, heavy trucks and the trailers they tow are both defined as heavy RUC vehicles and must carry separate RUC licences.
16. Option One could make trailers eligible for the exemption if they were being towed by a plug-in hybrid or fully electric truck (which would also be exempt). The total possible RUC saving would be in the order of \$50,000 per annum for a truck and trailer covering 100,000 kilometres a year. However, allowing the exemption of trailers would not have any benefits in reduced fuel consumption.
17. Furthermore, trucks and trailers are readily interchangeable and it would not be possible to determine the motive power of the towing vehicle at the time when an operator applies for a RUC exemption. It would not be practicable either to administer the exemption on a trip by trip basis, or to require that exempt trailers only be towed by heavy electric RUC vehicles.
18. The NZ Transport Agency considers they will not be able to grant an exemption for heavy trailers because operators would not be able to confirm the motive power of towing vehicles at the time of applying for the RUC exemption.
19. Legal has advised that due to interpretational differences of ‘trailers’ in different Acts, it would not be practical to explicitly exclude heavy trailers in the definition of heavy electric RUC vehicle.

Option Two: Extend the RUC exemption to include only heavy vehicles wholly powered by electricity

20. This option would allow only heavy vehicles whose motive power is wholly derived from electricity to qualify for the RUC exemption.

Risks

21. The major risk with this option is that the definition is too restrictive and excludes plug-in hybrid vehicles that could contribute to reduced emissions. Plug-in hybrids such as the Wrightspeed technology would not qualify under this definition.
22. With current available technology, fully electric heavy vehicles are likely to remain uneconomic or impractical for most operators, even if exempt from RUC. Our view is that this option is unlikely to be effective in encouraging uptake of heavy electric vehicles in the short term.

The Ministry preferred approach is Option One

23. The Ministry's preferred approach is to mirror the current definition for light electric RUC vehicles to cover vehicles with a gross vehicle mass of over 3,500 kilograms, but exclude heavy trailers from eligibility for the RUC exemption.
24. The RUC exemption for heavy vehicles work programme is currently being progressed through the Energy Innovation Bill. In order to meet the strict timeline for the Bill's introduction, the Ministry was only able to give limited consideration to the definition of heavy electric RUC vehicles. For this reason, the proposed definition for heavy electric RUC vehicles is similar to the definition for light electric RUC vehicles.
25. There will be an opportunity for the Ministry to review the definition in light of submissions received during the Select Committee process. We will provide you with further advice should we consider that an amendment to the definition is needed following industry feedback.
26. As part of this work, we have had discussions with the Road Transport Forum and the Bus and Coach Association, who are generally comfortable with the recommended approach. The Road Transport Forum is aware that heavy trailers are excluded from the heavy RUC exemption. We also had an initial phone conversation with Auckland Transport who did not raise any concerns with regards to the RUC exemption.

Implementation timeframe for the heavy RUC exemption

27. The NZ Transport Agency has advised that they would require between six to nine months from when the Energy Innovation Bill is passed, before the heavy RUC exemption could be put in place. This is to allow for sufficient time for necessary operational and administrative changes such as amending the motor vehicle registry system.
28. The Energy Innovation Bill is expected to be passed in May 2017. Once the Bill is passed, the RUC exemption could then be extended to heavy electric RUC vehicles through an Order in Council.

Recommendations


29. The recommendations are that you:

- (a) **note** the Ministry's proposed definition for a heavy electric RUC vehicle is "A RUC vehicle with a gross vehicle mass of more than 3,500 kilograms, and with motive power wholly or partly derived from an external source of electricity"
- (b) **note** that heavy trailers are unlikely to meet the definition of a heavy electric RUC vehicle.

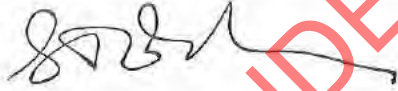


Adviser

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Erin Wynne
Policy Manager, Programme

MINISTER'S SIGNATURE:



DATE:

18/8/16

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