- **60.** However, those on lower incomes are predicted to be disproportionately impacted by the effects of climate change; meaning that while they are less able to participate in reducing emissions (for example because they cannot afford clean vehicles or shift to another mode of transport), they will still be the most affected by the impacts of these emissions.
- **61.** We therefore agree with changing the purpose of the RUC Act to support technologies or fuels that are currently more expensive than existing fuels but assist with reducing greenhouse gas emissions.
- **62.** To address the risk that it would be more efficient/effective to spend revenue from the RUC directly on reducing carbon emissions rather than forego RUC revenue (for example by providing RUC exemptions for cleaner fuels or technologies), we refer to our previous suggestion that all road users are charged a basic charge for using the roads (in line with the current key principle of RUC).
- **63.** This will allow for revenue from all users and recognition that even low-carbon transport options (such as EVs) are impacting the road network. Then applying an emissions charge as suggested, would provide an incentive to choose vehicle combinations that minimise damage to the road network as these combinations would typically be those that are low carbon, too.

# 64. Question 11: How should the RUC rates be set for vehicles that could use more than one fuel and these fuels had different greenhouse gas emissions?

#### 65. <u>RESPONSE:</u>

- **66.** As with previous comments around hybrid diesel cars (and how they should be classed as and charged as diesel), we would support that any vehicles with more than one fuel and the fuels that have different greenhouse gas emissions should be charged and classed as the higher emissions fuel.
- **67.** This is because it would be difficult to track use of the more climate-friendly fuel versus the higher greenhouse gas-emitting fuel. A car that has the potential to be used as a diesel, may be used like this most of the time, and so should be charged as such.
- **68.** This will further help to incentivise climate-friendly choices, for example encouraging purchase of fully electric vehicles versus hybrid ones which may still emit high levels of greenhouse gas.

# **69.** Question 12: What advantages and disadvantages are involved in using NLTF revenue to reduce carbon emissions rather than foregoing RUC revenue?

- 70. <u>RESPONSE:</u>
- **71.** Currently revenue from the RUC goes to National Land Transport Fund (NLTF). If we reduce revenue for example by giving discounts for climate-friendlier vehicles like EVs and public transport, then there is less money in the pot' to help with reducing carbon emissions.
- 72. However, in order to shift behaviours, we need to incentivise them. People will not shift their behaviour to using public transport, for example, if it's too expensive. Equally revenue from the NLTF is required so that we can invest in the public transport infrastructure and make it better than driving, so people not only can afford to use it, but they also want to use it (because it's an effective and efficient way to move around).

- **73.** So, it needs to be a mix of foregoing revenue on the more climate-friendly options, for example exemptions for low-carbon vehicles and public transport and increasing cost for less-climate friendly options like charging more for diesel vehicles, while people build the habits that we need them to adopt for reducing emissions. That is, any RUC exemptions for climate-friendly behaviour should be recovered by increased costs imposed on less climate-friendly behaviour. That way we can ensure we have enough revenue from the NLTF to invest in things like the public transport system, making this better and making people want to use it because it's cheaper (due to discounts/exemption).
- **74.** We still need to incentivise good behaviour choices, and this involves a mix of increasing cost of less-climate friendly options and decreasing cost of more climate-friendly options to encourage people to make the habit. Then once they have the habit, we can reassess the costs.
- **75.** Hamilton City Council agrees that there may also be other opportunities where it would be more efficient or effective to spend NLTF revenue (that is, revenue from RUC and FED) directly to reduce carbon emissions rather than forego RUC revenue e.g., investment in walking, cycling and public transport infrastructure and/or public transport services.
- **76.** We agree that a RUC exemption should be treated as an expense under the NLTF and subject to the same processes for approval as other funding decisions, through the Government Policy Statement on Land Transport. This would ensure that the impacts of any exemptions on transport revenue were fully considered.
- **77.** Ultimately RUC exemptions come at a cost either as reduced revenue into the NLTF or as an expense taken from the NLTF if the RUC exemptions are not offset by increased costs imposed on other RUC vehicles.
- **78.** The NLTF is already under a lot of pressure, and this will increase with the need to achieve our climate change challenges in the transport activity.
- **79.** At least if the RUC exemption is included as an expense under the GPS there will be transparency of the loss of funding available to fund the Government's existing GPS investment priorities that may need to be deferred or delayed as a result of the reduced revenue. This will also enable an informed discussion/decision on the benefits versus costs of using RUC exemptions versus other activities to reduce our carbon emissions.

# **80.** Question 14: What are the advantages and disadvantages with the environmental effects of different fuel types being considered in calculating RUC rates for vehicle types?

- 81. <u>RESPONSE:</u>
- 82. Vehicles that do currently pay some of these charges through Fuel Excise Duty (FED) would have reduced charges related to what is included in FED (as currently stands).
- **83.** A disadvantage is that multiple charges make the RUC complex. The environmental impacts of fuels can be charged directly through a fuel tax on each fuel. This creates a user's pays system that would be fairer to less frequent road users.

# **84.** Question 37: What are the advantages and disadvantages of subjecting road-registered very light vehicles that are not powered by petrol to RUC, or a higher annual licence fee, for travel on public roads?

#### 85. Advantage:

 It will provide a mechanism for collecting approximately \$14 million annually (not including GST) that would otherwise be lost from the NLTF. The NLTF is currently very reliant on funding from FED and there is already a shortfall in achieving the infrastructure maintenance, operations, renewals and improvements needed.

#### 86. Disadvantage:

• An argument to justify charging these vehicles based on the fact that while their wear and tear on the road pavement is less than other vehicles (due to their size and weight) they do still require and benefit from all of the other infrastructure within the road network e.g., streetlighting, roadmarking, signs and traffic signals could equally apply to cycles and scooters. Does this become the thin end of the wedge for other light weight modes to also get charged for the use of the transport network?

# **87.** Question 39: What principles should we use to determine a RUC rate, or higher annual licence fee, for motorcycles and mopeds?

#### 88. <u>RESPONSE:</u>

- **89.** The following factors should be used to determine a RUC rate or higher annual licence fee for EV motorcycles and mopeds:
  - While their wear and tear on the road pavement is less than other vehicles (due to their size and weight) they do still require and benefit from all the other infrastruc ure within the road network e.g., streetlighting, roadmarking, signs and traffic signals. The cost should reflect this.
  - The method of collection should be one that minimises the administrative complexity and costs.
  - These types of vehicles reduce congestion on the network and with less congestion there are less emissions from vehicles sitting in queues.
  - If these vehicles are exempt from RUC (and FED due to not being powered by petrol) there will be an impact on the NLTF by approximately \$14 million annually (not including GST) in FED. The NLTF is currently very reliant on funding from FED and there is already a shortfall in achieving the infrastructure maintenance, operations renewals and improvements needed.

# **90.** Question 44: What are the advantages and disadvantages of removing the requirement to display a physical BUC label?

#### 91. <u>RESPONSE:</u>

- **92.** Hamilton City Council notes that this this proposal to remove the label requirement only relates to light vehicles.
- **93.** The only tangible advantage is a potential cost saving of the printing and distribution of the RUC label, which is minimal and would probably not flow through to the user.
- **94.** It was noted that the requirement to display a current physical licence is an inconvenience for light vehicle owners, but also eads to non-intentional non-compliance through a delay in receiving their physical licence in the mail. Given the low levels of enforcement on light vehicles, this is not considered a major issue and is probably more applicable to heavy vehicles.
- **95.** If the proposals included in the consultation paper for providing other means to assist drivers to remain compliant (see below) then there are also not any major disadvantages to this proposal that we can identify.

# **96.** Question 45: What problems for non-compliance and enforcement might this cause?

- 97. <u>RESPONSE:</u>
- 98. Scanning the Label

**99.** Parking Wardens rely on scanning the barcodes of the licence labels rather than a manual entry. Manual entries may lead to higher error rates and a loss in efficiency. All Warden devices have a shortened version of motor check that can input all vehicle details as well as check for up-to-date data on expired WOF and Registration details. NB The shortened version protects the privacy of vehicles owners from Wardens.

#### 100. Drivers using Different Plates on a Vehicle i.e., Stolen Plates

**101.** Issues will arise where a different plate is attached to a vehicle. A Parking Warden will need to locate the VIN and enter to find correct plate number - the Wardens will take more time to work out the true plate details causing an inefficiency in area management as well as increasing the risk of abusive and aggressive encounters from the drivers. If no VIN is detected or the correct plate is not attached, Parking Wardens cannot issue an infringement notice.

#### 102. Incorrect Infringements Sent

**103.** People may receive incorrect infringements if an incorrect plate or stolen plate is used. A scanned licence label shows the Warden the make and model of a vehicle and can match these details to the car in front of them i.e., the make and model. This stops any incorrect infringements from occurring e.g., if the Warden's devices say it is a Mazda, but a visual check from Warden shows the car is in fact a Nissan. Taking away a label means Wardens need to rely on the plate to be correct.

# **104.** Question 46: How can Waka Kotahi assist drivers in ensuring they remain compliant with RUC if the label-display requirement is removed?

#### 105. <u>RESPONSE:</u>

- **106.** Hamilton City Council acknowledge and suppor the following idea's put forward in the consultation paper:
  - That Waka Kotahi would work towards a wider compliance portal, where a road user could determine their compliance requirements, for example by checking their RUC licence against their physical vehicle odometer would be essential.
  - A smartphone application to purchase RUC automatically as a long-term solution for light vehicle owners would also be very useful.
  - Ability to still cater for those people who may prefer the physical label or may not have internet access to purchase and confirm compliance through an online portal.

# **107.** Question **49**: What are the advantages and disadvantages of removing the requirement to display physical vehicle licence ('rego') labels?

- 108. <u>RESPONSE:</u>
- **109.** Hamilton City Council notes: The annual vehicle licensing system collects revenue for the Accident Compensation Corporation (ACC) and the NLTF (to help fund the Motor Vehicle Register). The payment process also collects data that is used to update the Register, which is vital for road safety enforcement.
- **110.** There are no safety implications for this proposal, as all vehicles will still require either a Warrant of Fitness or Certificate of Fitness label to be displayed. The proposal only removes the requirement to display a label that confirms that the correct fees have been paid.
- **111.** The New Zealand Police and councils both have access to the Waka Kotahi databases for enforcement purposes, using the vehicle licence plate as a reference point.
- **112.** The proposal would shift enforcement of vehicle licence fee payment from roadside enforcement by councils and onto the Warrant or Certificate of Fitness inspection system.

- **113.** Hamilton City Council currently collects in the order of \$746,000 annually (pre COVID) in enforcement fines relating to expired vehicle registration. While this is a source of revenue and this proposal will result in the inability to collect this type of fines, it will also result in the Register being less accurate.
- **114.** Note: the figure shown above of \$746,000 comprises enforcement fines from:
  - Licence not affixed to vehicle.
  - Used a vehicle with an exemption from continuous licensing this is when an owner wants to put the licence on hold as the vehicle will not use the vehicle for a longer period. Drivers are not permitted to drive or park an exempt vehicle on any section of road until it becomes fully licenced as per legislation.
  - Operated an unlicenced vehicle a driver or owner must ensure that the vehicle is always licenced. If the vehicles licence lapses one year after its expiry it becomes unlicenced and will cost more money to re-register this is why the vehicle owners choose to put their registrations on exemption.
- **115.** It is noted that for parking enforcement purposes, councils could continue to have access to Waka Kotahi's databases to determine compliance and issue fines for unlicensed vehicles if they choose to. In this context, it would be preferable for councils to focus any enforcement efforts on vehicle safety issues through the Warrant or Certificate of Fitness label, which would remain.
- **116.** We also note that Waka Kotahi is currently consulting on introducing a fee for the use of this information. With the increasing use of technology such as Licence Plat. Recognition software there will be a large increase in the number of 'transactions' that councils have with the Register and there is a potential risk of it not being economic for councils to complete enforcement activities.
- **117.** Decrease in enforcement of WOF and COF will have a decrease on the level of safety of vehicles on the road.
- **118.** Licence labels act as a method of vehicle identification. If this method becomes obsolete, the Parking Wardens will solely rely on the plate being correct at all times.
- **119.** In the event that the plate is incorrect, the Wardens will need to investigate other avenues of identification i.e., the VIN number.
- **120.** In the event of the plate being incorrect with an infringement being issued, Hamilton City Council (and other local authorities) are at risk of receiving increased amounts correspondence for our adjudicators

# **121.** Question 50: How can Waka Kotahi assist drivers in ensuring they remain compliant with their vehicle licensing obligations if the label-display requirement is removed?

### 122. <u>RESPONSE</u>:

- **123.** Hamilton City Council notes that removing the licence label would put greater responsibility on the registered person and the use of licence reminder notices provided by Waka Kotahi as a primary means through which a registered person would be made aware of the impending expiry.
- **124.** We note that compliance is also reinforced through the Warrant or Certificate of Fitness inspection process as a vehicle must be licensed to be issued with a Warrant or Certificate of Fitness.
- **125.** Hamilton City Council strongly supports the proposal from Waka Kotahi scoping the option to develop an online tool to assist road users with their compliance in terms of <u>both</u> vehicle licensing and RUC.

126. We note that removal of the label will decrease the opportunity for Council enforcement activities to provide assistance and reminders for drivers to remain compliant with their vehicle licensing obligations.

# **Further Information and Opportunity to Discuss Our Submission**

- **127.** Should the Ministry of Transport require clarification of the submission from Hamilton City Council, or additional information, please contact Robyn Denton (Operations Team Leader, City Transportation) on s 9(2)(a) email <mark>s 9(2)(a)</mark> in the first instance.
- nor **128.** Hamilton City Council would welcome the opportunity to discuss the content of our submission with the Ministry of Transport in more detail.

Yours faithfully 9(2)(a)

Lance Vervoort **CHIEF EXECUTIVE** 

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HİRINGA

The energy to change. Together.

# TE MANATŪ WAKA (MINISTRY OF TRANSPORT)

# TE HURINGA TARAIWA: TE AROTAKE I TE PŪNAHA UTU KAIWHAKAMAHI RORI

# ROAD USER CHARGES CONSULTATION

# HIRINGA ENERGY SUBMISSION

**ARPIL 2022** 

#### **Confidentiality Notice**

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# Table of contents

1.	Context	4
2.	Key messages	5
3.	The need for urgent action	6
4.	Decarbonising heavy transport provides a significant opportunity	6
5.	The impact of the existing RUC exemption on zero emission heavy vehicle uptake	8
6.	Summary of recommended amendments to the RUC system	9
7.	Alternatives to RUC exemption for heavy fuel cell electric vehicles	10
8.	Near term capital support is also needed for zero emission heavy vehicles	10
9.	Appendix 1 - Responses to questions	12



### 1. Context

- 1.1. Diesel is a significant source of emissions. New Zealand's annual on-road diesel consumption results in approximately 20%<sup>1</sup> of our total energy sector's annual emissions.<sup>2</sup> If we are to meet our net zero carbon 2050 target enshrined in law, we need to take sensible and swift steps today in order to transition our transport fleet to zero emission fuels.
- 1.2. With the Marsden Point Oil Refinery now converting to an import-only terminal, New Zealand's importation of refined liquid fuels will increase. This reliance on the importation of energy for mobility will make us even more susceptible to global supply and pricing trends. By transitioning our heavy fleet to domestically produced zero emission fuels we increase our energy resilience.
- 1.3. The Emissions Trading Scheme (ETS) is a powerful but blunt instrument. As the price of carbon increases over time, so too will the price of liquid fuels. This increase in fuel price will affect all parts of our community, including those who can afford it least. Liquid fuel consumption is relatively inelastic, as people still need to travel to work and to supply goods and services. A targeted instrument such as the Road User Charge exemption provides an incentive for change, without directly negatively impacting our economy.
- 1.4. Incentivising zero emission vehicles to use domestically produced renewable energy will be better overall for New Zealand, improving our balance of payments as all liquid fossil fuels used in New Zealand are currently imported.
- 1.5. An upswing in zero emission vehicles will not only reduce our emissions, but drive the build of more renewable energy assets, stimulate new jobs and contribute to our targeted global positioning as a low emission economy producing high quality goods and services.
- 1.6. Heavy vehicles comprise 23% of our transport emissions, even though they only account for 6% of the annual road vehicle kms travelled.<sup>3</sup> Hence, transitioning the heavy vehicle fleet will have high impact on our emissions.
- 1.7. The impact of the RUC exemption on the uptake of hydrogen fuel cell heavy trucks<sup>4</sup> has been significant. This reduction in operating costs has been a critical factor for fleet owners when evaluating the business case for adopting this technology. However, the ambiguity around the definition of a 'heavy electric RUC vehicle' in the legislation has caused confusion and uncertainty and must be addressed.
- 1.8. We recognise that the intention of the RUC is to pay for building, operating, and maintaining the land transport system. However, the forgone revenue associated with a RUC exemption for zero emission heavy vehicles will be very small within total RUC revenues due to:

<sup>&</sup>lt;sup>1</sup> MBIE Data Tables - Provisional estimates of greenhouse gas emissions from the energy sector

 $<sup>^2</sup>$  NZ's energy sector comprises ~43% of total emissions, second to agriculture

 $<sup>^{3}\</sup> https://www.transport.govt.nz//assets/Uploads/Discussion/Transport-EmissionsHikinateKohuparaDiscussionDoc.pdf$ 

<sup>&</sup>lt;sup>4</sup> Fuel cell trucks with a plug allowing an external source of electricity to recharge its on-board battery

- 1.8.1. Zero emission heavy vehicles comprising only a small proportion of the heavy fleet during their adoption phase.
- 1.8.2. The RUC exemption is only needed for a limited period of time, until price parity with diesel occurs.
- 1.8.3. Revenue from the ETS can be used to offset foregone RUC revenue.

### 2. Key messages

- 2.1. The Road User Charge (RUC) exemption for zero emission heavy vehicles is a fast, low-cost (for Government and tax payers) and well understood tool that provides an immediate, aligned and directly proportional incentive for the decarbonisation of our highest emitting road vehicles, while other more complex policies are developed and implemented.
- 2.2. Hiringa strongly recommends extending the RUC exemption for zero emission heavy vehicles until at least 2030 in order to give the technologies sufficient running room to build momentum and effectively compete with diesel vehicles.
- 2.3. The definition of a 'heavy electric RUC vehicle' in the RUC Act 2012 needs to be changed so that 'plugs' are not required for fuel cell vehicles to be exempt. The advice from the Climate Change Commission (CCC) states that "Even if Aotearoa rapidly converts to EVs, biofuels or hydrogen will likely still be needed for ships, trains, aircraft, long-distance trucks and some off-road vehicles." It is clear that hydrogen fuel cell technology has its place within New Zealand's energy future and needs to either be clearly included in the definition of 'heavy electric RUC vehicle' or the definition is technology agnostic e.g. relying on zero tailpipe emissions.
- 2.4. **Include trailers in the RUC exemption**. The Government has the ability to double-down on immediate emissions reductions in this transportation segment by exempting trailers towed by a 'heavy electric RUC vehicle'. Heavy trucks towing trailers are the highest emitting vehicles on our roads. Exempting trailers would provide a significant increase in the 'carrot' for fleet owners to decarbonise. Managing this exemption can be easily done using verified coupling of truck and trailer via electronic monitoring e.g. E-Road or similar. Refer to section 5.2 for further discussion.
- 2.5. Zero emission heavy vehicles of all kinds should be RUC exempt. Fuel types and sources are best addressed outside of the RUC Act.
- 2.6. Use ETS revenue to offset lost revenue from the RUC exemption. The revenue forgone as a result of RUC exemption for zero emission heavy vehicles could be offset by the proposed Climate Emergency Response Fund, made up of \$4.5 billion in proceeds from the ETS. Early mechanisms such as RUC exemption can help overcome the initial premium paid for zero emission freight while economies of scale are built and costs come down.
- 2.7. Use the RUC exemption to secure New Zealand's position in the race to decarbonisation. If we lose momentum in terms of our zero emission heavy truck roll out through a lack of fleet owner incentives, New Zealand will lose its current position at the top of the global queue for these important vehicle technologies, further delaying decarbonisation of the heavy fleet.

## 3. The need for urgent action

- 3.1. Aotearoa has enshrined it's 2050 zero emission target in law, therefore we are legally obliged to take practicable steps to reduce our emissions and need to act now if we are to meet our target.
- 3.2. The speed at which we need to take action has been highlighted in the recent IPCC Working Group report<sup>5</sup> which said that "Without immediate and deep emissions reductions across all sectors, limiting global warming to 1.5°C is beyond reach." The report went on to say that "Limiting global warming will require major transitions in the energy sector. This will involve a substantial reduction in fossil fuel use, widespread electrification, improved energy efficiency, and use of alternative fuels (such as hydrogen)."

## 4. Decarbonising heavy transport provides a significant opportunity

- 4.1. With the imminent release of the Emissions Reduction Plan, Government, industry and the public need to find 'low hanging fruit' that can reduce emissions quickly.
- 4.2. The Government recognised the opportunity to decarbonise that medium and heavy vehicles present when signing the 'Global Commercial Vehicle Drive to Zero' memorandum of understanding,<sup>6</sup> committing to 100% of new truck and sales being zero emission vehicles by 2040 and 30% by 2030.
- 4.3. Heavy vehicles comprise 23% of our transport emissions, even though they only account for 6% of the annual road vehicle kms travelled.<sup>7</sup> Therefore, heavy vehicles are high emitters, and with freight volumes expected to increase 33% by 2050,<sup>8</sup> coupled with the fact that the bulk of heavy fleets are owned by only a few dozen commercially minded fleet operators (as opposed to millions of passenger vehicle owners), this segment is a high impact place to focus effort.
- 4.4. Heavy fleet turnover will take several decades with New Zealand only purchasing around 6,500 heavy vehicles each year. Even if we only purchased zero emission trucks from now on, it will take over 20 years to transition the heavy fleet. Encouraging a rapid increase in zero emission heavy vehicle uptake is critical. Refer to Figure 1.

<sup>&</sup>lt;sup>5</sup> https://www.ipcc.ch/

<sup>&</sup>lt;sup>6</sup> https://globaldrivetozero.org/mou-nations

<sup>&</sup>lt;sup>7</sup> https://www.transport.govt.nz//assets/Uploads/Discussion/Transport-EmissionsHikinateKohuparaDiscussionDoc.pdf

<sup>&</sup>lt;sup>8</sup> https://www.sbc.org.nz/insights/2021/low-carbon-freight-pathway



Figure 1 CO<sub>2</sub> Reductions Achieved Through Modest Hydrogen Fuel Cell Heavy Vehicle Uptake

4.5. The heaviest trucks drive the most kilometres and emit over 150 times more CO<sub>2</sub> than average passenger vehicles, as indicated in Figure 2. These are the newest vehicles in the trucking fleet and have frequent replacement cycles so incentivising uptake here can gain emission cuts quickly and provide a strong trickle-down effect.



Figure 2 CO<sub>2</sub> Comparison of Emissions From Different Vehicle Types and Investment Comparison (in box)

4.6. Figure 3 demonstrates that the bigger trucks doing the most kms per annum are the highest emitters. Decarbonisation incentives in this segment will provide the best carbon abatement return on investment on a dollar-per-dollar basis for Government, and provides a multi-pronged approach, as opposed to just relying on light fleet decarbonisation.



Figure 3 Cumulative Emissions by Truck Size and Annual Distance Travelled

## 5. The impact of the existing RUC exemption on zero emission heavy vehicle uptake

- 5.1. With the support of Government, TR Group is importing 20 hydrogen fuel cell heavy trucks which will be leased to many of New Zealand's largest truck fleet operators from early 2023. A key enabler for these fleet operators has been the RUC exemption available<sup>9</sup> until the end of 2025. Given the significant impact this Government 'lever' has had on the uptake of zero emission heavy trucks (at no immediate cost to tax payers), it is paramount that this incentive continues uninterrupted until at least 2030 to give the technology the momentum needed.
- 5.2. Hiringa's trucking partners have advised that the RUC costs associated with type 309 vehicles are approximately 30 cents/km, with a B-train being another 22 cents/km. These combine to cost operators approximately 52 cents/km at 120,000kms or \$62,400 per year, which is a material proportion of operating costs. Removing this cost is a considerable enabler that the Government can continue to use in order to help close the gap between diesel powered and zero emission trucks in the short term.
- 5.3. Hiringa and trucking partners view the existing RUC exemption for zero emission heavy vehicles as a fast, low-cost and well understood tool that Government can continue to use to encourage the decarbonisation of an otherwise hard-to-treat segment of the transportation sector. To develop a new incentivization tool would take time, at the cost of years of zero emission uptake and risks putting New Zealand down the priority list of Original Equipment Manufacturers (OEMs) who are receiving unprecedented demand from much larger economies around the world. New Zealand has secured a position near the top of the technology queue with OEMs, however this position will slip if truck orders wane.
- 5.4. The exemption for 'heavy electric RUC vehicles' is a key piece of the puzzle required in order to transition our existing heavy truck fleet to zero emission fuels. Capex support is also required in

<sup>&</sup>lt;sup>9</sup> The 20 Hyzon trucks have plugs allowing an external source of electricity to recharge their on-board batteries

the early years as shown in Figure 4 in relation to hydrogen fuel cell trucks. Please refer to section 8 for further discussion around capex support. Without RUC exemption and capex support it will take longer for our heavy fleet to decarbonise.



Figure 4 RUC Exemption & CAPEX Support Are Critical For Heavy Fleet Decarbonisation

5.5. With the Government's pledge to decarbonise public transport buses by 2035, there is a need to stimulate a variety of zero emission bus technologies. Many of the larger regional councils are concluding that a combination of battery electric and hydrogen electric buses will be required in order to decarbonise their bus routes which vary in terms of bus utilisation rates, distance and weight limitations. Continuing the RUC exemption for zero emission buses reduces the financial barriers to adoption and could form a key element of the Government's plan to achieve bus fleet decarbonisation.

#### 6. Summary of recommended amendments to the RUC system

- 6.1. Extending the RUC exemption for zero emission heavy vehicles until 2030 will give the various technologies sufficient running room to gain momentum and ultimately surpass diesel as the dominant fuel.
- 6.2. The wording in the legislation needs to be changed so that 'plugs' are not required for hydrogen fuel cell heavy vehicles to be exempt. Refer to section 2.3 for further discussion.
- 6.3. If trailers towed by zero emission heavy vehicles are RUC exempt, the 'carrot' for fleet owners to decarbonise would be significantly increased. Refer to section 5.2 for further discussion.

6.4. Zero emission heavy vehicles of all kinds should be RUC exempt. Fuel types and sources are best addressed outside of the RUC Act.

# 7. Alternatives to RUC exemption for heavy fuel cell electric vehicles

- 7.1. If the RUC exemption was not extended beyond 2025, an equivalent incentivization tool will be required if we are to decarbonise the heavy fleet. An example of this could be a RUC system whereby the charges paid are calculated based on vehicle weight plus a fuel emissions factor. For example, the RUC paid by an existing truck using biofuel would be based on its weight combined with the emissions factor of the specific biofuel it was using. For battery and fuel cell electric vehicles, the RUC paid would only be based on weight, with no additional amount added given there would be zero tailpipe emissions. It is recommended that planning for a system such as this begins now so that it can be rolled out seamlessly should the RUC exemption be phased out after 2030.
- 7.2. If Government deems it inappropriate to address externalities such as emissions via the RUC system, then a new system that incentivises clean fuels will be required to incentivise low/zero emission fuels, such as Canada's Clean Fuel Standard.<sup>10</sup> While adapting a system such as this to New Zealand could bring deep decarbonisation, it would take a considerable amount of time to implement, delaying the emission reductions urgently needed.
- 7.3. While the intention behind the Emission Trading Scheme is that it will eventually put a price premium on high emitting fuels and therefore drive behaviour change, this will take time and therefore the ETS is not seen as a solution that will drive the degree of heavy fleet decarbonisation required in the near to medium term. The ETS is a blunt instrument that will eventually drive up the cost of fuels for all New Zealanders. We recommend a more targeted and immediate approach such as RUC exemption for zero emission heavy vehicles.
- 7.4. A fuel rebate on green hydrogen produced and supplied to the transport market is another way of reducing the operational costs and therefore incentivising zero emission heavy vehicles. With green hydrogen being the only type of hydrogen that received the rebate, this approach would address any concerns about grey or blue hydrogen being incentivised via a RUC exemption. Of note, BEVs currently receive a rebate as a part of the Clean Car Discount, despite the electrical grid only being approximately 80% renewable. Also of note, in order for liquid fossil fuels to establish themselves it took decades of global subsidisation, therefore subsidisation of fuels is not a new concept. We acknowledge the work done by the Ministry of Foreign Affairs and Trade to address the liquid fossil fuel subsidies that remain today.

## 8. Near term capital support is also needed for zero emission heavy vehicles

8.1. The capital cost of zero emission heavy trucks is a near term barrier to adoption until cost downs are achieved. Zero emission heavy truck prices will rapidly reduce with manufacturing volume. However, in order to achieve economies of scale we need to activate the market. A zero emission

<sup>&</sup>lt;sup>10</sup> https://www.canada.ca/en/environment-climate-change/services/managing-pollution/energy-production/fuel-regulations/clean-fuelstandard.html

heavy vehicle rebate equivalent of the Clean Car Discount would be very impactful and easy to implement. Figure 5 below demonstrates that on the same dollar per kgCO<sub>2</sub> abated ratio, zero emission heavy vehicles would receive a rebate of \$1.2million, which is unnecessary, but highlights the impact per dollar spent. EECA's Low Emission Transport Fund has been the mechanism for capex support to date, but this is only for small numbers and its contestable nature introduces significant uncertainty.





Metric	Units	Nissan Leaf	HYZON HGV450
Emissions Avoided	kgCO2e/km	0.170	1.480
Distance travelled per year	KM	11,000	200,000
Duration of first ownership	years	8	8
First ownership distance	KM	110,000	1,600,000
Government rebate	\$NZD	\$8,625	\$1,200,000 eqiv

Figure 5 Clean Car Discount Equivalent for Zero Emission Heavy Vehicles

## 9. Appendix 1 - Responses to questions

Q.1 What are the advantages and disadvantages of using RUC to recover more than the direct costs of building, operating, and maintaining the land transport system?

Refer to sections 1, 2 and 4

Q.2 If RUC should not be used for recovering more than road costs, what alternative approach might be appropriate for recovering those other costs?

Refer to section 7

Q.3 What advantages and disadvantages are there to considering externalities when setting RUC rates?

Refer to sections 1, 2 and 4

Q.4 If externalities were to be considered, what criteria could be used to determine what externalities should be taken into account in setting RUC rates?

Refer to section 7

Q.5 If externalities were to be considered, how should these costs be set?

Refer to sections 4 and 7

Q.6 Would charges for externalities be in addition to the current form of RUC, and potentially used to address the externalities directly, or be a core part of total land transport revenue?

Reinvest any revenue gathered from charging for externalities back into addressing the cause of or mitigating the externality.

Q.7 How would vehicles not paying RUC be affected?

Refer to section 5

Q.8 What are the advantages and disadvantages involved in changing the purpose of the RUC Act so that climate policy generally, or greenhouse gas emissions specifically, can be considered when setting RUC rates?

Refer to sections 1, 2 and 4

Q.9 What advantages and disadvantages would there be if there was an explicit requirement to consider RUC exemptions as part of the development of the Government Policy Statement on land transport?

Refer to sections 1, 2 and 4

Q.10 What are the advantages and disadvantages of enabling consideration of greenhouse gas

emissions when setting RUC rates?

Refer to sections 1, 2 and 4

Q.11 How should the RUC rates be set for vehicles that could use more than one fuel and these fuels had different greenhouse gas emissions?

Refer to section 7

Q.12 What advantages and disadvantages are involved in using NLTF revenue to reduce carbon emissions rather than foregoing RUC revenue?

It is cleaner and a greater incentive for RUC exempt zero emission vehicle owners to avoid having to pay RUC charges in the first place, than to pay them and have NLTF revenue used to mitigate carbon emissions via another method which may or may not have a direct impact on capex or opex for the vehicle owner.

Q.13 What are the advantages and disadvantages with the source of different fuel types being included in RUC calculations (separately from the direct climate impacts of the fuel used)?

Refer to section 7

Q.14 What are the advantages and disadvantages with the environmental effects of different fuel types being considered in calculating RUC rates for vehicle types?

Refer to sections 6 and 7

Q.15 How would fuel supply chains be verified?

In relation to green hydrogen, the renewable electricity and renewable gas certification schemes currently under development would be used.

Q.16 How could we ensure that, if different fuels are available (for example mineral and biodiesel, or hydrogen from different sources), only approved fuel types were used by the RUC vehicle?

Refer to section 76

Q.17 How else would you change the setting of RUC to ensure it is adaptable to future challenges?

By being technology agnostic and focussing on incentivising zero tail pipe emissions, the RUC Act would be more agile moving forward.

Q.31 What are the advantages and disadvantages of enabling partial RUC rates to help transition exempted vehicles to full RUC rates?

With full RUC exemption only closing a portion of the total cost of ownership gap between zero emission heavy vehicles and diesel incumbents, partial RUC exemption would have an even smaller enabling effect and is therefore not supported.

Q.32 What are the advantages and disadvantages of the heavy EV exemption being extended for more than five years?

Refer to sections 1, 2 and 4

Q.33 How would extending the end date be effective in encouraging the uptake of heavy EVs?

Refer to sections 1, 2 and 4

Q.34 Should the current exemption be extended to 31 March 2030 to encourage the uptake of heavy electric vehicles? Would an alternative date be better and why?

Yes. Refer to sections 1, 2 and 4

Q.35 How would exempting vehicle combinations where the motive power is from a vehicle exempted from paying RUC encourage the uptake of heavy electric vehicles?

Refer to section 6.3

Q.36 What safeguards would we need to ensure that only trailers towed by exempted vehicles were able to be exempted?

Refer to section 2.4

Q.66 What criteria should be used to define, or replace, the word 'partly' in the definition of electric vehicles and why?

Refer to section 2.3

horizons

21 April 2022

TTP:0201 LS:MR

Te Manatū Waka Ministry of Transport RUC Consultation 2022

By email only to: <u>RUCconsultation22@transport.govt.nz</u>

Dear sir or madam,

### ROAD USER CHARGES CONSULTATION: HORIZONS REGIONAL COUNCIL SUBMISSION

Thank you for the opportunity to provide feedback on possible changes to the Road User Charges (RUC) system. This submission is made on behalf of Horizons Regional Council by Transport officers.

We agree it is timely to review the RUC system in light of government direction relating to climate change and the length of time since the last review of the system. Rather than responding to each of the technical questions from the consultation document, we have focused our feedback on a few high level considerations that are of specific interest to us as a regional council. Our feedback covers:

- Electric vehicle exemptions
- NLTF and how RUC could better support public transport
- Equity impact of RUC system on rural communities

#### Electric vehicle exemptions

We note that current exemptions for light and heavy electric vehicles expire in 2024 and 2025. It is also acknowledged the purpose of the exemptions which have been to encourage greater uptake of electric vehicles in New Zealand by reducing the cost of owning such vehicles. However, in our view this largely favours those who are financially better off rather than those who are less able to pay, due to the cost of purchasing electric vehicles. For this reason, we support a more balanced approach for EVs. This should continue to support the uptake of EVs while also recognising that all vehicles should contribute to the NLTF in some way. If exemptions from paying RUC for EVs were to be maintained, we would support them being distance based rather than time based.

The exception to this is RUC for public transport services, which we consider should be exempt from RUC charges and is discussed further below.

#### NLTF and how RUC could better support public transport

As pointed out in the consultation document, RUC contributes a significant proportion of the funding for the National Land Transport Fund (NLTF), which in turn funds transport projects and services locally. The amount of funding available through the NLTF is already constrained and transport activities are in places significantly underfunded. More funding through the NLTF is needed if New Zealand is going to realise its ambitions for transport.





Given the role RUC plays in transport funding, we support a review of the funding mechanisms for RUC, specifically around contribution towards incentivising alternative transport modes and use of other tools such as congestion charging. RUC should be just one of the tools that we can use to address the issues in the transport system and current funding limitations through the NLTF.

It is our view that road user charging should be linked to broader transport objectives such as increasing public transport use. Leading on from this and recognising the broader objectives for transport nationally, we submit that it would be beneficial to have an exemption for public transport where it is enhancing accessibility and connectivity and contributing to reducing carbon emissions from transport.

#### Equity

The Horizons region is characterised by a few urban centres with a large proportion of rural areas which support primary production. Many of these rural areas are remote and currently rely solely on private vehicles to operate their business and access amenities essential for day to day living. Given some regions have more rural areas which rely on private vehicles we submit that an equity lens needs to be applied to the RUC so these communities who have less transport choice are not disproportionately impacted. DUNATIC

Yours sincerely,

s 9(2)(a)

. TSERVICES MANAGER TRANSPORT SERVICES Mark Read

Submission from: I Love Public Transport, Taranaki

To: Ministry of Transport Road User Charges Consultation

Prepared by:

s 9(2)(a)		

# Who we are

I Love Public Transport, Taranaki is a public transport user group in Taranaki. Our kaupapa is about sharing the joy of using public transport. We ask for more public transport in our rohe and Aotearoa-wide, aiming to reduce environmental impact, infrastructure costs and inequality, while improving health and building communities

# How public transport benefits all road users, especially drivers

New Zealand funds road-building and maintenance through Road User Charges (paid mostly by diesel vehicles), petrol excise duty and vehicle registration fees. The National Land Transport Programme 2021-24 devoted all this money and around 20% on top to building, maintaining and improving roads. The programme funds sustainable transport options like rail, public transport, cycleways and footpaths through tax and rates.

We often hear public transport projects derided in the media as a waste of money, usually because of perceptions not enough people in New Zealand use public transport for these to be worthwhile. The benefits of public transport to drivers are rarely covered. Many drivers seem unaware of how funding high-quality public transport is saving them much money and time. In fact, we see public transport sometimes described as "a burden on the taxpayer [or ratepayer]," when even a cursory glance at the benefits shows they are enormous.

In Auckland alone, just considering parking spaces freed up, we see billions saved. Over <u>60</u> <u>million journeys are taken each year on Auckland public transport</u>. At an average car occupancy of 1.5 people and considering each journey has an 'in' and 'out,' these journeys free up 54,795 parking spaces each day. That's more than 137 hectares of parking, or an area one-third the size of Auckland's CBD. A conservative sale price for an Auckland parking

1FX 198

space is \$60,000, meaning the public transport system in Auckland may be saving Aucklanders some \$3.3 billion dollars in parking alone. Yet, even with capital investment included, <u>nowhere near as much is spent funding Auckland's public transport</u>.

Taranaki's public transport system is creating the same enormous value for drivers, even with low use compared with Auckland. Our public transport users take around 650,000 journeys each year, which, as we have no buses on Sundays and public holidays, is around 2,167 journeys a day. Divide by two for in and out journeys, and by 1.5 for average car occupancy, and you get 722 cars taken off the road and parking spaces freed daily, mostly in New Plymouth. Land values in New Plymouth are around \$1,000 per square metre, making the value of those parking spaces alone about \$18 million dollars. Meanwhile, we fund Taranaki's public transport just \$3 million a year, after fares.

More public transport funding means more people use it, meaning more benefits for drivers

Public transport use has roughly doubled in Taranaki since 2008, likely mostly thanks to route improvements and a small council campaign promoting alternatives to driving. In the past year, numbers on one Taranaki service tribled in response to reduced fares and more services. These examples show how with improvements in public transport, passenger numbers can radically increase.

We often hear statements like "New Zealanders just love their cars," as the reason for low public transport use. But examining history suggests New Zealanders "loving their cars" is more a consequence of poor public transport provision than its cause.

We once equally loved our public transport. In the 1980s <u>most NZ towns and cities had</u> <u>substantial, regular, well-used public transport networks</u>. These were decimated following the local government reforms of the late 80s and early 90s.

Research shows that no matter the country, public transport use increases whenever people are offered.

- 1. More services, more often, at more times of day, to more destinations
- 2. More affordable fares that compare well with the cost of driving
- 3. Easier to use, and more well-promoted services
- 4. Faster and more reliable services.

The barrier to making such improvements is almost always funding.

Given the benefits of public transport seem to fall more on drivers than any other group through improved availability of parking and reduced congestion, adjusting RUC to account for driving's externalities, including greenhouse gas emissions, seems a fair way to better fund public transport. It would create even more benefits for drivers as well as encouraging them to reduce their driving where possible, benefitting drivers and everyone else.

# Our answers to your questions

Should the RUC Act be able to do more than recover the direct cost of building, operating, and, maintaining the land transport system?

#### s 9(2) (ba)(i)

Q1 What are the advantages and disadvantages of using RUC to recover more than the direct costs of building, operating, and maintaining the land transport system?

Using RUC to recover more than the direct costs of roading may be a fairer way to distribute other costs created by road use, currently borne either through taxation and rates or added to the cost of goods and services (meaning, paid for by non-drivers):

- Land, building and maintenance cost o parking, often paid through rates or by raised costs to consumers when businesses choose to provide parking or are forced to provide it by mandatory parking minimums.
- The tendency for cities to sprawl, increasing infrastructure costs and consuming productive rural land.
- Vehicle related air pollution, costing an estimated 935 million per year in healthcare.
- Particulate matter from exhaust and tyres pollution of land and waterways.
- Congestion costing an estimated 1.3 billion each year in Tamaki Makaurau alone.
- Health costs of sedentary living linked with high rates of driving. (Research finds public transport users are three times as likely to meet exercise guidelines.)
- Costs created by motor vehicle accidents. (<u>Around 4.6 billion each year</u>.) Taking public transport <u>reduces the risk of being in a vehicle accident by more than 90%</u>, with public transport vehicles also less likely to hit pedestrians and cyclists than private vehicles are.

If RUC could be used to fund more sustainable alternatives to driving, like public transport, safe cycling infrastructure, rail and sea transport and research into lower impact vehicles or

ways to reduce driving's impact, it would benefit the drivers who pay it as well as wider society through reducing all impacts.

If RUC covered the full cost of driving rather than these being paid for out of general taxation, it would incentivise adopting lower impact means of transport, making for example, sea and rail freight comparatively cheaper.

New Zealand currently plans to reach its greenhouse gas emissions by buying carbon credits. If we could reduce emissions by transferring negative externality costs of driving from wider society onto drivers, we may not need to buy these carbon credits, saving much

Q 2 If RUC should not be used for recovering more than road costs, what alternative approach might be appropriate for recovering those other costs?

<u>Congestion charging</u>, and to some extent <u>road tolling</u>, are effective in reducing driving and creating mode shift. But as these apply only to limited areas, they don't provide an incentive for drivers to consider more efficient vehicles or alternatives to each trip. For example, a driver might not be able to avoid tolled or congestion charged areas, but they might be able to walk instead of drive to the local shops for a snack. Congestion charges and road tolls place no value on overall reductions in driving, but RUC can – especially if charged more appropriately to the size of the vehicle and its emissions, with licenses available to buy in smaller increments.

Some countries have gone the other way and <u>given tax rebates to people who cycle, walk or</u> <u>use public transport</u>. This option has some advantages, like easing the tax burden on the less well-off. But countries using this option already have well-developed alternatives to driving and charge vehicles based on emissions, so the policy has more power to be effective and they have a way to pay for it.

Driving and emissions can also be reduced in many ways other than walking, cycling and using public transport, such as having goods delivered rather than collecting, combining journeys or carpooling – these options often apply more to heavy vehicles like those currently paying RUC.

Another way to cover the costs of emissions could be to assess each vehicle's emissions alongside a warrant of fitness and charge accordingly. This seems to be the preferred method overseas. Although this may incentivise getting a more efficient vehicle, it doesn't incentivise reductions in overall driving unless overall km travelled are also charged for using a system similar to RUC.

Q 3 What advantages and disadvantages are there to considering externalities when setting RUC rates?

- Fairer distribution of the costs of driving across society, onto the people who benefit most from it and make decisions about it.
- Creating a financial incentive to reduce driving and therefore all negative externalities of driving.

Q 8 What are the advantages and disadvantages involved in changing the purpose of the RUC Act so that climate policy generally, or greenhouse gas emissions specifically, can be considered when setting RUC rates?

As a country, we will pay for our greenhouse gas emissions regardless of who pays— it could be those who make emissions, benefit from emissions and have the power to reduce them, or it could be everyone, through taxes and rates.

The advantage of changing the RUC Act to take into account emissions is that it puts the onus to reduce them on those who make and benefit from them, while providing a pool of money to use to improve lower emissions, lower impact alternatives like sea, rail and alternative fuels.

Q 12 What advantages and disadvantages are involved in using NLTF revenue to reduce carbon emissions rather than foregoing RUC revenue?

According to the National Land Transport Programme 2021-2024, NLTF revenue isn't enough to cover road building and maintenance plans over this period – a further 20% will come from rates and tax

Some of New Zealand's recent road projects have been estimated to return on investment less than \$1 for every \$1 spent, but are still being built. Meanwhile rail, public transport, cycling and walking infrastructure projects with higher expected returns get shelved for lack of funding. Or, we see cheaper, less effective versions of a public transport chosen, as in the case of Te Huia. Using the NLTF for high-value emissions-reducing infrastructure projects could mean better decisions on infrastructure investment overall.

Many drivers object to NLTF money being spent on non-roading projects – they feel it is their money and that projects to increase public transport, cycling and walking are taking it away. However, normally these drivers are not aware of how such projects benefit them enormously of drivers as this is rarely, if ever, covered in the media. It's notable that

countries drivers rate as best for driving – <u>on top being the The Netherlands</u> – are those also renowned for good cycling, walking and public transport infrastructure.

Q 17 How else would you change the setting of RUC to ensure it is adaptable to future challenges?

 Current rates of RUC <u>don't seem to adequately reflect the damage done to roads by the</u> <u>largest, heaviest vehicles especially</u>. This effectively means we subsidise these vehicles. When there are sometimes suitable alternatives for moving these goods – at least, for parts of the journey – for example sea or rail – not requiring these vehicles to pay their fair share of road damage encourages carrying heavy loads by road when there are other option.

The presence of many large, heavy trucks on the road is also a major deterrent to cycling and walking.

2. Some who pay RUC will have no power to reduce their driving or emissions because of their financial position. Given New Zealand's famously old vehicle fleet, improvements to the RUC system could include using RUC income to provide grants or finance targeted at low income-earners, helping them access emissions abatement technology or buy lower-emissions vehicles.

Q 48 What advantages and disadvantages are there in allowing RUC licences to be purchased in units of less than 1,000 km? When businesses and individuals reduce driving, it's rarely by finding alternatives to long drives but by regularly finding alternatives for short trips.

For example, when a building contractor needs to visit sites for running up quotes, they might choose to use a lighter vehicle, cycle, walk or take public transport, rather than driving the heavier vehicle they'd need when doing work. Or, rather than driving their heavy vehicle home each night, they might leave it on site and travel to the site daily using a lighter vehicle, public transport, cycling or walking.

The <u>average New Zealand driver drives about 28km a day</u>. A 1,000 km license is 36 days of driving, which puts everyday driving decisions to the back of minds. Making licenses available in increments of more like 200km may increase administration costs, but it could have two considerable benefits:

Helping those least able to afford RUC with cashflow

• Encouraging RUC payers to think more about how to reduce their driving.

Q 65 What other improvements do you think are needed in the RUC system?

• To remove fuel excise duty and instead, place all vehicles under the RUC system may be a fairer way to charge for the externalities of driving -- which go far beyond the environmental impact of fuel.

Fuel tax does not seem to be effective enough at disincentivising driving or fuel use, because we are seeing vehicle kms travelled increasing and more larger, higher emissions vehicles.

Fuel tax may even impact most on those who can least afford it. Meanwhile, usually the lowest income-earners are most conscious about keeping their driving to a minimum. They deserve credit for their efforts, as they are benefit others. A blunt instrument like fuel tax cannot reward low-use drivers of smaller, more efficient vehicles but RUC could if it were weighted, with higher rates for those who have the most capacity to reduce their driving and emissions.

The Climate Change Commission has said we must reduce our driving by around 15 percent by 2030. RUC could help work towards, this, for example, by giving bonus discounts to those who reduce their driving each year, for example, if km driven down 5% or more on the previous year. As people's driving tends to increase with their income and decrease during tough times, this would also help reduce the impact of economic hardship and encourage all drivers to reduce their driving, regardless of how much they drive.



22 April 2022

RUC Consultation 2022, Te Manatū Waka Ministry of Transport, PO Box 3175, Wellington 6140

## Re: Submission on Road User Charges Consultation

The current Road User Charges (RUC) system is designed to recover the costs of operating the road transport system from some categories of road users. It is not well-suited to addressing the issues of climate change, congestion, and other externalities. In its current form, it actively supports the use of larger diesel light vehicles such as SUVs and double-cab utilities as passenger vehicles which have relatively high emissions.

Currently light petrol-powered vehicles pay their contribution to the National Land Transport Fund via the Fuel Excise Duty (FED). The current rate (excluding the temporary reduction) is 70.024c per litre + GST. The current RUC rates for vehicles under 3500kg is \$76 per 1000km including GST. RUC purchases also incur a transaction fee which is typically \$4.80 for online purchases. Thus, the RUC rate and the FED are equal when the vehicle's fuel consumption is 10.34 l/100km. If the vehicle's fuel consumption is higher than 10.34 l/100km, the RUC paying vehicle pays less and vice-versa. Diesel-powered light vehicles with high fuel consumption are advantaged by paying RUCs while small fuel-efficient diesel vehicles are disadvantaged. Many small European diesel cars can achieve fuel consumption values of less than 5 l/100km but these would be paying twice as much in RUCs as a petrol-powered equivalent would pay in FED.

One of the challenges with FED is that vehicle manufacturers, for obvious reasons, are putting a lot of effort into improving the fuel efficiency of the vehicles that they produce. Consequently, the revenue per vehicle-km from FED is gradually reducing but, of course, the costs of providing these vehicles with a road transport system is not reducing. This leads to a need to increase the rate of FED from time to time. However, the public perception of FED and RUCs is that it is a tax rather than a user charge and tax increases are politically unpopular.

A related issue is that, currently, electric vehicles are exempt from RUCs. This was done as an incentive to increase the uptake of these vehicles, but these vehicles are using the road network and incurring costs which effectively are being paid for by other road users. The number of electric

49 St Vincent Ave | Remuera | Auckland 1050 +64 9 579 2328 info@ternz.co.nz www.ternz.co.nz vehicles is still relatively small and so the impact of this policy is minor, but it is not sustainable longer term.

The cleanest solution to these issues is to abolish FED and charge all vehicles RUCs. This issue of emissions and climate change can be addressed with an emissions tax on fuel. The emissions tax rates can be tailored to match the environmental impact of the fuel concerned. Thus, biofuel blends and natural gas would pay a lower tax rate than conventional petrol or diesel. Because this tax would be directly related to the emissions produced by the fuel, there should not be any rebates for off-road use. The emissions are generated regardless of where the fuel is used. Depending on government policy, the revenue from the emissions tax, could be used to fund electric vehicle incentives or other "green" initiatives. However, RUCs would be clearly defined as user charge and all users would be paying their share.

The biggest challenge with moving the whole fleet to RUCs is likely to be administration costs and compliance checking. This is already an issue with the diesel light vehicle fleet. The alternative is to substantially reduce the number of vehicles paying RUCs and the way to do this is to charge FED on diesel fuel. With this approach, all vehicles up to about 10 tonnes in weight would pay sufficient in FED to approximately match their current RUCs. Vehicle over 10 tonnes gross weight would still be liable for RUCs but at a lower rate that considers the FED that they are also paying.

The benefits of this approach are that compliance will be much higher. It is difficult to avoid paying FED. Administration costs for the government will be much lower and FED incentivises low emission fuel-efficient vehicles. This mechanism also enables the government to charge for emissions by adjusting the FED rate. Various sectors will want to be able to claim back the FED on fuel that is not used on-road, and some are likely to oppose this approach based on the increased administration costs of claiming rebates for both RUC and FED. This could be addressed by adding a FED allowance at a specified rate to the RUC rebate claims. With this approach, light electric vehicles would need to be included in the RUC scheme. One of the challenges would be how to handle plug-in hybrid electric vehicles (PHEVs) which will be paying some FED as well. This is an issue for the current system which, as far as I know, has not yet been addressed.

The final issue that I believe should be addressed in this RUC is funding of local roads. Currently, the National Land Transport Fund provides 100% of the funding for state highways and only approximately 50% of the funding for local roads. The other 50% of local road funding is provided by ratepayers. The rationale for this is that there are local benefits from these roads other than those enjoyed by road users. For example, local roads provide access for services such as electricity, water and sewerage as well as facilitating the development of industry and other economic activity that benefits the community. The mechanism by this is applied in determining the RUC rates is that the full cost of operating the entire road network is calculated and assigned to the road users to calculate the various components of RUCs. The local body contribution is rebated

49 St Vincent Ave | Remuera | Auckland 1050 +64 9 579 2328 info@ternz.co.nz www.ternz.co.nz back to reduce the vehicle-kms component, i.e., all RUC payers share equally in the rebate. What this means is that heavy vehicles effectively pay the full cost of the pavement wear that they generate on both state highways and local roads with only a small share of the rebate. However, local authorities must pay for half the cost of the road maintenance required to mitigate this pavement wear. For some local authorities, this can be quite inequitable. Consider a local authority with a significant plantation forestry estate but where the timber processing facility and export port is located some distance away in another local authority. When the trees are harvested, the local roads in this district are subjected to heavy truck traffic which then proceeds down state highways to the processing facility and the port. Most of the economic benefit of this forestry activity accrues to the neighbouring local authorities who incur no roading costs while the local authority with the forest incurs substantial local roading costs. The government does sometimes address these issues by providing more than 50% of the funding in these circumstances but this is not guaranteed. The most obvious way to address this issue is to provide full funding for local roads from the National Land Transport Fund. This would require an increase in RUCs and FED which should be offset by matching reductions local authority rates. Without the limitations of having to find 50% of the funding themselves, it is likely that local authorities will aim for larger and more elaborate roading programmes. Thus, the government will need to have a robust process for evaluating and prioritising these proposals.



49 St Vincent Ave | Remuera | Auckland 1050 +64 9 579 2328 info@ternz.co.nz www.ternz.co.nz 16 May 2022

Who's putting local issues on the national agenda?



Road User Charges Consultation Team <u>RUCconsultation22@transport.govt.nz</u> Ministry of Transport

Kia ora Ministry of Transport officials

#### Submission on the Road User Charges review

Ensuring New Zealand has a safe, effective and sustainably funded roading network is a priority for Local Government New Zealand (LGNZ). As the member body for councils, who are responsible for the management of local roads, LGNZ represents the interests of 88 percent of the road network by length. Local government is a majority funding partner for local roads and public transport. As such, we have a strong interest in ensuring that all roading network users contribute their fair share to its ongoing maintenance, development and safety.

In principle, we support the proposed changes to Road User Charges (RUC) that are set out in the *Driving Change: Reviewing the Road User Charges System* discussion document. We agree there is need to better capture and charge for the range of negative externalities to the roading network. We also endorse the submission and issues raised by Taituara – Local Government Professionals Aotearoa, including:

- RUC policy must integrate with other t ansport funding and regulatory policy. Any RUC exemptions and discounts must not lead to insufficient revenue being generated for the National Land Transport Fund, which local government relies on to contribute towards its road investment and public transport costs.
- The future road transport funding system must be sustainable, resilient and flexible in the face of climate change, natural hazard events, technological change, population changes and geopolitical shocks. The Government should explore mechanisms beyond the RUC and Euel Excise Duty to ensure there is sufficient funding available to invest into our roading and public transport networks. The vehicle licensing and registration systems, through the Motor Vehicle Register, are avenues worth exploring that would be simple, accurate and equitable to road users.

While the purpose of this consultation is focused solely on the activities and vehicle classes that may attract new charges, LGNZ notes that any changes to what is collected may lead to the Government investing in a broader range of roading activities and initiatives. For example, if road users argue that their activity, which they may be charged for in the future, requires targeted support or offsetting, this could result in local government and ratepayers being required to pick up a greater share of the costs of developing and maintaining the local roading network - which central government benefits from.

We welcome the opportunity for the Government to clarify its ongoing intentions for funding the ongoing development and maintenance of the roading network.

Yours sincerely

s 9(2)(a)

FELLINFORMATION ACT 198 Stuart Crosby President Local Government New Zealand

Level 1 117 Lambton Quay, Wellington 6011 PO Box 1214 Wellington 6140 New Zealand P: 64 4 924 1200

www.lgnz.co.nz

22 April 2022

Road User Charges consultation Ministry of Transport PO Box 3175 Wellington 6140

By email: <u>RUCconsultation22@transport.govt.nz</u>

### Individual Scott McKenzie submission on Road User Charges

1. I thank the Ministry for the opportunity to make a submission on the funding of the transport system and Road User Charging.

# Background and context

- 2. I am Scott McKenzie s 9(2)(ba)(i) As an employee/ stakeholder working for a RCA that benefit like all other districts from RUC and FED funding through the NLTF and is provided this to fund transportation and maintenance, renewals and improvements programme through the financial assistance rate F.A.R which is distributed through the NLTP, RLTP and co funded with local share from Councils LTP.
- 3. s 9(2)(ba)(i) sits on the RTC comprised of the authorised organisations who plan transport activities in the region. The members are representatives of the nine territorial local authorities in Canterbury, the Canterbury Regional Council (Environment Canterbury), and Waka Kotahi. The purpose of the committee is to set the direction for transport investment in the region in the Regional Land Transport Plan and monitor the implementation of the Plan to meet the needs of Canterbury's communities. I recommend this submission be given support and consideration.
- 4. I note that other RCA organisations may also make individual submissions. I encourage support and consideration of these submissions. Due to the size, distance travelled, transport, primary industry sector of the wider Canterbury area. Also balanced with the lack of mode options in the rural area as soon as you move away from the city hubs or the coastline

# The RTC Regional Land Transport Plan

- 5. The RTC approved the Canterbury Regional Land Transport Plan (RLTP) in June 2021, which sets out the RTC's four key priorities for the next ten years.
- 6. One of the key objectives of the Plan is:
  - Improved advocacy for investment in the Canterbury Transport Network.
- 7. This is monitored through the investment in Maintenance, Operations and Renewals.

8. Road User Charges are a critical source of income for investment in the network both rural and urban. Our main interest is Section 2 of the discussion document "Using the RUC Act to do more than recover road costs". I welcome this opportunity to provide my view on the matters in the discussion document while supporting the wider canterbury view.

# **General Comment**

## Setting of Road User Charges based on actual and reasonable costs

- I agree that Road User Charges should be set based on the actual and reasonable costs to build, operate and maintain a road network, and charged per kilometre travelled per vehicle. This includes cost related to:
  - road surface and associated infrastructure maintenance
  - road and associated Infrastructure renewals improvements and upgrades
  - managing demand
  - emergency repairs and recovery
- 10. I also support an increase in RUC to consider and provide infrastructure to protect and manage runoff and stormwater to mitigate environmental damage, such as pollution from particulate matter, copper and zinc deposited by vehicles.
- 11. Canterbury has the largest road network in New Zealand and s 9(2)(ba)(i) Is one of the larger districts by land area. Maintenance spending on the network has almost doubled over the last 10 years, due to changes in land use, population, freight movement, technological changes, water rights changing and tourism. These changes in network use are expected to continue. It's imperative to ensure the Cost Allocation Model is sufficiently set to cover all these costs appropriately and no one area of Canterbury or New Zealand is burdened by the other. I terms of locality, modal options provided, balance of services infrastructure or quality offered to our customers. Continually increasing rates is not the appropriate mechanism. Local rates shouldn't be expected to cover gaps in funding and investment. But in s 9(2)(ba)(i) with higher tourist numbers, it is not appropriate that all of these cost or upgrades are funded by our ratepayer and this should be managed appropriately though the review of the road user charges system. There are also a number of high-quality goods that are distributed for s 9(2)(ba)(i) that add benefit to the local as well as the wider canterbury and New Zealand economy. This should not be burdened on these primary producers of stables and food either given the lack of transport options prioritised against the long and large kilometres travelled. Sometimes there is little option to downsize in these operations to enable movement of product, supplies or navigate the terrain and climatic conditions that are faced.
- 12. I consider all the costs to manage road use should be borne by road users, such as
  - Kerbing and channelling to manage road run off
  - putting in intersection controls to manage demand
  - repairing potholes and treating dust on unsealed roads

- the renewal upgrade and improvement of infrastructure as well to cater for the increases of traffic and loading.
- Also to limit the effects and reduce maintenance and to manage the adaption due to the effects of climate change
- 13. The road charges should cover these real and actual costs from road use and ensure the roads are fit for purpose for all users. I appreciate that the Cost Allocation Model is set using best economic practice, however factoring in direct environmental damage is the emerging best practice to transition to a sustainable future.
- 14. Emergency repairs and recovery is a key part of providing the road network for users. The Canterbury and particularly the s 9(2)(ba)(i) is exposed to several risks such as flooding, earthquakes, seasonal variances and events given the weather and terrain. It is imperative that the cost of managing and recovering from events, can be funded appropriately. For example, Canterbury regularly experiences flooding, including river flooding, surface flooding and coastal inundation. With over 1,000 bridges in Canterbury, these events can cause issues for freight operators and those travelling on the roading network. A single bridge being out across State Highway 1 can mean daily intra/inter-regional trips are not possible. Also, the s 9(2)(ba)(i) is now being used more frequently to transfer common necessities i.e., food supplies for supermarkets into the Central Otago/ Southland now warehouse hubs have been centralised.
- 15. Pollutants from tyres and brake pads, such as particulate matter, copper and zinc, directly accumulate on road surfaces because of road use and can end up in the air and water if not managed. This needs to be managed through road design, appropriate infrastructure, and treatment measures. So that these pollutants do not become environmental issues. For example, run of from the road surface into nearby waterways can harm aquatic ecosystems and affect mahinga kai. Road run off needs to be channelled into the appropriate stormwater systems. This would align the transport sector approach with the resource management sector, where the polluter pays. Road users who pollute the road environment pay should all pay the cost of managing that. As urban and rural are very similar in the number of pollutants that are release into the environment as it is not directly related to Vehicle kilometres travelled. Due to efficiencies in rural long distance running at lower volumes consistent travel with little to no braking, rather than stop start high densities limited hot running sitting in idle at both high and low speeds in the urban environment which is less efficient and limited planning of a trip and being more reactive and less productive movement.
- 16. I do not agree that Road User Charges should cover the cost of step change initiatives not directly benefiting the road or travel thereof, such as emissions reduction. We need the appropriate funding mechanisms that support renewal and small upgrades as well as the small and large scale improvements. I recognise that emissions reduction within a short timeframe is essential as it has a wider effect. But in rural areas similar to s 9(2)(ba)(i) where there is limited infrastructure of option to change which is similar for our rural neighbouring council both here and across the country shouldn't be burdened with the majority of these cost while supplying stables and economic return for the country. Where other urban centres have a range of option's but uptake is low and the

terrain and environment leads itself to cars and light vehicles and small short trips acknowledging there is a balance here and a range of industry and uses. These interventions need to be funded from sources such as Fuel Excise Duty (FED) or taxing on electric vehicles/ engine supply as they still are causing the same amount of damage as a regular car to the road surface , tyres and brakes are being consumed traffic increases are still likely and tyres pushing water into the pavement will still result in failure the only difference is hydrocarbons vs power and power generation is predominantly green and a large amount is sourced in the s 9(2)(ba)(i) which still has emissions effects. The Emissions Trading Scheme or other sources of government financing. We support the Ministry seeking climate emergency funding to enable this transition.

17. I see a review of FED as key to behaviour change regarding fossil fuel consumption, but this needs to be balanced and implemented over time as to not disadvantage or create large amounts of pollution in the form of used vehicles. The other consideration is the current plan of electric the way of the future and is there sufficient infrastructure and power supply in the national grid to support this. As an example, as much as 40 per cent of road transport greenhouse gas (GHG) emissions in Canterbury can be attributed to the movement of freight. Diesel consumption is correlated with transport freight GHG emissions. Which is due to our sparse plains large land areas and lack of modal options in most cases from a predominant primary industry sector cloud these figures but are more reflective when compared to GDP, in most case there are no alternative modes to shift this freight. The only places where there are alternate modes are along the cost in the form of rail or coastal ship. Airfreight could be an option for lighter cargos over and above the existing, but infrastructure is limited and would require costly upgrade. Freight prioritisation and model option should be considered, and a BCA done. Mode shift and changes will only occur if costs are equitable between mode options, and which are most feasible.

# Collecting Road User Charges

18. I agree that all vehicle users should begin to pay road user charges, irrespective of fuel; electric, hydrogen etc. Using fuel type is no longer a fit for purpose factor for road user charging. As energy technology changes, and we transition to a low emissions transport fleet/ system, no or low emission vehicle users will quickly become the core road users or travel and journeys will reduce and be further consolidated or transport will evolve into other forms. Use of these vehicles in the meantime will still create costs in relation to

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## road surface maintenance

- renewal, upgrades and improvements
- Increased weights from consolidation of trips and vehicle changes
- managing road run off
- managing demand, capacity issue
- emergency repairs and recovery
- Environment effects and redundancy of fleet and increased inflation and costs.

- · Safety of users
- 19. It is essential that sufficient funds are recovered from these users to invest in building, maintaining and operating the transport network. We do not support any approach that would lead to less funding being available than what there is now.
- 20. I do not agree that the GPS should set exemptions for RUC as RUC is required from all network users to maintain the network roads and associated infrastructure where not related to safety or basic appropriate amenity. Delivering addition amenity to urban centres/ street furniture, should require alternative means so of funding needs to be looked at from other active modes. This statement supports and balances equity, options of mode shift and accessibility being considerations. As the GPS is reviewed frequently it could destabilise the revenue stream if exemptions also changed frequently and other funding categories or parties are funded as approved organisations. Transport investment takes a long time to plan and revenue models need to be stable to give assurance around income.
- 21. I agree that exemptions or reductions should be provided through RUC where equity, options of mode shift, accessibility exists. At minimum the exemption may apply to community vehicles i.e., elderly, vulnerable, active sport team transport, cultural event & services shared travel, whanau joint travel support due to the significant public benefit and wellbeing it provides. Other options include school buses within Local areas to local school facilities, or Community Services Card holders who live in remote locations from essential services like hospitals, food, support services, health care and schools due to affordability and to ensure equality where there are no community services available. This is especially important as we transition to a low emissions future for households that cannot access essential services by low emission modes i.e., public transport. It is important these customers have a safe way pathway of travel to a enable walking, cycling as an option. Given locations where this is limiting unduly there may be a shared asset funded for a community where people, are accessibly challenged or are cut off from basic health services, education, food or struggle with the affordability of upgrading vehicle or accessing services.
- 22. I recognise Public Transport (PT) is under significant funding pressure to support the transition to a low emissions future. I support public transport to encourage mode shift and support the transport emissions reduction. I believe these services should be subsidised but should contribute to the RUC system as well and not exempt or their transition to a new model. As an example from buses to trains to more on demand services i.e. 'My Way by Metro trialled in Timaru District, taxi, community vehicles, autonomous vehicles. Community services cards should subsidise/ eliminate these costs for the elderly, physically challenged, those with health issues to achieve equality and for the vulnerable. Public transport services are beneficial but equally should pay their own way in terms of fuel taxes/ alternatives and road user charges as they also cause damage and create emissions. There is a need to deliver value in the system from a road user charges perspective this currently delivers some equality-based service, but this may transition into the future with changes in technology or other approaches, schemes, etc. some of which are suggested above. Council believes an exemption maybe be an appropriate way in the interim going forward providing all

districts get these services or get similar benefits or trade offs from these services into other areas of funding if not provided. This will undoubtedly assist in reducing barriers to transition to zero emission system for Public Transport and equally of services in Canterbury.

23. Given the minor level of expenditure on PT RUC in Canterbury, compared with the level of investment outlined in the RLTP, we consider an exemption for PT is potentially affordable within the period of the plan, but recognise an exemption for PT may be less affordable in the subsequent years. By that time the PT transition should be well established and PT usage in a low emissions future network should be clearer too. This will make the future funding system for transport clearer. We see this as suitable for PT to be exempt from RUC under an equity-based exemption policy.

# Expenditure and Distribution of Road User Charges

- 24. I agree that the expenditure of Road User Charges should be broader than the maintenance of the network. A proportion of the revenue should be invested in transitioning the system to a future state that is more efficient and effective. For example, improving public transport uptake or transitions to new technology which reduces cars on the road and lowers maintenance costs.
- 25. I am aware that in transitioning to a low emission future there may be a need to permanently provide electric vehicle infrastructure in locations that are not commercially viable. The cost of building, operating and maintaining public EV infrastructure should be aided but not funded by Road User Charges, instead of installing physical infrastructure but instead providing space or incorporating technology into assets future permanent aspect of the network.
- 26. While I do seek greater alignment of funding investment with regional priorities and that appropriate funds are allocated, I support enabling a flexible approach to the distribution of RUC revenue by Waka Kotahi. While regional or local alignment of the distribution of RUC is important across the country and equally between councils and services provided Council agree that there are potential disbenefits of completely restricting the revenue to council boundaries. Majority of this funding needs to go back to the road in terms of physical works, safety or where it adds direct value. Funding for other nice to haves should come from other sources of respective funding areas. This is accepted providing the user and parties receiving funds from the NLTF are paying their way. This includes rail services in terms of road user charges and adding value to work on the ground.

## The Funding System

27. I agree that the RUC system needs to be very simple, easy and low cost to use and administer. The use of technology is paramount in doing this, in reducing the overheads to administer, and improving ease for road users. I believe that some visual means of display is required without going to the extent of fitting electronic devices to every

vehicle or to be carried and we would recommend this is tied in with the warrant of fitness process or aligned. With proof via mobile phone app of currency for compliance.

- 28. The current funding model is complicated by the Cost Allocation Model, which offsets the final RUC levels by using revenue from FED and Waka Kotahi Fees and Charges. This has left Waka Kotahi underfunded. Revenue from FED and Fees and Charges should not be used in the RUC Cost Allocation Model, as this obscures true costs and complicates the funding system and equally in the system means all should pay the same depending on vehicle category class.
- 29. I support RUC, FED and targeted taxes on Electric vehicles or alternative fuel source vehicles to account for the taxes on fuel vehicles as no party should be treated differently or discriminated against. I support a support and cost reduction for the purchase of new EV or new alternate fuel source vehicles for a finite period i.e 3 to 5 years. This would apply to second hand EV or new alternate fuel source vehicles. To protect the environment and the protection of the environment. Council would also see benefit of subsidising a kits to retro fit the modern fleet of 4 star safety vehicles and above as a suggestion being used to limit waste as these come available to fund significant improvements and transitions, rather than setting up a rebate scheme Road User Charges as all vehicles cause similar fault and pollution whether this is during manufacture, during use or at disposal stages of a vehicle. We believe this shall be communicated and implement during a transition phase over time. This will dependent on the new funding modal decisions reviewed and may need to be proportionally adjusted or phased in to allow users to adjust to the RUC cost changes/ any increases.
- 30. I support Fees and Charges revenue to be used to pay part of the costs of providing driver's licencing, WOF and registrations etc. Currently these services are underfunded<sup>1</sup> and need supporting to ensure our transport network is safe. It should be also a user pays system as some parties may choose not to drive or engage or have a licence into the future with technology changes.
- 31. I support an integrated, simple system to collect funding to support the transport network. Overall, the funding system for transport needs to be fully reviewed together. This includes road pricing, fuel excise duty, as well as road user charges and Waka Kotahi's fees and charges. It also needs to consider the role of developer creating more growth and the transport costs they need to cover e.g. new subdivisions and intensification of existing areas.
- 32. Until an integrated, holistic review is undertaken the challenges facing the future of transport funding will not be adequately resolved.

<sup>&</sup>lt;sup>1</sup> https://www.nzta.govt.nz/media-releases/waka-kotahi-begins-consultation-on-changes-to-regulatory-fees-and-charges/

# Conclusion

33. Thank you once again for the opportunity to make a submission on the discussion document. I am available to provide any further information or answer any question the Ministry may have about our submission. Contact details are Scott Mckenzie, § 9(2)(a)





## MOTOR INDUSTRY ASSOCIATION

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22 April 2022

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#### Driving Change: Reviewing the Road User Charges System

Please find below the MIA's submission on the MoT's *Driving Change: Reviewing the Road User Charges System* consultation document.

The Motor Industry Association (MIA) is a voluntary trade association set up to represent the interests of the new vehicle industry specifically the official representatives of overseas vehicle manufacturers. Members account for over 98% of all new vehicles imported and sold in New Zealand across the passenger car, light and heavy commercial vehicle and motorcycle sectors (including on and off-load).

The Association has over 44 members (official distributors appointed by vehicle manufacturers) covering 82 different marques.

We have not answered all questions in the consultation document; we list the relevant topics and associated questions for which we have feedback below.

Nothing in this submission is confidential, and the MIA permits it to be published in full.

s 9(2)(a)

s 9(2)(a)

David Crawford Chief Executive Officer Mark Stockdale Principal Technical Advisor

#### **Executive summary**

The MIA welcomes this review, in so far as it goes. However, we believe the limited scope of the review is not helpful.

This review of the RUC system is a lost opportunity to commence work on developing an eRUC system for all road users. Although mandatory eRUC is proposed for heavy vehicles, a universal eRUC system would address several of the issues raised in the consultation document, and eliminate the need for some of the proposals. eRUC would easily enable the setting of differential RUC rates for low or zero-emissions vehicles, along with congestion charging or time of day or location charging, as well as including other externalities.

As the number of monthly new vehicle registrations of low emission vehicles, both light and heavy, continue to rise there will come a time when a universal eRUC system will be necessary. The new 'clean car' policies are accelerating the uptake of low-emission vehicle and by the end of the decade we expect significant numbers of new passenger and SUV vehicles will be fully electric or plug-in hybrid electric, along with conventional hybrids. These vehicles either currently pay no RUC, or contribute less in fuel excise duty (FED). Over time we can expect petrol vehicles to contribute less in excise and for more light vehicles to pay RUC. It takes time to change the RUC system away from FED, so policy work on this needs to be done now, not in five to eight years' time.

Under the current RUC and FED funding model, the MIA does not believe it is feasible to introduce externalities to RUC, but this could be explored in future when universal eRUC is established. However, we are not convinced there is a case to add externalities specifically to RUC when they are either already being recovered by other means, or could be recovered independently of RUC.

Some of the proposals in the consultation document will make it easier for new RUC payers, but the current system is still more adminis ratively onerous than FED for example. NZ's renowned RUC system was never designed for light vehicles, and anything that can ease the burden of compliance for a large number of relatively low-mileage users is to be encouraged (e.g. removing paper label requirem ints). An eRUC system would also enable this whilst addressing the issues of FED, which while easy to collect and comply, can be expected to decline and does not equitably recover the cost of accessing the road network as it will increasingly leave poorer members of society with older, less fuel-efficient cars paying disproportionately more.

Despite this, the MIA does support a range of proposal included in the consultation document and we provide our views on these below.

#### **MIA** submission

#### Using the RUC Act to do more than recover road costs

#### 2.1 Including externalities in the costs considered in setting RUC rates

#### Questions:

1. What are the advantages and disadvantages of using RUC to recover more than the direct costs of building, operating, and maintaining the land transport system?

The MIA thinks it is problematic to introduce externalities into the current RUC system, especially if petrol vehicles are not subject to the same charges (see Q7 below). If all road vehicles were subject to an eRUC regime, it would become feasible to add other costs like congestion charging, but until then, we think it is moot to consider this. When universal eRUC is being developed, it would be appropriate to explore the feasibility of including other externalities (although congestion pricing could be established independently of RUC, as occurs in other jurisdictions).

To add other externalities would be a major departure from the current RUC system which apportions the costs of building and maintaining the road network according to vehicle weight and thus contribution to road wear. Care needs to be exercised in how externalities are applied to avoid the risk undermining this core principle and diverting revenue from road funding.

New Zealand's RUC system has been refined over many years and is world-leading. It has influenced the design of heavy vehicles in order to minimise road wear. The consultation document itself notes that road users accept that heavier vehicles should pay more (page 24), and that RUC has proven to be a successful revenue-raising tool, unlike other jurisdictions which primarily ely of fuel tax for road funding revenue.

Furthermore, we note that the costs of some other externalities mentioned in the consultation document are already recovered by other means, such as road accidents (ACC levies including FED and annual vehi le licence fees), and greenhouse gas emissions (ETS). To add these to RUC would be double-charging unless these existing funding sources were to be disestablished, but as they are already proportionate to use (ETS, ACC and FED for petrol cars), there is no need to do so. But with universal eRUC there would be no FED and so it would make sense to have a distance-based charge to collect ACC rather than a flat levy on the vehicle licence renewal (as is presently the case for diesel vehicles).

4. If externalities were to be considered, what criteria could be used to determine what externalities should be taken into account in setting RUC rates, and how should these costs be set?

That the externalities replace other charges which recover these costs, and do not duplicate costs that are already being captured. For example, externalities like water pollution (road run-off) and noise pollution are covered by RMA provisions and are already being factored into consenting requirements and roading costs. If the costs are not currently being recovered, then the charges should reflect the true costs, or are set at a level to achieve the desired behaviour change (such as congestion charging).

6. Would charges for externalities be in addition to the current form of RUC, and potentially used to address the externalities directly, or be a core part of total land transport revenue?

If externalities like road accidents (ACC) or greenhouse gas emissions (instead of the ETS) were to be added to RUC (i.e. universal eRUC) then it is critical that that additional revenue should be additional and used to fund the costs of those externalities, and not included in the National Land Transport Fund. It is a core principle of environmental economics to manage environmental outcomes that pricing and costs are directly linked and not accumulated/hidden in a general fund.

#### 7. How would vehicles not paying RUC be affected? (e.g. petrol vehicles)

As noted above, adding externalities to the current RUC system without ensuring other road users met the same costs fails the regulatory test of fairness. We consider any regulatory impact that fails the fairness test is not feasible and would put diesel and plug-in vehicles at odds with petrol vehicles, unless these charges were added to FED. This dilemma is resolved if universal eRUC is introduced for all road-registered vehicles, and FED is discontinued, which would enable externalities to be better targeted if there was a good rationale to recover them from RUC.

# 2.2 Including impacts of greenhouse gas emissions when setting RUC rates

### Questions:

10. What are the advantages and disadvantages of enabling consideration of greenhouse gas emissions when setting RUC rates?

There is some merit in invest gating including greenhouse gas emissions when setting RUC rates, particularly as a tool to incentivise low-emissions vehicles (and electrified trailers as per item 3.5.2 below)

For example, the MIA supports exempting hydrogen vehicles from RUC, which are currently not exempt but should be treated the same as electric vehicles, and this would be one way of subsidising low-emissions technology, although the subsidy should be for a finite period.

However, there is a simpler way to incentivise low-emissions vehicles via the RUC regime, by amending the RUC Act to enable the Director of Land Transport to provide exemptions for certain vehicle types, which would be defined in regulation. So for example, plug-in vehicles and hydrogen-fuelled vehicles, or in the medium-term, just heavy plug-in and hydrogen vehicles (as per item 3.5.1 below). Rather than needing to amend the RUC Act to recognise future low-emissions technologies, as in the current exemption only for vehicles powered by an external source of electricity, the Director of Land Transport could exempt certain vehicle technologies by regulation.

However, it would still be the case that trailers towed by exempt vehicles, or vehicles fuelled by renewable liquid fuels, would need the provision of differential RUC rates if safeguards can be developed (Q36). But if not, this should not hinder the provision of exemptions for low-emissions vehicles that can be easily identified.

11. How should the RUC rates be set for vehicles that could use more than one fuel and these fuels had different greenhouse gas emissions?

It would be necessary to identify the typical usage under the low-emissions technology and set RUC rates accordingly, e.g. if PHEVs average 80% of travel on battery power then the RUC rate would be 20% of an equivalent ICE vehicle. This is not so straightforward for renewable liquid fuels (see 2.3 below).

#### 2.3 Including fuel type, origin and blend in RUC rates

#### Questions:

- 13. What are the advantages and disadvantages with the source of different fuel types being included in RUC calculations (separately from the direct climate impacts of the fuel used)?
- 14. What are the advantages and disadvantages with the environmental effects of different fuel types being considered in calculating RUC rates for vehicle types?

It is more straightforward to provide RUC exemptions for low-emissions vehicles like electric and hydrogen vehicles, than for those using renewable liquid fuels. While such exemptions should be temporary, they are useful incentives for low-emissions technologies which are much more expensive than ICE, particularly so for heavy vehicles where these technologies also add a weight penalty compared to an equivalent ICE. But renewable fuels are important to transition the transport fleet to zero-emissions, and can be readily used in the current fleet, however they also cost more than mineral fuels.

Vehicles using biofuels should receive a RUC rate that is proportionate to the biofuel blend e.g. using 50% renewable diesel would equate to a 50% RUC discount.

- 15. How would fuel supply chains be verified?
- 16. How could we ensure that if different fuels are available (for example mineral and biodiesel, or hydrogen from different sources), only approved fuel types were used by the RUC vehicle?

Heavy vehicle fleets using renewable liquid fuels will be able to provide an audit trail of volume purchased, and they can claim a RUC refund based on the volume, much like claiming refunds for RUC vehicles used off-road.

## Improving the RUC system for end users

# 3.1 Reviewing the requirements for electronic RUC and mandating eRUC for all heavy vehicles

## Questions:

19. What vehicle types should or should not be required to use eRUC?

The MIA believes the MoT should be undertaking analysis on developing a universal eRUC system for all vehicles. In the meantime, the MIA encourages the adoption of eRUC for heavy vehicles, and we support initiatives that will help to reduce the cost of eRUC systems, such as removing the requirement for the distance licence to be displayed on the ehubo (section 4.8 below).

20. How would phasing-in of eRUC for the heavy vehicle fleet be best accomplished?

eRUC could be phased-in by mandating it for all new registrations. This could be an opt-out system, enabling very small vehicle fleets or operators of heavy vehicles used predominantly off-road to opt-out of the system if an e-RUC system is not economically viable for them.

24. What are the advantages and disadvantages of mandating integrated telematics solutions that could support improved productivity and safety compliance, either as part of eRUC systems or as standalone devices?

The MIA does not support mandating integrated telematics at this point in time. We believe these could usefully be encouraged on a voluntary basis however. There are principles of privacy and ownership of information generated by privately owned and operated vehicles that make this area of policy development problematic.

#### 3.3 Enabling partial RUC rates for vehicles that also use a fuel subject to fuel excise duty

#### Questions:

29. According to what criteria should partial RUC rates be determined?

There is some merit in this proposal as it recognises that some vehicles are or will be doublecharged, e.g. PHEVs when the EV exemption expires. Under the current system it would mean an increasing number of vehicle owners claiming a refund for the FED paid which is administratively onerous. Partial RUC rates would also be simpler for owners of vehicles over 3,500kg GVM which also use petrol. This issue would not exist under a universal eRUC system, but the MIA supports proposals to ease owners of currently exempt vehicles into the RUC system.

We think the average fuel usage of PHEVs should be estimated from real-world data, and the RUC rates set accordingly (as suggested in proposal 2.2 above).

There would also need to be some education to help owners of PHEVs understand they are paying lower RUC than a diesel vehi le for example.

30. Should operators of dual-fuel vehicles with a reduced RUC rate still be able to claim a full FED refund if they used more fuel than the average?

Perhaps this could be an opt-out system, so that operators of vehicles that use more fuel than average could elect to pay the standard RUC rate, and claim a full FED refund under the current process.

# 3.4 Enabling partial RUC rates for low emission vehicles after the light EV RUC exemption ends

#### Question:

31. What are the advantages and disadvantages of enabling partial RUC rates to help transition exempted vehicles to full RUC rates?

There is merit in enabling partial RUC to transition light EVs onto the RUC system although as the consultation document notes, there is not good evidence on how important the exemption has been to EV uptake. Given the modest annual savings it is unlikely to be a key determinant; MIA members don't believe the RUC exemption is a major contributor to the purchase decision. Any such transition should be temporary, and the planned life of the partial RUC should be clearly signalled (and not subject to further review on political whim) so that fleet buyers can plan and budget purchase of EVs.

The MIA also thinks there is merit in investigating partial RUC rates for heavy vehicles based on the exhaust emissions standard, e.g. Euro 6-compliant heavy vehicles are incentivised with a discounted RUC rate, with a larger discount for Euro 7-compliant heavy vehicles. This would also recognise the weight penalty (and thus productivity loss) of technology required to meet the lower emissions standards. This would be easier to administer with an eRUC system for heavy vehicles, and perhaps these discounts would be conditional upon operators having eRUC.

#### 3.5.1 Extending the heavy EV RUC exemption to 31 March 2030 to support their uptake

#### Question:

34. Should the current exemption be extended to 31 March 2030 to encourage the uptake of heavy electric vehicles? Would an alternative date be better and why?

The MIA is supportive of extending the heavy EV RUC exemption, and also extending it to include hydrogen heavy vehicles. The development of low-carbon heavy vehicles lags that of light vehicles, and heavy vehicles also have a longer product cycle, so extending the deadline for heavy vehicles better reflects the pace of change. Trailers have a longer life than trucks, and extending the exemption will also support the uptake of electrified trailers (see also 3.5.2 below).

Signalling a date of 2030 will also provide sufficient certainty for customers to offset the higher capital cost and enable them to calculate running costs for tenders for contracts that may be 5 years or longer.

Longer-term, the RUC system needs to provide differential RUC rates for heavy EVs and hydrogen vehicles which recognises he heavier weight of these vehicles so that they are not disadvantaged compared to equivalent ICE vehicles; i.e. the RUC rates should be the same as an equivalent heavy ICE.

Similarly, in addition to the RUC regime there also needs to be a review of the Vehicle Dimensions and Mass Rule (VDAM), to accommodate low-emissions technology. The new technology does not easily fit into the existing weight and dimensions envelope, as extra space is needed for the battery packs or hydrogen fuel cells. The VDAM Rule needs to develop new dimensions for these new technologies under the various axle combinations.

# **3.5.2** Exemptions for vehicle combinations where the motive power is from a vehicle exempted from paying RUC

#### Questions:

35. How would exempting vehicle combinations where the motive power is from a vehicle exempted from paying RUC encourage the uptake of heavy electric vehicles?

The MIA supports exempting trailers towed by exempted heavy EVs (and hydrogen) vehicles, as it will help improve the viability of low emissions heavy vehicles against equivalent ICE