TE MANATŪ WAKA
MINISTRY OF TRANSPORT

10 August 2022

OC220511

Hon Michael Wood
Minister of Transport

Action required by:
Wednesday, 17 August 2022

ADVICE ON OPTIONS FOLLOWING LIGHT ELECTRIC VEHICLE RUC EXEMPTION EXPIRY

Purpose

To brief you on options for bringing light electric vehicles (LEVs) into the road user charges (RUC) system when their exemption ends on 31 March 2024.

Key points

- The RUC exemption for LEVs will expire on 31 March 2024, after which those vehicles will require RUC licences to legally operate on the road.
- There are four options for handling the RUC exemption's expiry:
    1. **Move straight to the full light RUC rate**. On 1 April 2024 LEVs must have a RUC licence, purchased at the full RUC rate (the same as light diesel vehicles: that is $76 per 1000km). This is the status quo option and Waka Kotahi NZ Transport Agency's preferred option as RUC collector.
    2. **Extend the RUC exemption**. Continue LEVs' RUC-exempt status by extending the exemption's end date by an Order in Council.
    3. **Phase to the full light RUC rate**. When the RUC exemption ends, LEVs start with a lower rate than other light RUC vehicles, but transition to full rates in increments.
    4. **Set a partial RUC rate**. LEVs begin paying RUC when the exemption ends, at a lower rate than other light RUC vehicles, and continue to pay lower rates in the long term.
- The major tension present in all four options is the potential effects on EV uptake and National Land Transport Fund (NLTF) revenue. These are conflicting priorities because the RUC exemption for LEVs was designed to increase the number of LEVs in the fleet. Extending the RUC exemption or setting partial or phased rates for an increasing percentage of New Zealand's vehicle fleet will result in potentially substantial revenue loss. The lost revenue may force a choice between increased taxes on road users and cutting or deferring land transport spending. The Ministry of Transport cannot be confident the RUC exemption is an effective policy for incentivising LEV uptake because studies have not been undertaken on the topic.

- Options three or four would require amendments to the Road User Charges Act 2012 (RUC Act) and related regulations. Passage of those amendments would require an amendment Bill being introduced by March 2023.

- The non-extension options (one, three and four) will require communications work to transition LEV owners to paying RUC, and administrative actions by Waka Kotahi to bring existing LEVs into the RUC system. Because Waka Kotahi may also need to update its operational and online systems, decisions on how to handle the exemption will be needed by September 2022. If September passes without decisions being made this may close off options requiring legislation, and/or the RUC system will be unprepared to accommodate LEVs when they should start paying RUC. Appendix A contains a reverse timeline of key decisions.

- Not amending the RUC Act may constrain options for plug-in hybrid electric vehicles (PHEVs) which will concurrently become liable for RUC alongside battery electric vehicles, but will also pay petrol excise duty and thus be 'double-billed' for their road use. While a RUC amendment Bill would give more flexibility to our legislative approach for PHEVs, it may also be possible to resolve the issue through regulations or a Regulatory Systems (Transport) Amendment Bill. We will separately advise you on options for making special provision for PHEVs.

- There is an opportunity, if you choose to amend the RUC Act, to include other RUC matters beyond the topics covered by this briefing, such as charging for greenhouse gas emissions.

- In the RUC consultation earlier this year, we received submissions on all the topics covered in this briefing. Submissions were divided on what should happen when the exemption ends and are summarised in Appendix B.

Recommendations

We recommend you:

1 **note** that the road user charges (RUC) exemption for light electric vehicles will expire on 31 March 2024 and that the Road User Charges Act 2012 does not provide an explicit power to set a RUC rate that differs (is lower) than that for light diesel vehicles

2 **indicate** which of the following options you prefer for light electric vehicles:

• full light RUC rate applies from 1 April 2024 (currently legislated to occur) – Option one	Yes / No
• extend the RUC exemption (extension length to be determined) – Option two	Yes / No
• phase to the full light RUC rate in increments starting from 1 April 2024 – Option three	Yes / No
• set a partial RUC rate – Option four	Yes / No

3 **note** if you choose an option that requires changes to primary legislation (options three and four) we will propose to include options to clarify the RUC exemption's application to hydrogen powered vehicles

4 **note** that plug-in hybrid electric vehicles (PHEVs) will also be subject to RUC from 1 April 2024, in addition to petrol excise duty, and their owners will need to apply for refunds of petrol excise duty paid. We will separately advise you on options for making special provision for PHEVs

5 **discuss** with officials whether you want a broadened RUC amendment Bill

Marian Willberg **Manager, Demand Management and Revenue** ..... / ...... /	Hon Michael Wood **Minister of Transport** ..... / ...... / ......

Minister's office to complete: ☐ Approved ☐ Declined

☐ Seen by Minister ☐ Not seen by Minister

☐ Overtaken by events

Comments

Contacts

Name	Telephone	First contact
Marian Willberg, Manager, Demand Management and Revenue	s 9(2)(a) [redacted]	✓
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ADVICE ON OPTIONS FOLLOWING LIGHT ELECTRIC VEHICLE RUC EXEMPTION EXPIRY

On 31 March 2024, the light electric vehicle RUC exemption ends

1 Light electric vehicles (LEVs) have been RUC-exempt since 2009 to incentivise uptake. Originally it was envisaged that the exemption would remain until LEVs reached one percent of the light vehicle fleet. In 2016, it was said the exemption would continue until LEVs reached two percent of the light vehicle fleet. After that point the exemption was not expected to be financially sustainable.

2 As of 30 June 2022, there were 46,856 EVs in the light vehicle fleet, comprising 33,013 battery electric vehicles and 13,843 plug-in hybrid electric vehicles, which is just over 1 percent of the light fleet. The vehicles being RUC-exempt represent a revenue loss of around $34 million per annum to the National Land Transport Fund (NLTF) (plus GST of $5 million), assuming an average annual distance travelled of 11,000 kms.[1]

3 When the RUC exemption expires all LEVs will automatically become liable for the full light RUC rate ($76 per 1000km).[2]

4 The primary purpose of our land transport revenue system, including our RUC system, is to raise revenue from vehicles in proportion to their use of the roading network. The legislative framework is not designed to enable vehicles to be charged differently depending on fuel types. The LEV exemptions were intended to be short-term to encourage vehicle uptake until they became established in the market.

5 LEVs include a range of low and zero emission vehicles of various configurations and motive power sources. In this briefing we have focused on battery electric vehicles that are wholly powered by electricity. We will brief you separately on plug-in hybrid electric vehicles.

There are four ways to manage the exemption's expiry for LEVs

6 Aside from extending the exemption there are three options for bringing LEVs into the RUC system after the exemption expires. These are that they:

6.1 immediately incur the full RUC rate

6.2 phase into the full RUC rate over time

6.3 have a lower RUC rate intended to provide an ongoing difference between RUC paid by electric and other RUC vehicles.

7 The implications of each option are considered in this briefing according to the extent to which they:

[1] This estimate does not take account of any petrol excise duty attributable to PHEVs.
[2] This is the RUC rate before the temporary 36 percent reduction.

7.1 are an incentive to greater uptake of LEVs, potentially contributing to the Government's decarbonisation priorities

7.2 impose compliance and administration costs both for LEV owners and the land transport regulator (Waka Kotahi NZ Transport Agency)

7.3 impact the NLTF in terms of foregone revenue and/or increased costs for other road users.

8 Each option is analysed in detail below.

Option one is to allow the RUC exemption for LEVs to expire on 31 March 2024, without any legislative change (status quo)

Incentive to LEV uptake

9 After 31 March 2024 LEVs will require RUC licences to operate on the road. This means LEV owners will contribute to the cost of operating, maintaining and improving our land transport system like every other road user.

10 Ending the exemption could be perceived as least consistent with the Government's decarbonisation priorities because it could be seen to lessen Government's support for LEV uptake by treating them the same as light diesel vehicles. However, a case could also be made the Government has replaced the LEV RUC exemption with the Clean Car Discount, a policy that better supports uptake and Government's decarbonisation priorities.

11 The RUC exemption's benefit to an existing LEV owner is worth $836 per year for an average distance travelled of 11,000 kms. LEVs becoming more expensive to operate could slightly reduce LEV uptake amongst very price-sensitive car buyers.[3]

12 The incentive to purchase or operate a LEV does not arise solely from the RUC system. LEVs will still have lower operating costs irrespective of becoming subject to RUC. Electricity is considerably cheaper than petrol and LEVs have lower maintenance costs. LEV owners face higher upfront costs, (which are not addressed by the RUC exemption) but will likely continue to face lower operating costs irrespective of the exemption.

Compliance and administrative costs

13 Option one will impose a small compliance burden on LEV owners who will need to purchase a RUC licence from Waka Kotahi and display the RUC licence label on their vehicle. The compliance burden is no greater than that imposed on other road users subject to RUC and there is no evidence that LEV owners are less able to bear this burden than other road users.

14 Option one is Waka Kotahi's preferred option. Ending the exemption will mean Waka Kotahi will have to issue RUC licences for LEVs. At the current rate of new LEV registrations, there will be around 87,000 LEVs in the fleet by the time the exemption expires. Waka Kotahi has an online system for the issue of licences, however some

[3] Assuming there is no supply constraint in the LEV market.

operational and IT system changes may be needed. Waka Kotahi's call centre may need to assist some road users with purchasing RUC licences, as it already does.

15 Letting the RUC exemption expire has the least impact in terms of legislative requirements. No major changes to legislation or regulations are required because when the exemption expires LEVs will be automatically subject to RUC. However, some communication work will need to be undertaken by Waka Kotahi to inform LEV owners about their RUC obligations.

NLTF revenue

16 Option one poses the least risk to the NLTF because LEV owners will begin to pay the full RUC rate (comparable to their non-electric equivalents: at the current legislated rate that is $76 per 1000km). This option is also consistent with a key principle of the RUC system, which is that vehicle owners should pay the estimated cost of their use of the land transport system.

Option two is to extend the LEV RUC exemption through an Order in Council

Incentive to LEV uptake

17 This option could be viewed as most consistent with Government's decarbonisation priorities as it continues the current financial incentive for LEV ownership. It is a target in the Emissions Reduction Plan (ERP) to increase the uptake of low and zero-emission vehicles to 30 percent of the light fleet by 2035. The ERP made no commitment to continue the RUC exemption. The modelling for Hīkina te Kohupara Transport Emissions Pathway to Net Zero by 2050 and the ERP did not assume the exemption's continuation.

18 The Ministry of Transport has not commissioned any studies quantifying the extent to which the RUC exemption supports LEV uptake.[4]

Compliance and administrative costs

19 Extending the exemption has the least compliance or administrative burden on LEV owners and Waka Kotahi. However, extending the exemption only defers these burdens to the new date. As the number of LEVs in the fleet grows, deferring the decision to charge LEVs RUC will increase the administrative burden on Waka Kotahi when LEVs finally do start paying RUC.

20 Legislatively, extending the RUC exemption's end date is straightforward. It can be done by an Order in Council without the need for any change to primary legislation. While the legislation allows the end date for the exemption to be extended by any period, policy approval will be needed from Cabinet. Risks to timing include Cabinet's capacity and priorities, Parliamentary Counsel Office capacity and the timing of the 2023 election. These risks are outlined in Appendix A.

[4] In 2022 EECA conducted a consumer sentiment survey in which 47 percent of respondents described lower running costs as a factor influencing their decision to purchase an LEV (though the survey did not ask about RUC).

NLTF Revenue

21 Continuing to exempt LEVs poses the greatest revenue risk to the NLTF. Assuming the rate of LEV uptake remains consistent with our existing modelling our best estimate for the foregone revenue from LEVs is approximately $240 million (ex GST) if the exemption period was extended to 2027. There is uncertainty around this estimate and, depending on the rate of LEV uptake, the revenue foregone could vary between $186 and $355 million.

22 Foregone revenue can be managed either by increasing the rates of PED and RUC paid by petrol and diesel vehicle owners, by reducing the amount of funding available to be spent on the National Land Transport Programme, or by Crown contribution to the NLTF.

23 To date, the revenue loss from RUC exemptions has been small and effectively absorbed within charges to other road users without having a significant impact on the amounts they pay. This will not be possible in the medium term.

24 The Government has already approved a $2 billion loan facility to ensure the current National Land Transport Programme can be delivered, and this pressure is forecast to continue. You have separately been briefed on this as part of the Land Transport Revenue Review [OC220464 refers]. Unless extra funding sources are found, revenue lost through the RUC exemption will force a choice between increased taxes on other road users and cutting or deferring land transport spending. Waka Kotahi has advised that, due to pre-existing contractual arrangements, projects most likely to be deferred or delayed are walking and cycling projects and public transport activities (projects that deliver on commitments under the ERP).

25 Transferring the cost of the exemptions to other road users through increased rates of RUC and PED may have equity implications. Extending the exemption may mean those who cannot afford an LEV (even with subsidies) face increased costs to replace lost NLTF revenue. As LEV uptake increases, the equity issues become more significant.

Option three is phasing to the full RUC rate

26 Phasing the introduction to full rates would mean that LEV owners would begin paying an initial amount lower than the full light RUC rate ($76 per 1000km). At a series of graduated milestones a LEV RUC licence's cost would increase until it reaches the same full rate as other light RUC vehicles. We will need to work out the number and length of increments, and the RUC rate applicable at each.

Incentive to LEV uptake

27 Phasing in full RUC rates could be viewed as more aligned with the transport decarbonisation strategy than option one (status quo). The RUC system would continue to incentivise LEV uptake for a period (albeit one that diminishes over time). This option would continue to signal Government's support for LEVs during the phasing period, while also recognising the need for all road users to pay for their use of the land transport system.

28 Whilst we have not commissioned studies of how the RUC exemption impacts LEV uptake, phasing may reduce the impact of any unforeseen negative impacts. Given

this, it is not clear how this option impacts LEV uptake compared to option four (a long-term partial rate).

Compliance and administrative costs

29 The administrative burden on Waka Kotahi and LEV owners would be slightly higher than option one because there would be several changes to the RUC rate rather than just one. There could be limits on the number of RUC kilometres that can be purchased at each transitional rate. This complexity would be increased if LEVs were phased in by batches (eg depending on registration date) as this would require determining rates applying to individual vehicles at different times. Managing the transition between phases could cause significant administrative difficulty for Waka Kotahi.

30 This option is the most legislatively complex (relative to the other options) but it is fairly common for legislation to set out phased increases across the transport sector (for example, this is common in the maritime domain for levies). In practice the phased rates would be a sequence of partial rates, with the same legislative requirements that apply to setting a single partial rate, but the number of regulation changes would be multiplied by the number of steps before the full rate is reached.[5]

31 A RUC Act amendment would be required to enable the setting of the partial rates. Setting limits on the amount of RUC purchased at partial rates would also require a provision in the Act. For new rates to be in place by 1 April 2024, an amendment Bill would be needed in the House by March 2023. Legislative timing is outlined in Appendix A.

32 If you select this option, which requires a RUC Act amendment, we will propose to include options to clarify the exemption's application to hydrogen powered vehicles.

NLTF revenue

33 Option three poses considerably less revenue risk to the NLTF than options two or four, but more risk than option one. Though option three would require LEVs to eventually pay the full light RUC rate, there would be foregone revenue over the phasing period. Modelling based on phasing from half to full rates over the period 1 April 2024 to 1 April 2025 indicates foregone revenue of around $20 million. The final quantum of foregone revenue would depend on the phase-in period's length and the RUC rate applicable at each stage.[6]

[5] It is possible to enact these through a single regulation that sets out increments ahead of time.
[6] An indicative sequence of phasing-in over two years in three six-month increments could involve:
a. $39/1000km from 1 April 2024 until 31 August 2024
b. $57/1000km from 1 September 2024 until 28 February 2025
c. $76/1000km from 1 March 2025. This is the final (full) rate

Option four is to bring all LEVs into the RUC system on a partial rate (or rates if plug-in hybrid electric vehicles are to be treated differently) with no plan for transition to full rates

Incentive to LEV uptake

34 This option may provide more of an incentive to LEV uptake than the full RUC or phased options. Option four will retain some support for LEV uptake but will also ensure these vehicles make some contribution to the costs of the land transport system.

Compliance and administrative costs

35 The compliance and administrative costs of this option would be similar to option one, involving a one-time transition to the RUC system for all LEVs.

36 Setting a different rate for LEVs would require amending the RUC Act and creating a separate RUC vehicle type in regulations. This option increases the RUC system's administrative complexity.

37 If you select this option, which requires a RUC Act amendment, we will propose to include options to clarify the exemption's application to hydrogen powered vehicles.

NLTF revenue

38 The NLTF risk posed by option four depends on the level of the new rate. Assuming a high-end rate of 80 percent of the current full rate (around $60/1000km) the foregone revenue from LEVs would be about $61 million (excluding GST) out to the end of 2027. Assuming a lower-end rate of 50 percent of the full rate (around $38/1,000km), the foregone RUC revenue would be around $120 million out to 2027.

Implementation issues

39 The non-extension options for LEVs will require Waka Kotahi to inform LEV owners that they will need to have RUC licences to use their vehicles on-road from April 2024.

40 To give enough time for LEV owners to prepare for entering the RUC system a publicity campaign would likely need to begin 12 months before LEV owners begin paying RUC (ie in March 2023). LEV owners will need to know how to purchase their RUC licences and what rate they will pay. Waka Kotahi may also need to update its back-office systems, so decisions on how to handle the exemption will be needed by September 2022.

41 Under any of options one, three or four Waka Kotahi will need to know the odometer reading of each LEV on the day the exemption ends so it can be sure that LEV owners purchase RUC from the correct recorded distance. Other than exempt vehicles, a vehicle is normally liable for RUC from the time it is registered and its initial odometer reading is recorded by a Waka Kotahi agent as part of the process of registering the vehicle. However, for LEVs that are already in use, we will not know the initial distance for the purchase of the RUC licence. The only way that odometer readings will have been recorded is at warrant of fitness checks. Many LEVs (perhaps

most) will not have had a warrant of fitness check by 1 April 2024. Waka Kotahi, its agents, and all those who perform warrant of fitness/certificate of fitness checks, will also need to update their IT systems to handle this volume of new customers.

PHEVs may need a partial RUC rate

42 If the LEV exemption lapses without legislative action, PHEVs will have the same RUC rate as all other light vehicles. However, many PHEVs also use petrol. Every litre of petrol is subject to PED. PHEVs becoming subject to RUC may mean that PHEV owners will pay more in RUC and PED combined than most light vehicles only subjected to either RUC or PED. Such 'double-billing' may be perceived as unfair, and is inconsistent with the principle that road users pay in proportion to their use of the roading system. A decision to not amend the RUC Act to accommodate LEVs might make solving this issue more difficult for PHEVs. A RUC amendment Bill would give us more flexibility in our legislative approach for PHEVs, but it may also be possible to resolve this issue through regulations or a Regulatory Systems (Transport) Amendment Bill. We will separately advise you on options for solving this issue.

Specific considerations relating to electric motorbikes and very light three and four wheeled electric vehicles are also required

43 In principle motorcycles and mopeds that don't use petrol (for example, diesel or electric) should pay RUC. As there are very few diesel motorbikes in the fleet, and electric vehicles are exempt from RUC, there has been no need to consider RUC for motorcycles until now. However, we expect electric motorcycles to become more common and potentially to replace petrol powered motorcycles. We need to decide how these very light vehicles should pay for their use of the roads when the LEV exemption expires. We will separately advise you on options for solving this issue.

There is an opportunity to expand a RUC amendment Bill's scope

44 There is an opportunity, if you choose to amend the RUC Act, to include other RUC matters beyond the topics covered by this briefing. Some parts of the transport sector may desire an amendment Bill to be more expansive than the single issue of LEVs.

45 For example, if you choose an option that requires changes to primary legislation (options three and four) we will propose to include options to clarify the exemption's application to hydrogen powered vehicles. We could likewise consider charging for negative externalities such as greenhouse gas emissions.

46 The risk with a RUC amendment Bill that goes beyond the LEV exemption's end is that we would likely need to consult on options and engage further with the transport industry. The RUC discussion document consulted on earlier this year did not explicitly consult on some of the options that submitters raised and more policy analysis would be needed than is feasible by March 2023.

47 Any RUC amendment Bill would need to be in the House by March 2023.

Next steps

48 Once you have indicated your options preferences, officials will prepare further advice as appropriate, including any Cabinet paper and RIA that may be necessary, in consultation with Waka Kotahi.

49 We can meet with you to discuss this briefing and a RUC amendment Bill's scope.

APPENDIX A

Reverse timeline of key decisions

Date	Action
1 April 2024 (Monday)	Light EVs need to have RUC licence
15 February 2024	Last possible date for gazetting a new rate (unless the amendment Act provides for less than 42 days' notice prior to taking effect)
8 February 2024	Last possible date for regulations to be considered by LEG (likely to be the first meeting of the year)
November/ December 2023	Fall back dates for regulations to be made post-election, depending on when Government formed
By end of September 2023	Regulations made (if to be done prior to election – in 2020 the election was on 17 October and Parliament did not sit after 2 September)
By end of August 2023	1. Bill passes through final stages and is enacted (in theory the amendment could receive the royal assent as late as February, along with the regulations, but given the uncertainty as to when Parliament will be sitting in late 2023 and early 2024 that cannot be planned for). 2. Regulations drafted (depending on progress of Bill, PCO may have to be instructed to draft in advance of amendment being enacted)
By end of July 2023	1. Bill reported back from select committee 2. Cabinet authorises drafting instructions for regulations (if done later, it is unlikely that regulations could be made prior to the election)
By end of June 2023	Cabinet policy paper drafted for regulations. This needs to occur before the Bill is introduced.
By end of March 2023	Bill introduced and referred to select committee (Usual minimum time at select committee is 4 months, including 6 weeks for submissions)
March 2023	Waka Kotahi communications work will need to begin
By end of February 2023	Bill drafted and ready to commence process for submission to LEG for meeting on either 16 or 23 February DEV Policy decision for regulations (prior to introduction)
1 November 2022 (Tuesday)	Drafting instructions for Bill issued to PCO
31 October 2022	Policy paper for Bill approved by Cabinet and decision by Cabinet to add the Bill to the 2022 legislation programme
By 30 September 2022	Policy paper out for departmental consultation
August 2022	Preparation of Cabinet paper and RIA, including discussion with Waka Kotahi on implementation issues and obtaining ministerial feedback on first draft
By 10 August 2022	Direction from you to prepare Cabinet paper

APPENDIX B

Submissions on the RUC discussion document *Driving Change* were mixed on the topic of LEVs

50 Earlier in 2022 the Ministry of Transport released *Driving Change*, a consultation document on a wide range of proposals to amend the RUC system, including how to treat LEVs when the RUC exemption ends on 31 March 2024. Though the RUC consultation did not ask directly about extending the LEV exemption, there were submissions on related issues.

51 Of those who submitted on the question of RUC exemptions generally, the **sentiment was mixed.** Many submitters were opposed to any exemptions. Grounds given for opposition included the principle that all vehicles using the roads should contribute to their use of the roads, the fact that exemptions transfer costs to users who may not have options to use low emission vehicles, that exemptions dilute the funding available for the NLTF, that an exemption scheme is open to misuse (and is therefore a revenue risk), exemptions add complexity to system, and rather than exemptions, there should be lower rates of RUC for more efficient vehicles. s 9(2)(ba)(i) [redacted] Many submitters favouring the proposal mainly cited the benefits of encouraging EV uptake and accounting for different fuels.

52 Using the RUC system to charge for negative externalities such as greenhouse gas emissions was explored in this year's RUC consultation. Charging for negative externalities through the RUC system would represent a fundamental policy change requiring more policy analysis and lengthier parliamentary consideration than is possible before 31 March 2024 (using standard processes), and so is not considered in this briefing. We will advise you on options for changing the RUC Act to charge for negative externalities as part of the report-back on the RUC consultation in late August 2022.

TE MANATŪ WAKA
MINISTRY OF TRANSPORT

25 August 2022

OC220707

Hon Michael Wood
Minister of Transport

Action required by:
Thursday, 1 September 2022

OPTIONS FOR PLUG-IN HYBRIDS AND VERY LIGHT ELECTRIC VEHICLES AFTER THE LIGHT RUC EXEMPTION EXPIRES

Purpose

To brief you on options for bringing plug-in hybrid electric vehicles (PHEVs) and very light electric vehicles (such as electric motorbikes, mopeds, and quad bikes) into the road user charges (RUC) system when the light electric vehicle (LEV) exemption ends on 31 March 2024.

Key points

- The RUC exemption for LEVs will expire on 31 March 2024, after which all LEVs, including PHEVs and very light electric vehicles (with a gross vehicle mass of under one tonne), must have RUC licences.
- PHEVs will pay RUC and petrol excise duty (PED) on any petrol used. Owners will need to make refund claims for PED to avoid being 'double-billed' for their road use. An option to reduce the administrative burden for PHEV owners and Waka Kotahi NZ Transport Agency in handling those refunds is to set a partial RUC rate for PHEVs and remove the ability to apply for PED refunds.
- When the LEV exemption expires, all EVs weighing up to 3.5 tonnes will become liable for the full light RUC rate ($76 per 1,000 kilometres). Electric all-terrain vehicles used primarily off road will be eligible for a RUC exemption (as are their diesel equivalents). Because very light vehicles such as motorbikes generate significantly lower road costs than full size light vehicles the full light RUC rate is not appropriate. There are three RUC options for very light electric vehicles:
    - a RUC rate calculated to reflect the costs these vehicles generate
    - a permanent RUC exemption
    - a higher annual licence ("rego") fee in lieu of RUC.

Recommendations

We recommend you:

1. **note** that all light electric vehicles, including plug-in hybrid electric vehicles and very light electric vehicles such as motorbikes, mopeds and quad bikes, will be required to purchase RUC once the RUC exemption for light electric vehicles expires on 31 March 2024

2. **indicate** which of the RUC options for plug-in hybrid electric vehicles you prefer:

   a. full RUC with refunds of petrol excise duty (status quo) Yes / No

   b. partial RUC and no refunds of petrol excise duty (Ministry and Waka Kotahi preferred option) Yes / No

3. **indicate** which of the RUC options for very light electric vehicles you prefer:

   a. pay RUC (Ministry and Waka Kotahi preferred option) Yes / No

   b. exempt from RUC Yes / No

   c. exempt from RUC with payment for road use as part of the annual licence fee Yes / No

4. **agree** that light electric all-terrain vehicles should have the same RUC-exempt status as their diesel equivalents Yes / No

5. **note** that officials will provide further advice on the options you select

Marian Willberg
Manager, Demand Management and Revenue
..... / ...... / ......

Hon Michael Wood
Minister of Transport
..... / ...... / ......

Minister's office to complete: ☐ Approved ☐ Declined

☐ Seen by Minister ☐ Not seen by Minister

☐ Overtaken by events

Comments

Contacts

Name	Telephone	First contact
Marian Willberg, Manager, Demand Management and Revenue	s 9(2)(a) [redacted]	✓
Josh Bullivant, Graduate Adviser, Demand Management and Revenue		

OPTIONS FOR PLUG-IN HYBRIDS AND VERY LIGHT ELECTRIC VEHICLES AFTER THEIR RUC EXEMPTION EXPIRES

On 31 March 2024, the light electric vehicle (LEV) road user charges (RUC) exemption ends

1 Currently, all LEVs are RUC-exempt. This means, unlike other road users, owners of such vehicles do not contribute to the upkeep of New Zealand's land transport system. In addition to battery electric vehicles, on which we have already briefed you (OC220511 refers), the exemption covers:

1.1 **plug-in hybrid electric vehicles** (PHEVs) dual powered by electricity and fossil fuels (13,843 in the fleet as of 30 June 2022)

1.2 **very light electric vehicles** such as electric motorbikes, mopeds (scooters), motor-tricycles, and quad bikes. These have a gross vehicle mass of less than one tonne (there are approximately 2,000 in the fleet).

2 When the RUC exemption expires, these vehicles will need a RUC licence. If no other action is taken, the standard light RUC rate for all two-axle vehicles up to 3.5 tonnes will apply ($76 per 1,000 kilometres).

There are two ways to manage the RUC exemption's expiry for PHEVs

The default option is for PHEV owners to pay the full RUC rate and claim refunds on Petrol Excise Duty (PED)

3 When the exemption ends, PHEVs will be subject to the standard light RUC rate, and owners will be able to make refund claims for any PED paid.[1] In principle, this is the most equitable option, as it allows for the fact that PHEVs can have widely varying petrol consumption depending on use. It would ensure that no PHEV user paid more than their fair share of road taxes.

4 However, this option has drawbacks. The existing PED refund process is largely manual and paper based, and involves significant user compliance costs and administrative costs for Waka Kotahi. The refund process requires claimants to keep full records of their petrol purchases and use, and even with current relatively small volumes of requests it can take up to eight weeks to process a claim. We estimate that by 1 April 2024 there could be more than 20,000 PHEVs in the fleet. If the owners of these vehicles began to claim refunds of excise duty that could add 80,000 refund claims to be processed each year, more than doubling current volumes.

5 It may be possible to upgrade and automate the PED refund process, but this too would involve costs and any process simplification would be limited by the need to guard against fraudulent claims. s 9(2)(k) [redacted]

[1] Section 5(b) of the Land Transport Management (Apportionment and Refund of Excise Duty and Excise-Equivalent Duty) Regulations 2004 provides for refunds of all excise duty paid in respect of RUC licenced vehicles.

6 Further, any PED refund process improvements aside, the costs of processing claims would likely still be disproportionate to the amounts of refunds in many cases. For example, a PHEV with an average fuel consumption of 2 litres per 100 kms and a monthly distance travelled of 500 kilometres would generate only about $21.00 of excise duty in a 3-month period.[2] This issue could be managed by setting minimum claim amounts[3], but that in turn increases the amount of time that users could have to wait for a refund.

A second option is to set a partial RUC rate for PHEVs and remove the ability to claim PED refunds

7 Setting a partial RUC rate for PHEVs would be administratively simple and is the preferred option for both Te Manatū Waka Ministry of Transport and Waka Kotahi. It would involve estimating the average amount of PED paid by PHEV owners and using that to develop a RUC rate. That average could be based on manufacturers' fuel consumption ratings, or on an estimated real-world average (likely to be higher).

8 Any partial RUC rate is likely to overcharge some vehicle owners and undercharge others due to the wide variation in actual fuel consumption depending on how a PHEV is used. As the distance a PHEV can travel on battery power alone is relatively small, someone who makes long inter-urban trips and has fewer opportunities to plug in will use more petrol per kilometre travelled than someone who only uses a similar vehicle for a short commute and charges it every night.

9 As noted in paragraph six above, a PHEV with fuel consumption in the range commonly claimed by manufacturers would generate relatively small amounts of excise duty. Real world tests of PHEVs have however indicated that fuel consumption can be as high as 8 litres per 100 kilometres, which equates to excise duty paid of $56 per 1,000 kms. A partial RUC rate based on manufacturers' fuel consumption ratings (or even average real-world consumption) will therefore result in some users paying significantly more in RUC and PED combined than the normal light RUC rate.

10 Removing the ability to seek a refund of excise duty will add to the incentive on PHEV owners to maximise the proportion of use that is electric-powered. Nevertheless, those being overcharged may complain, and the extent of the complaints will depend on the level that is set for the partial rate.

11 Implementing a partial RUC rate for PHEVs would involve creating a new RUC vehicle type and setting a RUC rate in regulations. This could, however, require an amendment to the Road User Charges Act 2012 (RUC Act), which currently does not envisage partial rates being set for light vehicles. Such a RUC Act amendment would be limited to clarifying that a RUC rate could be set to take account of any PED likely to be paid in respect of a vehicle. Removing the option for PHEV owners to claim excise duty refunds would involve an amendment to regulations, but does not require any change to primary legislation.

12 The Ministry concurs with Waka Kotahi in preferring the discounted RUC option over refunding PED. This will result in some PHEV owners paying more than they should for road use and some less. Overall, however, we consider that the inequity involved is likely to be less than that experienced among petrol vehicle owners (who likewise

[2] Assuming an excise duty rate of 70 cents per litre.
[3] This will require an amendment to the Land Transport Management Act.

vary in their petrol use, and therefore in PED paid) and outweighed by the likely savings in administrative and compliance costs.

Public submissions on how to treat PHEVs were mixed

13 The RUC discussion document *Driving Change* asked questions about the advantages and disadvantages of setting partial RUC rates to recognise PED paid by dual-fuel vehicles, the criteria to determine partial RUC rates, and whether operators of dual-fuel vehicles with a reduced RUC rates should still be able to claim a full PED refund if they used more fuel than the average.

14 Many submitters opposed charging both RUC and PED, not realising the owners would be entitled to a PED refund. But most submitters were also opposed to enabling partial RUC rates for PHEVs. It is not always clear, however, whether submitters appreciated that the purpose of the partial rate would be to ensure that PHEVs are not charged more overall than light diesel vehicles.

15 Some submitted that partial rates (whether for PHEVs or battery electric vehicles) could encourage electric vehicle use over public or active transport. Others also noted the possibility of perverse outcomes whereby the RUC rate is lower for a PHEV than for a battery electric vehicle.

There are three RUC options for very light electric vehicles

16 As there are very few diesel motorcycles in the fleet (7 as at July 2021), and electric vehicles are exempt from RUC, there has been no need to consider RUC for motorcycles until now.[4] However, electric motorbikes and other very light electric vehicles are likely to become more common in the future. Under the status quo, when the LEV exemption expires these vehicles must have a RUC licence to operate on the road network legally.

17 Very light electric vehicles owners will benefit from the road network and should contribute to its upkeep and common costs. Currently, most equivalent petrol-powered vehicles contribute to the revenue system through PED [5] and it would be unfair if similar electric vehicles did not also contribute.

18 We estimate that an average motorcyclist contributes around $75 per year in PED. Translated to a RUC rate, it would be around $30 per 1,000 km, which is less than the 'common costs' component of the light RUC rate (around $60).

19 Three RUC options for very light electric vehicles for you to consider include:[6]

19.1 setting an appropriate RUC rate. Any rate would need to be transparently calculated and set in regulations

19.2 exempting the vehicles from RUC. This would require an amendment to the RUC Act

[4] The administrative cost of bringing the tiny number of diesel motorbikes into the RUC system would have outweighed any revenue benefit.
[5] Excise duty on petrol used in farm vehicles is refundable.
[6] These are the available short-term options (ie before April 2024). Options for the RUC system's long-term treatment of these vehicles will be identified as part of the Future of the Revenue System work.

19.3 increased annual licence fee. This, too, would require amending primary legislation to remove the vehicles from the RUC system.

20 The RUC Act allows vehicles that are unsuitable by their design for regular road use to be exempted through an Order in Council.[7] Diesel quad bikes (all-terrain vehicles) are currently exempted in this way and assuming this is to continue we recommend that equivalent electric vehicles should be added to the list of vehicles exempted under this provision.[8]

21 None of these options has any significant short term revenue implications, given the small number of very light electric vehicles in the current fleet. In the longer term, if all very light petrol vehicles were replaced by electric equivalents this could result in reduced PED revenue of around $14 million (ex GST).

22 The options in paragraphs 19.1 and 19.3 above would ensure that this loss was offset either through RUC or annual vehicle licence fees. We note that the latter would increase yearly vehicle ownership costs and may not be fair to owners who either do not travel very far (and therefore overpay) or travel long distances (and therefore underpay).

23 The Ministry does not support exempting very light electric vehicles from RUC without any other form of payment for road use. The choice between bringing them into the RUC system and imposing an additional annual licence fee is one between the relative administrative complexity of RUC and the inequity of an annual licence fee. We also note that motorcyclists already pay high annual licence fees ($400 to $500) due to ACC levies. There are also implementation issues with bringing very light electric vehicles into the RUC system, including confirming the types and likely accuracy of the distance recorders these vehicles use.

24 Both these options may involve legislative complexities, but unless the RUC Act is amended then charging RUC for these vehicles is the only option available. We therefore recommend that these vehicles be brought into the RUC system and a specific rate set for them under regulations.

Public submissions on bringing very light electric vehicles into the RUC system favoured using the annua licence fee

25 The RUC discussion document *Driving Change* asked questions about the advantages and disadvantages of subjecting road-registered very light electric vehicles to RUC or a higher annual licence fee, and the principles we should use to determine a RUC rate for motorcycles and mopeds.

26 The submissions were mixed on charging RUC for very light electric vehicles. Submitters opposed to bringing them into the RUC system cited the compliance burden involved (especially considering the minimal damage these vehicles impose on the roads) and the disincentive to the uptake of these vehicles.

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[7] Section 38 of the Road User Charges Act 2012 and the schedule to Road User Charges (Classes of RUC Vehicles) Exemption Order 2012 refer.

27 Other submitters proposed these vehicles should pay for road use through the annual licencing fee rather than through RUC. It was noted that the administrative cost of bringing these vehicles into the RUC system might outweigh the benefit to the National Land Transport Fund.

There are implementation issues to resolve with Waka Kotahi

28 Waka Kotahi will need to inform PHEV owners of their requirement to purchase a distance licence from 1 April 2024. To give enough time for Waka Kotahi to update its systems, communications work would likely need to begin 12 months before the owners begin paying RUC (i.e., in March 2023). Waka Kotahi may also need to make some system changes (for example, to the refund system) if the status quo is your preferred option.

29 For any options involving the RUC system, Waka Kotahi will need to record the vehicle's odometer reading at the time it becomes liable for RUC (i.e., on 1 April 2024).

Next steps

30 Once you indicate your preference, Officials will prepare further advice on the steps to implementation and detailed legislative and funding impacts or requirements.

18 January 2023 OC220846

Hon Michael Wood

Minister of Transport

Action required by:

Monday, 30 January 2023

REPORT BACK ON THE '*DRIVING CHANGE: REVIEWING THE ROAD USER CHARGES SYSTEM*' CONSULTATION

Purpose

This provides you with an overview of the '*Driving Change: Reviewing the Road User Charges System*' consultation and seeks your decisions on the legislative amendments consulted on.

Key points

- Last year, Te Manatū Waka Ministry of Transport (the Ministry) consulted on a wide range of legislative amendments and system changes, focused on road user charges (RUC).
- A discussion document '*Driving Change: Reviewing the Road User Charges System'* was released to facilitate consultation. Formal submissions were accepted between 28 January and 22 April 2022, and we held several online workshops.
- Over 100 submitters provided about 3,000 separate responses to the 89 questions posed in the discussion document. Most submissions received were from the freight and trucking sectors, with some also coming from private individuals.
- The report appended to this brief presents our analysis of the proposals that were set out in the discussion document.
- The report is lengthy and many of the recommended changes are minor and technical. To help your decision-making, each proposal has been summarised and appended to this briefing in table format, grouped by recommendation. You can use the tables to indicate your decisions and provide feedback. Refer to the attached report for more in-depth analysis and information on each proposal.
- As you have already made decisions on the end of the RUC exemption for light electric vehicles (EVs) and plug-in hybrids (OC220511 and OC220707 refers), decisions are only required on the remaining 25 proposals.
- In summary, we recommend the following changes:
    - Removing the current requirements that heavy vehicle RUC licences be displayed or carried, that eRUC devices display a RUC licence, and that light RUC vehicles display a RUC label.

   - Providing Waka Kotahi with the ability to use historical RUC rates when conducting a RUC assessment, broader discretion regarding a RUC assessment review, and better access to third party records.

   - Transitioning compressed natural gas (CNG) and liquefied petroleum gas (LPG) powered vehicles into the RUC system.

   - Exempting vehicles travelling for Certificate of Fitness (CoF) purposes from paying RUC.

   - Amending Road User Charges Regulations 2012 to:

     - reset the RUC bands to align with the vehicle dimensions and mass (VDAM) Rule and remove concession type licences 308 and 408.

     - establish a 54 tonne RUC band at a rate proportional to that of a 54-tonne vehicle.

     - simplify the definition of all-terrain cranes and remove their RUC exemption.

- The changes we propose are supported by the feedback gathered during the consultation, as well as by Waka Kotahi (New Zealand) Transport Agency. This package of changes also includes several matters identified in the 2016 external review of the 2012 RUC Act amendments.

- You were invited to report back on the consultation to the Environment, Energy, and Climate (ENV) Committee by late 2022 [ENV-21-MIN-0064 refers]. Due to delays during the consultation and prioritisation of matters for Cabinet, this has been deferred until the ENV meetings restart in early 2023. The first meetings are scheduled for 23 February and 16 March.

- We have drafted a paper seeking Cabinet's confirmation of your decision about the end of the RUC exemption for light EVs and plug-in hybrids (refer OC230013). That draft Cabinet paper is attached, and can be amended to include additional proposals from this report back if you wish.

Recommendations

We recommend you:

1 **note** a report on the proposals in the '*Driving Change: Reviewing the Road User Charges System*' consultation is appended to this briefing

2 **indicate** your preferences for legislative amendments and provide your feedback in the appended tables

3 **note** that a draft paper seeking Cabinet confirmation of the RUC exemption expiry for light electric vehicles and plug-in hybrids has been prepared (refer OC230013) and this can be expanded to include additional proposals from this report back if you wish.

Marian Willberg
Manager, Demand Management and Revenue
..... / ...... / ......

Hon Michael Wood
Minister of Transport
..... / ...... / ......

Minister's office to complete: ☐ Approved ☐ Declined

☐ Seen by Minister ☐ Not seen by Minister

☐ Overtaken by events

Comments

Contacts

Name	Telephone	First contact
Marian Willberg, Manager, Demand Management and Revenue	s 9(2)(a) [redacted]	✓
James McDevitt, Senior Adviser, Demand Management and Revenue		
Josh Bullivant, Graduate Adviser, Demand Management and Revenue		

Last year, we consulted on a wide range of potential legislative amendments, focused on the road user charges (RUC) system

1 On 28 January 2022 we released the discussion document *Driving Change: Reviewing the Road User Charges System* to facilitate consultation. The discussion document had 30 proposals that were grouped into three chapters organised by the level of system-change proposed:

1.1 **Using the Road User Charges Act 2012 (the Act) to do more than recover road costs**. This section sought feedback about the scope of costs that we should look to recover as part of RUC, what the future RUC system could look like and what powers the Act needs if RUC was to be used to support wider transport policies. We also sought feedback on potential changes to the RUC system to enable it to recognise other costs imposed by vehicle use, such as pollution or congestion, or to offset the higher costs faced by some emerging technologies, ahead of their widespread adoption.

1.2 **Improving the RUC system for end users**. This section presented a range of proposed improvements to the general functioning of the RUC system. The proposals focused on improving the collection and administration of RUC and the use of RUC to influence the national vehicle fleet.

1.3 **Technical amendments to the Act**. This section set out a range of potential, mainly technical, proposed amendments intended to address specific issues encountered through administering the Act. Currently, it costs Waka Kotahi approximately $20 million per year (approximately one percent of RUC revenue) to administer the RUC system and it costs operators an added amount to manage their own compliance. Amending the Act and its regulations is an opportunity to reduce these costs and improve the value for money the sector gets.

2 The consultation was comprehensive in scope, posing thought-provoking questions to the industry. The questions were open-ended and sought feedback on every aspect of the Act and the RUC system. The aim was to assess the potential of several transformative ideas that could greatly alter how the RUC system operates. Instead of asking for agreement or disagreement with specific proposals, participants were asked to provide insight into the pros and cons of each proposal.

3 Following the release of the discussion document, we met with stakeholders to discuss the proposals and held several online workshops. Submissions were accepted between 28 January and 22 April 2022. Over 100 submitters provided feedback. We received about 3,000 separate responses to the 89 discussion questions. Most submissions received were from the freight and trucking sectors, with some also coming from private individuals.

In August, you indicated that you want the light EV RUC exemption to end

4 The EV exemption is set to expire on 31 March 2024, making the proposals we consulted on about it time sensitive. We requested an early decision from you on how you plan to handle the expiry of the exemption. This was to ensure we have enough time to implement the decision and put any necessary supporting legislation in place.

5 We provided two briefings on the topic, and you decided:

5.1 light EVs will pay the full rate of RUC for type 1 vehicles (OC220511 refers)

5.2 partial RUC rates will be applied to plug-in hybrid electric vehicles (PHEVs) (OC220707 refers)

5.3 very light EVs will not be subject to RUC (OC220707 refers).

6 We have prepared a Cabinet paper for your Office to get Cabinet's confirmation of your decision and agreement to legislative amendments (OC230013 refers). Work is underway at Waka Kotahi to implement the system changes required to enact these decisions.

We are seeking your decisions on the remaining 25 proposals

7 The attached report and tables set out our analysis of the proposals and topics that were consulted on. The sequence of the report mirrors the discussion document.

8 For each proposal, submissions were analysed and workable options for change were identified. Options were then assessed against proposal-relevant criteria, leading to the recommended options for your consideration.

9 The report is lengthy and there are many recommendations. Therefore, we have summarised each proposal and supplied recommendations in tables appended to this briefing. These tables are grouped by recommendation 'type'.

Table one: Proposals where you have already made decisions

10 This table has five of the proposals in the discussion document relating to the end of the light EV RUC exemption (OC220511 and OC220707 refer). For completeness, these proposals, including a summary of progress, are included in the attached report. The draft Cabinet paper (OC230013 refers, attached for reference) covers these proposals.

Table two: Proposals that we recommend can be progressed concurrently with the proposals outlined in Table one

11 This table has a range of minor and technical amendments that will improve the RUC system. These proposals were well-supported in the consultation and this package includes matters found in the 2016 external review of the 2012 RUC Act amendments.

12 Recommendations for amendments include:

12.1 providing Waka Kotahi with the ability to use historical RUC rates when conducting a RUC assessment (proposal 3.12), broader discretion on a RUC assessment review (proposal 4.10), and better access to third party records (proposal 4.6)

12.2 removing the requirements that heavy vehicle RUC licences be displayed or carried, and that eRUC devices display a RUC licence (proposal 4.8)

12.3 exempting vehicles travelling for a Certificate of Fitness from paying RUC (proposal 4.9)

12.4 amending Road User Charges Regulations 2012 to:

12.4.1 reset the RUC bands to align with the vehicle dimensions and mass Rule and remove concession type licences 308 and 408 (proposal 4.2)

12.4.2 establish a 54-tonne RUC band at a rate proportional to that of a 54-tonne vehicle (proposal 4.2)

12.4.3 simplify the definition of all-terrain cranes and remove their RUC exemption (proposal 4.1).

13 This package also includes a proposed removal of the requirement for light vehicles to display RUC labels (proposal 3.9). The consensus amongst the submissions was that the requirement is no longer necessary and imposes unnecessary administration and compliance costs. We agree. Removing the display requirement will also help the new customers to the RUC system when the light EV exemption ends. However, we also recommend keeping the ability for RUC customers to retain paper labels if they wish.

14 We also recommend that compressed natural gas and liquefied petroleum gas powered vehicles transition to RUC (proposal 3.13). These vehicles pay fuel excise duty and can claim a refund if the vehicle is not used on the road. Currently, about 98 percent of the fuel excise duty is refunded so moving these vehicles to RUC, where charges only need to be paid if the vehicle is on the road, reduces the administration costs of refunds.

15 The draft Cabinet paper (OC230013 refers, attached for reference) does not cover these proposals, but can be expanded to cover them if you wish.

Table three: Proposals that could be considered in other workstreams

16 We consider that proposals contained in this table merit further work but could be more effectively progressed as part of other workstreams.

17 For example, the proposals relating to the inclusion of externalities in RUC (proposals 2.1 & 2.2) are revenue-system level issues rather than RUC system specific and therefore better addressed in the *Future of the Revenue System* project. These proposals attracted a lot of feedback but there was no consensus and the views expressed were polarised. There is clearly an appetite for further public debate on this topic, but we think it is in the Government's interest to present a coherent package of changes that apply across the transport sector, to avoid potential or perceived inequities (for example between RUC and fuel excise duty payers).

18 The feedback we received on eLogbooks and eRUC is related to the future role of telematics in road safety and are actions within *Road to Zero* work programme. Likewise, the form and the role of exemptions for heavy electric vehicles (proposals 3.5.1, 3.5.2 & 3.7) will be addressed in the *Clean Truck* programme of work.

19 The proposal to remove the requirement to display vehicle licence ('rego') labels (proposal 3.11) was well supported by submitters, who considered that the display

requirement imposes unnecessary administration and compliance costs. While the Ministry agrees, further work is needed to ensure that in the absence of a physical rego label being displayed, there is adequate access to vehicle data through an online portal provided by Waka Kotahi. Further communication with local authorities is required to ensure that their ability to enforce stationary vehicle offences is not hindered by the removal of the licence label display requirement.

Table four: Proposals that we recommend should not be progressed at this time

20 Several proposals put forward in the consultation were met with resistance from stakeholders. Concerns were raised about the feasibility and potential negative impacts of these ideas. We recommend that the proposals included in this table are reassessed and potentially revisited at a later date.

21 This cohort includes mandating eRUC for heavy vehicles (proposal 3.1). The electronic system providers (i.e., the companies that provide eRUC) raised concerns about some potential eRUC customers carrying more risk than others and the impact mandating eRUC would have on their business. The freight industry highlighted that currently there's no standalone eRUC product suitable for the small fleet operators. However, submitters were open to a limited form of mandate that is streamlined, phased in over time, and restricted to new heavy vehicles only. More policy work is needed on a limited form of mandatory eRUC before further advice on options for legislative change is provided.

22 Table four also includes the proposal to include fuel type, origin, and blend in RUC rates. While there was agreement that new fuels would likely incur higher costs ahead of their widespread adoption, using RUC to offset these costs would be extremely difficult to administer and enforce in a way that maintains the integrity of the RUC system.

23 We consider the proposals to: report odometer tampering (proposal 4.3); supply RUC licences in amounts less than 1,000km (proposal 3.10); and change the requirements for making and retaining records (proposal 4.5), to have greater costs than benefits to RUC customers and Waka Kotahi as the RUC collector. Proposal 4.4, to define 'accurate' in relation to distance recording in the Act, yielded no usable solution from the consultation.

Next steps

24 Please indicate your decisions and provide your feedback on the appended tables. Once we have your decisions, we will prepare the report back on the consultation to the ENV committee. ENV is scheduled to meet fortnightly, starting 23 February.

25 We've prepared a draft Cabinet paper seeking confirmation for ending the EV exemption for light vehicles and plug-in hybrids (OC230013 refers) which has been sent to your Office at the same time as this paper.

Appendix 1: Recommendation tables

Table one: Proposals where you have already made decisions.

Proposal (***Report page number***)	**Summary of your decision**	**Work to date**
Proposal 3.3 Enabling partial RUC rates for vehicles that also use a fuel subject to fuel excise duty (FED) *(pages 15-16)*	Last August, you decided that when the light EV RUC exemption ends, • Light EVs will pay the full rate of RUC for type 1 vehicles (OC220511 refers). • Partial RUC rates will be applied to plug-in hybrid electric vehicles (PHEVs) and very light EVs will not be subject to RUC (OC220707 refers).	We have drafted a paper seeking Cabinet agreement to your decision that the EV exemption expires on 31 March 2024. The Ministry and Waka Kotahi have started working to implement your decision in time for the light EV RUC exemption's end on 31 March 2024. Most notably: • s 9(2)(h) [redacted] • Internal workshops on operational changes needed to add battery EVs, very light EVs and PHEVs to the RUC system.
Proposal 3.4 Enabling partial RUC rates for low emission vehicles after the light EV RUC exemption ends *(pages 17-18)*		
Proposal 3.6 Charging RUC for electric and diesel vehicles with a gross vehicle mass (GVM) of less than one tonne *(pages 23-24)*		
Proposal 3.14 Assisting new RUC payers to commence paying RUC *(pages 41-42)*		
Proposal 4.1 Clarifying what 'partly' means in the definition of an electrically powered vehicle. *(pages 45-46)*		

Table two: Proposals we recommend can be progressed concurrently with the proposals outlined in Table one.

Proposal **(*Report page number*)**	**Status Quo**	**Recommendation**	**Key reasons for recommendation**	**Decision**
Proposal 3.9 Removing the requirement for light vehicle owners to display a RUC licence *(pages 28-30)*	RUC licences must either be displayed or carried in all RUC vehicles.	**Agree** to amend the Act to remove the requirement for light RUC vehicles to display a RUC licence.	Removes an administrative barrier to RUC compliance. We do not believe it is likely to increase deliberate RUC non-compliance but may slightly increase inadvertent late payment.	Yes / No
		Agree that light RUC vehicle owners retain the option to request a licence label, upon payment of an existing fee.		Yes / No
		Note that Waka Kotahi will develop an online portal for vehicle owners to check their vehicle's RUC status, along with relevant land transport legislation compliance information.		
		Note that Waka Kotahi and New Zealand Police (Police) will ensure that, when the display requirement is removed, Police have adequate access to vehicle data to enable enforcement action at all times and locations.		
Proposal 3.12 Allowing the use of historical RUC rates when Waka Kotahi carries out an assessment of unpaid RUC *(pages 37-38)*	If Waka Kotahi reviews records for a period of several years, over which RUC rates have increased, an operator is currently required to pay extra on top of what they would have been required to pay if they were compliant at the time.	**Agree** to amend the Act to enable Waka Kotahi to use historical RUC rates when conducting a RUC assessment.	This is well supported by the sector, and it would improve Waka Kotahi's administration of the Act.	Yes / No
Proposal 3.13 Transitioning Compressed Natural Gas (CNG)- and Liquefied petroleum gas (LPG) powered vehicles into the RUC system *(pages 39-40)*	CNG- and LPG-powered vehicles pay FED and can claim refunds for off-road travel.	**Agree** to amend the Act so that CNG- and LPG-powered vehicles pay RUC for road use, at the same level as their diesel equivalents. The current FED would be removed.	The status quo incurs significant administration costs and including these vehicles in RUC is relatively straightforward.	Yes / No

Proposal **(*Report page number*)**	**Status Quo**	**Recommendation**	**Key reasons for recommendation**	**Decision**
Proposal 4.2 Redefining RUC vehicle types for eight axle combinations *(pages 47-48)*	An amendment to Land Transport Rule: Vehicle Dimensions and Mass 2016 (VDAM) increased the maximum allowable mass for some vehicles from 44 to 46 tonnes and this has led to overcharging for a small group of heavy truck operators.	**Agree** to reset the RUC bands to align with the VDAM Rule and remove concession type licences 308 and 408.	The status quo is unfair as it has resulted in overcharging for a small group of very heavy trucks as the operators are paying the historical overweight RUC rates for the now allowable heavier vehicles.	Yes / No
		Agree to establish the 54 tonne RUC band at a rate proportional to that of a 54-tonne vehicle.		Yes / No
Proposal 4.6 Clarifying the provisions relating to access to records held by third parties *(pages 55-56)*	Waka Kotahi cannot access third party records for RUC enforcement activities.	**Agree** to amend the Act to allow a limited increase of Waka Kotahi's access to third party records.	The improvements in RUC collection justify the extra access and administration for Waka Kotahi and affected parties.	Yes / No
Proposal 4.8 Clarifying the requirements around the display of heavy vehicle electronic RUC (eRUC) licences *(pages 59-61)*	Road User Charges Regulations 2012 require electronic distance recorders to display both the distance licence for a vehicle and the distance travelled.	**Agree** to amend the Road User Charges Regulations 2012, removing the requirement for eRUC devices to display a RUC licence.	Administrative fix. Since these requirements were set, the RUC Act has been amended to allow heavy vehicle RUC licences to be carried (either in paper or digital forms) rather than displayed. This further removes administrative requirements, and offers the same treatment for electronic and paper RUC licences.	Yes / No
		Agree that section 19(1) of the Act be repealed so that RUC licences do not need to be displayed or carried in any vehicle.		Yes / No
		Agree that the option to request a physical RUC licence be retained for heavy vehicles as is the case for light vehicles.		Yes / No
		Note that Waka Kotahi and Police will ensure that, when the display or carry requirement is removed, Police have adequate access to vehicle data to enable enforcement action at all times and locations.		

Proposal (*Report page number*)	Status Quo	Recommendation	Key reasons for recommendation	Decision
Proposal 4.9 Exempting vehicles from paying RUC that only travel on a road for Certificate of Fitness (CoF) purposes *(pages 62-63)*	Travel using the road network for CoF purposes, without RUC paid in advance is illegal.	**Agree** to amend Subpart 4 of the Act to stipulate that travel for CoF purposes is exempt from paying RUC if the vehicle is normally used off road.	The status quo creates a barrier to getting the appropriate safety checks completed. Revenue foregone from this exemption would be minimal.	Yes / No
Proposal 4.10 Extending an operator's time to request an independent review of a Waka Kotahi RUC assessment *(pages 64-65)*	An independent review of a RUC assessment needs to take place within 20 working days of the date the assessment is issued.	**Agree** to amend the Act, allowing Waka Kotahi discretion regarding the time allowance for an assessment review.	Giving Waka Kotahi the discretion to exercise judgement will help improve its ability to engage with the sector.	Yes / No
Proposal 4.11 Changes to how mobile cranes are defined for RUC *(pages 66-67)*	The Act exempts mobile cranes from paying RUC where the crane is not one to which a distance recorder is or could readily be fitted.	**Agree** to amend the Act to remove the RUC exemption from mobile cranes.	The exemption is no longer consistent with good regulatory stewardship as we now know that these vehicles can be fitted with distance recorders.	Yes / No
		Agree to amend the Road User Charges Regulations 2012 to simplify the definition of all terrain cranes.		Yes / No

Table three: Proposals we recommend are considered in other workstreams

Proposal **(*Report page number*)**	**Status Quo**	**Recommendation**	**Key reasons for recommendation**	**Decision**
Proposal 2.1 Including externalities in the costs considered in setting RUC rates *(pages 1-4)*	Externalities are not included in RUC rate calculations.	**Agree** to maintain the status quo and that this proposal should be considered as part of the *Future of the Revenue System* project.	This is a system level issue and is better progressed in the *Future of the Revenue System* project rather than solely considered for RUC.	Yes / No
Proposal 2.2 Including impacts on greenhouse gas emissions when setting RUC rates *(pages 5-7)*	Greenhouse gas emissions are not included in the calculation of RUC rates.	**Agree** to maintain the status quo and that this proposal should be considered as part of the *Future of the Revenue System* project.	This is a system level issue and is better progressed in the *Future of the Revenue System* project as part of considering externalities.	Yes / No
Proposal 3.2 Using eRUC devices to improve road safety *(pages 13-14)*	eRUC can connect with elogbooks (for driver monitoring), but the system is optional.	**Note** that officials will report back to you on this separately through the *Road to Zero* road safety workstream.	The future role of telematics in road safety is an action within *Road to Zero*. The results of this consultation will inform that work.	
Proposal 3.5.1 Extending the heavy EV RUC exemption to 31 March 2030 to support their uptake *(pages 19-20)*	Section 37A of the Act exempts these vehicles until 31 December 2025.	**Note** that officials will provide further advice on the exemption in early 2023 after decisions on the Ministry's *Clean Truck* work have been taken.	As the exemption doesn't expire until 2025 and connects with the wider truck decarbonisation work, the Ministry will progress this work separately in the *Clean Truck* package.	
Proposal 3.5.2 Exempting vehicle combinations where the motive power is from a vehicle exempted from paying RUC *(pages 21-22)*	Trailers pay RUC and the rates are calculated independently of the motive vehicle.	**Note** that officials will provide further advice on the exemption, aligned with proposal 3.5.1 above.	This is tied to your decision on proposal 3.5.1 because trailers could not be exempt if their motive power is required to pay RUC. This will not progress if the heavy EV RUC exemption is not extended.	

Proposal **(*Report page number*)**	**Status Quo**	**Recommendation**	**Key reasons for recommendation**	**Decision**
Proposal 3.7 Exempting low emission vehicles from RUC based on [a set number of kilometres] distance travelled *(pages 25-26)*	Exemptions are time-bound and connected to vehicle classes.	**Note** that officials will explore options for distance-based exemptions when tendering advice on extending the heavy EV RUC exemption (proposal 3.5.1).	This is tied to Proposal 3.5.1, which will be progressed through the *Clean Truck* package.	
Proposal 3.8 Adjusting the overweight permit regime *(page 27)*	Section 12 of the Act requires that operators must process a change in RUC type and licence or purchase an additional RUC licence when travelling over their normal allowable mass or using a heavy vehicle permit.	**Note** that Waka Kotahi will investigate implementing changes without the need for legislative amendments and will report back to you if significant changes are proposed.	No need for a decision. Operational changes to the permitting system are the Director of Land Transport's remit.	
Proposal 3.11 Removing the requirement to display other transport labels *(pages 34-36)*	Motorists are required to display transport ('rego') labels.	**Note** that officials will investigate how to mitigate compliance and enforcement risks with Waka Kotahi, Police, local authorities, and other affected stakeholders before giving further advice.	The display requirement is a cost to motorists that serves little benefit, but compliance and enforcement risks need to be understood and mitigated before change is implemented.	
Proposal 3.15 Adjust RUC offences and penalties to be consistent with the *Effective Transport Financial Penalties Framework* *(pages 43-44)*	The Act has fee/fine ratios ranging widely between 1:3 and 1:50.	**Note** that officials will progress this proposal in a separate programme of work to standardise transport fees and fines.	Consistency in fees and fines is important, so we will progress this work through the *Effective Transport Financial Penalties Framework* and Tool, and report back separately.	
Proposal 4.7 Creating a requirement for RUC Electronic System Providers (ESPs) to notify Waka Kotahi of the status of RUC payments *(pages 57-58)*	ESPs can voluntarily notify Waka Kotahi of any changes to the status of RUC payments.	**Note** officials will provide further advice on amending the Act so that ESPs must report RUC non-compliance when they have reason to believe that RUC evasion is taking place.	This supports Waka Kotahi as RUC collector and system steward and provides an early intervention point to limit RUC evasion.	

Proposal (***Report page number***)	**Status Quo**	**Recommendation**	**Key reasons for recommendation**	**Decision**
			Officials will progress this work in parallel with work on an offence regime to support the policy (see proposal 3.15).	

Table four: Proposals we recommend should not be progressed at this time.

Proposal **(*Report page number*)**	**Status Quo**	**Recommendation**	**Key reasons for recommendation**	**Decision**
Proposal 2.3 Including fuel type, origin, and blend in RUC rates *(pages 8-10)*	Fuel type, origin, and blend are not included in the calculation of RUC rates.	**Agree** to maintain the status quo that different fuels' environmental impacts be addressed by regulations and incentives targeting the fuels concerned directly and not through RUC.	Extremely difficult to administer and would place significant costs on affected parties.	Yes / No
Proposal 3.1 Reviewing the requirements for eRUC (including the Code of Practice's fitness for purpose) and mandating eRUC for all vehicles *(pages 11-12)*	eRUC is optional for RUC customers.	**Agree** to maintain the status quo until a more viable eRUC solution is developed that is more suitable and affordable for operators of small and mixed-use fleets.	Submissions were strongly opposed and an acceptable standalone eRUC product would need to exist to make this operationally feasible for individuals and small fleet operators.	Yes / No
Proposal 3.10 Allowing for the purchase of RUC licences in amounts less than 1,000km *(pages 31-33)*	The minimum distance purchasable is 1000km. If a RUC customer uses less than this, or changes payload they can apply for a refund.	**Agree** to maintain the status quo that the minimum distance of purchasable RUC should remain 1000km.	Submissions were divided evenly. Waka Kotahi's proposal to increase transaction fees (by 332 percent in the case of purchasing RUC from eRUC providers) and the increased compliance risk with heavy vehicles would offset the benefit of purchasing smaller km amounts more often.	Yes / No
Proposal 4.3 Change CoF / Warrant of Fitness (WoF) requirements so the assessor must report evidence of odometer tampering *(pages 49-50)*	If a WoF/CoF assessor sees evidence of odometer tampering there is no legal obligation to report this to enforcement authorities.	**Agree** to maintain the status quo.	Putting an additional responsibility on WoF/CoF assessors to fail a safety check or refer possible tampering places assessors in a difficult position that is unlikely to meaningfully reduce RUC evasion.	Yes / No
		Note that officials will investigate other regulatory options that utilise the WoF/CoF check to report odometer discrepancies.		

Proposal **(*Report page number*)**	**Status Quo**	**Recommendation**	**Key reasons for recommendation**	**Decision**
Proposal 4.4 Clarifying the definition of 'accurate' for a distance recorder in a light vehicle *(pages 51-52)*	Discrepancies between odometer readings and actual distance travelled are investigated by the enforcement authorities, if found.	**Agree** to maintain the status quo.	Officials will monitor this topic and will report back if any significant developments change the status quo.	Yes / No
Proposal 4.5 Clarifying the requirements that certain persons must make and retain certain records *(pages 53-54)*	The Act requires that a Transport Services Licence holder keep records for any RUC vehicle they own or operate. But it does not specify what records must be kept.	**Agree** to maintain the status quo.	Standardisation would become administratively ineffective and costly.	Yes / No

Appendix 2 – Report on the '*Driving Change: Reviewing the Road User Charges System*' consultation

TE MANATŪ WAKA
MINISTRY OF TRANSPORT

Document 5

Driving Change: Reviewing the Road User Charges System

Submissions summary, options analysis & recommendations

TE MANATŪ WAKA
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Contents

Summary

This report sets out our analysis of the proposals included in the *Driving Change: Reviewing the Road User Charges System* consultation. It has been written to accompany Te Manatū Waka Ministry of Transport's (the Ministry) briefing OC220846.

The discussion document, *Driving Change,* was released on 28 January 2022 to facilitate the consultation, alongside explanatory materials and an online submission portal on the Ministry's website. The consultation was broad in its intent, asking challenging questions of the sector. Questions posed were open, and feedback was sought on all aspects of the road user charges (RUC) Act and the RUC system. The consultation's aim was to test the feasibility of a range of ideas that could fundamentally change how the RUC system works. Rather than asking submitters whether they agreed or disagreed with suggested proposals, submitters were asked to describe the advantages and disadvantages of proposals.

We met with stakeholders to discuss the proposals and held several online workshops. Formal submissions were accepted between 28 January and 22 April 2022. Over 100 individual submissions and about 3,000 unique responses to the discussion questions were received. The submissions have been reviewed and options to progress the proposals were evaluated against criteria for each proposal. While a consistent set of criteria were applied to all proposals, not all criteria were relevant to specific proposals. So, only those criteria relevant to a specific proposal are provided in the analysis in this report. This report provides a summary of the analysis and includes recommendations.

The chapters in this report mirror the discussion document. The first chapter, 'Using the RUC Act to do more than recover road costs' covers potential changes to the RUC system and Act's core purpose. The second and third chapters cover technical amendments and system improvements.

We propose to publish a modified version of this report (with submitters' identifying information removed) on the Ministry of Transport website (https://www.transport.govt.nz/consultations/road-user-charges-consultation/ongside) alongside the rest of the consultation documents. We will work with your Office in early 2023 to prepare these materials for proactive release.

Using the RUC Act to do more than recover road costs

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

Status quo

Charges for RUC vehicles are "in proportion to the costs that the vehicles generate".[1] Other negative externalities are not included.

Proposal summary & options for change

The proposal is to include externalities in the costs considered in setting RUC rates. This would mean considering negative externalities of road use that are not currently funded from the National Land Transport Fund (NLTF), when setting RUC rates. These primarily relate to environmental, health and safety impacts, but could also include congestion. The discussion document left it open whether a broadened scope of costs would be subsumed into existing RUC rates (therefore distributing existing costs among RUC payers) or be additional to them. Below, we assess the narrower proposal to include externalities in the setting of RUC rates.

Assessment

Submissions

This proposal attracted 75 submissions of mixed sentiment and from a wide range of submitters (including local government, freight sector representatives, and private individuals). Nine submissions were in favour of the proposal, 13 weighed the advantages and disadvantages about evenly, and 23 were opposed. The remaining 30 responses were online submissions with the majority in favour and a minority giving qualified support or were opposed. Those supporting the proposal stressed the importance of ensuring that road users bear all costs involved in their vehicle use, many listing the externalities that they considered should be charged for. Such submitters often also saw a role for RUC in raising revenue to directly address such externalities as emissions that are harmful to health.

Submissions opposed to including new externalities often noted that there is already pressure on the NLTF to meet existing funding needs and expressed concern that charging for additional purposes could reduce the funding available for roads. Some also suggested that including a wider range of externalities in charges could reduce the RUC system's

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[1] In the context of land transport, 'costs' are defined in terms of expenditure from the National Land Transport Programme (NLTP). Expenditure from the NLTP is categorised as one of the following:

- common costs – this mostly includes expenditure relating to road signage, road markings, routine maintenance, traffic lights, general road policing and public transport subsidies
- gross vehicle weight-related costs – expenditure relating to bridges and pavement strength
- heavy vehicle policing costs – expenditure for the Police's Commercial Vehicle Safety Team
- pavement wear costs – expenditure related to pavement maintenance, resurfacing and rehabilitation
- space costs – expenditure related to construction and land purchases

These costs are then allocated according to vehicle type.

transparency and blunt existing incentives to use vehicles that generate lower road damage costs.

Submission examples are provided here:

> "We struggle to see how a regime based on vehicle weight, dimensions and distance could be used to charge for emissions, noise pollution, or any other indirect source of economic, social or environmental harm." - s 9(2)(ba)(i) [redacted]

> "If a fuller range of externalities are costed into RUC, then it becomes a more useful system" - s 9(2)(ba)(i) [redacted]

> "Using RUC to recover more than the direct costs of building, running, and maintaining the roading system will have a significant negative impact on the entire economy" - s 9(2)(ba)(i) [redacted]

Contribution to decarbonisation goals

Changing the RUC Act's purpose to allow wider costs or objectives to be considered in setting RUC rates would enable vehicles with zero or low carbon emissions to receive ongoing (as opposed to current, temporary) incentives through the RUC system. It is unclear to what extent such incentives accelerate zero emissions vehicle uptake, as the main barrier is purchase price, not operating cost. However, in the short term, the operating cost benefits are likely to be significant, especially for heavy vehicles.

In the longer term the current purchase price difference between internal combustion and zero emissions vehicles is expected to diminish, and the cost of using fossil fuels is likely to increase. This would mean that at some point a RUC-based incentive would no longer be necessary to give zero emissions vehicles a total cost advantage.

NLTF revenue

Adding new externalities to RUC rate calculations could be achieved by increasing the overall RUC rate (and therefore revenue), or by redistributing the existing costs between users. Either option could result in a reduction in NLTF revenue if it was decided that the component of charges relating to externalities should be made available for other government priorities, such as health services.

This would depend on other choices, including:

- whether to change the RUC Act and/or the Land Transport Management Act 2003 to enable RUC revenue to be diverted for new purposes
- whether the average level of RUC should increase to reflect the inclusion of additional costs, or reduce to allow for discounts and exemptions, or stay the same with higher charges for some vehicles offsetting low or zero charges for others.

If inclusion of new externality costs results in increased RUC this would (without other legislative changes) increase NLTF revenue. There is no legislative requirement that the way that charges are set should influence the way that NLTF expenditure is allocated. So, in principle, this could make any additional funding raised through the inclusion of externalities in RUC available to be allocated to current activities such as new roads and road maintenance.

System complexity and administrative/compliance costs

Adding any new cost element to RUC calculations will increase the system's complexity, requiring significant time and resources. The extent of additional complexity depends on:

- the number of new externalities added
- whether there are existing measures of the externality's value that translate readily to per kilometre costs
- the extent to which new costs can either be attributed to existing RUC vehicle classes or require further differentiation of the RUC rate schedules.

The current approach to setting RUC rates is based on the recovery of financial costs that are met by the Crown.[2] Many externalities of road use, although reasonably considered as economic costs, are not linked to any specific expenditure. Inclusion of externalities (e.g., the negative health impacts of air pollution) in RUC rates would involve a fundamental shift in the cost recovery methodology. This is potentially a very complex exercise with considerable scope for error and disagreement.

Alignment with other Government priorities

Charging for new externalities offers some opportunities. The charges could potentially help reduce the negative externality by motivating changes in driving and purchasing behaviours or by mitigating the harm caused by the negative externality through new funding.[3] One possibility is that the Act could retain its primary focus on recovering NLTF costs, but that purpose could be expanded to also allow for consideration of other formal Government plans or strategies (such as the Emissions Reduction Plan or the *Road to Zero* strategy).

The extent to which the RUC system can be aligned with other Government priorities is likely to be limited by the size of incentive required to change behaviour and the ability of RUC payers to meet increased charges. A targeted approach to choosing which externalities to charge for may therefore be more effective than attempting to address all possible harms.

Consistency with the Transport Outcomes Framework

Broadening the RUC Act's purpose could enable the RUC system to contribute directly to other outcomes under the *Transport Outcomes Framework*, including environmental sustainability and protection from injury and harmful pollution.[4] The way RUC rates are set focuses directly on outcomes relating to the efficient movement of people and goods. However, it also generates a large proportion of the revenue relied on to fund the whole range of transport outcomes. One risk associated with increasing RUC rates to promote

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[2] Many of these costs (e.g., pavement wear) are also externalities of road use, as they are generated by vehicle users, but not met by them in the first instance.
[3] Both these objectives can be pursued at once, but they have different implications for pricing.
[4] The Transport Outcomes Framework encompasses a range of desired outcomes from the transport system that together contribute to wellbeing and liveability. It outlines 5 outcome areas to contribute to this purpose: inclusive access, healthy and safe people, economic prosperity, environmental sustainability, and resilience and security.

wider outcomes is that any positive effect could be outweighed by increased barriers to access and reduced economic efficiency, countering the proposal's benefits.

Efficient use of the road network

The accurate reflection of the relationship between road damage, weight and axle/tyre footprint in the RUC schedules provides efficiency benefits by:

- incentivising freight operators to minimise road damage by using vehicles with more axles (to the extent that this is cost effective)
- facilitating use of higher productivity vehicles, by enabling a 50 tonne 9-axle truck and trailer to operate at the same RUC cost as an 8-axle vehicle with a maximum weight of 46 tonnes.

These benefits rely on the RUC system giving clear price signals to operators about the benefits and costs of vehicle choice. Introducing other factors into the pricing mix risks obscuring these signals and diluting incentives for efficient road use.

Conclusion

There was no consensus in the submissions about whether to amend the RUC Act to enable additional costs to be recovered. Most submissions opposing change came from a transport industry or other road user perspective, but not all. Several submissions from central and local government organisations also opposed such changes, at least in the short term.

The Ministry's view is that while the Act's purpose clause may be restrictive it is premature to move the RUC system's primary focus away from recovering the Crown's land transport costs. Questions relating to the role of externalities in transport costs should be applied to the revenue system as a whole rather than just the RUC component, and therefore are most appropriately considered in the *Future of the Revenue System* project

Recommendation

The status quo should be maintained and including externalities when setting RUC rates should be considered as part of the *Future of the Revenue* System project.

Proposal 2.2 Including impacts of greenhouse gas emissions

Status quo

Charges for RUC vehicles are "in proportion to the costs that the vehicles generate". Greenhouse gas emissions are not included.

Proposal summary & options for change

The proposal is to include impacts of greenhouse gas emissions when setting RUC rates. This could involve continuing or expanding existing exemptions for zero or low emissions vehicles or setting discounted RUC rates. Exemptions and discounts could involve a reduction in RUC revenue or could be offset by higher charges for more polluting vehicles. This would require changing the Act's purpose.

As some environment-related costs are already included in RUC rates under 'common costs', these costs could be allocated to a separate environmental cost component. This parameter could be discreet. For example, where the RUC class is for internal combustion engine vehicles, then the environment costs could be included, but where it is an electric vehicle (EV) no costs could be included (with hybrids paying a proportion). The costs could also be scaled based on the average fuel type and consumption of each RUC class, so that the classes that impose higher environmental costs pay higher costs.

Assessment

Submissions

Of 66 submissions on this proposal, 7 were in favour, 10 weighed the advantages and disadvantages about even, and 16 were opposed. The remaining 33 responses were online submissions of mixed sentiment. Most responses saw disadvantages in using RUC for this purpose, especially relative to charging for fuel use. One representative submission from an individual submitter stated, "Road use does not cause greenhouse gas emissions, fuel use does". These submitters felt that emissions are better charged for through the Emissions Trading Scheme (ETS) or, if that is not sufficient, a dedicated fuel tax. Some also saw charging for emissions through RUC as complex to implement, or likely to be seen as unfair and therefore increase non-compliance.

Remaining responses were divided between those who saw only advantages in linking RUC to emissions, and those who supported the principle that RUC should capture all road use costs, but also identified potential disadvantages. These disadvantages included duplication of the ETS function, failure to capture emissions from off-road use, possible equity implications, difficulty of capturing emissions attributable to EVs and potential to take emphasis away from other externalities.

Some reported that although charging for greenhouse gas emissions might incentivise low emissions vehicle uptake, it would not, on its own, do enough to reduce car dependency and encourage alternative modes, or not sufficiently recognise other externalities such as health impacts.

Submission examples are provided here:

> "...emissions of greenhouse gases are a significant part of the economic cost of road use..." - s 9(2)(ba)(i)
>
> "...any costs associated with reducing greenhouse gas emissions should be charged against the consumption of fuels and not road use" - s 9(2)(ba)(i)

Contribution to decarbonisation goals

For differences in greenhouse gas emissions to be reflected in RUC, it would require further differentiation of the RUC rate schedules.

The main limitation of differentiating RUC by carbon emissions is that these do not vary solely with distance travelled. The per kilometre carbon emissions, even of identical light vehicles, can vary significantly depending on use (e.g., urban vs rural roads). This is amplified for heavy vehicles, where fuel consumption varies greatly with load.

This means that although the RUC system could be used to incentivise the purchase of low emissions vehicles, it cannot incentivise operator practices that can reduce emissions, such as keeping vehicles well maintained and minimising time spent idling. A further limitation may be that because a carbon emissions component would be absorbed into the total RUC rate, it might not provide a sufficiently clear or significant price signal to change behaviour.

NLTF revenue

As with including other externalities, differentiating charges according to greenhouse gas emissions would not necessarily impact NLTF revenue, so long as reductions or exemptions for some vehicles are balanced out by increases for others.

It is possible that differentiating charges by vehicle emissions could change the vehicle fleet's makeup (e.g. increase the number of lower-emitting vehicles in the fleet, and possibly also change in the usage of vehicles). The risk with that outcome is that failure to forecast such changes accurately, and adjust charges accordingly, could cause revenue shortfalls or, if the response to incentives was less than factored into charges, windfalls.

System complexity and administrative/compliance costs

Differentiating charges according to greenhouse gas emissions will make the RUC system more complex (there are already almost 100 different RUC rates). The extent of added complexity would depend on the degree of differentiation desired. The added complexity with this approach is the identification of the share of expenditure to be allocated to this component, as this is a key input for the Cost Allocation Model that is used to calculate RUC rates. The shares for the current components were determined after substantial consultation with engineers, though this could be partially addressed by more explicitly separating out work activities that address environmental costs in the National Land Transport Programme.

It would be less complex to limit change to providing an exemption or reduced rate for zero emissions vehicles, but much more complicated to introduce multiple RUC rates for vehicles now fitting within the same RUC class (e.g., several tiers of charges for light vehicles).

Consistency with the Transport Outcomes Framework

Targeting greenhouse gas emissions through RUC would contribute to the environmental sustainability outcome. It is unclear how significant this contribution would be, or how it might affect the overall level of benefits for the *Transport Outcomes Framework* derived from the RUC system.

Efficient use of the road network

The heaviest trucks are the largest emitters per kilometre travelled. However, they are also the most efficient road vehicles in terms of emissions per tonne/kilometre of freight carried. This reflects that fuel consumption does not rise exactly proportionately with weight.

The existing RUC system incentivises operators of the heaviest vehicles to add axles, thus ensuring that road wear per freight tonne/kilometre is optimised. An additional charge based simply on average vehicle emissions per kilometre, if it incentivised operators to use vehicles with lower emissions over those that are most efficient at moving freight, could cause perverse outcomes in terms of both emissions and freight transport efficiency. Such outcomes can be avoided by adding further complexity to the RUC rate setting process, but a simpler and more precise way of targeting emissions is through diesel price.

Conclusion

Submissions formed no consensus on whether to amend the RUC Act to enable additional costs to be recovered, either generally or for specific externalities such as greenhouse gas emissions. Most submissions opposing change came from a transport industry or other road user perspective, but not all. Several submissions from central and local government organisations also opposed such changes, at least in the short term.

The Ministry's view is that it is premature to move the RUC system's primary focus away from recovering the NLTP's land transport costs. Questions relating to RUC's purpose and its role relative to other current and potential ways of raising revenue should be considered in the *Future of the Revenue System* project.

Recommendation

The status quo should be maintained and including impacts on greenhouse gas emissions when setting RUC rates should be considered as part of the *Future of the Revenue System* project.

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

Status quo

Charges for RUC vehicles are "in proportion to the costs that the vehicles generate". The costs recovered through RUC include all categories of NLTP expenditure, but differences between charges for different vehicle classes relate solely to vehicles' size, weight, and axle configuration. Fuel type, origin and blend are not included.

Proposal summary & options for change

The proposal is to include fuel type, origin and blend in RUC rates. This would involve varying the charges payable for otherwise identical vehicles depending on the emissions profile of the fuel they use (e.g., setting a range of rates for different biofuel blends or for hydrogen produced in different ways). As different fuel types produce different levels of emissions, this would require creating numerous additional RUC classes to account for the different fuel types.

Assessment

Submissions

This proposal attracted fewer submissions than proposals 2.1 and 2.2 (41 total). Six submissions supported the proposal, 12 weighed the advantages and disadvantages about even, and 23 submissions were opposed. The main stated reasons for opposition to this proposal included the complexity that this would add to the RUC system and the difficulty of ensuring compliance. These submitters generally considered that incentives for lower-impact fuels should be through measures targeting the fuels concerned directly, with several noting that emissions are not directly related to distance travelled and that diesel engines with different technology have different emissions profiles.

A small number of submitters considered that including fuel type in RUC calculations was necessary to capture all externalities.

A submission example is provided here:

> "...factors such as engine technology, duty cycle and operating environment have significant impacts on fuel consumption and consequently emissions..." - s 9(2)(ba)(i) [redacted]

NLTF revenue

There are no NLTF revenue implications if the average charges for vehicles remain the same. However, this would require being able to accurately predict the proportion of vehicle kilometres travelled by fuel type that have different rates of RUC. Even a relatively simple form of differentiation (e.g., one rate for low emission fuels, another for fossil fuels) would introduce significant revenue uncertainty.

Assuming the proposal is a successful way to incentivise the purchasing and use of low emission vehicles, the use of higher emissions fuels would therefore reduce during the period following the setting of RUC rates. To ensure revenue neutrality during this process of change in use of vehicle type requires the behaviour change to be forecast and allowed for in the rate setting process. We have reservations about being able to make accurate predictions.

An additional complexity is that technology is constantly developing. This means that future fuel use patterns will likely be inconsistent with previous patterns and revenue forecasting becomes more difficult as a result.

System complexity and administrative/compliance costs

This proposal has considerable complexities, both to setting RUC rates as discussed above, and to the system's administration. The extent of extra complexity would depend on the number of different fuel types reflected in different RUC rates. Because environmental costs scale directly with fuel use and indirectly with kilometres travelled, a fixed/averaged fuel consumption per RUC class would be required. Different vehicles within a class will have different fuel consumption profiles. This means that many would pay a rate that did not reflect the costs that they imposed.

Fuel technology evolution will also likely make additional fuel types or blends available (and make others potentially exit the market) within relatively short time frames. This could mean that RUC rates would require frequent updating to remain current.

Administrative systems would be needed to verify fuel supply chains and ensure actual fuel use reflected a vehicle's RUC rate. Many of those who submitted on this proposal thought that this would be very difficult. Even if it was possible, this is likely to be costly both for Waka Kotahi as RUC collector and for fuel suppliers, and ultimately to customers.

Contribution to decarbonisation goals

In principle, this proposal would enable the RUC system to incentivise all fuel sources in accordance with their emissions. We do not consider that this is easily achievable in practice.

Alignment with other Government priorities

If RUC rates could accurately reflect different fuel sources' sustainability and emissions profile this could contribute to Government's environmental objectives. It is unclear, however, whether the RUC system could fulfil this function.

Efficient use of the road network

Setting RUC rates to reflect fuels used may weaken existing incentives for efficient use, but this would depend on the significance of the shifts in rates.

Conclusion

We do not recommend that including fuel type, origin, and blend in RUC rates should be considered further. Submissions showed little support for differentiating RUC by fuel type. Depending on the availability of certain fuel mixes on different days, this would potentially involve the same vehicle having different rates of RUC on different days, depending on what was put in the tank.

Any potential benefits of such a policy are outweighed by the considerable complexity added to the RUC rates schedules, along with the practical difficulties in ensuring that vehicles with a discounted rate of RUC were in fact always using the correct fuel. We also recommend against this proposal because of the uncertainty it would add to revenue forecasting.

Recommendation

The status quo should be maintained and the environmental impacts of different fuel types, origins, and blends should be addressed by regulations and incentives targeting the fuels concerned directly and not through RUC.

Improving the RUC system for end users

Proposal 3.1 Reviewing the requirements for eRUC and mandating eRUC for all heavy vehicles

Status quo

Electronic RUC (eRUC) is optional and customers wishing to continue manual purchasing may do so.

Proposal summary & options for change

The discussion document asked whether there is merit in mandating eRUC for all heavy vehicles. This means that heavy vehicle operators would no longer need to manually purchase individual RUC licences for their vehicles. RUC licences would be purchased automatically through an eRUC device, making RUC purchases more convenient. While eRUC could be made a requirement for all vehicles, it could also be phased in so that all vehicles registered after a certain date must have it fitted. We are not proposing to mandate eRUC for light vehicles, or for vehicles using fuels that are subject to fuel excise duty (FED) such as petrol vehicles, though it is likely the general advantages and disadvantages would be the same if that was to be considered.

Two options for change were considered:

- Mandate eRUC for all heavy vehicles
- Mandate eRUC for only some heavy vehicles (e.g., creating an opt-out system for operators of smaller or seasonal/predominantly off-road fleets).

Assessment

Submissions

The 43 submissions on this proposal came from a range of submitters (including freight operators, private individuals, and local government). 25 were opposed, 10 weighed the advantages and disadvantages about even, and eight were in favour. s 9(2)(ba)(i) [redacted]

Reasons for opposing mandatory eRUC, even for only some vehicles, included the hardware installation cost and ongoing costs for data transmission. Most submitters deemed the low eRUC uptake is explained by the fact that the associated costs don't outweigh the benefits for most users. eRUC not being cost-effective for smaller operators or those with highly mixed-usage, seasonal usage, and small fleets was described as a key barrier to uptake. Submitters also explained that there may be data transmission issues in rural areas and that Waka Kotahi needs improved back-office systems to accommodate wider use of eRUC in the heavy fleet.

s 9(2)(ba)(i) [redacted]

s 9(2)(ba)(i) [redacted]

Submitters were more open to a limited form of mandate that is phased in over time and restricted to new heavy vehicles only (retrofitting eRUC to existing vehicles was emphasised as particularly difficult by the industry).

In the alternative to mandating eRUC, submitters proposed waiting until a streamlined eRUC option (such as an app for individual RUC payers that is separate from a broader telematics option) is developed and allowing users to select that as a more attractive option.

A submission example is provided here:

> "…it is unnecessary and unwise to impose a system on three-quarters of the heavy vehicle fleet that to date has seen no need or substantive benefit for that system, and if Government does so there will highly likely be considerable user resistance." - s 9(2)(ba)(i) [redacted]

NLTF revenue

It is possible that mandatory eRUC would make RUC evasion more difficult, but we don't know the scale of existing RUC evasion. Therefore, the likely revenue impact is unknown.

Administrative burden and implementation costs

Mandating eRUC would make the RUC system easier to administer for Waka Kotahi as the RUC collector because electronic RUC transactions are less administratively burdensome than manual transactions. For the same reasons, eRUC would also be easier to use for RUC payers.

RUC user compliance costs

Mandating eRUC for some vehicles would increase compliance costs for RUC payers by imposing hardware installation costs and imposing ongoing costs for the vehicles to which a mandate applied.

Conclusion

There was strong opposition to mandating eRUC for heavy vehicles, mainly from the freight sector. While there was some openness to a limited eRUC mandate, most submitters preferred waiting until eRUC providers had developed a more attractive standalone eRUC product. The administrative gains for Waka Kotahi are not large enough to justify mandating eRUC in the absence of an electronic system that is more cost effective for RUC payers than exists currently.

Recommendation

The status quo should be maintained until a more viable eRUC solution is developed that is more suitable and affordable for operators of small and mixed-use fleets.

Proposal 3.2 eRUC and road safety

Status quo

Access to eRUC data by road safety organisations, and integration of eRUC and electronic logbooks (elogbooks) technologies for road safety enforcement is voluntary.

Proposal summary & options for change

The discussion document canvassed submitters' views on the potential benefits and impacts of a wider use of eRUC data and mandating integrated telematics solutions that could support improved productivity and safety compliance, particularly through mandatory telematics for fatigue management and worktime compliance. eRUC technology could have a much stronger role in supporting improved productivity, compliance, and safety outcomes across the commercial transport sector, but currently the RUC Act prevents the use of RUC data for enforcement of logbook offences. This proposal is separate from but connected to the outcomes of proposal 3.1 (mandatory eRUC).

This proposal does not have an accompanying recommendation because it was included in the discussion document as an information-gathering exercise. Separate advice on the use of elogbooks and their relationship to eRUC will be provided to you through the *Road to Zero* road safety workstream. Nonetheless, the Ministry has analysed the option of mandatory integration of these technologies against the status quo of voluntary integration.

Assessment

Submissions

Of the 32 submissions on this proposal, nine were in favour (mostly from individual submitters), seven weighed the advantages and disadvantages about even, and 17 were opposed (mostly industry organisations and companies). Most submitters were opposed to the wider use of eRUC data and mandatory integration of logbooks and eRUC. While many submitters noted the potential for safety improvements, the inherent problem of matching driver-centric logbook information with vehicle-centric eRUC was stated as an impediment to attaining this proposal's full benefit.

Reasons provided for opposing mandatory integration included the additional compliance and administrative costs that would need to be absorbed or passed on, the imposition of a regulatory burden on eRUC providers, and privacy concerns. As an alternative to a mandate, submitters proposed encouraging integration on a voluntary basis.

A submission example is provided here:

> "eRUC should be used as a mechanism for making sure there is compliance with paying for the costs associated with the road network. The majority of the points made by MoT in this section of the consultation document relate to compliance and safety outcomes. Linking a revenue collection mechanism with a policing and enforcement function is a significant and overly intrusive step. Improved productivity should be an issue that is left in the hands of a transport operator to consider." - s 9(2)(ba)(i)

Compliance and administrative costs

There would be administrative and compliance costs imposed by mandatory integration of elogbooks and eRUC. These costs would impose a burden on the eRUC providers that would need to be absorbed or passed on to their customers.

Privacy

Mandatory integration would be more invasive of driver behaviour than the status quo, through recording behaviour that is not currently tracked. s 9(2)(ba)(i) [redacted] submitted that the Ministry would need to know what evidence there is that monitoring (electronic or otherwise) improves road safety. That information is necessary to make decisions about whether the collection, use and disclosure of personal information is warranted and whether any privacy-enhancing mitigations might be required. In the absence of that evidence, and with the problem of driver-centric logbooks integrating with vehicle-centric eRUC, the proposal's benefits are not obvious.

Alignment with other Government priorities

In principle, mandatory eRUC would support *Road to Zero's* safety outcomes, but it is not clear what degree of safety benefit would be derived, or if the benefits outweigh the costs. There is no clear connection between eRUC (that deals with a vehicle's use characteristics, such as mass and distance) and driver behaviour safety improvements.

Mandatory integration would also link RUC as a revenue-collection function with a road-policing and enforcement function, which would be a significant change for the purpose of the RUC system.

Conclusion

It is not clear that the potential safety benefits from a wider use of eRUC data and mandatory integration of eRUC and elogbooks would outweigh the compliance, administrative, and privacy costs.

The results of this consultation and analysis have been shared with the *Road to Zero* road safety workstream. Because the Ministry recommends not mandating eRUC (proposal 3.1), this proposal is also a less attractive option. Separate advice on this topic will be provided through the *Road to Zero* programme.

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

Status quo

An increasing number of vehicles are powered by both petrol and a fuel that subjects the same vehicles to RUC. Most commonly, these are plug-in hybrid electric vehicles (PHEVs) that operate on both petrol and batteries charged from an external source of electricity.

On the expiration of the EV RUC exemption, PHEVs will be subject to the full RUC rate for type 1 vehicles and will need to make refund claims for FED to avoid being 'double-billed' for their road use.

Proposal summary & options for change

You were briefed on this proposal in August 2022 (OC220707 refers) but for this report's completeness we have included that analysis in this report. The status quo option is that PHEV owners pay the full RUC rate and claim refunds on FED. You selected the alternative option to set a partial RUC rate for PHEVs and remove the ability to claim FED refunds.

Assessment

Submissions

Of the 38 submissions on this proposal, 16 disagreed, 18 weighed the advantages and disadvantages about even, and four agreed. We asked submitters about the advantages and disadvantages of setting partial RUC rates to recognise FED paid by dual-fuel vehicles, the criteria to determine partial RUC rates, and whether operators of dual-fuel vehicles with a reduced RUC rate should still be able to claim a full FED refund if they used more fuel than the average.

Many submitters opposed charging both RUC and FED, presumably not realising the owners would be entitled to a FED refund. Most submitters were also opposed to enabling partial RUC rates for PHEVs. However, it was not always clear whether the submitters appreciated that the purpose of the partial rate would be to ensure that PHEVs are not charged more overall than light diesel vehicles.

Some submitted that partial rates (whether for PHEVs or battery electric vehicles) could encourage EV use over public or active transport. Others also noted the possibility of another potential perverse outcome if the RUC rate is lower for a PHEV than for a battery electric vehicle.

RUC Act principle

The RUC system is intended to charge road users in proportion to their road use, but any partial RUC rate is likely to overcharge some PHEV owners and undercharge others due to the wide variation in actual fuel consumption depending on how a PHEV is used. As the distance a PHEV can travel on battery power alone is relatively small, a motorist who makes long trips and has fewer opportunities to plug in will use more petrol per kilometre travelled than a motorist who only uses a similar vehicle for a shorter trips and charges it every night.

Administrative cost

Setting a partial RUC rate for PHEVs would be administratively simple and is the preferred option for both Te Manatū Waka and Waka Kotahi. It would involve estimating the average amount of FED paid by PHEV owners and using that to develop a RUC rate. That average could be based on manufacturers' fuel consumption ratings, or on an estimated real-world average (likely to be higher). The status quo would incur significant administrative costs in the processing of refunds.

Compliance cost

The existing FED refund process is largely manual and paper based and involves significant user compliance costs and administrative costs for Waka Kotahi. The refund process is primarily designed to deal with refunds for commercial users of petrol. It requires claimants to keep full records of their petrol purchases and use, and even with the current relatively small volumes of requests, it can take up to 8 weeks to process a claim. It may be possible to upgrade and automate the process, but this too would involve costs and any process simplification would be limited by the need to guard against fraudulent claims. Removing PHEV owners' ability to claim FED refunds negates this problem.

Conclusion

The Ministry and Waka Kotahi have started working to implement your decision in time for the light EV RUC exemption's end on 31 March 2024. Most notably:

- s 9(2)(h)
- Establishing average distances travelled by PHEVs in order to determine what RUC rate should apply.
- Internal workshops on operational changes needed to onboard PHEVs to the RUC system.

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

Status quo

Partial RUC rates cannot be set to account for a vehicle's lower emissions.

Proposal summary & options for change

You were briefed on this proposal in August 2022 (OC220511 and OC220707 refers) but for this report's completeness we repeat our analysis here. In the alternative to changing the RUC Act's purpose to account for a RUC vehicle's emissions in setting RUC rates (proposal 2.2), this proposal is to set lower RUC rates for low emission vehicles. You selected the option to have light electric vehicles pay the full RUC rate (comparable to their non-electric equivalents: $76 per 1000km) and to set a partial rate for PHEVs in recognition of their paying FED, when their RUC exemption ends on 31 March 2024.

Assessment

Submissions

Of those who submitted on the question of RUC exemptions generally, the sentiment was mixed. The majority of submitters were opposed to any exemptions. Of the 34 submissions on this proposal, nine were in favour, 11 weighed the advantages and disadvantages about even, and 14 were opposed.

The reasons provided against the proposal include the view that all vehicles that use roads should contribute in proportion to their use of those roads. In particular, in their view, exemptions transfer costs to users who may not have the option to use low emission vehicles, exemptions dilute the funding available for the NLTF, an exemption scheme is open to misuse (and is therefore a revenue risk), and exemptions add complexity to the revenue system. Also, rather than exemptions, there should be lower rates of RUC for more efficient vehicles. s 9(2)(ba)(i) [redacted]

Many submitters in support of the proposal cited the benefits of encouraging EV uptake (by lowering their operating costs) and the ability to account for vehicles powered by lower-emitting fuels. Others noted that partial rates could be used temporarily to help low-emission vehicle owners transition to eventually paying the full RUC rate.

NLTF revenue

The NLTF risk posed by setting a partial RUC rate depends on the level of the new rate. Assuming a high-end rate of 80 percent of the current full rate (around $60/1000km) the foregone revenue from light EVs would be about $61 million (excluding GST) out to the end of 2027. Assuming a lower-end rate of 50 percent of the full rate (around $38/1,000km), the foregone RUC revenue would be around $120 million out to 2027. Alternatively, bringing light EVs into the RUC system at the full rate means that there is no additional revenue loss. It is also consistent with a key principle of the RUC system that vehicle owners should pay the estimated cost of their use of the land transport system.

Compliance and administrative costs

The compliance and administrative costs of a partial rate would be similar to allowing the exemption to expire on 31 March 2024, involving a one-time transition to the RUC system for all light EVs. It will impose a small compliance burden on light EV owners who will need to purchase a RUC licence from Waka Kotahi and display the licence label on their vehicle. The compliance burden is no greater than that imposed on other road users subject to RUC and there is no evidence that light EV owners are less able to bear this burden than other road users. Setting a different rate for light EVs would require amending the RUC Act and creating a separate RUC vehicle type in regulations. This option increases the RUC system's administrative complexity.

Conclusion

The Ministry and Waka Kotahi have started working to implement your decision in time for the light EV RUC exemption's end on 31 March 2024. Most notably:

- s 9(2)(h) [redacted]
- Internal workshops on operational changes needed to onboard battery EVs very light EVs and PHEVs to the RUC system.

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

Status quo

The heavy EV (HEV) RUC exemption expires on 31 December 2025, after which date these vehicles will be liable for the rate of RUC, comparable to their diesel equivalents.

Proposal summary & options for change

In 2016, Cabinet decided that HEVs (electric vehicles with a gross vehicle mass, or GVM, over 3.5 tonnes) should remain RUC exempt until they made up two percent of the heavy vehicle fleet – currently they make up less than 0.1 percent. Because RUC rates for heavy vehicles increase significantly with weight, the amount of RUC paid by an individual heavy vehicle can be substantial and a significant overhead for freight companies. The extra size and weight of the batteries in HEVs would increase RUC costs and reduce carrying capacity, compared to conventional vehicles. Therefore, not paying RUC can determine HEVs' viability for some commercial uses.

The discussion document proposed two alternative options to the status quo:

- extend the exemption to March 2030 through an Order in Council
- extend the exemption beyond March 2030 through an Act amendment.

Extending the exemption could also usefully be tied to a specific policy. For example, by making an exemption distance-based, linked to a greenhouse gas target, percentage of the fleet, or tied to the vehicle's useful economic life.

Assessment

Submissions

Of the 54 submissions on the proposal to extend the HEV RUC exemption, 19 were in favour, 29 were opposed, and six considered the advantages and disadvantages about even.

Some submitters said that Government support for these vehicles was worthwhile, but should not come through the RUC system. Some submitters also proposed tying exemptions to some specific policy goal (e.g., HEVs reaching a certain percentage of the fleet) rather than an arbitrary time-based target. Some argued that while HEV technology is still relatively new, it is too early and expensive to invest in unproven and uncompetitive technology, and New Zealand should be a fast follower for the technologies that prove to be most successful.

Some submitters argued that the HEV RUC exemption makes more sense for buses, and their being exempt could support local government emissions reduction targets. A number of local councils likewise submitted that public transport services should be RUC exempt.

Submission examples are provided here:

> "…upfront purchase subsidies and infrastructure investment provide this certainty, whereas ongoing operating cost subsidies such as RUC exemptions with uncertain sunset dates do not to the same extent." - s 9(2)(ba)(i)

> "An extension would allow further trials to determine which of the competing technologies is most appropriate for New Zealand. Ultimately, the use of heavy EVs must make sense economically and environmentally without the RUC exemption." - s 9(2)(ba)(i) [redacted]

HEV uptake

The Ministry does not have evidence that the HEV RUC exemption is an effective policy for incentivising HEV uptake. Nevertheless, a requirement to pay RUC will increase HEV operating costs and potentially make them a less attractive purchasing option.

The operating cost for heavy vehicles needs to be factored-in years in advance of a purchasing decision. The incentive to purchase an HEV does not arise solely from the RUC costs because EVs generally have lower operating costs as electricity is cheaper than diesel.

Compliance and administrative costs

Extending the exemption to March 2030 means HEVs will remain outside the RUC system for a further five years beyond their status-quo entry date of 1 January 2026. During that time their owners will not need to pay RUC and Waka Kotahi as RUC collector will not need to administer them in the RUC system. However, the compliance and administrative costs that occur under the status quo will still apply at the later date.

NLTF revenue

The further the exemption is extended, the greater is the RUC revenue foregone from the NLTF. An extension of the RUC exemption to 2030 for HEVs would lead to between $10 and $30 million of NLTF revenue being foregone in the year 2030. This equates to a cumulative total of foregone RUC of between $30 million and $95 million by 2030.

These amounts are additional to the anticipated foregone revenue from the existing HEV exemption that ends in 2025. We estimate that amount will be between $3.5 and $8.4 million in 2025, depending on the number of HEVs in the fleet by 2025.

Conclusion

This proposal should align with the Ministry's Clean Truck work, because RUC discounts may be a less effective policy for incentivising uptake compared to purchase subsidies, or should at least be assessed against or aligned with other policies to incentivise HEV uptake. More analysis is needed before we can make a recommendation.

Recommendation

Officials should brief you separately on this proposal in early 2023 after decisions on the Ministry's Clean Truck work have been taken.

Proposal 3.5.2 Exempting vehicle combinations where the motive power is from a vehicle exempted from paying RUC

Status quo

Heavy trailers (GVM over 3.5 tonnes) are required to pay RUC separately from towing vehicles.

Proposal summary & options for change

The discussion document asked whether trailers towed by RUC exempt trucks should also be exempt. This proposal is connected to proposal 3.5.1 to extend the HEV RUC exemption and cannot proceed independently.

Assessment

Submissions

Of the 20 submissions on this proposal, eight were in favour and 12 opposed. Of the submitters who support extending the HEV exemption, few commented on the questions about trailers.

Most submissions on the question of how to ensure compliance with a trailer exemption agreed that this would require the creation of an electronic record of powered vehicles that a trailer is used with. Views varied on how practical this would be. Some noted that exempting trailers would add a significant layer of complexity to the monitoring and assurance process, because while current eRUC systems can provide details of which trailers are towed by which prime movers, that information is not readily available outside vehicle telematics systems.

Compliance and administrative costs

Because of the impracticality of manually tracking trailers, implementing an exemption for trailers conditional on the vehicle towing them is likely to require all vehicles affected to be fitted with electronic distance recorders. This is not a current requirement for exempt vehicles. Additionally, the ESPs concerned would need to develop a specific solution for linking powered and unpowered vehicles (currently unnecessary) and report both the total distance covered by a trailer and the portion of that distance that is RUC exempt.

Waka Kotahi would also need to develop a new process for dealing with vehicles that are potentially liable for RUC for a part of the distance they travel but exempt for the remainder. It is unclear how that would work, as there is no precedent for this (exempt vehicles being completely outside the RUC system). There are several technical and administrative issues that would have to be resolved. For example, relevant vehicles could be charged for all distance travelled and subsequently refunded the exempt portion - this could involve refunding all, or most, RUC paid for a trailer.

NLTF revenue

Initially, the revenue foregone from a trailer exemption is unlikely to be significant, as it is likely to take some time before HEVs capable of towing a combination vehicle become widely available. However, as HEV uptake increases so will the amount of foregone revenue. We estimate that adding trailers to the HEV exemption could result in additional revenue foregone of between $10 to $30 million over the period up to the end of 2030.

Conclusion

This proposal is very complex to implement due to the potential for trailers to be towed by different powered vehicles on different journeys. This creates a need for a robust means of verifying when trailers are exempt and when they are not, along with an administrative process for ensuring that RUC is paid only for distance travelled when towed by a non-exempt vehicle.

Officials consider that these conditions cannot be met unless both the trailer concerned, and its towing vehicle (or vehicles) are accurately tracked using an eRUC solution that identifies the combinations concerned. That solution does not exist currently.

Recommendation

Officials should provide further advice focusing on the exemption, aligned with proposal 3.5.1 above.

Proposal 3.6 Charging RUC for electric and diesel vehicles with a GVM of less than one tonne

Status Quo

Vehicles with a Gross Vehicle Mass (GVM) of less than a tonne are either RUC exempt or excluded by convention because the administrative costs to include them in RUC is greater than the potential revenue.

On the expiry of the light EV RUC exemption on 31 March 2024 vehicles with a GVM of <1t will be liable to pay RUC and would be included in the RUC vehicle type 1 (<3.5t), which pay $76/1000km.

Proposal summary & options for change

You were briefed on this proposal in August 2022 (OC220707) but for this report's completeness we include our analysis here. As an alternative to these vehicles (primarily light electric all-terrain vehicles and mopeds) paying the full rate of light vehicle RUC, you decided that they should be explicitly exempt from RUC.

Assessment

Submissions

The 28 submissions on this proposal were mostly supportive of bringing vehicles with a GVM <1T into the RUC system. Many submissions acknowledged that while these vehicles don't cause much road wear they do benefit from the network and should pay the "Common Costs".

Notably, this proposal received several submissions for a tyre tax. We have discounted a tyre tax from our analysis because we believe it would disincentivise the proper utilisation and replacement of tyres, which would have road safety consequences.

Submission examples are provided here:

> "Based on propensity to cause infrastructure damage at operating weights and the cost of providing the infrastructure in the first instance. Where that harm is considered to be negligible, a flat fee would be appropriate" - s 9(2)(ba)(i)

> "It is a reasonable principle that all motor vehicle users pay for their use of the road network, and the simplest way for electric motorcycles and mopeds to pay when the EV exemption expires would be through the annual licence levy rather than administering RUC. This amount should be equivalent to what the average petrol motorcyclist pays in FED – around $75 per annum according to the consultation document." - s 9(2)(ba)(i)

NLTF revenue

Excluding vehicles with a GVM of less than one tonne would mean reduced potential NLTF revenue. The options to charge a rate linked to distance travelled would result in the greatest revenue contribution. A partial rate, by definition, would be in between. However, the gross amount collected or forgone is trivial.

Administration costs

Excluding these vehicles incurs no administrative costs. The status quo would be administratively simple. Excluding these vehicles from RUC and adding a top-up fee to annual registration or WoF would incur the relatively higher (though small) administrative costs compared to the alternatives considered in this proposal.

System integrity

Compared to an exemption or excluding these vehicles from RUC, a full or partial RUC rate would improve RUC system integrity.

Conclusion

The Ministry and Waka Kotahi have started work to implement your decision to exempt these vehicles from RUC in time for the light EV RUC exemption's end on 31 March 2024. Most notably:

- Preparation of a draft Cabinet paper covering amendments required to exempt these vehicles from RUC.
- Internal workshops to identify if new RUC types are required and what, if any, operational changes are required.

Proposal 3.7 Exempting low emission vehicles from RUC based on distance travelled

Status quo

Exemptions have an end date and are connected to vehicle classes.

Proposal summary & options for change

RUC exemptions have historically been set to expire on a certain date. The proposal is that future exemptions could be set on a distance basis (i.e. a set amount of kilometres is exempt beyond which RUC applies).

Assessment

Submissions

The majority of the 30 submissions supported distance-based exemptions, primarily citing administrative ease, demand management, and the potential to encourage shorter trips. Several submissions highlighted that distance-based exemptions avoid an influx of customers on a date as the 'roll-off' of an exemption is staggered. This would smooth out the administrative costs and workload of an exemption expiry for Waka Kotahi.

Submissions opposed to distance-based exemptions were primarily opposed to RUC exemptions of any form, citing the principle that all road users should pay for their road use.

A submission example is provided here:

> "A distance-based exemption is superior in every way to a time-based one:
>
> a) It provides certainty as to when the vehicle will need to start paying RUC
>
> b) It educates the owner in monitoring distance travelled
>
> c) It creates a baseline distance measurement that the regulator/RUC Collector can reference
>
> d) The distance threshold can be set to mimic a time-based limit reflecting average distances travelled
>
> e) Consistent with traffic demand management goals, in effect it puts a price back on the exempted road use." - s 9(2)(ba)(i)

RUC Act principles

RUC exemptions contravene the Act's core principle, which is to impose charges on RUC vehicles for their use of the roads in proportion to the costs generated.

Administrative cost

While distance-based exemptions are a new approach (and therefore would create set up costs), they would be relatively easy to administer. Distance based exemptions would also benefit the RUC system when the exemption ends, by phasing-in new RUC payers over time, rather than causing an influx of new users all purchasing RUC at the same time.

Conclusion

The broad support for this proposal (whether as a preference for distance-based exemptions over time-based ones, or on the basis that lower emissions vehicles should enjoy a RUC exemption) is noted. Because you have decided that light EVs will be subject to the full rate of RUC when the light EV RUC exemption expires (OC220511 and OC220707 refers), this proposal is relevant to fewer vehicles than contemplated in the proposal as presented in the discussion document.

Nevertheless, distance-based RUC exemptions may be particularly useful in the heavy freight sector, where operators are typically more responsive to operating costs than light RUC payers, who tend to travel shorter distances.

Recommendation

Officials should explore options for distance-based exemptions when tendering future advice on the heavy EV RUC exemption (proposal 3.5.2).

Proposal 3.8 Adjusting the overweight permit regime

Status quo

Section 12 of the RUC Act requires that operators must process a change in RUC type and licence or purchase an additional RUC licence when travelling over their normal allowable mass or using a heavy vehicle permit. This regime enables heavy vehicles to carry greater weights than they are normally allowed

s 9(2)(f)(iv) [redacted]

Proposal summary & options for change

There was no clear proposal in the discussion document for consultation. Instead, we asked submitters to suggest changes to the RUC Act that would improve the overweight permit process.

Changes to the permitting system are largely operational and under the remit of the Director of Land Transport. There are no legislative changes to the permitting system being considered.

Submissions

All 13 submitters supported a change in permitting to allow for more user-friendly access to permitting and easy switching to the appropriate licences. Technology was seen as an effective way to achieve this.

Conclusion

There are likely to be operational changes Waka Kotahi could implement to make the permitting system more user friendly and equitable for all operators.

Recommendation

Waka Kotahi should investigate changes proposed by submitters that do not need legislative amendments and report back to you if significant changes are proposed.

[5] https://www.transport.govt.nz/assets/Uploads/Report/RUC-Evaluation-Cycle-3.pdf

Proposal 3.9 Removing the requirement for light vehicle owners to display a RUC licence

Status quo

RUC licences must be displayed or carried in light RUC vehicles.

Proposal summary & options for change

This proposal differs from proposal 4.8, which relates to eRUC in heavy vehicles. The RUC Act requires that RUC licences must either be displayed or carried in all RUC vehicles.[6] The proposal would remove this requirement. Instead, enforcement officers would reference the vehicle's registration plate number to check a vehicle's RUC status in Waka Kotahi's online records. This proposal is intended to reduce compliance and transaction costs for vehicle owners as well as to reduce administrative costs for Waka Kotahi.

The decision has three elements:

- Removal of the requirement that light RUC vehicles display a paper licence.
- Provision by Waka Kotahi of an online portal for owners to check details of their vehicle's RUC status, and potentially also check compliance with other requirements.
- Retention of an option for owners to request a physical licence.

The option to request a physical licence is intended to meet the needs of those who do not have ready access to the internet, and/or who value the physical reminder provided by the licence label.

Assessment

Submissions

This proposal received 34 submissions: 23 in support, 8 weighing the advantages and disadvantages about even, and 3 opposed. Submissions in support of removing the requirement for light vehicle owners to display a RUC licence considered that this would save time and money, but that this would be contingent on Waka Kotahi being able to provide easy online access to information about a vehicle's RUC status. Some submissions stated that a paper label would be easier to check for many owners. There was broad support for retaining the option to request a paper label.

Most submitters did not think removing the label would make a significant difference to enforcement. Some submitters stated that there could be an increase in unintentional non-compliance, especially amongst RUC payers who may find it harder or less convenient to use online services, rather than checking a label.

s 9(2)(f)(iv) [redacted] s 9(2)(ba)(i) [redacted] noted that there could be issues with internet coverage in some rural areas.

[6] Road User Charges Act, sections 18-21.

NLTF revenue

Removing the RUC licence label is not likely to affect the rate of deliberate non-compliance because it will still be required to purchase RUC in advance of travel, and any outstanding RUC will still be assessed by Waka Kotahi.

There is a risk that removing the label will cause an increase in unintentional non-compliance, though this is already relatively common and more likely to result in late payment than non-payment. An increase in unintentional non-compliance will only cause increased non-payment if more people overlook paying for longer periods and fail to catch up.

Overall, it is not clear what difference removing the label might make, if any, on NLTF revenue. If Waka Kotahi provides an easy option for online checking this may mean some RUC payers are less likely to overlook purchasing RUC than at present. Retaining the option to request a licence label will assist vehicle owners who are less comfortable with the online RUC purchasing option.

Administrative and regulatory complexity

Removing the licence display requirement will simplify the RUC system's administration (chiefly by eliminating the need for paper licences to be provided). Regulatory complexity could be reduced if there were no longer any paper licences issued, but so long as these remain an option there will still need to be regulations prescribing the form of display.

There will be some additional administration required of Waka Kotahi to provide an online service assisting vehicle owners to ensure compliance. In the short term, there may also be a need for additional resourcing to handle customer enquiries relating to the change. In the longer term, however, the system should be easier and simpler to administer.

Compliance burden

Many RUC payers are likely to find RUC compliance easier if the display requirement is removed as they will no longer have to obtain new labels and ensure they are displayed correctly and in a timely manner. Current offences sanctioning failure to display licences correctly will no longer apply.

Some users may find it more difficult to ensure their RUC licence is current, at least in the short term, though they will be assisted by the option to request a label (but only if they take advantage of the option, which will likely involve an additional cost).

Enforcement should be at least no more difficult than at present so long as Police can access relevant information online. Labels do not necessarily provide current and accurate information about a vehicle's RUC status (e.g., if a new licence has been purchased but the label has not yet been received, or a label has been fraudulently altered).

In the medium term, removing the display requirement is likely to facilitate development of systems for electronically assisted purchase of RUC and pave the way for automated purchasing.

Conclusion

The consensus amongst the submissions was that the requirement to display a RUC licence is no longer necessary and imposes unnecessary administration and compliance costs.

Officials agree that the paper licence system is outdated and that removing the display requirement will have significant benefits in terms of both immediate savings and longer-term potential for further improvements to the RUC system.

However, there are likely to be some RUC purchasers who will find any online system for checking their RUC licence status difficult or inconvenient to access. There are also compliance and enforcement risks that should be addressed before this proposal is progressed.

Recommendations

The RUC Act should be amended to remove the display requirement for light RUC vehicles.

The Act's amendment should be aligned with Waka Kotahi delivering an online solution for checking RUC status.

Light RUC vehicle owners should be allowed to request a licence label, upon payment of an appropriate fee.

Waka Kotahi and New Zealand Police should ensure that, when the display requirement is removed, Police can adequately access vehicle data for enforcement.

Proposal 3.10 Allowing for the purchase of RUC licences in amounts less than 1,000km

Status quo

Under the Road User Charges Regulations 2012, RUC distance licences can only be purchased in multiples of 1,000 kilometres.

Proposal summary & options for change

The discussion document asked whether to allow purchasing in smaller distances. No minimum distance was specified.

The options available are either to:

- allow purchasing of any amount of RUC (with a possible minimum purchase)
- set a smaller standard purchase unit (e.g., 100 kilometres).

Any change would involve revising regulations so that all distance licence rates are expressed either per kilometre or in terms of some other unit of distance. This would require back-office computer system changes for Waka Kotahi.

Assessment

Submissions

Thirty-one submissions were received on this topic. Seven supported the proposal, 11 weighed the advantages and disadvantages about even, and 13 were opposed.

Those supportive of change stated allowing smaller amounts to be purchased would have cash flow benefits for low-income users, or for owners of infrequently used vehicles. Some submitters also stated that the proposal would assist in scenarios where people use a vehicle for a one-off trip, or that it would encourage more conscious planning of vehicle use and prevent people buying unnecessary RUC.

Submitters who saw no benefit in the proposal stated that any cashflow benefits for low-income earners would be negated by higher transaction costs.

A submission example is provided here:

> "[We] also see a risk that the flexibility is gamified leading to non-compliance and lost revenue. We believe it is appropriate to change the distance increments when technology or operator systems are sufficiently developed to reliably record real-time vehicle weight.
>
> " – s 9(2)(ba)(i)

Equity

It is unclear whether allowing purchase of RUC in smaller units would have equity benefits. Some may find that this makes paying charges more affordable, but consistent purchases in small increments would create additional transaction fees causing substantially higher costs for each kilometre travelled.

Compliance burden

With current transaction fees, purchasing a RUC licence at a counter-agent costs $7.80 per transaction while an online purchase costs $4.80 and an eRUC purchase is $2.10. These fees reflect the administrative costs of issuing a licence, which are the same regardless of the distance purchased. This means that a light vehicle owner purchasing online at 200-kilometre intervals rather than 1,000 kilometres would pay $90.00 to cover 1,000 kilometres rather than $80.80 (assuming the cost of the licence itself is $76 per 1,000 kilometres).

The average light RUC vehicle covers approximately 1,000 kilometres a month. Buying RUC in smaller amounts (e.g., making a weekly or fortnightly online purchase) would significantly increase their total RUC costs.

We note that since the discussion document was published in January 2022, Waka Kotahi has consulted on proposed increases in RUC transaction fees. These proposals, if progressed by Waka Kotahi, would increase the fee for issuing a licence through an agent from $7.80 to $12.05, the fee for an online transaction from $4.80 to $13.25 and the eRUC transaction fee from $2.10 to $5.92.[7]

Compliance risks

Allowing purchasing of RUC in smaller increments could have compliance benefits if it resulted in some RUC payers buying a RUC licence who might otherwise choose to drive on an expired licence. We have no information on the likely extent of such benefits.

The main compliance risks relate to overrunning licences by substantial amounts or operating a heavy vehicle on a RUC licence that is insufficient for the loads carried. There may also be potential for heavy vehicle operators to increase the distance they travel on licences that are inappropriate for the vehicle's task. This would occur if, for example, an operator restricted the distance for which they purchased the correct licence to cover only the part of their route where they perceive a high likelihood of enforcement (i.e., where there is a commercial vehicle safety centre with weighing equipment). We believe that this already occurs and facilitating smaller purchases could exacerbate the problem. This risk could be mitigated if the option to buy smaller distances only applied to light or medium vehicles, but that would add to the complexity of RUC administration.

Conclusion

Allowing RUC distance licences to be purchased in smaller amounts could have benefits for some RUC payers, especially those with limited cashflow and who drive relatively small distances. It is unclear how many RUC payers this involves, or how significant the benefits might be. Purchasing in smaller amounts will also increase compliance costs for some users and there may be added compliance risks, especially for heavy vehicles.

Officials consider that the risks of the proposal likely outweigh the potential benefits.

[7] Proposed Changes to land transport regulatory fees, charges and funding, Waka Kotahi consultation document, April 2022.

Recommendation

The minimum distance of purchasable RUC should remain 1000km. If a RUC customer uses less than this, or changes payload, they can apply for a refund.

Proposal 3.11 Removing the requirement to display other transport labels

Status quo

Vehicle owners must display the motor vehicle licence (colloquially called ‘rego’) label.

Proposal summary & options for change

The proposal to remove the RUC licence display requirement (proposal 3.9) raises the question of whether other transport licences need to be displayed in vehicles.

The discussion document focused particularly on the motor vehicle licence (‘rego’) label. It noted that there is no proposal to remove Warrant of Fitness (WoF) or Certificate of Fitness (CoF) labels. Unlike those labels, the licence label has no direct safety function, and, like the RUC label, its main purpose is to demonstrate that required charges have been paid.

As with removal of the RUC licence display requirement, removal of the licence label should not affect ability to enforce compliance (that a vehicle is continuously licensed), as this can be verified by checking Waka Kotahi records online, referencing the number plate. The proposal would require amending the Land Transport Act 1998 and related regulations.[8]

As with removing the RUC licence display requirement, this proposal has three elements:

- Removal of the requirement that vehicles display a licence.
- Provision by Waka Kotahi of means for owners to check their vehicle’s licence status online.
- Level of access to data by Police and local authorities.
- Retention of an option for owners to request a physical licence.

The option to request a physical licence is intended to meet the needs of those who do not have ready access to the internet, and/or who value the physical reminder provided by the licence label.

Assessment

Submissions

Of the 26 submissions on this proposal, 16 were in favour, six weighed the advantages and disadvantages about even, and three were opposed. While submissions generally supported removing the requirement to display the motor vehicle licence, there was less support for retaining the option to request a label than with the RUC licence, but some considered that the physical licence label would be useful for some users.

There were few submissions from local authorities. Of those who did submit, one stated the change would not affect their operations, whereas others noted that they currently scan licence labels for parking and licensing enforcement. s 9(2)(f)(iv) [redacted]

[8] Section 242(c) requires the licence to be displayed in accordance with regulations made under s244.

s 9(2)(f)(iv)

NLTF revenue

Removing the licence label is not likely to affect the rate of deliberate non-compliance (so long as enforcement continues) but may increase unintentional late compliance.

Increased unintentional non-compliance will only cause increased non-payment if more people let their vehicle licence lapse for long periods. Ultimately, failure to re-licence can lead to a vehicle's removal from the register, and there may be some risk that more vehicles will reach this point with payments in arrears over longer periods.

We note that the major revenue risk relates to ACC levies collected through the licensing process, but there is also a land transport revenue component ($43.50 excluding GST for most vehicles) included in the licence fee. Consultation will be undertaken with ACC in developing any legislative proposals.

It is not clear what difference removing the label might make to compliance overall. Vehicle owners already receive licence renewal reminders and if Waka Kotahi provides an easy option for online checking this may mean some people are less likely to overlook renewal than at present. Retaining the option to request a licence label will assist vehicle owners who are less comfortable with online options.

Administrative and regulatory complexity

Removing the requirement for licences to be displayed will simplify administration and save costs of providing paper licences.

Retaining the option to request a paper licence will limit the proposal's benefits. Sixty percent of licence renewals are already completed online, and although it is uncertain how many people will request paper labels from the outset of any change it is likely that this number will diminish over time.

Ease of compliance and enforcement

Having to obtain and display labels correctly and in a timely manner is a compliance burden for RUC payers. Many users (especially light RUC payers, who travel less than heavy RUC payers and therefore purchase RUC less frequently) are likely to find it easier to comply with licensing if the display requirement is removed. There will no longer be issues arising from labels being lost in the mail or sent to wrong addresses and current offences sanctioning failure to display licences correctly will no longer apply.

Some users may be more likely to overlook their licence's expiry, at least in the short term. The option to request a label could assist these users, but only if they take advantage of the option (which will likely involve an additional cost).

Enforcement should be at least no more difficult than at present so long as Police and local authorities can access relevant information online. Labels do not necessarily provide up to date and accurate information about a vehicle's licence status (e.g., if a new licence has been purchased but the label not yet received, or a label has been falsified).

Conclusion

Most submissions agreed that the requirement to display a vehicle licence label is no longer necessary and imposes unnecessary administration and compliance costs. Removing the display requirement will have significant benefits for administrative and compliance costs and reduce scope for incorrect or out of date information to be displayed.

However, we would need to be certain that any compliance and enforcement risks are mitigated for Police and enforcement agents. This will require Waka Kotahi ensuring there is adequate access to vehicle data through an online portal. At the same time there are likely to be some RUC payers who will find any online system for checking their RUC licence status difficult or inconvenient to access. There are also compliance and enforcement risks that need to be addressed before change is implemented.

Recommendations

The status quo that rego labels are required to be displayed should be maintained until Waka Kotahi and Police ensure there is adequate access to vehicle data through an online portal. Further communication with local authorities will be required to ensure that their ability to enforce stationary vehicle offences is not hindered by the removal of the licence label display requirement.

Proposal 3.12 Allowing the use of historical RUC rates when carrying out an assessment

Status quo

Waka Kotahi must use the current RUC rate when assessing unpaid RUC. This means that that if Waka Kotahi reviews records for a period of several years, over which RUC rates increased, an operator is required to pay extra on top of what they would have been required to pay if they were compliant at the time the journey occurred.

Proposal summary & options for change

The proposal is to amend the Act to allow Waka Kotahi, during a review, to use the rates that were in force at the time a journey was made.

Assessment

Submissions

All 13 submissions on this proposal were supportive.

> "Historical RUC rates for assessment are the fairest method for all parties. No one is advantaged or disadvantaged" - s 9(2)(ba)(i) [redacted]

NLTF revenue

Assuming RUC rates increase over time, enabling historical rates may have a very minor negative impact on revenue collection compared to the status quo. The collection will be the revenue that should have been collected at the time of travel.

Administrative and regulatory complexity

The proposal will not significantly change the regulatory or administrative complexity for Waka Kotahi but may reduce complaints and communications from RUC payers. Enabling the use of historical RUC rates may reduce the time pressure to complete assessments before a new rate is introduced.

Compliance difficulty

Compliance difficulty is not significantly affected. Any RUC assessed as unpaid may be at a lower rate than the current RUC rate which will lower the financial impact of paying overdue RUC.

Fairness

Enabling use of historical RUC rates will improve equity as it ensures all operators will pay the same relative to the time of their journey.

Conclusion

Enabling Waka Kotahi to use historical RUC rates is fairer for the operator and will allow Waka Kotahi to use more appropriate RUC rates in reviews.

Recommendation

The RUC Act should be amended to enable Waka Kotahi to use historical RUC rates when conducting a RUC assessment.

Proposal 3.13 Transitioning CNG and LPG powered vehicles into the RUC system

Status quo

Compressed natural gas (CNG) and liquefied petroleum gas (LPG) powered vehicles pay FED.

Proposal summary & options for change

The proposal is to remove FED from CNG and LPG and instead charge RUC for the remaining users of these vehicles. Currently FED is collected on the sale of all CNG and LPG at the point of manufacture or import. The FED paid for CNG or LPG that is not used for road transport is then refunded to fuel importers/retailers.

While this arrangement was appropriate when CNG and LPG were major transport fuels in the 1980s and 1990s, there are now fewer than 2,000 active road vehicles using these fuels and these numbers are falling each year. Because almost all LPG is used for non-road transport purposes, more than 98 percent of FED on LPG should be refunded, imposing disproportionate compliance costs (estimated to be several million dollars per year) for collecting and then refunding FED for both the CNG and LPG import and distribution sector and Waka Kotahi.

Assessment

Submissions

Submissions (16 total) were uniformly in favour of bringing CNG and LPG into the RUC system, citing the efficiency and simplicity gains, and the fact that the proposal aligns these fuels with how diesel is treated. Two individual submitters, while not opposed in principle to bringing CNG and LPG powered vehicles into the RUC system, submitted that they should pay a lower RUC rate than that for diesel in recognition of the fact that LPG vehicles are by and large light private vehicles that cause comparatively little damage to roading and infrastructure, and that LPG is a cleaner-burning fuel than diesel, so the cost of offsetting the emissions is also less in comparison to a diesel-powered vehicle, and also to avoid perverse incentives for vehicles that can accept multiple types of fuel.

One individual submitter proposed that both FED and RUC should be applied to these fuels, with the FED component representing the externalities from the fuels' use, and that the revenue should not be hypothecated to land transport.

Compliance and administrative costs

Having CNG and LPG vehicles in the RUC system would remove the significant compliance and administrative cost from the FED refund system. However, having to pay RUC would substantially increase the compliance costs for users of these vehicles when used on the road. This would affect a very small number of road users, with under 2000 such vehicles in the fleet.

NLTF revenue

The very small number of vehicles to which this proposal applies means the revenue gained will be minimal.

Conclusion

Though the NLTF revenue impacts of this proposal are minimal, there are substantial efficiency gains to be made for Waka Kotahi in not needing to process FED refunds. Submissions uniformly supported this proposal. It is not possible under the Act's current purpose to set a lower RUC rate in recognition of these vehicles' cleaner fuels. Because we recommend not changing the Act's purpose to account for fuel type (proposal 2.3), CNG and LPG powered vehicles should pay the full RUC rate ($76 per 1000km for light RUC vehicles).

Waka Kotahi will need to clearly communicate the change, and RUC compliance obligations, to the owners of the fewer than 2,000 active road vehicles using these fuels. This could happen alongside the communications made to the other new RUC payers (covered under proposal 3.14).

Recommendation

Legislation should be amended so that CNG and LPG powered vehicles pay RUC at the same rate as their diesel equivalents.

Proposal 3.14 Assisting new RUC payers to commence paying RUC

Status quo

When the light EV exemption ends on 31 March 2024, the RUC system will have an influx of tens of thousands of new users, many of whom will be unfamiliar with RUC.

Proposal summary & options for change

There was no clear proposal for consultation. We asked submitters to suggest changes to the RUC system that will help onboarding these vehicles that are already in our fleet. You were briefed on this in August 2022 (OC220511 refers).

Assessment

Submissions

Submitters on this proposal (17 total) mainly spoke about their opposition to continued use of RUC exemptions for EVs. Most submitters stated that Waka Kotahi would need evidence of these vehicles' odomoter readings and some submitters suggested that this evidence could be gained at WoF inspections. Some submitters also stated that Waka Kotahi would need to update its computer systems and undertake a publicity campaign to inform these new RUC payers of their compliance obligations.

Implementation issues

To provide enough time for light EV owners to prepare for entering the RUC system, a publicity campaign would likely need to begin 12 months before light EV owners begin paying RUC (i.e., in March 2023). Light EV owners will need to know how to purchase their RUC licences and what rate they will pay. Waka Kotahi may also need to update its back-office systems and will need to know the odometer reading of each light EV on the day the exemption ends so that it can be certain that light EV owners purchase RUC from the correct recorded distance.

Other than exempt vehicles, a vehicle is normally liable for RUC from the time that it is registered and its initial odometer reading is recorded by a Waka Kotahi agent as part of the process of registering the vehicle. However, for light EVs that are already in use, the initial distance (the distance travelled prior to being charged RUC) for the purchase of the RUC licence is unknown. The only way that odometer readings will have been recorded is at WoF checks and if the vehicle is newly registered then it potentially won't have a WoF check for three years. Many light EVs (perhaps most) will not have had a WoF check by 1 April 2024. Waka Kotahi, its agents, and all those who perform WoF/CoF checks, will also need to update their IT systems to manage the volume of new customers.

Conclusion

The Ministry and Waka Kotahi have started working to implement your decision in time for the light EV RUC exemption end on 31 March 2024.

Most notably:

- Preparation of a draft Cabinet paper covering amendments required to charge these vehicles RUC, including setting a partial RUC rate for PHEVs, deciding what level a partial rate should be set at, and removing the ability for PHEV owners to claim petrol excise refunds.
- Internal workshops on operational changes needed to onboard battery EVs very light EVs and PHEVs to the RUC system.

Proposal 3.15 RUC offences and penalties

Status quo

The existing fee and fine structure remains.

Proposal Summary & options for change

The Act includes a mixture of criminal fines and penalty infringements for noncompliance. Infringements are typically used for lower-level offending and don't carry a criminal record for the misconduct. Criminal fines apply when the offence is assessed to have occurred without reasonable excuse, knowingly, or with intent to deceive.

Offender type ratios (i.e., penalty ratios between individuals/natural persons and body corporates) are currently 1:2 for infringements and 1:5 for fines. We consider an appropriate ratio would be 1:10 and that this should be applied consistently between financial penalties for individuals and body corporates.

The Act sets out how the non-payment of RUC is treated by Waka Kotahi. The current settings impose a maximum penalty of 10 percent in addition to the RUC due if payment is late, and the vehicle operator has three months (90 days) after the due date to pay the balance. After this date Waka Kotahi can recover any penalties and outstanding RUC through the courts.

The Act has fee/fine ratios ranging widely between 1:3 and 1:50. It is generally accepted that an infringement fee should be set to appropriately balance this likelihood of a defendant challenging the fee in court at the risk of receiving the higher cost fine. It is proposed to base this ratio on the *Effective Transport Financial Penalties Framework* and set a consistent fee/fine ration of 1:5.

Assessment

Submissions

Submitters (nine total) noted that many of the current infringements will no longer be applicable if the RUC label display requirement is removed (see proposal 4.8). Submitters stated that they would only like to see changes in penalties if it can be demonstrated that it would reduce offending. Most submitters supported higher penalties for body corporates than for individuals. Most submissions supported maintaining or adding a tiered penalty for RUC non-payment.

Submission examples are provided here:

> "The infringement levels need to be updated, and with the simplification and easy [sic] of updating there should be greater compliance which means the infringements need to be more punitive for those that continue to flout the rules." - s 9(2)(ba)(i)

> "...it is not clear that amending the infringements would have a material impact on offending. Rather than increasing the base fine thresholds, consideration should be given to ensuring that there is rigour around assessments and timely enforcement so that recoveries of unpaid RUCs are appropriately followed up and recovered." - s 9(2)(ba)(i)

Administrative and regulatory complexity

The proposal will not significantly impact Waka Kotahi's administration of the RUC system.

Compliance difficulty

None of the options significantly increase compliance difficulties for operators. Any increase in fees and fines could increase the financial burden on non-compliant operators. This may provide an additional incentive to maintain compliance.

Equity

Any increase in infringement fees and fines may disproportionately impact lower socio-economic groups. Appropriately setting the infringement fee level for individuals will mitigate this risk.

Conclusion

The fee to fine ratios and offender type ratios are inappropriate based on the *Effective Transport Financial Penalties Framework*. We recommend amending the Road User Charges (Infringement Offences) Regulations 2012 to reset the infringement fees and fines with a fee/fine ratio of 1:5 and an offender type ratio of 1:10. RUC non-payment penalties should also be aligned to the *Effective Transport Financial Penalties Framework*.

Recommendation

Officials should progress this proposal in a separate programme of work to standardise transport fees and fines.

Technical Amendments to the RUC Act

Proposal 4.1 Clarifying what 'partly' means in the definition of an electrically powered vehicle

Status quo

On the expiry of the light EV RUC exemption on 31 March 2024 vehicles that derive part of their *motive* force from electricity (e.g., plug-in hybrids) will be liable to pay RUC and would be included in the RUC vehicle type 1 (<3.5t) that pays $76/1000km. The Land Transport Management Act[9] provides for refunds of all excise duty paid in respect of RUC licenced vehicles. Motorists owning these vehicles could apply for an excise duty refund.

Proposal summary & options for change

Including vehicles that derive a part of their motive power from a source that is already taxed into the RUC system could lead to an increase in refunds for FED and would create significant administrative costs.

'Partly' is open to interpretation and there is a risk that any exemption provided to EVs or a partial rate provided to PHEVs could be exploited by making relatively simple modifications to enable a vehicle to travel short distances on electric power and therefore claim the exemption or discounted RUC rate.

We considered the following options to mitigate this risk:

- Defining a minimum All Electric Range
- Defining a minimum battery capacity (kWh) of potential motive power
- Delegation to a specialist in Waka Kotahi to decide.

Assessment

Submissions

There were 15 submissions on this proposal. There was no consensus in the feedback and most submissions focused on the complexity of the issue. A key theme in those opposing the proposal was the perception of risk being introduced by an unclear or complex definition.

Submission examples are provided here:

> "A prescriptive approach is likely to result in complex law without materially improving its enforceability. Waka Kotahi should be empowered to exercise judgement where the electric motor is clearly not intended to be or serve as a primary motive source under normal operating conditions.

[9] Section 5(b) of the Land Transport Management (Apportionment and Refund of Excise Duty and Excise-Equivalent Duty) Regulations 2004

….Section 42D of the RUC Act provides a possible model to follow, where it gives the RUC Collector the right to form a view and act on that view, setting out the objective that the 'view' is assessing conformance with, and subjecting the view to a standard of reasonableness…" - s 9(2)(ba)(i) [redacted]

"...some mechanism of verifying a baseline EV distance would help establish whether a vehicle was entitled to a form or measure of RUC discount or exemption. The kWh option would be simpler to apply, but the reality is neither of the options are conclusive because the vehicle operator may still choose to operate the vehicle on the propulsion system other than the electric power more often than the policy drafters expect or plan. The difficulty is getting a level of unequivocable confidence that "partly" within the context of vehicle propulsion systems means an established level of electric travel." - s 9(2)(ba)(i) [redacted]

Compliance costs / Administrative complexity

The option involving a determination would incur the greatest administrative costs and most complexity due to the staffing costs required for this option. Setting a threshold in the Act is simple and we don't expect this to incur significant costs.

Fairness

The use of a specialist to decide introduces a level of variability in the decision about a vehicle's propulsion system. It could mean that two assessors could potentially come to a different decision on the same vehicle. In this scenario, the decision could trigger litigation to defend. Setting out a threshold in the Act would avoid this.

Conclusion

A definition of 'partly', regarding motive power, is preferable to a determination approach as it avoids potential inconsistent application of the Act; imposing additional costs on the sector (for a determination); and potential litigation if a determination is challenged.

For the purposes of this report back we have separated a distance measure and measures of battery capacity, but they could be used together. For example, the Institute of Electrical and Electronics Engineers defines a PHEV as

"any hybrid electric vehicle that contains at least

(i) a battery storage system of 4 kWh or more, used to power the motion of the vehicle;

(ii) a means of recharging that battery system from an external source of electricity; and

(iii) an ability to drive at least 10 mi in all-electric mode, and consume no gasoline"

As part of the amendments needed to give effect to your decisions around PHEVs made in OC220707 we will also consider the use of defining different types of vehicles as well as including a definition of 'partly' in the Act.

Proposal 4.2 Redefining RUC vehicle types for eight axle combinations

Status quo

An amendment to Land Transport Rule Vehicle Dimensions and Mass 2016 (VDAM) has increased the maximum allowable mass for some vehicles from 44 to 46 tonnes. This change may have led to a potential, and unintentional, overcharging for a small group of very heavy trucks (that operate on an H-type licence) as the operators are paying the historical overweight RUC rates for the now allowable heavier vehicles.[10] Another small group of vehicles is incentivised unnecessarily, with increased complexity for Waka Kotahi and operators.

Proposal summary & options for change

It is proposed to restructure the weight bands for the affected vehicles and remove two concession type licences that were introduced to incentivise eight and nine axle combinations (types 308 and 408). The options for change are to:

- Reset H type licences and RUC rates to 50 and 54 tonnes. Remove concessions 308 and 408 (option 1).
- Same as above but reset the RUC rates to maintain the existing 53 tonne RUC rate on the 54-tonne band to not disadvantage specifically designed vehicles (option 2).
- Phased change to RUC rates. For example, option 2 (above) for three years before switching to option 1.

Assessment

Submissions

All 12 submissions supported aligning RUC to VDAM. There was wide support for removing licence types 308 and 408 and changing the RUC bands to match VDAM. Some concerns were raised over changing the RUC rates on vehicles that have been specifically designed for the historical 53-tonne band. Lifting rates to match the new 54-tonne band may make these vehicles less economically viable because of the reduced payload compared to other vehicles in that band.

NLTF revenue

The status quo negatively impacts revenue collection as the concession types reduce RUC collection. The first option has the highest positive impact on revenue collection as it removes the concessions for type 308 and 408 vehicles, with options 2 and 3 having slightly lower positive impact.

[10] H-type licences substitute for the standard type licences for powered vehicles and are designed for vehicles that mostly travel overweight.

Administrative and regulatory complexity

The status quo is the worst option for administrative complexity with misaligned weight bands and additional licence types. Options 1 and 2 reduce administrative complexity. Option 3 provides some reduction in complexity but the phased increase in RUC changes may negate this reduction.

Compliance burden

Compared to the status quo, all options reduce the compliance burden on operators.

Equity

The status quo is inequitable as the concession types and misalignment of RUC weights impacts some operators more than others. Re-aligning the RUC bands to VDAM at full rates could unfairly impact some operators with vehicles specifically designed for a 53-tonne capacity. Staging the rates or retaining a lower rate at 54-tonne would also bring inequity as some operators would be paying less than their fair share.

Conclusion

Removing concession licence types and realigning RUC bands would make the RUC system fairer and administratively simpler for both Waka Kotahi and operators.

Recommendations

RUC bands should be reset to align with VDAM and remove concession type licences 308 and 408.

The 54-tonne RUC band should be established at a rate proportional to that of a 54-tonne vehicle.

Proposal 4.3 Changing WoF/CoF requirements so the assessor must report evidence of odometer tampering

Status quo

If a WoF/CoF assessor suspects odometer tampering, there is no legal obligation to report this suspicion to enforcement authorities.

Proposal summary & options for change

The proposal is to oblige assessors to report evidence of odometer tampering. Submissions were sought on what should happen if odometer tampering has occurred. We considered two options for change.

- Enable WoF/CoF assessors to refer a vehicle to specialist (i.e., Waka Kotahi or Police) where odometer tampering is suspected.
- Enable assessors to fail a WoF/CoF if they believe tampering has occurred.

Assessment

Submissions

Of the 37 submissions on this proposal, there was a consensus that odometer tampering should be investigated and punished if found. However, no clear legislative solution or system was proposed.

Submission examples are provided here:

> "The inspector is there for a safety inspection, but has to inform W[aka] K[otahi] of the odometer reading anyway. The logical answer is in the document; One option could be to enable an inspector to send the vehicle to a specialist for checking if they found some evidence of a problem. This is used for other faults, such as exhaust noise testing. It is then up to W[aka] K[otahi] / Police to pursue and prosecute as necessary for a non-safety issue." - s 9(2)(ba)(i) [redacted]

> "...adding RUC enforcement to an in-service vehicle safety inspection will likely lead to two main issues: 1) vehicle owners avoiding inspections, leading to more unsafe vehicles on the road, and 2) an exodus of Vehicle Inspectors and Inspecting Organisations as they are no longer carrying out the role that they signed up for.
>
> Working out if a vehicle has been fitted with an odometer tampering device is time consuming and problematic at an in-service vehicle inspection. It is not as easy as plugging in a scan tool to work out if tampering has taken place. New Zealand has one of the most diverse Car Parc's [sic] in the world, there is simply not one scan tool that will be able to communicate with all vehicles on our roads. Inspecting Organisations will need to have multiple, expensive scan tools on hand in order to interrogate the multitude of vehicles that may be presented to them for inspection". - s 9(2)(ba)(i) [redacted]

NLTF revenue

Odometer tampering would most likely occur where someone was attempting to avoid paying RUC. Therefore, both options would improve NLTF revenue.

Complexity

Evidence of tampering doesn't necessarily mean that tampering for the purpose of RUC evasion has occurred. There are legitimate reasons to remove/maintain odometers as part of the normal maintenance and servicing of a vehicle. For example, if a dashboard needed to be removed or an instrument cluster was faulty and needed to be replaced.

Industry capability

Most WoF/CoF assessors currently working in the industry don't have the capability to make a judgement as to whether tampering has occurred or not. This is because they're trained to do vehicle inspections and not to carry out diagnostic checks for odometer tampering.

Checking for tampering is also not a simple check and there are some very sophisticated systems used to trick or re-write odometer readings and vehicle computers. The current tools available to check for tampering are expensive and the time to check for tampering would be significant – we expect these costs to be passed to the consumer and result in higher WoF/CoF costs.

A specialist unit in Waka Kotahi, once established, would by definition have the specialist capability.

Equity

Reducing RUC evasion would make the RUC system fairer to compliant RUC payers.

Conclusion

Putting an additional responsibility on WoF/CoF assessors to fail a safety check or refer possible tampering places assessors in a difficult position that is unlikely to meaningfully reduce RUC evasion.

As part of the WoF/CoF process odometer readings are passed to Waka Kotahi so distance discrepancies can be identified and pursued. Tampering with a distance recording device (i.e., odometer) is an offence under both the RUC Act (section 8(5)(d)) and the Land Transport Act and prosecutions could be pursued by enforcement agencies under those Acts.

The consultation and our engagement with experts have not identified a clear solution. No legislative fix is apparent, and it is uncertain that a legislative solution is in the Government's interest. Other regulatory options, such as adjusting the WoF/CoF rules, need to be investigated further. Ministry and Waka Kotahi officials will also investigate what is happening overseas, industry trends, and how manufacturers can prevent odometer tampering.

Recommendation

Officials should investigate other regulatory options that utilise the WoF/CoF check to report odometer discrepancies.

Proposal 4.4 Clarifying the definition of accurate for a distance recorder in a light vehicle

Status quo

Potential discrepancies between odometer readings and actual distance travelled are investigated by the enforcement authorities without a standard definition of accurate.

Proposal summary & options for change

This proposal sought feedback on the practical implications of defining accurate in the Act. We consider there to be two options.

- Develop a bespoke definition of accurate for the Act.
- Use an external standard or definition.

Assessment

Submissions

This proposal received 29 submissions. The submissions were mixed in sentiment with most providing a broad commentary on the proposal. Two proposals made specific suggestions for existing standards that could be applied to RUC.

A submission example is provided here:

> "...that "accurate" is not defined in the RUC legislation if it would create a unique standard. As the consultation document correctly notes, there are no commonly used international standards for odometer accuracy, and thus manufacturers are unlikely to design odometers to meet a standard unique to New Zealand." - s 9(2)(ba)(i) [redacted]

NLTF revenue

This would slightly reduce NLTF revenue as most odometers slightly over-record.

RUC Act principles

Charges set down via RUC should be proportionate to the costs incurred by the road network. A clear definition of accurate could improve that proportionality.

Complexity

It would be easy to co-opt an existing definition if one suitable for RUC was found.

If a RUC-specific definition was drafted it would probably involve complex, defined parameters.

Conclusion

The risk from developing a definition of accurate outweighs the benefit. Numerous submissions highlighted that most vehicles slightly over-record distance and speed to avoid litigation from owners who have been found to be breaking the speed limit.

Both a RUC-specific definition and an international standard would result in slightly less NLTF revenue.

A definition could significantly increase complexity for enforcement authorities when assessing RUC payment and this potentially undermines the RUC system's integrity.

If a RUC collector suspects that a vehicle has an inaccurate odometer, the owner has potentially committed an offence under the RUC Act that can be investigated by enforcement authorities.[11]

Recommendation

Discrepancies between odometer readings and actual distance travelled should continue to be investigated by the enforcement authorities, if found.

[11] e.g.: section 8(5)(a) operating a vehicle that is not fitted with a properly working distance recorder; section 8(5)(d) operating a vehicle where the distance recorder is not accurately recording the distance travelled; section 9(4) operating a RUC vehicle without a valid RUC licence; and/or; section 13(1)(a) knowing the distance recorder is not working properly. The Act provides a penalty regime for these offences (some of which is covered in Proposal 3.15) and a way for RUC collectors to retrospectively apply RUC.

Proposal 4.5 Clarifying the requirements that certain persons must make and retain certain records

Status quo

The Act requires that a Transport Services Licence (TSL) holder keep records for any RUC vehicle that they own or operate but does not specify what records must be kept.

Proposal summary & options for change

Waka Kotahi is finding instances of records that are inadequate to support RUC reviews. These are often records of volume carried that do not support the enforcement of weight-based RUC.

It is proposed that, where available, weight-based records must be made and retained by the operator. There are four feasible options for change.

- Require weight-based records for all TSL holders operating RUC vehicles.
- Require weight-based records except for certain types of operators (e.g., couriers/general freight).
- Require weight-based records or alternative compliance via standardised volumetric conversion tables.
- Status quo but with increased weigh-in-motion (WIM) and enforcement.

Assessment

Submissions

We received 12 submissions in total. No submitters clearly supported mandatory weight-based records. Submitters either outright opposed the proposal or had reservations about it. Several submitters requested a chain of evidence type approach to weight-based records if they were to be required. Those opposed to weight-based records usually cited the compliance difficulty and cost. The status quo plus increased WIM option was supported by several of the peak industry bodies for the freight sector.

Submission examples are provided here:

> s 9(2)(ba)(i) [redacted] not support the proposal that operators retain weight -based records. Many operations are not based on the weight of product but the volume. The proposed amendment to section 65 of the RUC Act although minor and well intentioned, merely increases the inequity between those that use weight -based records and those that do not and we question how valid the records are that are retained in achieving either convictions or validating assessments for unpaid RUCs.
>
> The legislative framework for weight -based records is defined or framed, there will an always be transport activities that sit outside that form of data or evidence capture" - s 9(2)(ba)(i) [redacted]
>
> "Better use of Weigh In Motion (WIM) will negate the need for operator to retains weight base records" - s 9(2)(ba)(i) [redacted]

NLTF revenue

Collection of revenue is likely to be best supported by introducing mandatory weight-based records. Other options have a lower likelihood of increasing revenue collection with the status quo being assessed as the worst option for revenue collection.

Administrative and regulatory complexity

Requiring weight-based records for every operator would reduce the administrative complexity for Waka Kotahi if there was acceptable compliance among operators. All other options have similar complexity to the status quo.

Compliance burden

The status quo or status quo plus increased WIM option are the easiest for operators to comply with. Requiring weight-based records for all operators would be difficult or impossible.

Requiring weight-based records for every operator, and the status quo, have significant compliance costs for different operators and score poorly for equity concerns.
The options to require weight-based records except for certain types of operators (e.g., couriers/general freight), and to require weight-based records or alternative compliance via standardised volumetric conversion tables also increase compliance difficulty.

Equity

Several submissions commented on the inequity in the sector between supplier/senders of goods and vehicle operators. In many cases vehicle operators have no knowledge of the weights being carried. One of the advantages of requiring weight-based records is that it places greater responsibility on suppliers/senders of goods to certify weights.

All other options score similarly and should provide a more equitable RUC enforcement regime.

Conclusion

Our preferred option is to maintain the status quo while WIM is being increased across the network. WIM produces the most reliable data, has the lowest impact on operators, and supports accurate cost allocation.

Recommendation

The status quo that the Act does not specify what type of records a TSL holder must keep should be maintained.

Proposal 4.6 Clarifying the provisions relating to access to records held by third parties

Status quo

Waka Kotahi can access certain records held by third parties that have serviced, maintained, supplied or contracted for the use of the vehicle subject to RUC. There are other parties that also have records that can aid in assessing RUC compliance that Waka Kotahi cannot access.

Proposal summary & options for change

It is proposed to clarify from which parties Waka Kotahi may obtain records and when these records may be requested from a third party.

Assessment

Submissions

The 13 submissions were mixed, with the freight industry largely not supporting the proposal. It was largely viewed that the current threshold for obtaining third party records was adequate.

Some submitters noted that there should be evidence of non-compliance before any records were accessible and that there should be a chain of responsibility for weight records.

A submission example is provided here:

> "The concern that the s 9(2)(ba)(i) [redacted] has is that weight records held by third parties, will always be at variation from other weight records that are held by an operator or an enforcement weigh. How will the accuracy of one set of records be able to be assessed against another set? Will NZTA place more evidentiary weight on one set as against another one, and how will this be judged? s 9(2)(ba)(i) [redacted] understands that NZTA might see that this is another set of records that may be useful in establishing operators compliance with RUC purchases –however we do not believe that accessing third party information is justified to do so." - s 9(2)(ba)(i) [redacted]

NLTF revenue

Both the status quo and increasing Waka Kotahi's access to records support revenue collection. Increasing Waka Kotahi's access to records may slightly increase revenue through more accurate RUC compliance reviews and increased operator compliance.

Administrative and compliance difficulty

Increasing access to records would improve the accuracy of Waka Kotahi's RUC reviews, with no significant change to vehicle operators. With increased powers third parties that create records may be impacted as they would be required to provide these to Waka Kotahi. Both the operator and third party may have additional administrative work if their records misalign during the review.

Equity

The proposal could impact some operators more than others depending on their interaction with third parties. This impact should be small and manageable.

Conclusion

Increased access to third party records would likely cause a small increase in revenue. Consultation showed a largely negative freight industry response to allowing Waka Kotahi access to further third-party records.

However, we believe the improvements in RUC audits' accuracy, small increase in revenue and the ability to limit the increase in Waka Kotahi's access justify progressing the proposal.

Recommendation

The RUC Act should be amended to allow a limited increase of Waka Kotahi's access to third party records.

Proposal 4.7 Requiring ESPs to notify Waka Kotahi of RUC payment status

Status quo

Electronic system providers (ESPs) are not required to report their customers' RUC payment status to Waka Kotahi.

Proposal summary & options for change

The discussion document sought submitters' views on extending the reporting requirements to require ESPs to notify Waka Kotahi of any changes to the status of RUC payments. Waka Kotahi is aware that in some circumstances ESPs' customers may turn off their automatic RUC payment function. This could be for a variety of reasons but can be due to cash flow issues and a precursor to RUC evasion.

In some cases, the ESP's turn off a customer's auto purchase function, so they do not have to deal with any dishonoured payments. Waka Kotahi is concerned that by manipulating RUC payments in this way, operators can accrue a large RUC debt without their or Waka Kotahi's knowledge, from which they may not be able to financially recover.

Assessment

Submissions

Of the 12 submissions on this proposal, nine were supportive and three were opposed. Those in favour were mainly from the transport industry and submitted that there were potential efficiency and compliance gains. s 9(2)(ba)(i) [redacted] Reasons for opposing included the administrative and compliance requirements and privacy concerns.

Submission examples are provided here:

> "This is firstly a privacy issue. In the absence of actually being in debt, or having a history of going into debt, the mere possibility of a private financial choice resulting in an operator accruing a RUC debt at some later point is a weak basis for intruding on the privacy of an operator's financial management arrangements."

> "…ESPs are not funded by Waka Kotahi for the activities they undertake on its behalf. Any new duties will bring set-up and operational costs…these additional activities are principally for the benefit of Waka Kotahi and relate to its publicly funded enforcement activities, it would be appropriate for it to compensate ESPs.…so long as eRUC is optional…this would create a conflict of interest and a structural disadvantage for ESPs relative to suppliers of less comprehensive (and less intrusive) electronic RUC aids" - s 9(2)(ba)(i) [redacted]

> "ESPs should immediately notify operators of any non-payment. eRUC is in place to help avoid evasion, so ESPs shouldn't allow it to continue without notifying Waka Kotahi. If ESPs don't notify W[aka] Kotahi], then the ESP should be liable for any outstanding RUC." - s 9(2)(ba)(i) [redacted]

NLTF revenue

It is unclear how much RUC revenue is foregone under the status quo, and therefore how much RUC revenue may be gained from the proposal, but this proposal only applies to a small number of RUC payers.

Administrative and compliance burden

Waka Kotahi may benefit from some efficiency gains in being enabled to intervene in potential cases on RUC non-payment. This would help RUC customers before they become unable to maintain their RUC compliance.

Equity

That this proposal covers only eRUC users introduces a potential inequity compared to manual RUC payers, whose payment status is not required to be reported. We have no evidence to suggest that eRUC payers are more likely to enter irrecoverable RUC debt than manual RUC payers.

Conclusion

Amending the Act so that ESPs can report customers that are taking steps to evade RUC supports Waka Kotahi as RUC collector and system steward for the eRUC providers and the transport sector. It would provide an early intervention point to limit RUC evasion, and it would reduce the financial risk carried by ESPs.

Recommendations

Officials should undertake more analysis to understand the implications of this proposal on the relationship between Waka Kotahi as RUC collector and the ESPs as industry agents. This can inform future advice on amending the Act so that ESPs must report RUC non-compliance when they have reason to believe that RUC evasion is taking place.

Proposal 4.8 Clarifying the requirements around the display of heavy vehicle eRUC licences

Status quo

Road User Charges Regulations 2012 require electronic distance recorders to display both the distance licence for a vehicle and the distance travelled. The RUC Act has been amended to allow heavy vehicle RUC licences to be carried (either in paper or digital forms) rather than displayed.

Proposal summary & options for change

The proposal is to remove the requirement for eRUC devices to display the licence, while retaining the requirement to display the distance travelled by the vehicle. Licences could then be carried elsewhere in the vehicle (as with vehicles not using eRUC).

Alternatively, the requirement to carry or display the RUC licence could be completely removed, with roadside enforcement checks of licence status done through accessing Waka Kotahi's database (as also proposed for light vehicles). This proposal differs from proposal 3.9 above which relates to light RUC vehicles. The two options are:

- An amendment to regulations allowing eRUC licences to be carried rather than displayed (aligning with current requirements for paper licences for heavy RUC vehicles)
- A RUC Act amendment removing the requirement for heavy vehicles to either carry or display RUC licences (aligning with the proposed change to requirements for light RUC vehicles).

Assessment

Submissions

We received 13 submissions. Most endorsed the proposal that eRUC licences no longer need to be displayed. Many also considered that there was no need to require licences to be carried in a vehicle and thought that enforcement checks could rely entirely on access to the online database (as proposed for light vehicles under proposal 3.9 above).

Two submitters noted that removing the label display requirement removes an opportunity for drivers to check compliance quickly and easily and saw a need for this to be replaced by an accessible way to check RUC status online.

Most submitters agreed that eRUC devices should continue to display the distance travelled by a vehicle (as the legal distance recorder). Few submitters expressed any view on whether the format for the distance display should be set out in the eRUC code of practice or in regulations, with some agreeing that this should be in the code of practice and others saying that regulations should specify conditions for visibility of the display and that it should be always readable (e.g., to assist making logbook entries and for CoF inspections).

One submission noted that there is a significant lead time required to redesign eRUC devices and have these tested and approved by Waka Kotahi.

NLTF revenue

Removing the eRUC licence display requirement is unlikely to have any revenue implications. This step would simply align practice with the status quo for paper licences which does not cause any enforcement issues.

The further step of removing the requirement to carry the licence could increase the risk of unintentional non-compliance. This would only cause revenue loss if overrun distance was not caught up, or if it led to a vehicle operating on an incorrect licence. The risk of these outcomes can be managed by ensuring that anyone operating a vehicle has easy online access to RUC status data held by Waka Kotahi.

Administrative and regulatory complexity

Removing the requirement for licences to be displayed on eRUC devices could significantly reduce costs. Regulatory complexity would reduce only if there were no longer any paper licences issued, but so long as these remain an option there will still need to be regulations prescribing the form of display.

There will be some additional administration required of Waka Kotahi, to provide an online service assisting vehicle owners and drivers to ensure compliance. In the short term, there may also be a need for additional resource to be available to deal with customer enquiries relating to the change. In the longer term, however, the system should be easier and simpler to administer.

Compliance burden

Removing the eRUC display requirement means that vehicle operators will need to have easy access to alternative ways of checking RUC compliance. Retaining a requirement to carry the RUC licence (which may be in digital form) is one way of ensuring this, but it should also be possible to provide easy online access to RUC status information.

Users who currently carry paper licences could opt to continue to do so (assuming this option is retained for both light and heavy vehicles). Alternatively, they could also use an online system to check compliance or move to carrying the licence in digital form. Enforcement should be at least no more difficult than currently so long as Police can access relevant information online.

Removing the display requirement is likely to enable cheaper and simpler eRUC options to become available, leading to greater uptake of these systems in the medium to long term, with consequent compliance benefits.

Conclusion

Most submitters agreed that eRUC devices do not need to display a RUC licence and many favoured aligning requirements with the proposed regime for light RUC vehicles, whereby there is no obligation to either carry or display a licence and all compliance checks are carried out online.

Officials agree that removing the display requirement will have significant benefits in terms of simplifying the specifications for eRUC devices, with little potential downside so long as vehicle operators and enforcement officers have easy and reliable access to online means of checking compliance.

Such a change is consistent with the approach recommended for light vehicles and in practice represents a relatively small change given that the law already allows heavy RUC licences to be carried only in digital form.

Recommendations

The Road User Charges Regulations 2012 should be amended to remove the requirement for eRUC devices to display a RUC licence.

Section 19(1) of the RUC Act should be repealed so that RUC licences do not need to be displayed or carried in any vehicle.

The option to request a physical RUC licence for heavy vehicles should be retained.

Waka Kotahi should develop an online portal for vehicle owners to check their vehicles' RUC status, along with other relevant compliance with land transport legislation.

Waka Kotahi and Police should ensure that, when the display or carry requirement is removed, Police have adequate access to vehicle data to enable enforcement.

Proposal 4.9 Exempting vehicles that are only travelling on a road for Certificate of Fitness purposes from paying RUC

Status quo

Using the road network for Certificate of Fitness (CoF) purposes, without RUC paid in advance, is illegal.

Proposal summary & options for change

It is proposed to exempt vehicles using the road for travel for a Certificate of Fitness (CoF) check. We consider two options for change.

- Establish a permitting scheme that provides for exemptions for CoF travel.
- Amend the Act (subpart 4) to add a section clarifying the exemption.

Assessment

Submissions

The majority of the 10 submissions supported the proposal. Most submitters commented that amending the Act to exempt this road use was a common-sense approach.

Submission examples are provided here:

> "We support the proposed exemption from RUC for vehicles that are only travelling on a road for Certificate of Fitness purposes. Agricultural vehicles are primarily used off-road/on-farm, with occasional use on roads for limited distances between farms whilst travelling at low speeds. As such, wear and tear on the roading network from agricultural vehicle road use is minimal. We consider it wholly appropriate that there be an exemption from paying RUC for those instances where an agricultural vehicle must be taken on to a road to satisfy regulatory requirements." - s 9(2)(ba)(i) [redacted]

> "…the numbers using the roading infrastructure for this purpose would be minimal and the costs involved administratively to the user and the agency could outweigh the benefits it would be disadvantageous to require RUC on these vehicles…" - s 9(2)(ba)(i) [redacted]

RUC Act principles

An exemption means that road wear is unrecovered, but the distances involved would be relatively minor.

Administration

A permitting system would involve administering a new scheme. Amending the Act to clarify the exemption would involve no additional administration.

Equity

An exemption means other road users will subsidise this travel's road wear, but the amount of wear is relatively minor.

Conclusion

A new permitting system, while a likely deterrent to abusing CoF travel, involves a cost that will be ultimately paid by motorists for a minor amount of forgone revenue. Rather, we agree with the submissions and recommend that a broad exemption is included in Subpart 4 of the Act.

Recommendation

Subpart 4 of the Act should be amended to exempt travel for Certificate of Fitness from RUC if the vehicle is normally used off road.

Proposal 4.10 Extending an operator's time to request an independent review of a RUC assessment

Status quo

Operators have 20 days to request an independent review of a RUC assessment.

Proposal summary & options for change

The proposal is to give Waka Kotahi the discretion to extend the 20 working-day limit. The Ministry identifies two options:

- Increase the 20-day limit to another time period (e.g., 30 days)
- Waka Kotahi has discretion to extend the 20 days upon request

Assessment

Submissions

We received seven submissions. Six supported the proposal and one provided a submission that they did not believe it was appropriate to comment on a regulator's discretion. Of those submissions that were supportive, most highlighted that while they were supportive of extensions it was important to them that extensions were only granted for genuine reasons such as health issues, bereavement, or an inability to organise a review.

A submission example is provided here:

> "Support NZTA having the ability to extend the 20-workingday period to request an independent review of an RUC assessment. Exemptions should be considered for genuine reasons including health, currently overseas, bereavement, or inability to arrange an independent review." – s 9(2)(ba)(i) [redacted]

Administrative and regulatory complexity

Providing Waka Kotahi with discretion to extend the time to request review over 20 days will lower administrative complexity in dealing with operators who have missed their window for review.

Some complexity will be added by assessing applications for review past 20 days. Both options impose similar administrative burdens with a possible small reduction from operators that can apply for review between 20 and 30 working days.

Compliance burden

The status quo and increasing the 20-day limit have similar compliance burdens with a possible small reduction for operators that can apply for review between 20 and 30 working days.

Equity

Providing Waka Kotahi with discretion helps create a more equitable RUC system as it provides all operators with a chance to request review even under circumstances of hardship.

Both options are an improvement compared to the status quo as they introduce a greater window of opportunity for an independent review.

Conclusion

Allowing Waka Kotahi the discretion to extend the time to request review after 20 working days was widely supported by operators and would benefit Waka Kotahi.

Recommendation

The RUC Act should be amended to allow Waka Kotahi discretion regarding the timing of an assessment review.

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MINISTRY OF TRANSPORT

Proposal 4.11 Changes to how mobile cranes are defined for RUC

Status quo

Under the definition of all terrain crane in the Road User Charges Regulations 2012, some mobile cranes are exempt from RUC where the crane is not one to which a distance recorder is, or could readily be, fitted. With the advent of eRUC, effectively all vehicles can now be fitted with a distance recorder and the situation of being unable to fit a distance recorder for the purposes of RUC collection is no longer relevant.

Proposal summary & options for change

The proposal is to remove mobile cranes from the list of exempt vehicles. It is also proposed to update the definition of all terrain crane in the interpretation section of the Road User Charges Regulations 2012. This would replace the current wording of 'a tyre contact area of more than 1,500 cm2 per tyre' with 'single large or single mega tyred axles'. This will simplify the classification of all terrain cranes to a more user-friendly metric. There are three alternatives to the status quo.

- Remove the exemption for some mobile cranes
- Amend the definition of all terrain cranes
- Both of the above.

Assessment

Submissions

All eight submitters on this proposal supported removing the RUC exemption for mobile cranes and changing the definition of all terrain crane.

A submission example is provided here:

> "…current exemption creates confusion for s 9(2)(ba)(i) and inconsistency. s 9(2)(ba)(i) still need the additional option of using other types of distance recording devices such as odometers or hubometers . This is to ensure cranes that are operated in limited capacity on the road are not burdened and required to maintain additional cost for eRuc devices. As an example, many smaller cranes operate on industrial or large infrastructure sites for many months or years without needing access to the road network." s 9(2)(ba)(i)

NLTF revenue

Removing the exemption for some mobile cranes will have a small positive impact on revenue. Changing the definition for all terrain cranes will have negligible impact on revenue collection.

Administrative and regulatory complexity

Both proposals will reduce regulatory and administrative complexity for Waka Kotahi.

Compliance burden

Removing the RUC exemption for some mobile cranes will clarify for operators that all their vehicles must pay RUC and will reduce complexity. Some compliance difficulty may be added by having to install and maintain a distance recording device in a small number of vehicles.

Amending the definition of all terrain cranes will reduce technical complexity for the operator as their vehicle classification will be more understandable.

Equity

Removing the RUC exemption from some mobile cranes means these road users will now pay for their road use. Changing the definition of all terrain cranes has no equity impacts.

Conclusion

Both removing the RUC exemption from mobile cranes and amending the definition of all terrain cranes benefits Waka Kotahi and crane operators, while simplifying the RUC system.

Recommendations

The RUC Act should be amended to remove the RUC exemption from mobile cranes.

The Road User Charges Regulations 2012 should be amended to simplify the definition of all terrain cranes.

Appendix 1: List of submitters

s 9(2)(ba)(i)

[redacted]

Appendix 2: Matters raised by submitters that were not included in the discussion document

Besides charging for factors other than road wear, the discussion document also invited submitters to suggest other ways in which the RUC system could be changed to adapt to future challenges. This resulted in a wide range of responses, but some of the more frequent proposals included:

- Extending RUC to all vehicles and eliminating fuel excise duty (FED)[12]
- Imposing a tax on tyres
- Extending RUC to all vehicles for recovery of road costs while using FED (including on diesel) to target emissions' externalities
- Basing RUC on maintenance costs and externalities, but not using it to fund new roads
- Replacing RUC for light diesel vehicles with FED
- Making greater use of the annual vehicle licence fee either as a way of charging for externalities or as a substitute for RUC for light vehicles.

Most of these proposals would involve either expanding or shrinking RUC's role in the overall land transport system relative to other revenue instruments. The proposals therefore go beyond the current review's scope and are not considered here, but will be considered within the Ministry's *Future of the Revenue System* project.

[12] Owners of vehicles powered by petrol, CNG or LPG contribute to the NLTF through FED when they buy their fuel

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MINISTRY OF TRANSPORT

18 January 2023 | OC230013

Hon Michael Wood

Minister of Transport

Action required by:
Monday, 30 January 2023

AMENDING ROAD USER CHARGES LEGISLATION FOR LIGHT ELECTRIC VEHICLES

Purpose

This briefing provides you with a draft Cabinet paper seeking approval for several proposals relating to light electric vehicles (EVs) and road user charges (RUC), including allowing the current RUC exemption for light EVs to expire on 31 March 2024.

Key points

- The attached draft Cabinet paper seeks Cabinet agreement to the expiry of the current RUC exemption for light EVs on 31 March 2024. After this date, it is proposed that light EV owners will be obligated to purchase RUC at the standard light type 1 vehicle RUC rate of $76 per 1000 kilometres.

- The draft Cabinet paper also seeks Cabinet agreement to the establishment of a partial RUC rate for plug-in hybrid electric vehicles (PHEVs) to avoid double-taxing, and to permanently exempt very light electric vehicles (gross vehicle mass of less than one tonne) from RUC obligations. Due to the time-sensitive nature of the EV proposals, we have separated them out from that report back. These comprise the proposals in table one of the briefing for the full report-back on the broader *Driving Change* consultation carried out in 2022 (OC220846 refers).

- The 2023 legislative programme includes a slot for a Road User Charges Amendment Bill with a priority of 4. The draft Cabinet paper seeks permission to issue drafting instructions to begin work on the amendments.

- Your Office has indicated that you wish to announce the expiry of the light EV RUC exemption alongside announcements related to the Government Policy Statement on land transport 2024. To facilitate this, the attached Cabinet paper will need to be considered by the Cabinet Economic Development Committee in mid-late February.

- The draft Cabinet paper can be expanded to include the proposals in table two of the report-back briefing (OC220846 refers). These comprise nine proposals that we recommend progressing, but that, unlike the EV-related proposals, are not time-critical. These proposals could be included in the same RUC Amendment Bill. They include such matters as removing the requirement for light RUC payers to display a RUC licence. and redefining mobile cranes.

Recommendations

We recommend you:

1 **provide** any feedback to officials on the attached Cabinet paper

2 **indicate** if you wish the Cabinet paper to be expanded to include the nine technical legislative amendment proposals in *Driving Change* that will simplify the RUC system — Yes / No

Marian Willberg
Manager, Demand Management and Revenue
..... / ...... / ......

Hon Michael Wood
Minister of Transport
..... / ...... / ......

Minister's office to complete: ☐ Approved ☐ Declined

☐ Seen by Minister ☐ Not seen by Minister

☐ Overtaken by events

Comments

Contacts

Name	Telephone	First contact
Marian Willberg, Manager, Demand Management and Revenue	s 9(2)(a) [redacted]	✓
Sam Harris, Senior Adviser, Demand Management and Revenue		
Josh Bullivant, Graduate Adviser, Demand Management and Revenue		

AMENDING ROAD USER CHARGES LEGISLATION FOR ELECTRIC VEHICLES

Changes to legislation are necessary to enable light electric vehicles (EVs) to be incorporated into the Road User Charges (RUC) system

1 EVs are currently exempted from the obligation to pay RUC as part of efforts to encourage EV uptake and reduce greenhouse gas emissions from New Zealand's vehicle fleet. The exemption for light EVs (with a gross vehicle mass of 3.5 tonnes or less) is scheduled to expire on 31 March 2024, and you have indicated that you do not wish to extend it (OC220511 refers, attached for reference). After this date, light EV owners will be obligated to purchase RUC licences at the standard light type 1 vehicle RUC rate of $76 per 1000 kilometres.

2 The attached Cabinet paper seeks agreement to not extend the exemption. It also seeks agreement to some other proposals that you have been briefed on (OC220707 refers, attached for reference) that will support a smoother introduction of light EVs into the RUC system:

2.1 Allowing a partial RUC rate for plug-in hybrid electric vehicles (PHEVs). This takes account of the fact that PHEV owners already pay fuel excise duty and avoids double taxation.

2.2 Permanently exempting very light electric vehicles (motorcycles, mopeds and all-terrain vehicles) from the obligation to pay RUC on the grounds that they generate very minor costs to the transport system and/or are mostly used off-road.

3 The proposals in paragraphs 2.1 and 2.2 require amendments to the Road User Charges Act 2012 (RUC Act) and associated regulations. The Cabinet paper seeks permission for you to issue drafting instructions for the necessary amendments. The 2023 legislative programme includes a slot for a Road User Charges Amendment Bill, with a priority of 4.

Allowing the RUC exemption to expire supports revenue integrity, but may have a minor impact on EV uptake

4 We have briefed you on various options for RUC exemptions for light EVs, including extending the full exemption, setting a reduced rate for light EVs or phasing-in the full rate over time. Allowing the exemption to expire is the most effective way to preserve the integrity of the transport revenue system, because light EV owners will be required to contribute to the costs of maintaining the transport system.

5 On average, the RUC exemption is worth approximately $830 per year for light EV owners. It is possible that imposing additional costs on prospective light EV owners may reduce uptake, but we do not consider this to be a major risk. Even factoring in the obligations to pay RUC, EVs are generally cheaper to operate due to the relative costs of petrol and electricity. In addition, the Government has introduced the Clean Car Discount to incentivise people to purchase EVs.

6 No legislative action is required if Cabinet agrees to not extend the exemption – it will simply expire on 31 March 2024. Waka Kotahi NZ Transport Agency (Waka Kotahi) will need to communicate with light EV owners about the new obligations and will need to take various actions to ensure these vehicles can be integrated into the RUC system. We are working with Waka Kotahi to determine the most effective way to do this.

A partial RUC rate for PHEVs is the most effective way to avoid double taxation

7 Because they are partially powered by electricity, PHEVs are currently exempt from obligations to pay RUC. The owners of these vehicles do contribute to the transport system through fuel excise duty paid when they purchase petrol. If we take no action, the owners of these vehicles will need to pay both RUC and fuel excise duty once the exemption expires.

8 The owners of these vehicles can claim refunds for any fuel excise duty. However, this is a manual process, with compliance costs for those claiming refunds and administration costs for Waka Kotahi. We consider that a more efficient approach is to amend the RUC Act to allow for a partial RUC rate for PHEVs that reflects the fuel excise duty paid by the owners of these vehicles. This approach would also involve removing the ability of PHEV owners to claim refunds of fuel excise duty.

9 The proposal in this paper is only to enable the setting of partial RUC rates, which is not possible under current legislative settings. The setting of the partial rate itself would occur through a separate process of determining an appropriate partial rate for PHEVs and amending the Road User Charges (Rates) Regulations 2015 through an Order in Council. Once Ministry officials advise you of an appropriate partial rate, it can be implemented fairly quickly, in time for the RUC exemptions expiry.

Very light electric vehicles should be exempted from RUC obligations

10 We expect to see increasing uptake of electric motorcycles, mopeds and all-terrain vehicles. We have not previously had to consider these vehicles in relation to RUC because there are very few diesel motorcycles and mopeds in the fleet. Motorcycles and mopeds impose very minor costs on the road network, so there is a good case for exempting them to avoid the associated compliance and administrative costs.

11 All-terrain vehicles are generally used off-road. Diesel powered all-terrain vehicles are already exempted from RUC obligations, so it would be consistent to exempt electric powered all-terrain vehicles.

The attached paper needs to be considered by Cabinet in February

12 Your Office has indicated that you wish to announce the expiry of the RUC exemption alongside announcements relating to the Government Policy Statement on land transport 2024. We understand these announcements will take place in February or March. To facilitate this, we suggest that the attached paper be considered by the Cabinet Economic Development Committee on either 15 or 22 February. Please note that you are due to report back to the Cabinet Environment, Energy and Climate (ENV) Committee on the results of consultation on improvements to the RUC system,

of which these matters are a subset. The attached Cabinet paper could be considered by ENV Committee, although that committee meets less regularly – the next meetings of ENV Committee are 23 February and 16 March 2023.

13 If Cabinet agrees to the proposals and gives permission to issue drafting instructions, we will work with the Parliamentary Counsel Office on an amendment Bill. We will also work with your office to determine the process and timeframe for moving that Bill through the legislative process.

We have also provided you with a report on the findings from the broader *Driving Change* consultation

14 The proposals in this paper are part of a much broader RUC consultation exercise we carried out last year. The consultation document was entitled *Driving Change: Reviewing the Road User Charges System.* We have provided you with a copy of the broader report back on the results of consultation at the same as this paper. We have separated out the proposals in this paper because they are more time-sensitive.

15 We recommend progressing several other proposals from the broader consultation concurrently with the ones in this paper, because they require legislative change. These proposals comprise table two of recommendations in the report-back briefing (OC220846 refers). We expect these to be non-controversial as they will simplify the RUC system for RUC payers and Waka Kotahi as RUC collector and are minor and technical in nature. They include removing the requirement to display RUC licence labels and redefining mobile cranes.

16 The attached draft Cabinet paper can be expanded to include these nine proposals should you wish them to be covered in the same Cabinet paper to present to the Cabinet Economic Development Committee in February. These proposals could be included in the same RUC Amendment Bill.

17 We will work with your Office to determine the appropriate time to report to Cabinet on the broader findings and recommendations from Driving Change.

TE MANATŪ WAKA
MINISTRY OF TRANSPORT

1 March 2022 OC220992

Hon Michael Wood **Action required by:**

Minister of Transport Tuesday, 7 March 2023

INTRODUCING A SIMPLE CLEAN TRUCK DISCOUNT SCHEME AND CONSIDERING THE ROAD USER CHARGES EXEMPTION FOR HEAVY ELECTRIC VEHICLES

Purpose

Out of Scope [redacted] seeking high-level direction on whether you want to extend the heavy electric vehicle (HEV) road user charges (RUC) exemption.

Key points

- Out of Scope [redacted]
- You have agreed to consider extending the HEV RUC exemption Out of Scope [redacted] Note, this will come at a cost of foregone revenue to the National Land Transport Fund (NLTF).
- We are seeking your direction on whether or not you wish to extend the HEV exemption and have provided some options for how this could happen. Out of Scope [redacted]

Recommendations

We recommend you:

1 Out of Scope [redacted]

2 [redacted]

3 [redacted]

4 [redacted]

5 [redacted]

6 **agree** to one of the following options on the HEV RUC exemption:

- **Option 1: allow the HEV RUC exemption to expire on 31 December 2025** Yes / No
- **Option 2: Extend the HEV RUC exemption up to December 2030 by Order in Council** Yes / No
- **Option 3: Amending the RUC Act so that future HEV exemptions can be more easily adjusted.** Yes / No

7 **note** that **Option 2** for the HEV RUC exemption could be announced and enacted this term. **Option 3** would require an amendment to primary legislation and would likely not be enacted this term.

8 Out of Scope [redacted]

Harriet Shelton
Manager – Supply Chain
01 / 03 / 2023

Hon Michael Wood
Minister of Transport
..... / ...... / ......

Minister's office to complete:

☐ Approved ☐ Declined

☐ Seen by Minister ☐ Not seen by Minister

☐ Overtaken by events

Comments

Contacts

Name	Telephone	First contact
Christie Marsh, Policy Delivery Lead – Freight Decarbonisation Unit (Supply Chain)	s 9(2)(a) [redacted]	✓
Nesta Jones, Advisor – Freight Decarbonisation Unit (Supply Chain)		
Harriet Shelton, Manager – Supply Chain		

Out of Scope

CONSIDERING THE ROAD USER CHARGES EXEMPTION FOR HEAVY ELECTRIC VEHICLES

Out of Scope

Out of Scope

[redacted]

Out of Scope

Out of Scope

Out of Scope

Considering the HEV RUC exemption Out of Scope

It is important to consider the HEV RUC exemption Out of Scope *will reduce the total costs of ownership (TCO) for operators*

35 You were briefed on outcomes from the *Driving Change* RUC discussion document earlier this year (OC220846 refers), which covered options to extend the HEV RUC exemption. You indicated a preference to consider options for that exemption Out of Scope

36 The TCO of a truck is a combination of the purchase price, and the operating costs over the time it spends in an operator's fleet. The consideration of the HEV RUC exemption Out of Scope will reduce the TCO of ZEHVs, which is currently significantly higher than diesel equivalents. ZEHV

operators will make commercial decisions based on the TCO – a truck that has a high upfront purchase price may have sufficiently low operating costs that it offers the operator significant savings for the period it is in the fleet.

Out of Scope

38 The HEV RUC exemption reduces operating costs. The operating cost for heavy vehicles needs to be factored-in years in advance of a purchasing decision. This would also be applicable to buses and could help local government public transport services to achieve greenhouse gas reduction targets.

39 The main trade-off with RUC exemptions is that the RUC system is intended to impose charges on vehicles for their use of the roads. Exemptions from RUC means these vehicles would not be contributing to the costs of their road use, and revenue would be foregone from the National Land Transport Fund (NLTF). The lost revenue may force a choice between increasing taxes on road users and cutting or deferring land transport spending.

40 Because RUC rates for heavy vehicles increase significantly with weight, the amount of RUC paid by an individual heavy vehicle can be substantial and can determine the viability of the vehicle for some commercial uses. The extra size and weight of the batteries in HEVs would increase RUC costs and reduce carrying capacity, compared to conventional vehicles, while likely also increasing pavement and structural damage.

41 We recommend considering HEVs differently to light EVs. The purchase price for light EVs is likely more influential in operators' purchasing decisions, and the operating costs for those vehicles is already relatively low compared to their petrol and diesel equivalents. The relatively high purchase price of light EVs is addressed by the Clean Car Discount.

42 Another argument for extending the HEV RUC exemption, while allowing the light EV RUC exemption to expire, is that uptake of light zero and low-emission vehicles has exceeded government and industry expectations – likely due to a combination of the Clean Car Discount coupled with other external factors. Battery electric and PHEVs have increased from three percent of brand-new passenger car sales in 2020 to 20 percent in 2022. The HEV RUC exemption should be retained until we see similar growth in purchase rates.

43 Submissions were mixed on the proposal to extend the HEV RUC exemption in the *Driving Change* discussion document. Of the 54 submissions, 19 were in favour, 29 were opposed, and six considered the advantages and disadvantages about even. Reasons for opposing the exemption's extension were based on the principle of the RUC system being that all road users should pay for their use of the roads. Some submitters said government support for these vehicles was worthwhile but should not come through the RUC system. Some submitters also proposed tying exemptions to

a specific policy goal (e.g. HEVs reaching a certain percentage of the fleet) rather than an arbitrary time-based target.[7]

Out of Scope

[redacted]

[7] When HEVs were first exempted from RUC in 2016, setting a ‘percentage-of-the-fleet-based’ measure was unworkable in legislation because it cannot account for changes in fleet composition over time. A time-based exemption was therefore used as a proxy for fleet percentage.

Out of Scope

[redacted]

Out of Scope

Out of Scope

[redacted]

There are challenges and trade-offs in extending the RUC exemption

56 RUC exemptions contravene the core principle of the Road User Charges Act 2012 (the RUC Act), which is to impose charges on RUC vehicles for their use of the roads in proportion to the costs generated.

57 Reduced NLTF revenue is the key risk associated with extending RUC exemptions – an extension of the RUC exemption to 2030 for HEVs would lead to between $10-$30 million of NLTF revenue being foregone in the year 2030. Including the cost of the current exemption (due to expire on 31 December 2025), Ministry modelling estimates this equates to a cumulative total of foregone RUC of between $30 million and $95 million by 2030[13].

58 However, this foregone revenue is difficult to forecast because of the variations in the size and weight of these vehicle types (and therefore in the RUC rates they should be paying). An upper estimate of $95 million in foregone revenue is small in the context of the approximately $17 billion in RUC revenue for the NLTF in the same period (out to 2030).

We are seeking your direction on how you would like to progress

59 Out of Scope

[redacted]

[13] https://www.transport.govt.nz/assets/Uploads/RUCDD-2022.pdf, page 36

making investment decisions. If you choose to extend the RUC exemption, there are options for how you can progress this.

Option 1: allow the HEV RUC exemption to expire on 31 December 2025.

60 This is the status quo option. Heavy vehicles that are currently RUC exempt will be required to purchase a RUC licence to operate legally on the road from 1 January 2026. The RUC rate they pay will depend on the vehicle's RUC type. Out of Scope [redacted]

61 Out of Scope [redacted]

Option 2: Extend the HEV RUC exemption up to 31 December 2030 by Order in Council

62 The exemption expires on 31 December 2025. It can be extended to December 2030 through an Order in Council. A longer extension requires amendment of the RUC Act.

63 Extending the exemption via Order in Council extends the exemption in its current form. This means you cannot alter its scope (e.g. to make it distance based, or to explicitly cover hydrogen vehicles)[14].

64 Unlike the light EV RUC exemption, the power to extend the end date for the HEV RUC exemption is constrained in the RUC Act – meaning the end date for the HEV RUC exemption can only be extended by up to five years from the date the current exemption expires.

65 Out of Scope [redacted] A delayed decision risks creating uncertainty for operators contemplating HEV purchases and makes implementation more difficult for Waka Kotahi (as the RUC collector).

66 To support this, an Order in Council could be made Out of Scope [redacted] to extend the exemption end date from 31 December 2025 for a period of up to 5 years. To gain the full benefit of the exemption's extension this would not come into force until the current exemption expires. There is a test included in the RUC Act that requires you to be satisfied that the exemption will encourage and support the uptake of heavy electric RUC vehicles, before recommending an Order be made by the Governor-General.

67 Out of Scope [redacted]

[14] Vehicles that generate electricity on board through the use of a fuel cell (e.g. hydrogen fuel cell electric vehicles) don't meet the definition of being an electric vehicle and must pay RUC. However, if a fuel cell electric vehicle can be plugged into an external source of electricity to recharge an onboard battery, it is considered to have a motive power that's derived partly from an external source of electricity. This means it is considered an electric vehicle and is exempted from RUC. This could be made explicit in a modified exemption.

68 We would provide you with additional advice should this option be progressed as well as any Regulations Review Committee concerns that may be raised.

69 Out of Scope [redacted]

Option 3: Amending the RUC Act so that future HEV exemptions can be more easily adjusted

70 To change the process for setting the end date for the HEV RUC exemption, we would need to change the enabling provision in the RUC Act. Following that, a separate regulation would be needed to set the new date that the exemption for HEV RUC would cease.

71 A separate RUC amendment Bill would be required to implement this option. The Bill will need to be passed before December 2025, Out of Scope [redacted]

72 As part of the RUC Act amendment process, it is possible to consider altering the form of the exemption so it is tied to another objective (e.g. based on distance travelled, or on the useful economic life of the vehicle) and to consider covering trailers towed by exempt vehicles.

73 This option gives Government greater flexibility in the use of exemptions as a way of incentivising HEVs and managing the fleet. Some potential HEV operators may be disincentivised by the absence of an exemption to 2030. However, if a five-year extension is granted, it would only provide a limited level of certainty for the sector and businesses because any Government could cancel it at any time up until 31 December 2025.

74 Advice on these options will be given if you decide to extend the exemption through an amendment to the Act. These options will not progress if the RUC exemption is not extended, or only extended through Order in Council.

Out of Scope [redacted]

Out of Scope

Out of Scope

[redacted]

TE MANATŪ WAKA
MINISTRY OF TRANSPORT

16 March 2023 | OC230202

Hon Michael Wood

Minister of Transport

Action required by:

Monday, 20 March 2023

EXTENDING THE LIGHT ELECTRIC VEHICLE ROAD USER CHARGES EXEMPTION BY ORDER IN COUNCIL

Purpose

To seek your agreement to extend the light electric vehicle (EV) road user charges (RUC) exemption to 30 November 2024 by Order in Council, and to expand the scope of the report-back Cabinet paper.

Key points

- In August 2022, you agreed that the light EV RUC exemption should expire, as legislated, on 31 March 2024 (refer OC220511).
- The necessary changes to smoothly transition these vehicles into paying RUC, particularly amendments to primary legislation, will not be in place before 1 April 2024.
- You have indicated an interest in extending the exemption. The exemption can be extended by an Order in Council (OIC). Extending to 30 November 2024 (eight months) will give enough time for legislative and RUC system updates to be implemented alongside communications to EV owners about their future RUC compliance obligations, and for EVs to reach two percent of the fleet.
- We will amend the Cabinet paper previously supplied to your Office covering the RUC amendment Bill (refer OC230013) to include:
  - the light EV exemption extension,
  - the heavy EV exemption extension, and
  - the remainder of the proposals from the *Driving Change* discussion document.

Recommendations

We recommend you:

1	**agree** to extend the light electric vehicle road user charges exemption from 31 March to 30 November 2024 through an Order in Council	Yes / No
2	**agree** to include 16 other proposals from the *Driving Change* discussion document in the report-back Cabinet paper (OC230013)	Yes / No
3	**agree** to include extending the heavy electric vehicle road user charges exemption up to December 2030 by Order in Council in the report-back Cabinet paper (OC230013)	Yes / No
4	**note** that, if you agree, we will reflect the recommendations above in the Cabinet paper covering the report-back on proposals to amend the road user charges system	

Marian Willberg
Manager, Demand Management and Revenue
..... / ...... / ......

Hon Michael Wood
Minister of Transport
..... / ...... / ......

Minister's office to complete: ☐ Approved ☐ Declined

☐ Seen by Minister ☐ Not seen by Minister

☐ Overtaken by events

Comments

Contacts

Name	Telephone	First contact
Marian Willberg, Manager, Demand Management and Revenue	s 9(2)(a) [redacted]	✓
Josh Bullivant, Adviser, Demand Management and Revenue		

EXTENDING THE LIGHT ELECTRIC VEHICLE RUC EXEMPTION BY ORDER IN COUNCIL

You agreed that the light EV RUC exemption should expire

1 In August last year, you indicated that the RUC exemption for light EVs should expire as legislated on 31 March 2024 (refer OC220511).

2 You also agreed that plug-in hybrid EVs (PHEVs) should pay a partial RUC rate and certain EVs under one tonne (such as electric mopeds) should be exempt from RUC (refer OC220707).

3 Currently, there are approximately 70,000 electric vehicles, which accounts for about 1.7 percent of the light vehicle fleet.[1]

The necessary legislative amendments are unlikely to be in place in time

4 To give effect to your decision, a wide range of amendments to primary and secondary legislation, as well as significant operational system changes, are needed. A Bill amending the Road User Charges Act 2012 (the RUC Act) was included in the 2023 House legislation programme but it was given a priority of 4 and we understand it will not be progressed before the general election.

5 Cabinet and House time is under pressure for the remainder of this term so the Government can address the cost-of-living pressures facing New Zealanders as well as the recovery from recent weather events. Therefore, amendments to the RUC Act that would allow for changes to prepare the RUC system for light EVs are unlikely to be enacted before 1 April 2024 under ordinary processes.

6 If the Government lets the exemption expire without legislative amendment, then PHEV users will be able to claim a refund for fuel excise duty they pay. s 9(2)(k) [redacted]

7 s 9(2)(k) [redacted]

The light EV RUC exemption can be extended through an Order in Council

8 You have indicated an interest in extending the light EV exemption to 30 November 2024 (an eight-month extension) to provide enough time for the legislative and RUC system updates to be implemented and so that light RUC vehicles can reach two percent of the fleet.

[1] Light EVs have been RUC-exempt since 2009 to incentivise uptake. The exemption was originally intended to remain until light EVs reached one percent of the light vehicle fleet. In 2016, the exemption was extended until light EVs reached two percent of the light vehicle fleet. Provisional forecasts indicate this could happen in the first half of 2024, depending on uptake.

9 New regulations specifying a later end date must be enacted by 1 April 2024. This process can occur either before or after the election, but the extension will not take effect until the current exemption expires on 31 March 2024.

10 The entire process to extend the exemption, including policy approval and implementation of the regulations, will take 20 weeks, with 4 weeks/28 days required for the notice period, which can be done during the House closedown[2].

11 Below is a tentative timeline for the OIC as the last available opportunity before the general election.

Date	Action
April 23	Development of DEV paper, departmental and ministerial consultation
11 May 23	Lodge DEV paper
17 May 23	DEV
22 May 23	Cabinet
6 Jun 23	Drafting instructions to Parliamentary Counsel Office (PCO)
3 Jul 23	Final draft from PCO. Departmental consultation begins
17 Jul 23	Draft papers to office. Ministerial consultation. PCO final checks
10 Aug 23	LEG paper lodged
17 Aug 23	LEG
21 Aug 23	Cabinet / Executive Council
24 Aug 23	*Gazette* notification
21 Sep 23	Regulations in force

12 Extending the exemption to 30 November 2024 means RUC revenue is foregone from the National Land Transport Fund. We estimate this to be between $30-58 million, depending on the future uptake of battery EVs and PHEVs.

We can amend the Cabinet paper we prepared (OC230013 refers) to include the light EV exemption extension and to cover the consultation report back

13 If you agree to the extension, we will prepare a Cabinet paper that will:

13.1 Seek agreement to extend the exemption.

13.2 Seek policy agreement to progress legislative change for minor amendments that will simplify and improve the RUC system for RUC payers and Waka Kotahi as RUC collector (such as removing RUC licence labels. You agreed to these proposals in OC220846 refers).

13.3 Provide report back on the remaining 16 proposals that you agreed (OC220846 refers) should either be progressed through different workstreams (such as considering greenhouse gas emission impacts when setting RUC rates being picked up in the *Future of the Revenue System* project) or not progress (such as including fuel type, origin, and blend in setting RUC rates).

[2] If policy approval is obtained before the election, the remaining process will take 6 weeks and therefore must begin no later than February 15, 2024.

14 This will satisfy your report-back to the Cabinet Environment, Energy, and Climate (ENV) Committee on the outcomes of *Driving Change* and with recommendations for legislative change [ENV-21-MIN-0064 refers].

The Cabinet paper could include extending the heavy EV RUC exemption

15 You have indicated an interest in extending the heavy EV RUC exemption from 31 December 2025 up to December 2030 (OC220992 refers). We are seeking direction on whether to include this in the expanded Cabinet paper.

In Confidence

Office of the Minister of Transport

Cabinet Economic Development Committee

Road user charges: electric vehicle exemptions and reporting back from the *Driving Change* consultation

Proposal

1 This paper seeks agreement to:

1.1 allow the road user charges (RUC) exemption for light electric vehicles (EVs) to expire, as legislated, on 31 March 2024;

1.2 extend the RUC exemption for heavy EVs to 30 November 2030, and;

1.3 improve the RUC system for RUC payers and Waka Kotahi NZ Transport Agency as RUC collector.

2 The changes include setting partial RUC rates for plug-in hybrid electric vehicles (PHEVs), exempting very light EVs such as electric motorcycles, and removing the requirement to display RUC licence labels.

Relation to government priorities

3 The proposals in this paper support the sustainability and fairness of New Zealand's land transport revenue system. The Government has an ambitious transport investment agenda, and there is insufficient revenue in the National Land Transport Fund (NLTF) to meet these commitments. The proposals in this paper will generate additional revenue to help deliver on the Government's transport priorities.

4 Our Cooperation Agreement with the Green Party of Aotearoa reflects our shared priority to address climate change. One way that the transport portfolio can help realise this commitment is by promoting the adoption of zero-emission heavy vehicles.

5 Other proposed changes to the RUC system will modernise and streamline legislation, reduce compliance costs, and create a more favourable operating environment for Waka Kotahi NZ Transport Agency (Waka Kotahi) as the RUC collector. These updates are consistent with the Government's efforts to improve the quality of regulation and adhere to good regulatory practice.

Executive Summary

6 Te Manatū Waka Ministry of Transport (the Ministry of Transport) has reported back on the outcomes of public consultation on proposals for changing the RUC system, published in the discussion document *Driving Change Reviewing the Road User Charges System*.

7 The Ministry of Transport's report-back includes recommendations for changes to the RUC system to accommodate charging light EVs RUC when their RUC exemption expires on 31 March 2024. After this date, light EVs will require RUC licences to

legally operate on the road. The report-back also contained recommendations on technical amendments to RUC and associated legislation to improve the RUC system's administration.

8 I am seeking agreement that the light EV RUC exemption will end, as currently legislated on 31 March 2024.

9 In this paper, I also propose four major changes to the RUC Act:

9.1 extending the heavy EV[1] RUC exemption to 30 November 2030 to give them time to reach two percent of the fleet, supporting our decarbonisation goals;

9.2 enabling partial RUC rates for plug-in hybrid EVs (PHEVs) and removing their ability to apply for refunds of fuel excise duty (FED). This is to avoid those road users having to pay both RUC and FED for their vehicles;

9.3 permanently exempting very light EVs (electric motorbikes, all-terrain vehicles, mopeds) from RUC;

9.4 clarifying a range of vehicle definitions in legislation, including battery electric vehicles, PHEVs, and very light electric RUC vehicles.

10 Though these changes will not be in place by the time the light EV RUC exemption expires on 31 March 2024, they will improve the RUC system's operation for Waka Kotahi as the RUC collector, and for RUC payers.

11 The need to pass a Bill to implement these changes provides an opportunity to complete some minor and technical amendments that will also reduce compliance costs and provide for better administration of the RUC system.

12 These amendments include removing the requirement for vehicles to display RUC licenses and/or labels and improving the ability of Waka Kotahi to carry out assessments for unpaid RUC.

13 I also seek Cabinet's agreement that using RUC to charge for more than road use instead be considered under the Future of the Revenue System project that the Ministry of Transport is undertaking. Pricing for externalities, such as the inclusion of greenhouse gas (GHG) emissions within RUC, are more of a system level change. These options are best considered at a wider revenue system level rather than solely for vehicles that pay RUC. There is a risk this is interpreted as inaction on climate change, but imposing additional costs on vehicles that pay RUC and not on other vehicles on the network is unfair.

14 There are several other proposals from *Driving Change* that belong in other Ministry of Transport workstreams, or that should not progress. More detail on these proposals, and my rationale for their treatment, is in this paper's annexes.

Structure of this paper

15 This paper is in two parts. The first part discusses the RUC exemptions for EVs. The second part is my report back on the proposals resulting from the *Driving Change*

[1] EVs with a gross vehicle mass over 3.5 tonnes.

discussion document outlining my intended legislative amendments for a RUC amendment Bill.

Background to Road User Charges

16 Under the RUC Act, vehicles are subject to RUC if they do not use fuel that is charged fuel excise duty (FED) or they have a gross vehicle mass greater than 3.5 tonnes (primarily trucks, buses, and some trailers).

17 The purpose of RUC, as set out in Section 3 of the RUC Act, is to impose charges on vehicles for their use of the roads that are in proportion to the costs that the vehicles generate.[2] Vehicle operators paying RUC must purchase and display and/or carry RUC licences, which are bought in advance of travel and in units of 1,000 km. The cost of a RUC licence increases with the vehicle's weight and varies with the number of axles. Currently, almost all RUC vehicles are diesel powered, but vehicles using other fuels such as electricity, hydrogen, and biodiesel are also subject to RUC.

18 RUC revenue is hypothecated (dedicated) into the National Land Transport Fund (NLTF), that funds the land transport system's maintenance, operation and improvement. In the 2021/22 financial year RUC contributed $1.9 billion in revenue to the NLTF out of a total of $4.2 billion in revenue. Of this, 800,000 light RUC vehicles contributed $700 million, while 190,000 heavy vehicles (including trailers towed by heavy vehicles) contributed $1.2 billion.

RUC exemptions for light and heavy EVs

19 We need to reduce our transport emissions by 41 percent by 2035 and reach net zero by 2050. To help achieve this *The Decarbonising Transport Action Plan 2022–25*[3] sets out ambitious targets to increase zero-emissions vehicles to 30 percent of the light fleet and reduce emissions from freight transport by 35 percent by 2035. The Action Plan says the Government will consider the future of the RUC exemptions for light vehicles (Initiative 2.1.1) and heavy vehicles (Initiative 3.1.6).

The exemption for light EVs should be allowed to expire

20 Since 2009, light EVs have been exempt from RUC to encourage their uptake. Initially, the exemption was intended to last until light EVs comprised 1 percent of the light vehicle fleet, which was legislated as an exemption end date of 30 June 2020. In 2016, when EVs made up only 0.4 percent of the national fleet, the exemption was extended until they reached 2 percent of the light vehicle fleet. In 2021, light EVs accounted for only 0.6 percent of the national fleet, so the exemption was further extended until March 2024. During 2021, the number of light EVs increased substantially and by July 2023, the proportion of light EVs had increased to 1.9

[2] In the context of land transport, 'costs' are defined in terms of expenditure from the National Land Transport Programme (NLTP). Expenditure from the NLTP is categorised as one of the following:

- common costs – this mostly includes expenditure relating to road signage, road markings, routine maintenance, traffic lights, general road policing and public transport subsidies
- gross vehicle weight-related costs – expenditure relating to bridges and pavement strength
- heavy vehicle policing costs – expenditure for the NZ Police's Commercial Vehicle Safety Team
- pavement wear costs – expenditure related to pavement maintenance, resurfacing and rehabilitation

space costs – expenditure related to construction and land purchases

[3] https://www.transport.govt.nz/assets/Uploads/MOT4716_Emissions-Reduction-Plan-Action-Plan-P04-V02.pdf

percent of the national fleet. Ministry of Transport modelling suggests the 2 percent light EV target will be reached in 2024.

21 When Cabinet agreed to extend the light EV RUC exemption from 31 December 2021 to 31 March 2024, it noted that EVs would need to pay RUC after that date unless legislation is amended [ENV-21-MIN-0036 refers]. Because EVs will soon reach 2 percent of the light vehicle fleet, I propose to allow the light EV RUC exemption to expire on 31 March 2024. Therefore, from 1 April 2024, all light EV owners will be required to pay the relevant rate of RUC for their vehicles. This is currently $76 per 1,000 kilometres travelled.

22 Light EVs include a range of low and zero emission vehicles of various configurations and motive power sources. These include battery electric vehicles that are wholly powered by electricity, PHEVs that are partly petrol-powered, and very light EVs such as mopeds, motorbikes, and all-terrain vehicles.

23 In July 2023, there were 81,702 light EVs in the light vehicle fleet, comprising 58,941 battery electric vehicles, 22,761 PHEVs, and 2,571 electric motorbikes, which is just under two percent of the light fleet. Currently around $34 million of revenue per year is foregone from the NLTF (plus GST of $5 million) because of these vehicles being RUC exempt, assuming an average annual distance travelled of 11,000 kilometres.[4]

24 For 2021/2022, RUC represented $1.9 billion of revenue of the total $4.2 billion in the NLTF.[5] In this context, $34 million per year of foregone revenue is relatively small, but officials advise me that the amount of revenue foregone scales up quickly as light EVs become a larger percentage of the fleet.

25 I prefer to allow the exemption to expire because it ensures that EV owners will contribute to the cost of operating, maintaining, and improving our land transport system like every other road user. This is consistent with the key principle of the RUC system, that road users pay in proportion to the estimated cost of their road use.

26 Allowing the exemption to expire is also the best option for NLTF revenue because light EV owners will begin to pay the full RUC rate (comparable to their non-electric equivalents. At the current legislated rate that is $76 per 1000km). As EVs become a larger portion of the vehicle fleet it will become increasingly important for the sustainability of transport revenue that they contribute for their road use.

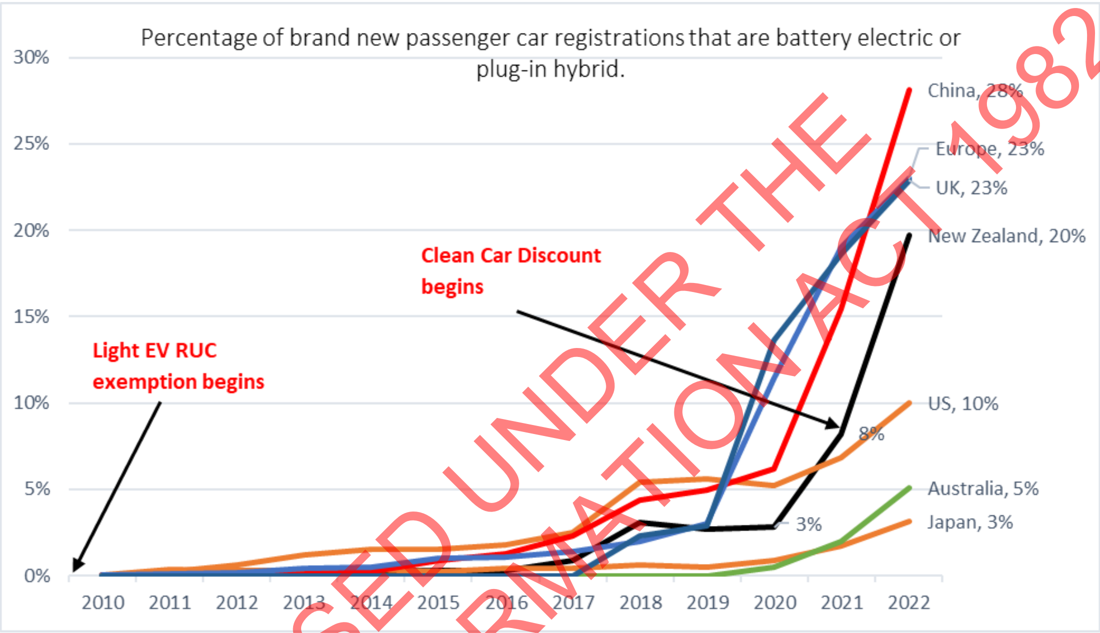
Allowing the RUC exemption to expire will impose a cost and compliance burden on EV owners

27 The RUC exemption's benefit to an existing light EV owner is worth $836 per year for an average distance travelled of 11,000 kms. If EVs become more expensive to operate it could reduce EV uptake amongst price-sensitive car buyers.[6] However, I do not consider this to be a substantial risk. The incentive to purchase or operate an EV does not arise solely from the RUC exemption. EV purchasers face higher upfront costs (that are not addressed by the RUC exemption) but have lower operating costs irrespective of becoming subject to RUC. Electricity is considerably cheaper than petrol or diesel and EVs have lower maintenance costs.

[4] This estimate does not take account of any fuel excise duty attributable to PHEVs.
[5] https://www.nzta.govt.nz/assets/resources/annual-report-nzta/2021-22/nltf-annual-report-2021-22.pdf
[6] Assuming there is no supply constraint in the light EV market.

28 The Government has also introduced the Clean Car Discount, a policy that better supports uptake and our decarbonisation priorities. Following the implementation of rebates in July 2021 uptake of zero and low-emission vehicles has exceeded government and industry expectations, likely due to a combination of the Clean Car Discount coupled with other external factors. Battery electric and PHEVs have increased from 3 percent of brand-new passenger car sales in 2020 to 20 percent in 2022.

29 The chart below illustrates how light EV uptake has tracked over the lifetime of the RUC exemption, how it has increased following the Clean Car Discount, and how this compares in an international context.



30 Allowing the RUC exemption to expire will also impose a small compliance burden on light EV owners who will need to purchase a RUC licence from Waka Kotahi and display the RUC licence label on their vehicle. The compliance burden is no greater than that imposed on other road users subject to RUC, and there is no evidence that light EV owners are less able to bear this burden than other road users.

31 Because light EVs' licencing labels (often called 'rego') do not currently identify those vehicles as RUC vehicles, owners of those vehicles would need to replace their current 'rego' labels to make them RUC-identifiable. This will be an additional cost to those motorists.

32 It is possible to reduce some of this compliance burden by removing the requirement for light RUC payers to display a RUC label in their vehicle's windscreen (covered in paragraph 68 of this paper).

Alternatives to the exemption expiring pose risks to NLTF revenue

33 Aside from allowing the RUC exemption to expire on 31 March 2024, it is possible to either: extend the RUC exemption for light EVs, set a permanent, partial (lower) RUC rate for EVs, or to phase light EVs to the full RUC rate through a series of graduated increments.

34 Continuing to fully exempt light EVs poses the greatest revenue risk to the NLTF. Officials advise that extending the exemption to (for example) 2027 would result in approximately $240 million (excluding GST) in foregone NLTF revenue, assuming the rate of light EV uptake remains consistent. Depending on the rate of light EV uptake, the revenue foregone could vary between $186 and $355 million.

35 It is possible to move EVs to the full RUC rate using a phased approach, or set a reduced rate. This would have a smaller revenue impact than maintaining the full exemption, but would still impact on the NLTF. The scale of the impact would depend on the length of the phase-in period and the RUC rate applicable at each stage. The same is true of setting a reduced rate.

36 Replacing this revenue would require us to increase costs on other road users. Otherwise, we would need to reduce/defer investment in the land transport system. This may have equity implications, particularly for low-income road users who need to drive to get to work or education. The NLTF is already under considerable pressure, and Waka Kotahi has advised me that, due to pre-existing contractual arrangements, projects most likely to be deferred or delayed are walking and cycling projects and public transport activities (projects that deliver on commitments under the Emissions Reduction Plan).

37 From a revenue and fairness perspective, there is not a strong argument to phase-in RUC or set a reduced rate. Light EVs generate the same costs as other light vehicles and should therefore pay the same rate as other road users driving similar petrol and diesel vehicles. As noted above, the Government has introduced other incentives to purchase EVs, including the Clean Car Discount.

38 Submitters on the *Driving Change* discussion document expressed mixed sentiments about charging EVs RUC. Many submitters were opposed to any exemptions to RUC. Grounds given for opposition included:

- the principle that all vehicles using the roads should contribute to their use of the roads;
- the fact that exemptions transfer costs to users who may not have options to use low emission vehicles;
- that exemptions dilute the funding available for the NLTF;
- that an exemption scheme is open to misuse (and is therefore a revenue risk);
- that exemptions add complexity and cost to the system.

The best arrangements for charging RUC on EVs require legislative change, and will not be in place by 1 April 2024

39 Onboarding the approximately 100,000 new RUC payers in April 2024 will be a substantial process. The majority (around 72,000) will be battery EV owners, whose transition into paying RUC will be relatively smooth (they will only need to provide an odometer reading, and subsequently purchase and display a RUC licence in the same way as existing light RUC payers). Many of these vehicle owners will be unfamiliar with the RUC system. The transition will be more challenging for the owners of PHEVs (around 2,000 vehicles) and very light EVs (3,000 vehicles). The changes I propose to the RUC legislation and system will solve these problems.

40 Until that legislation can be enacted, the current systems for charging RUC will be used. From 1 April 2024, EV owners will have to purchase physical RUC licences. Waka Kotahi has an online system for the issue of licences, however some operational and IT system changes may be needed. Waka Kotahi's call centre may need additional staff to assist EV owners with purchasing RUC licences.

41 Waka Kotahi will need to know the odometer reading of each light EV on the day the exemption ends so it can be sure that their owners purchase RUC from the correct recorded distance. Other than exempt vehicles, a vehicle is normally liable for RUC from the time it is registered and its initial odometer reading is recorded by a Waka Kotahi agent as part of the process of registering the vehicle. However, for light EVs that are already in use, Waka Kotahi will not know the initial distance for the purchase of the RUC licence. Without legislative change, the only way that odometer readings can be recorded by Waka Kotahi is via warrant of fitness checks or through the voluntary submission from motorists. Many light EVs will not have had a warrant of fitness check by 1 April 2024.

PHEV owners will pay both FED and RUC

42 When the exemption ends, PHEVs[7] will be subject to the standard light type 1 RUC rate, and owners will be able to make refund claims for any FED paid. In principle, this is the most equitable option, as it allows for the fact that PHEVs can have widely varying petrol consumption depending on use. It would ensure that no PHEV user paid more than their fair share of road taxes.

43 This has drawbacks. The existing FED refund process is paper-based and requires manual processing. It passes significant user compliance costs and administrative costs to motorists. The refund process requires claimants to keep full records of their petrol purchases and use, and even with current volumes it can take up to eight weeks to process a claim. We estimate that by 1 April 2024 there could be more than 29,000 PHEVs in the fleet. If the owners of these vehicles began to claim refunds of excise duty that could add 80,000 refund claims to be processed each year, more than doubling current volumes. This would cost around $2-3 million annually to administer.

44 s 9(2)(k) [redacted] This can be solved by setting a partial rate for these vehicles, and removing PHEV owners' ability to apply for FED refunds.

I propose that we enable the setting of partial RUC rates for PHEVs and removing their owners' ability to apply for FED refunds

45 An amendment to the RUC Act is required to enable partial RUC rates.[8] A partial RUC rate will still potentially overcharge some PHEV owners and undercharge others due to the wide variation in fuel consumption and usage. However, it should be noted the RUC system already involves a significant amount of averaging in the setting of RUC rates. For clarity, I am only proposing a partial rate for these vehicles to avoid

[7] PHEV in this paper covers only petrol PHEVs, of which there were 22,761 in the fleet in July 2023. There were 26 diesel PHEVs.
[8] Partial RUC rates could also be relevant for dual fuel petrol-CNG and petrol-LPG vehicles and a small number of petrol vehicles that pay RUC because they have a gross vehicle mass greater than 3.5 tonnes.

the unfairness of taxing them twice for their road use. Setting RUC rates based on fuel type and origin is a separate proposal, covered in Annex Two.

46 The changes required to implement partial rates and transition battery EVs and PHEVs into paying RUC are significant and will require numerous amendments throughout the RUC Act. The implementation of these changes will take place in two parallel processes. One process will involve changes to the RUC Act to enable partial rates, while the second will involve legislating new RUC rates, including partial rates, through amendments to regulations.[9] Officials will provide further advice to Government on what those specific rates will be once the vehicle types and basis for cost allocation are established.

The potential RUC revenue from very light EVs doesn't justify the administrative and compliance costs

47 As there are very few diesel motorcycles in the fleet (484 as at July 2023), and EVs are exempt from RUC, there has been no need to consider RUC for motorcycles until now. However, electric motorbikes and other very light EVs are likely to become more common in the future. Under the status quo, when the light EV exemption expires these vehicles must have a RUC licence to operate on the road network legally.

48 Many of these vehicles will be unsuitable for regular road use (such as electric all-terrain vehicles) and are typically lighter than one tonne gross vehicle mass, imposing minor road wear-related costs on the transport system, so should be exempt from RUC. Others will not have distance recorders fitted, so it will not be possible to determine what distances they have travelled, and therefore how much RUC they should purchase. There are also practical issues about where a RUC label can be reasonably displayed.

49 Officials are still considering the best way to treat very light RUC vehicles when the RUC exemption expires on 31 March 2024.

I propose that we exempt certain very light EVs in the longer-term

50 Submissions to *Driving Change* that opposed bringing very light EVs into the RUC system cited the compliance burden involved (especially considering the minimal damage these vehicles impose on the roads) and the disincentive to the uptake of these vehicles. It was noted that the administrative and compliance costs of bringing these vehicles into the RUC system would likely outweigh the revenue from charging them, and I consider this a valid argument to exempt these vehicles.

51 There would not be significant short term revenue implications, given the small number of very light EVs in the current fleet.[10] In the longer term, if all very light petrol vehicles were replaced by electric equivalents this could result in reduced FED revenue of around $14 million annually (excluding GST).

52 Very light EVs are a highly diverse category of vehicles. An exemption based on weight alone may result in a legislative framework that enables RUC evasion for road use for certain types of very light cars, which is not the exemption's intent. To address this, I propose to establish a new regulation to specify which very light EVs

[9] Including the Road User Charges (Rates) Regulations 2015 and the Land Transport Management (Apportionment and Refund of Excise Duty and Excise-Equivalent Duty) Regulations 2004 to remove the ability of PHEV owners to claim FED refunds as a "licensed vehicle" under that regulation.
[10] 2,571 in July 2023.

are exempt, and that Cabinet gives the Minister of Transport the ability to recommend which vehicles are exempt, subject to criteria to be set out in the RUC Act.

A strong signal is needed to encourage the uptake of heavy EVs from 0.3 percent of the fleet to 2 percent

53 In 2016, Cabinet decided that heavy EVs should remain exempt from paying RUC until they made up 2 percent of the heavy vehicle fleet – currently they make up 0.3 percent.[11]

54 Section 37A(2) of the RUC Act provides for extending the exemption from RUC for heavy EVs. It stipulates that I must not recommend the Order to extend the exemption unless I am satisfied that it would encourage the uptake of heavy EVs.

55 Without intervention the exemption from RUC will expire on 31 December 2025. Modelling by the Ministry of Transport indicates that without a RUC exemption in place heavy EVs will comprise between 0.92 to 2.38 percent of the fleet by 2030. With an exemption, the Ministry forecasts that by 2030 the heavy EV fleet size will make up between 1.1 to 2.9 percent of the fleet (around 3600 vehicles in the base case).

56 Operating costs for heavy vehicles are a significant part of the total cost of ownership and purchases are usually planned years in advance. For this reason, I am satisfied that an exemption from RUC would support the uptake of heavy EVs. Considering the upfront purchase cost of heavy EVs, I intend to extend the heavy EV RUC exemption to 30 November 2030 to provide a strong signal and greatest support to the sector to increase uptake, linking this extension to achieving 2 percent of the fleet.

57 The Ministry of Transport modelled the potential reduction of GHG emissions to come from extending the heavy EV exemption from 2025 to 2030. Extending the exemption is expected to contribute to 103 kilo tonnes of avoided tailpipe GHG emissions by 2030, which is 93 kilo tonnes higher than if the exemption was not extended. We can assume further avoided emissions over the lifetime of the vehicles, as they remain in the fleet after the exemption expires. These savings are depicted in the table below, in annual and cumulative terms.

[11] When heavy EVs were first exempted from RUC in 2016, setting a 'percentage-of-the-fleet-based' measure was unworkable in legislation because it cannot account for changes in fleet composition over time. A time-based exemption was therefore used as a proxy for fleet percentage

Kilo tonnes of avoided greenhouse gas emissions from the heavy EV exemption, in annual and cumulative terms

Year	Base case	High case	Cumulative emissions saving			
			Period	Base case	High case	Low case
2031	30.33	43.29				
2032	28.97	41.28				
2033	27.34	38.87				
2034	25.56	36.27				
2035	23.83	33.73	**2031-35**	136.0	193.4	60.7
2036	22.07	31.20				
2037	20.34	28.77				
2038	18.69	26.46				
2039	17.15	24.25				
2040	15.82	22.32	**2036-40**	94.1	133.0	43.0
2041	14.62	20.59				
2042	13.51	19.00				
2043	12.39	17.44				
2044	11.29	15.88				
2045	10.14	14.29	**2041-45**	62.0	87.2	28.6
2046	9.02	11.79				
2047	7.97	10.38				
2048	7.09	9.12				
2049	6.30	7.98				
2050	5.67	7.06	**2046-50**	36.1	46.3	17.3

This exemption comes at a significant cost, so I have directed the Ministry of Transport to monitor EV uptake

58 I am aware that continuing to exempt heavy EVs will impact the NLTF. RUC is a key source of revenue to the NLTF, so any exemption from paying RUC forgoes revenue that could be invested into the land transport system. Given heavy EVs are still a small proportion of the vehicle fleet, the foregone revenue from a RUC exemption is small relative to total NLTF revenue.

59 In 2021/2022, approximately $16 million[12] of revenue was foregone due to the RUC exemption for light and heavy EVs - equivalent to a 0.4 percent reduction in NLTF revenue. Ministry of Transport modelling shows that extending the heavy EV exemption out to 2030 may cost $146 million.[13]

60 It is important to balance the benefits to heavy EV purchasers through incentivising their adoption with the risk to NLTF revenue from them not paying RUC. A key principle of the RUC system is that road users pay for their road use, meaning that the exemption cannot continue indefinitely. I believe that, over this time period, exempting heavy EVs from RUC is less of risk to NLTF revenue than exempting light

[12] Calculated using the fleet number for plug in hybrids electric vehicles (PHEV), battery electric vehicles (BEV) and electric motorbikes, assumes 11,000 km pa travel and that BEVs pay type 1 rates and PHEVs pay 50 percent of type 1 rates.
[13] Using the "base case" scenario from the Ministry of Transport's modelling.

EVs, and that the need for heavy EVs to reach 2 percent of the fleet justifies their continued exemption.

61 Ministry of Transport officials will continue to monitor the impact of the heavy EV RUC exemption on heavy EV uptake, the amount of RUC revenue forgone during the exemption, and any potential market distortions created by the exemptions. If necessary, the exemption's end date can be altered through a further Order in Council.

Reporting back on the *Driving Change: Reviewing the Road User Charges System* proposals

62 The last suite of major changes to the RUC system was made in 2012 with the enactment of the RUC Act. In November 2021, Cabinet approved the release of a discussion document asking for feedback on potential changes to the RUC system. I was tasked with reporting back to the Cabinet Environment, Energy and Climate Committee on the results and making recommendations [ENV-21-MIN-0064 refers].

63 The discussion document titled *Driving Change: Reviewing the Road User Charges System* was released for public submissions in January 2022.[14] It contained 30 proposals grouped into three chapters based on the level of system-change proposed.

64 The document's discussion questions were open-ended and wide-ranging. Stakeholder meetings and online workshops were held, and over 100 submitters provided feedback with about 3,000 separate responses to 89 discussion questions. Most submissions received were from the freight and trucking sectors, with some from private individuals.

65 The following sections and Annex One present the changes I am seeking Cabinet agreement to progress. These changes will be included in a RUC Amendment Bill that I will initiate if Cabinet agrees to my recommendations. Paragraphs 83-87 describe the proposals that I recommend the Government pursues, but not as part of the RUC Amendment Bill. I am also reporting back on the proposals that I have decided to not progress in paragraphs 88-92. The latter two are detailed in Annex Two.

Changes to the RUC Act are needed to improve the RUC system's administration

66 In addition to setting partial RUC rates for PHEVs, and exempting very light EVs, I propose a suite of improvements to the RUC system and legislation that will improve RUC for Waka Kotahi and RUC payers. The changes below require amendments to the Road User Charges Act 2012, and will therefore not be in place before EV owners start paying RUC from 1 April 2024. Waka Kotahi, as the RUC collector, will implement transitional arrangements for these vehicles until new legislation can be enacted.

67 After reviewing the submissions on how to transition light EVs into the RUC system after the exemption ends, I found that opinions were mixed. However, there was a consensus that inequities between road users in the revenue system need to be addressed, compliance costs should be reduced, and administration costs should be minimised. It is important to ensure that any changes made to the RUC system are equitable and do not place undue burdens on certain groups of road users. While

[14] https://www.transport.govt.nz/consultations/road-user-charges-consultation

there may be some initial costs associated with implementing a new system, the long-term benefits of a more streamlined and fair revenue system are clear.

I intend to remove the obligation to either carry or display RUC licence labels for light and heavy vehicles

68 The current paper-based RUC licence system is outdated. The requirement for Waka Kotahi to print and post paper RUC labels, and then for RUC payers to carry or display them creates unnecessary administration and compliance costs. The cost to Waka Kotahi for printing and mailing a single motor vehicle licence is $1.07, with 5.7 million licences posted each year costing $6.2 million. Waka Kotahi also has average annual costs of $2.5 million to resend licence labels that have been lost in the mailing system. I propose that heavy and light RUC customers can still use paper labels if they prefer, but verification of RUC status would be done through the vehicle's registration plate number on Waka Kotahi's online records.

69 Legislation treats heavy and light RUC vehicles differently in this respect. Specifically, I propose that: light RUC vehicle owners should not be required to display RUC labels, that heavy RUC vehicle owners should not be required to carry RUC labels, and that electronic RUC (eRUC) devices in heavy RUC vehicles should not need to display a RUC licence. The removal of these requirements would simplify administration and eliminate the need for paper licences. Most submissions on the *Driving Change* document agreed that RUC licences were an unnecessary administrative burden.

70 Waka Kotahi estimates that setting up an online alternative to verify RUC status will have approximately $7.5 million in digital costs. Waka Kotahi will provide the back-end function and link to send New Zealand Police RUC records, and the front-end online service for RUC payers to check their latest odometer reading. Additionally, these costs allow Waka Kotahi to initiate low-cost reminders to RUC users to purchase RUC to ensure compliance is at least maintained despite the removal of the label. There will also be IT security check and associated implementation costs.

71 I expect that removing the obligation to carry or display RUC licences will help smooth the transition to the RUC system for new payers. Much of the penalty regime is centred on the display of the correct licence and the removal of this requirement eliminates that burden and makes it easier for RUC payers to comply with their RUC obligations. While there may be an increase in unintentional non-compliance (people forgetting to purchase new licences), any unpaid RUC would be recovered when the person next purchases a licence or following a Warrant of Fitness (WoF) or Certificate of Fitness (CoF) inspection.

72 New Zealand Police has advised that it will not be able to enforce RUC non-compliance without real-time roadside access to RUC information. While a new online system is being proposed, the exact details and ICT requirements are yet to be developed. Before the RUC display requirement is removed, it will be important to ensure that Waka Kotahi and New Zealand Police have sufficient time and funding to implement this online system that people can easily access to check their RUC status, and that Police can use to carry out effective enforcement. The requirement for labels should not be removed before this online system is ready.

CNG and LPG powered vehicles should pay RUC at the same rate as diesel-powered equivalents

73 Currently FED is collected on the sale of all CNG and LPG at the point of manufacture or import. The excise rate for LPG is 10.4 cents per litre and it is $3.17 per giga joule for CNG which is much lower than the petrol excise duty rate (currently 45.024 cents per litre under the temporary reduction, returning to the full rate of 70.024 on 1 July 2023).

74 The FED paid for CNG or LPG that is not used for road transport is then refunded to fuel importers/retailers. While this arrangement was appropriate when CNG and LPG were major transport fuels in the 1980s and 1990s, there are now fewer than 1,400 active road vehicles using these fuels and these numbers are falling each year.

75 Almost all LPG is used for non-road transport purposes, meaning that more than 98 percent of FED on LPG should be refunded. This imposes considerable compliance costs (estimated to be several million dollars per year) for collecting and then refunding FED for both the CNG and LPG import and distribution sector and Waka Kotahi.

76 Transitioning these vehicles to the RUC system was uniformly supported by submitters on the *Driving Change* document. Most submissions cited the efficiency gains and the fact that the proposal aligns these fuels with how diesel is treated.

77 I propose that CNG and LPG-powered vehicles that are operated on the road are charged the same RUC rate as their diesel-powered equivalents. This is a fairer arrangement as these vehicles generate the same costs as equivalent light diesel and petrol vehicles. Waka Kotahi will need to engage with these vehicle owners to help them understand their new RUC obligations.

78 Charging RUC on CNG- and LPG-powered vehicles will replace the obligation to pay and collect excise duty on LPG and CNG, which is provided for under the Customs and Excise Act 2018 and the Excise and Excise-equivalent Duties Table (EEDT). LPG, which includes butane, is added to some motor spirits during secondary blending (manufacturing) that takes place at tank farms. The Ministry of Transport and the New Zealand Customs Service will work together to determine what changes are required to the Customs and Excise Act, EEDT, and any other related secondary legislation to remove excise duty obligations in relation to LPG and CNG.

I also recommend a range of minor and technical amendments to RUC legislation

79 The need to amend RUC legislation for EVs presents us with an opportunity to implement some minor and technical amendments that will help make the system easier to navigate for road users and easier to administer for Waka Kotahi. These amendments were all included in the *Driving Change* document, and only affect small groups of road users.

80 These changes involve:

- Providing Waka Kotahi with the ability to use historical RUC rates when conducting a RUC assessment, broader discretion regarding a RUC assessment review, and better access to third party records to assist in RUC assessments.
- Exempting off road vehicles travelling for Certificate of Fitness (CoF) purposes from paying RUC.
- Amending Road User Charges Regulations 2012 to:

- amend the RUC bands to better align with the Land Transport Rule: Vehicle Dimensions and Mass 2016 (VDAM) Rule, through
  - removing the concession type licences 308 and 408 for Towing vehicles with 3 or 4 axles that are part of a combination vehicle with a total of at least 8 axles
  - establishing a 54 tonne RUC band at a rate proportional to that of a 54- tonne vehicle
- simplify the definition of all-terrain cranes and remove their RUC exemption.

81 These proposals are non-controversial and were near-universally supported by submitters. More information on these amendments, and my rationale for progressing them in a RUC Amendment Bill is provided in Annex One.

82 During the drafting process, there may be some minor adjustments or necessary consequential amendments required, especially given the various transport Bills under consideration by the House (e.g., the Land Transport (Road Safety) Amendment Bill). As a result, I am also requesting Cabinet's approval for discretion to modify any legislative changes in the Bill that are technical, non-controversial, and consistent with the overall policy set out in this paper.

Proposals included in the Driving Change discussion document I recommend are considered in other workstreams (see Annex Two)

83 The inclusion of externalities in RUC and charging for GHG emissions are revenue-system level issues rather than RUC system specific, and therefore better addressed in the Future of the Revenue System project. These proposals attracted a lot of feedback in the *Driving Change* submissions process but there was no consensus and the views expressed were polarised. There is clearly an appetite for further public debate on this topic, which the wider system-level project can pick up.

84 Likewise, it's important that there is consistency in the penalties regime, so I recommend that amending the RUC penalties is progressed using the *Effective Transport Financial Penalties Framework and Tool*. The Ministry of Transport will provide further advice on amending the RUC Act so that electronic system providers (i.e., the companies that provide eRUC) report RUC non-compliance when they believe RUC evasion has occurred.

85 The proposal to remove the requirement to display vehicle licence ('rego') labels was well supported by submitters, who considered that the display requirement imposes unnecessary administration and compliance costs. While I agree, further work is needed to ensure that in the absence of a physical rego label being displayed, there is adequate access to vehicle data through an online portal provided by Waka Kotahi. Further communication and engagement with local authorities is required to ensure that their ability to enforce stationary vehicle offences is not hindered by the removal of the licence label display requirement.

86 The feedback received on integrating electronic logbooks and eRUC is related to the future role of telematics in road safety and are actions within *Road to Zero* work programme. Future changes to the overweight permitting system are the Director of Land Transport's remit.

87 Annex Two contains a more complete evaluation of these proposals.

Proposals that I recommend not be progressed at this time (see Annex Two)

88 Several proposals put forward in *Driving Change* were met with stakeholder resistance. Concerns were raised about the feasibility and potential negative impacts of these ideas. I recommend that the proposals included in table two of Annex Two are not progressed at this time but are reassessed and potentially revisited at a later date.

89 This cohort includes mandating eRUC[15] for heavy vehicles. The electronic system providers raised concerns about some potential eRUC customers carrying more risk than others and the impact mandating eRUC would have on their business. The freight industry highlighted that currently there's no standalone eRUC product suitable for the small fleet operators. However, submitters were open to a limited form of mandate that is streamlined, phased in over time, and restricted to new heavy vehicles only. More policy work is needed on a limited form of mandatory eRUC before further advice on options for legislative change is provided.

90 I recommend that the Government not progress work to include fuel type, origin, and blend in RUC rates. While I note submitters agreed that new fuels would likely incur higher costs ahead of their widespread adoption, using RUC to offset these costs would be extremely difficult to administer and enforce in a way that maintains the integrity of the RUC system.

91 After reviewing submissions on *Driving Change*, I consider some proposals to have greater costs than benefits to RUC payers and Waka Kotahi as the RUC collector. These are to: require WoF and CoF assessors to report evidence of suspected odometer tampering; supply RUC licences in amounts less than 1,000 km; and change the requirements for making and retaining records. The proposal to define 'accurate' in relation to distance recording in the RUC Act yielded no usable solution from the consultation.

92 Proposals to make the heavy EV RUC exemption distance-based and to exempt trailers towed by exempt vehicles will not progress. Both would require RUC Act amendments and further complicate the approach to exemptions. The current approach through an Order in Council means the exemption's time-bound form is not modified.

Implementation

Extending the heavy EV RUC exemption

93 New regulations under the RUC Act are needed before the RUC exemption for heavy EVs expires to set the new end dates. I do not propose to consult with the public further before making these regulations, as they confer a benefit and only affect owners and potential purchasers of heavy EVs.

94 Following gazetting of the exemption extension the Ministry of Transport and Waka Kotahi will work together to publicise the exemption extension.

Amendments to the RUC system

[15] An electronic system to collect RUC.

95 Amendments to the RUC Act and attendant regulations will be required to implement the changes described in this paper. These are detailed in the legislative implications section below. The Ministry of Transport and the New Zealand Customs Service will determine what changes are required to the Customs and Excise Act 2018, Excise and Excise-equivalent Duties, and any other related secondary legislation to remove excise duty obligations in relation to LPG and CNG.

96 Waka Kotahi will need to inform current and future light EV owners, and CNG/LPG vehicle owners about their RUC obligations. To provide enough time for these vehicle owners to prepare for entering the RUC system, communications will need to begin well before they begin paying RUC. Light EV and CNG/LPG vehicle owners will need to know how to purchase their RUC licences and what rate they will pay.

97 Providing online systems for RUC payers to verify RUC status, and for enforcement officials to carry out RUC enforcement, requires computer system improvements (and other resourcing) to ensure accurate and accessible vehicle information. Waka Kotahi will work with New Zealand Police to ensure a vehicle's RUC status is obtainable through an online portal providing real time, roadside information.

98 The other proposals are legislative changes altering how Waka Kotahi operates as RUC collector. They will require Waka Kotahi to clearly communicate any changes to their practices and procedures to RUC payers to ensure they can maintain their RUC compliance.

Cost-of-Living Implications

99 The expiry of the light EV RUC exemption will impose a cost on light EV owners of around $836 per year, assuming an average distance travelled of 11,000 kms. This is the same average RUC paid by an owner of an equivalent non-electric light RUC vehicle, and there is no evidence that light EV owners are less able to bear this cost than other RUC payers.

100 While the RUC exemption for heavy EVs will reduce the operating costs for these vehicles, I expect the exemptions to have a negligible impact on the cost-of-living to the most vulnerable in our community. This is because heavy EV uptake will likely be too low to cause significant reductions in freighting costs, and any freighting cost efficiency gains are unlikely to passed on to consumers.

Financial Implications

Extending the heavy EV RUC exemption

101 The amount of revenue added to the NLTF once light EVs begin paying RUC in April 2024 will be in the range of $55 to $86 million in 2024. Extending the heavy EV exemption to 30 November 2030 is expected to forgo between $93 to $200 million.

102 Officials from the Ministry of Transport and Waka Kotahi will continue to monitor the uptake of EVs and the resulting impact on NLTF revenue and will report to me about any significant revenue risks that arise.

103 Currently, Waka Kotahi estimates the transition costs of BEVs and PHEVs into the RUC system to be approximately $3.2 million and that the digital costs required to build an alternative system to RUC labels will cost $7.5 million.

Amendments to the RUC system

104 While I expect the other proposals to improve RUC compliance, simplify Waka Kotahi's administration of the RUC system, and increase revenue to the NLTF, officials advise it is not yet possible to accurately quantify these benefits.

Legislative Implications

Extending the heavy EV RUC exemption

105 To amend to the heavy EV exemption end date, I propose new regulations, which would be made by Order in Council, be prepared for Cabinet's approval.

Amendments to the RUC system

106 Amendments to transport legislation and attendant regulations will be required to implement the proposals and it is also likely that amendments are required to the Customs and Excise Act 2018 and Regulations. Specifically, there will be changes to the following legislation:

- **Road User Charges Act 2012:**
  - Amendments to enable partial rates of RUC.
  - Removing the requirement for light RUC vehicles to display a RUC licence.
  - Enabling Waka Kotahi to use historical RUC rates in RUC assessments.
  - Allowing Waka Kothi discretion regarding the time allowed for an assessment review.
  - Allowing a limited increase of Waka Kotahi's access to third party records.
  - Exempting travel for CoF purposes from RUC where the vehicle is normally used off road.
  - Removing the RUC exemption from mobile cranes.
- **Road User Charges (Rates) Regulations 2015:** Realigning definitions to the RUC Act, and rates for a range of new vehicles.
- **Road User Charges Regulations 2012:** Creating new RUC vehicle types and RUC weight bands for BEVs, PHEVs, and certain very light EVs. Removing the requirement that eRUC devices display RUC licences. Simplifying the definition of all-terrain cranes.
- **Road User Charges (Classes of RUC Vehicles) Exemption Order 2012**: Adding certain very light EVs that are used off road and all terrain very light EVs to the list of exempted vehicles.
- **Land Transport Management Act (Apportionment and Refund of Excise Duty and Excise-Equivalent Duty) Regulations 2004:** Amending to align

with the changes to RUC legislation, in particular removing the ability to claim refunds of the excise duty, excise-equivalent duty, and goods and services tax charged in respect of motor spirits used in a PHEV.

- **Customs and Excise Act 2018 and related secondary legislation**: Amending this legislation to give effect to the removal of the obligation to pay excise duty on LPG and CNG at the point of manufacture and import (related secondary legislation possibly being, but not limited to, the Customs and Excise Regulations 1996 and the EEDT).

107 To support these changes, a bid for a Road User Charges Amendment Bill was submitted for the 2023 Legislation Programme with a priority of category 5 (instructions to be provided to Parliamentary Counsel Office before the 2023 general election).

Impact Analysis

Regulatory Impact Statement

108 For the proposal to extend the exemption from road user charges for heavy electric vehicles, a Regulatory Impact Statement has been completed and is attached in Annex 3. The Ministry of Transport's internal RIA panel reviewed the RIS and provides the following comment: "This Regulatory Impact Statement (RIS) has been reviewed by a panel of representatives from Te Manatū Waka Ministry of Transport. It has been given a 'meets' rating against the quality assurance criteria for the purpose of informing Cabinet decisions. The panel notes that there was limited engagement with Māori, however it acknowledges that the subject matter makes direct engagement with Māori challenging."

109 The Treasury's Regulatory Impact Analysis team has also determined that the remaining regulatory proposals on road user charges legislation in this paper are exempt from the requirement to provide a Regulatory Impact Statement on the grounds that they have no or only minor impacts on businesses, individuals, and not-for-profit entities.

Climate Implications of Policy Assessment

110 The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements apply to the proposal to extend the RUC exemption for heavy EVs, as a key objective of the proposal is to reduce emissions.

111 This proposal is expected to have a relatively small impact on emissions from transport through supporting the uptake of heavy electric vehicles. This is estimated to result in a cumulative 200 kt CO_2-e avoided over the 2023 to 2033 period (ranged from 93 kt CO_2-e to 287 kt CO_2-e in the low and high EV uptake scenarios).

112 Full quality assurance of the emissions analysis was unable to be completed. However, the scale of estimated emissions reduction appears reasonable, and the CIPA team has no general concerns with the modelling methodology employed. Relatively large uncertainty would be associated with this analysis due to limited data available for heavy EV uptake, and this is mitigated somewhat by projecting impact of this policy in the low and high EV uptake scenarios.

113 Ministry of Transport officials will work with the CIPA team to assess the emissions impact of further RUC proposals as they are advanced, as appropriate.

114 The CIPA disclosure sheet is attached in Annex 4.

Population Implications

115 No direct population implications arise from this paper.

Human Rights

116 The proposals in this paper are consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Consultation

117 Consultation has occurred with the Treasury, Waka Kotahi, New Zealand Police, New Zealand Customs Service, and the Office of the Privacy Commissioner. The Department of Prime Minister and Cabinet has been informed of the contents of this paper.

Communications

118 Waka Kotahi will need to inform light EV owners about their RUC obligations. Officials intend to begin communications in November 2023 to give EV owners notice of their RUC obligations. Further reminders from Waka Kotahi should occur before the exemption expiry date.

119 If agreed to, I will announce on the Beehive website that the heavy EV RUC exemption will be extended. It is important that this is done as soon as possible because potential purchasers of heavy EVs may be influenced by the saving offered by a further extension to the exemption.

120 I will announce the other proposals before the election. This will provide Waka Kotahi a clear direction and time to communicate and explain any changes in its administration of the RUC system, before the amendments come into effect. It will also provide time for RUC payers to understand the changes.

Proactive Release

121 The Ministry of Transport will proactively release this Cabinet paper with appropriate redactions under the Official Information Act 1982 within 30 business days of Cabinet confirming a decision, in line with guidelines from the Cabinet Office (CabGuide, and the Cabinet Office circular, Proactive Release of Cabinet Material: Updated Requirements [CO (18) 4]).

Recommendations

The Minister of Transport recommends that the Committee:

Extending the exemption from road user charges for heavy electric vehicles

1 **note** that light electric vehicles are exempt from paying road user charges until 31 March 2024, heavy electric vehicles are exempt from paying road user charges until 31 December 2025, and owners of these vehicles will need to pay road user charges from these dates unless the legislation is amended;

2 **note** that light electric vehicles are expected to reach two percent of the light vehicle fleet in 2024;

3 **agree** to allow the road user charges exemption for light electric vehicles to expire, as legislated, on 31 March 2024;

4 **note** that charging light electric vehicles road user charges will generate revenue of $55 to $86 million;

5 **note** that Waka Kotahi NZ Transport Agency will begin communications in November 2023, explaining the future road user charges compliance obligations to owners of light electric vehicles;

6 **note** that amendments to primary legislation will be necessary to support the changes as set out in this paper and that if these are not enacted before 1 April 2024, Waka Kotahi NZ Transport Agency will implement transitional arrangements until new legislation is in place;

7 **note** that although the number of heavy electric vehicles in our fleet is rising the numbers are still below two percent of the national fleet;

8 **agree** to amend the Order in Council under section 37A of the Road User Charges Act 2012 to extend the heavy electric vehicles road user charges exemption to 30 November 2030;

9 **note** that extending the heavy electric vehicle road user charges exemption to 30 November 2030 will cause foregone revenue of $95 to $200 million;

10 **note** the heavy electric vehicle exemption is in place to help the fleet reach 2 percent. Officials will monitor uptake and revenue impacts and will recommend changes to the exemption, if necessary;

11 **note** that further public consultation on the road user charge exemption for heavy electric vehicles is not necessary as the proposed extension confers a benefit on the public, and this approach is consistent with previous exemptions;

Report back on the Driving Change consultation

12 **note** that I was invited to report back to the Cabinet Environment, Energy and Climate Committee on the results of the Driving Change discussion document with recommendations for legislative change [ENV-21-MIN-0064 refers] and this paper is that report back;

13 **agree** that battery electric vehicles and plug-in hybrid electric vehicles should pay road user charges when the light electric vehicle exemption ends;

14 **agree** to amend the Road User Charges Act 2012 to enable the setting of partial rates;

15 **note** that the policy intent of enabling partial road user charges rates is to avoid subjecting owners of vehicles liable to both fuel excise duty and road user charges to the full rate of road user charges;

16 **agree** to remove the ability for plug-in hybrid electric vehicle owners to apply for fuel excise duty refunds for those vehicles;

17 **agree** that vehicles powered by compressed natural gas and liquefied petroleum gas should pay road user charges;

18 **agree** to exempt certain very light electric vehicles with a gross vehicle mass of less than one tonne from the obligation to pay road user charges;

19 **agree** that the Minister of Transport will have the authority to determine what very light electric vehicle types are exempt from road user charges;

20 **agree** to remove the requirement that road user charges licences need to be displayed or carried for all road user charges vehicles unless a vehicle owner requests a licence label and pays the administrative fee;

21 **agree** that electronic road user charges devices in heavy vehicles should not be required to display a road user charges licence;

22 **note** that Waka Kotahi NZ Transport Agency will develop an online portal, in consultation with New Zealand Police, for vehicle owners and enforcement officers to check a vehicle's road user charges before the licence display requirement is removed;

23 **note** that Waka Kotahi NZ Transport Agency and New Zealand Police will ensure that, when the display requirement is removed, New Zealand Police has adequate access to vehicle data to enable enforcement action at all times and locations;

24 **agree** to enable Waka Kotahi NZ Transport Agency to use historical road user charges rates to determine unpaid road user charges in auditing assessments;

25 **agree** to allow Waka Kotahi NZ Transport Agency discretion regarding the time allowed for an assessment review;

26 **agree** to allow a limited increase of Waka Kotahi NZ Transport Agency access to third party records to assist with road user charges assessments;

27 **agree** to exempt travel for a Certificate of Fitness check from road user charges if the vehicle is normally used off road;

28 **agree** to reset the road user charges bands to align with Land Transport Rule: Vehicle Dimensions and Mass 2016 and remove concession type licences 308 and 408;

29 **agree** to establish a 54 tonne road user charges band at a rate proportional to that of a 54-tonne vehicle;

30 **agree** the road user charges exemption should be removed from mobile cranes;

31 **agree** to modify the definition of all-terrain cranes in the Road User Charges Regulations 2012 from a tyre contact area of more than 1,500 cm^2 per tyre" to "single large or single mega tyred axles";

32 **note** that seven proposals from the *Driving Change* document will be progressed in separate workstreams to the Bill amending the road user charges system. These proposals are:

32.1 Including externalities in the costs considered in setting road user charges rates;

32.2 Including impacts on greenhouse gas emissions when setting road user charges rates;

32.3 Using electronic road user charges devices to improve road safety;

32.4 Adjusting the overweight permit regime;

32.5 Removing the requirement to display other transport labels;

32.6 Adjusting road user charges offences and penalties to be consistent with the *Effective Transport Financial Penalties Framework*;

32.7 Creating a requirement for road user charges electronic system providers to notify Waka Kotahi of the status of road user charges payments;

33 **note** that eight proposals from the *Driving Change* document will not be included in the RUC amendment Bill or directed to other workstreams at this time. These are:

33.1 Exempting vehicle combinations where the motive power is from a vehicle exempted from road user charges;

33.2 Exempting low emission vehicles from road user charges based on distance travelled;

33.3 Including fuel type, origin, and blend in road user charges rates;

33.4 Reviewing the requirements for electronic road user charges (including the Code of Practice's fitness for purpose) and mandating electronic road user charges for all heavy vehicles;

33.5 Allowing for the purchase of road user charges licences in amounts less than 1,000 kilometres;

33.6 Change Certificate of Fitness and Warrant of Fitness requirements so the assessor must report evidence of odometer tampering;

33.7 Clarifying the definition of 'accurate' for a distance recorder in a light vehicle;

33.8 Clarifying the requirements that certain persons must make and retain certain records;

34 **invite** the Minister of Transport to issue drafting instructions to the Parliamentary Counsel Office to give legislative effect to the policy proposals above in recommendations 3 to 31 (including for primary legislation and any associated regulations) including any consequential amendments, savings and transitional provisions;

35 **note** that a bid was submitted for a Road User Charges Amendment Bill to be included in the 2023 Legislation Programme with a priority category of 5 (instructions to be provided to Parliamentary Counsel Office before the 2023 general election);

36 **authorise** the Minister of Transport to make decisions that are consistent with the overall policy provided that these decisions are confirmed when the road user charges amendment Bill is considered for introduction.

Hon David Parker

Minister of Transport

Annex 1: Technical amendments to the RUC Act

Annex 2: Remaining proposals from the *Driving Change* discussion document

Annex 3: Regulatory Impact Statement: Extending the Heavy Electric Vehicle Road User Charges Exemption

Annex 4: Climate Implications of Policy Assessment: Disclosure Sheet: Extending the Heavy Electric Vehicle Road User Charges Exemption

Annex One: Technical amendments to the RUC Act

Proposal	Context	Costs	Benefits	Stakeholder view
Amending the RUC Act to enable Waka Kotahi to use historical RUC rates when assessing unpaid RUC.	Waka Kotahi must use the current RUC rate when assessing unpaid RUC. This means that if Waka Kotahi reviews records for a period of several years during which RUC rates increased, an operator is required to pay extra on top of what they would have been required to pay if they were compliant at the time the journey occurred.[16] The purpose of this amendment is to allow Waka Kotahi to use the rates that were in force at the time the journey was made.	Assuming RUC rates increase over time, enabling historical rates may have a very minor negative impact on revenue collection compared to the status quo. The collection will be the revenue that should have been collected at the time of travel.	Fairer for operators because any non-payment will be assessed at the correct rate. Is likely to reduce the number of complaints made to Waka Kotahi.	Uniformly supported by submitters who commented on this proposal in *Driving Change*. Waka Kotahi supports the proposal.
Extending an operator's time to request an independent review of a Waka Kotahi RUC assessment.	Under the status quo operators have 20 working days to request an independent review of a RUC assessment. I propose giving Waka Kotahi discretion to extend this 20-day limit. This proposal will lower administrative complexity in dealing with operators who have missed their window for review.	Some administrative complexity will be added by assessing applications for review past 20 days.	Providing Waka Kotahi with discretion helps create a more equitable RUC system as it provides all operators with a chance to request review even under circumstances of hardship.	Uniformly supported by submitters who commented on this proposal in *Driving Change*. Waka Kotahi supports the proposal.
Clarifying provisions relating to accessing records held by third parties.	Waka Kotahi can access certain records held by third parties that have serviced, maintained, supplied, or contracted for the use of the vehicle subject to RUC. But there are other parties that also have records that can aid in assessing RUC compliance that Waka Kotahi cannot access, such as private weigh bridges, including ports, that produce weight records. This proposal will clarify from which parties Waka Kotahi may obtain records and when these records may be requested from a third party.	Some privacy issues may arise from the proposal which could impact some operators more than others depending on their interaction with third parties. This impact should be small and manageable. With increased powers third parties that create records may be impacted as they would be required to provide these to Waka Kotahi, and both the operator and third party may have additional administrative work if their records misalign during the review.	Better access to records would improve the accuracy of Waka Kotahi's RUC reviews, with no significant change to vehicle operators.	Submitters (mainly from the freight industry) had a largely negative response to allowing Waka Kotahi access to further third-party records. However, I believe the improvements in RUC audits' accuracy, small increase in RUC revenue and the ability to limit the increase in Waka Kotahi's access (by clarifying from whom records may be obtained) justify progressing the proposal. Waka Kotahi supports the proposal.
Exempting vehicles that are only travelling on a road for Certificate of Fitness purposes from paying RUC.	Vehicles using the road for travel for a Certificate of Fitness (CoF) check should be RUC exempt because, while the road wear imposed by these vehicles' travel would be unrecovered, the distances involved, and subsequent road wear, are minor. Typically, this involves agricultural vehicles that are normally used off-road.	An exemption means that road wear is unrecovered the RUC system, and that other road users will subsidise this travel's costs, but the distances involved would be relatively minor.	The status quo creates an unnecessary barrier to getting appropriate safety checks completed.	The majority of the 10 submissions supported the proposal. Most submitters commented that amending the RUC Act to exempt this road use was a common-sense approach. Waka Kotahi supports the proposal.
Redefining RUC vehicle types for eight axle combinations	An amendment to Land Transport Rule: Vehicle Dimensions and Mass 2016 (VDAM) Rule has increased the maximum allowable mass for some vehicles from 44 to 46 tonnes. This change may have led to a potential, and unintentional, overcharging for a small group of very heavy trucks (that operate on an H-type licence) as the operators are paying the historical overweight RUC rates for the now allowable heavier vehicles.[17] Another small group of vehicles is incentivised unnecessarily, with increased complexity for Waka Kotahi and operators. The solution is to restructure the weight bands for the affected vehicles and remove two concession type licences that were introduced to incentivise eight and nine axle combinations (types	No costs identified.	Removing concession licence types and realigning RUC bands would make the RUC system fairer and administratively simpler for both Waka Kotahi and operators.	All submissions supported aligning RUC to VDAM. There was wide support for removing licence types 308 and 408 and changing the RUC bands to match VDAM. Some concerns were raised over changing the RUC rates on vehicles that have been specifically designed for the historical 53-tonne band. Lifting rates to match the new 54-tonne band may make these vehicles less economically viable because of the reduced payload compared to other vehicles in that band.

[16] Currently, the RUC collector is required to assess using the temporarily discounted rate, even if the assessment relates to the period before 21 March 2022 when the temporary RUC discount was implemented.
[17] H-type licences substitute for the standard type licences for powered vehicles and are designed for vehicles that mostly travel overweight.

Proposal	Context	Costs	Benefits	Stakeholder view
	308 and 408). Removing concession licence types and realigning RUC bands would make the RUC system fairer and administratively simpler for both Waka Kotahi and operators.			Waka Kotahi supports the proposal.
Simplifying the definition of all-terrain cranes and removing their RUC exemption	Under the definition of all terrain crane in the Road User Charges Regulations 2012, some mobile cranes are exempt from RUC where the crane is not one to which a distance recorder is, or could readily be, fitted. With the advent of eRUC, effectively all vehicles can now be fitted with a distance recorder and the situation of being unable to fit a distance recorder for the purposes of RUC collection is no longer relevant. Mobile cranes should be removed from the list of exempt vehicles, and an updated definition of all terrain crane in the interpretation section of the Road User Charges Regulations 2012 should be applied. This would replace the current wording of • "*a tyre contact area of more than 1,500 cm*^{2} *per tyre*" with • "*single large or single mega tyred axles*". This will simplify the classification of all terrain cranes to a more user-friendly metric.	Some compliance difficulty may be added by having to install and maintain a distance recording device in a small number of vehicles.	Removing the RUC exemption for some mobile cranes will clarify for operators that all their vehicles must pay RUC and will reduce complexity. Reduced complexity benefits Waka Kotahi and crane operators, while simplifying the RUC system.	All submitters on this proposal, including s 9(2)(ba)(i) [redacted] supported removing the RUC exemption for mobile cranes and changing the definition of all terrain crane. Waka Kotahi supports the proposal.

Annex Two: Remaining proposals from the *Driving Change* discussion document

Proposals that will be progressed in other Ministry of Transport workstreams

Proposal	Context	Costs	Benefits	Stakeholder views	Rationale for progressing in another workstream to the RUC Amendment Bill
Including externalities in the costs considered in setting RUC rates.	RUC rates for vehicles are "in proportion to the costs that the vehicles generate". Other negative externalities, such as environmental and safety impacts, are not included in RUC rate calculations.	This could increase costs to RUC payers; potentially it would be a distortionary effect on the sector. Increasing the costs of freight would likely have a negative effect on economic growth. The evidence base for transport externalities would need to be improved significantly. Could increase the system's complexity.	Could increase revenue for reinvestment in the transport system if a new externality component was additional to existing rates. Could mean RUC plays a greater role in shaping transport choices and potentially if more externalities were included in RUC the transport revenue system would more fairly capture the true costs of road use.	This received a mixed response from submitters. Supportive submissions tended to highlight the social costs of transport and inequities in the system. Those opposed focused on how transparent charges for externalities would be derived and the administrative complexity.	This is a revenue system issue, rather than solely related to RUC. It is better addressed at a wider system level through the Future of the Revenue System project.
Including impacts on greenhouse gas emissions when setting RUC rates.	Greenhouse gas emissions are not included in the calculation of RUC rates.	This could increase costs to RUC payers; potentially it would be a distortionary effect on the sector. Increasing the costs of freight would likely have a negative effect on economic growth. Would increase the system's complexity. Emissions don't correspond directly to distance travelled: vehicle use and characteristics influence emissions.	RUC could be used more effectively to help the Government meet its climate change objectives. Charging for greenhouse gas would probably mean an increase in RUC rates which could mean an increase in revenue for reinvestment in the transport system.	Most responses saw disadvantages in using RUC for this purpose, especially relative to charging for fuel use.	This is a revenue system issue and is best addressed at that level through the Future of the Revenue System project.
Wider use of electronic RUC (eRUC) data, and mandating integrated eRUC and telematics.	eRUC can connect with electronic logbooks (for driver monitoring), but the system is optional.	This would impose an upfront cost to eRUC providers that would be passed on to payers for the devices, and an ongoing administrative cost.	It removes a way that the work-time regulations can be circumvented and provides a body of data that can be used for enforcement and driver monitoring.	Most submitters were opposed to the wider use of eRUC data and mandatory integration of logbooks and eRUC. While many submitters noted the potential for safety improvements, the inherent problem of matching driver-centric logbook information with vehicle-centric eRUC was stated as an impediment to attaining this proposal's full benefit. Reasons provided for opposing mandatory integration included the additional compliance and administrative costs that would need to be absorbed or passed on, the imposition of a regulatory burden on eRUC providers, and privacy concerns.	The role of telematics in road safety falls within the Road to Zero work programme so the findings from the consultation will be incorporated in that work.

Proposal	Context	Costs	Benefits	Stakeholder views	Rationale for progressing in another workstream to the RUC Amendment Bill
Adjusting the overweight permit regime that currently provides a loophole for evasion.	Section 12 of the RUC Act requires that operators must process a change in RUC type and licence or purchase an additional RUC licence when travelling over their normal allowable mass or using a heavy vehicle permit.	The status quo imposes a significant administrative cost on freight companies.	This would reduce the administrative costs for both RUC payers and Waka Kotahi.	All submitters supported a change in permitting to allow for more user-friendly access to permitting and easy switching to the appropriate licences.	Operational changes to the permitting system are the Director of Land Transport's remit so Waka Kotahi will take the lead in this area.
Removing the requirement to display other transport labels	Motorists are required to display transport ('rego') labels.	Transport labels are used by enforcement officers to identify vehicles using the road network unlawfully. Moving to an online only system has setup costs.	Road users would have to pay the administrative fee for transport labels and removing a label from a vehicles' windscreen increases the field of view.	Most submissions were supportive but we didn't receive many submissions from Councils who will be most affected by this proposal (parking wardens reference rego labels during parking enforcement).	The Ministry of Transport will engage further with local authorities to ensure that their ability to enforce stationary vehicle offences is not hindered by the removal of the licence label display requirement.
Adjusting RUC offences and penalties to be consistent with the *Effective Transport Financial Penalties Framework*	The RUC Act has fee/fine ratios ranging widely between 1:3 and 1:50.	Potential inequities to RUC payers depending on the application of the law.	Adjusting the penalty regime may provide consistency to fees and fines, reduce offending and RUC evasion, and therefore increase revenue for reinvestment in the transport system.	Submitters stated that they would only like to see changes in penalties if it can be demonstrated that it would reduce offending. Notably most submitters supported higher penalties for body corporates than for individuals and supported maintaining or adding a tiered penalty for RUC non-payment.	The Ministry of Transport will progress this work through the *Effective Transport Financial Penalties Framework* and Tool
Requiring electronic system providers (ESPs) to notify Waka Kotahi of the status of RUC payments	ESPs can voluntarily notify Waka Kotahi of any changes to the status of RUC payments.	Slight administrative costs to eRUC providers to establish a reporting framework.	Waka Kotahi could intervene early in cases where a freight operator switches off an eRUC device. These are often cases where the freight operators get into significant RUC debt and risks insolvency. This supports Waka Kotahi as RUC collector and system steward.	Largely supportive but there was a mixed reaction from some of the eRUC providers so more work is needed to convince them of the value of this proposal.	The Ministry of Transport will progress this work through the *Effective Transport Financial Penalties Framework* and Tool The Ministry of Transport will provide further advice on amending the RUC Act so that ESPs must report RUC non-compliance when they believe RUC evasion has occurred.

Proposals that I have decided to not progress.

Proposal	Context	Costs	Benefits	Stakeholder views	Rationale for discarding the proposal
Exempting vehicle combinations where the motive power is from a vehicle exempted from road user charges.	Trailers towed by RUC-exempt vehicles pay RUC separately from the truck towing them.	Challenging to administer, since the trailer would need to be tracked separately from the truck, and Waka Kotahi would need to identify when it is being towed by an exempt vehicle. This is not currently possible. The proposal would likely require eRUC for these vehicles. Exempt trailers would also represent $10-30 million in foregone RUC revenue to the end of 2030.	Could further incentive the use of low-emission vehicles by lowering their operating cost.	Mixed response. Some submitters noted how much more complex this would make the monitoring and assurance process.	The current from of the RUC exemption for heavy EVs is simpler to administer.
Exempting low emission vehicles from road user charges based on distance travelled.	RUC exemptions expires after a certain date, rather than a given distance travelled.	Any exemption to RUC means that NLTF revenue is foregone. Potentially distance-based exemptions are more legislatively and administratively complex than extending the exemptions in their current, time-bound, form through Orders in Council.	Could make introducing new RUC payers into the system easier because it educates the owners about monitoring their distance travelled. It also avoids the administrative problems caused by an influx of new payers that will happen if exemptions are time-bound.	Majority support for this proposal. Submitters opposed cited the general opposition to RUC exemptions in any form, based on the principle that road users should pay for the costs of their road use.	The current from of the RUC exemption for heavy EVs is simpler to legislate.
Including fuel type, origin, and blend in RUC rates.	Fuel type, origin, and blend are not included in the calculation of RUC rates.	This could considerably increase the system's complexity, both in setting the new rates and in administering the system Could increase costs to RUC payers; potentially it would be a distortionary effect on the sector. Increasing the costs of freight would likely negatively affect economic growth.	It gives the Government greater ability to intervene in the fuel used by the freight sector and contribute to decarbonisation goals.	Most submitters opposed, highlighting the complexity that this would add to the RUC system and the difficulty of ensuring compliance.	Extremely difficult to administer and would place significant costs on affected parties. Regulations and incentives outside the RUC system that target the fuels concerned should be used instead.
Reviewing the requirements for eRUC (including the Code of Practice's fitness for purpose) and mandating eRUC for all heavy vehicles.	eRUC is optional for RUC payers.	This would impose an upfront cost to RUC payers for the devices and ongoing administrative and data transfer costs.	RUC evasion would be more difficult, and it would make the RUC system easier to administer for Waka Kotahi as the RUC collector because eRUC transactions are less administratively burdensome than manual transactions.	Mixed reaction, with slightly more in opposition than support. Most submissions highlighted the lack of a suitable product for their circumstances (particularly those with small, mixed-use or seasonal fleets).	An acceptable standalone eRUC product would need to exist to make this operationally feasible for individuals and small fleet operators.
Allowing for the purchase of RUC licences in amounts less than 1,000 km	The minimum distance purchasable is 1000 km. If a RUC payer uses less than this, or changes payload they can apply for a refund.	High transaction costs for RUC payers.	Some cashflow benefits for low income and/or low mileage users.	Submissions were divided evenly.	The Waka Kotahi proposal to increase transaction fees (by 332 percent in the case of purchasing RUC from eRUC providers[18]) and the increased compliance risk with heavy vehicles would offset the benefit of purchasing smaller amounts more often.

[18] Proposed changes to land transport regulatory fees, charges and funding https://www.nzta.govt.nz/assets/regulatory/funding-and-fees/fees-and-funding-consultation-document-april-2022.pdf

Proposal	Context	Costs	Benefits	Stakeholder views	Rationale for discarding the proposal
Change CoF/WoF requirements so the assessor must report evidence of odometer tampering.	If a WoF/CoF assessor sees evidence of odometer tampering, there is no legal obligation to report this to enforcement authorities.	Potentially this places a cost on the WoF/CoF assessor – to purchase the equipment and get the training to use it. This would likely be recovered through increases in safety check fees.	Provides a useful potential intervention point to catch RUC evasion.	Overall, it received a mixed response but notably a very negative response from those working in the sector.	Putting an additional responsibility on WoF/CoF assessors to fail a safety check or refer possible tampering places assessors in a difficult position that is unlikely to meaningfully reduce RUC evasion.
Clarifying the definition of 'accurate' for a distance recorder in a light vehicle	Discrepancies between odometer readings and actual distance travelled are investigated by the enforcement authorities, if found.	Potentially there could be setup costs associated with improving the definition.	Improves the legal basis on which RUC is collected.	Submissions provided a broad commentary on the idea and no clear preference was expressed.	It's unlikely this avenue of investigation will yield a useable solution for the RUC system.
Clarifying the requirements that certain persons must make and retain certain records	The RUC Act requires that a Transport Services Licence holder keep records for any RUC vehicle they own or operate. But it does not specify what records must be kept.	For some freight, standardisation would impose additional compliance and administrative costs.	Requiring weight-based records for every operator would reduce the administrative complexity for Waka Kotahi if there was acceptable compliance among operators. It also places greater responsibility on suppliers/senders of goods to certify weights.	This received no support. Submitters were either opposed or had reservations.	Standardisation would become administratively ineffective and costly.

Annex 3: Regulatory Impact Statement: Extending the Heavy Electric Vehicle Road User Charges Exemption

Annex 4: Climate Implications of Policy Assessment: Disclosure Sheet: Extending the Heavy Electric Vehicle Road User Charges Exemption

Regulatory Impact Statement: Extending the road user charges exemption for heavy electric vehicles

Coversheet

Purpose of Document	
Decision sought:	Analysis produced for the purpose of seeking Cabinet's agreement to prepare an Order in Council to extend the existing exemption from road user charges for heavy electric vehicles until 30 November 2030.
Advising agencies:	Ministry of Transport
Proposing Ministers:	Minister of Transport
Date finalised:	15 May 2023

Problem Definition
Supporting the uptake of electric vehicles (EVs) by temporarily exempting them from paying road user charges (RUC) has been a key policy to help decarbonise the vehicle fleet. The exemption from paying RUC for heavy EVs (HEVs) is set to expire on 31 December 2025 and it is necessary to decide whether to continue the exemption, or allow it to expire, as legislated.

Executive Summary

The Government has committed to ambitious transport emissions reduction targets

Freight emissions need to be reduced by 35 percent by 2035 and reach net zero by 2050. The *Decarbonising Transport Action Plan 2022–25* sets out a range of ambitious polices to support the sector in achieving the target.

RUC exemptions for HEVs aim to help increase uptake

In 2016, Cabinet decided that HEVs (EVs with a gross vehicle mass, or GVM, over 3.5 - tonnes) should remain exempt from paying RUC until they made up two percent of the heavy vehicle fleet – currently they make up 0.3 percent. When HEVs were first exempted from RUC in 2016, setting a 'percentage-of-the-fleet-based' measure was unworkable in legislation because it cannot account for changes in fleet composition over time. A time-based exemption was therefore used as a proxy for fleet percentage.

RUC is the distance-based charge imposed on all vehicles using fuel other than petrol. It must be purchased in units of 1,000 kilometres in advance of travel. RUC revenue is hypothecated (dedicated) into the National Land Transport Fund (NLTF), that funds the land transport system's maintenance and operation. In the 2021/22 financial year RUC contributed $1.8 billion in revenue to the NLTF out of a total of $3.9 billion in revenue. Of this, 800,000 light RUC vehicles contributed $700 million, while 190,000 heavy vehicles (including trailers towed by heavy vehicles) contributed $1.2 billion.

Because RUC rates for heavy vehicles increase significantly with weight, the amount of RUC paid by an individual heavy vehicle can be substantial and a significant overhead for freight companies. The extra size and weight of the batteries in HEVs would increase RUC costs and reduce carrying capacity, compared to conventional vehicles.

Therefore, not paying RUC can determine HEVs' viability for some commercial uses. The operating cost for heavy vehicles needs to be factored-in years in advance of a purchasing decision, and the HEV RUC exemption makes these vehicles a more attractive purchasing option by reducing these costs.

Efforts to accelerate HEV uptake are more important now that the Sustainable Biofuels Obligation is no longer being progressed. This leaves a significant abatement gap that other policies will need to fill.

There are challenges to extending the HEV RUC exemption

While we expect RUC exemptions to incentivise uptake, reduced NLTF revenue is the key risk associated with extending RUC exemptions. An extension of the RUC exemption to 2030 for HEVs would lead to between $23 - $55 million of NLTF revenue being foregone in the year 2030. Including the cost of the current exemption, Ministry of Transport (Ministry) modelling estimates this equates to a cumulative total of foregone RUC of between $93 million and $200 million between 2026 and 2030.

However, this foregone revenue is difficult to forecast because of the variations in the size and weight of these vehicle types (and therefore in the RUC rates they should be paying). An upper estimate of $200 million in foregone revenue is 3 percent of the approximately $6.3 billion in heavy RUC revenue for the NLTF in the same period (out to 2030 – total RUC revenue over that period will be around $11.4 billion, and light EVs will also begin paying RUC in 2024).

RUC exemptions also contravene the core principle of the Road User Charges Act 2012 (the RUC Act), which is to impose charges on RUC vehicles for their use of the roads in proportion to the costs generated.

We considered three options

Aside from allowing the HEV RUC exemption to expire, as legislated, on 31 December 2025 (the status quo), it is possible under existing settings to extend the end date through Order in Council up to December 2030. Option two is to extend the exemption a further two years, to the end of 2027. Option three is to extend by five years to the end of 2030.

Option three, extending the RUC exemption for HEVs by five years to 30 November 2030, is the preferred option. The extension by five years balances the value of the exemption to purchasers, the likely date of reaching the two percent target, and the need to ensure the cost of the exemption to the land transport revenue system remains affordable.

While extending the exemption to 31 December 2030 is possible, requiring HEVs to start paying RUC after 30 November 2030 instead (i.e. not extending by precisely five years) will avoid potential disruptions to making and receiving RUC payments during the public holidays over the New Year period.

We do not have any New Zealand specific information for how important the RUC exemption has been in promoting the uptake of HEVs. Modelling accounted, as much as possible, for existing policies to increase uptake. The HEV RUC exemption is not a standalone policy for increasing uptake. Rather, it is complementary to these existing policies (such as the Emissions Trading Scheme (ETS)) and future schemes still being designed (such as a Clean Heavy Vehicle Grant Scheme administered by the Energy Efficiency and Conservation Authority (EECA)). Its impacts should be considered as an adjunct to policies intended to reduce HEVs' Total Cost of Ownership (TCO). It also sends a signal to the sector about the Government's support for these vehicles over the long term.

Stakeholder views are mixed on extending the exemption

The proposal to extend the HEV RUC exemption date to 2030 was included in the discussion document *Driving Change: Reviewing the Road User Charges System* that the Ministry released for public submissions in January 2022. The discussion document asked for submissions on a wide range of potential changes to the RUC Act and system. Of the 54 submissions on this proposal, 19 were in favour, 29 were opposed, and six considered the advantages and disadvantages about even.

Some submitters said that Government support for these vehicles was worthwhile, but should not come through the RUC system. Some submitters also proposed tying exemptions to some specific policy goal (e.g., HEVs reaching a certain percentage of the fleet) rather than an arbitrary time-based target. Some argued that while HEV technology is still relatively new, it is too early and expensive to invest in unproven and uncompetitive technology, and New Zealand should be a fast follower for the technologies that prove to be most successful. Some submitters argued that the HEV RUC exemption makes more sense for buses, and their being exempt could support local government emissions reduction targets. A number of local councils likewise submitted that public transport services should be RUC exempt.

Limitations and Constraints on Analysis

There are known limitations on the analysis we have been able to undertake:

- We have not assessed whether there are other more cost-effective policies to reduce climate change emissions. The analysed options are limited to variations on the existing RUC exemption.
- The scope of the options was constrained by the Ministerial decision directing the Ministry to prepare a Cabinet paper for a Cabinet decision to extend the exemption to 2030, ruling out amending the RUC Act to extend the end date beyond 2030 (OC220992 refers).
- Advice on the HEV exemption was given alongside advice on progressing a purchase price incentive scheme, on the understanding that both would reduce the total cost of ownership for HEVs. Amending the RUC Act to extend the exemption beyond 2030 is not analysed here because that was not possible to do alongside the intended timeline for a purchase price incentive scheme's implementation.
- The RUC Act could be amended to allow partial RUC rates, but as with extending the exemption beyond 2030, such an amendment to primary legislation has been ruled out of this analysis. Legislative options have therefore been confined to regulatory changes.
- RUC exemptions cause foregone revenue for the NLTF. The lost revenue ($200 million under the preferred option, or 3 percent of heavy RUC at the upper estimate) may force a choice between increased taxes on road users and cutting or deferring land transport spending. The Crown could also backfill the revenue through general taxation. This analysis does not consider how the gap caused by that foregone revenue might be handled.
- There remains considerable uncertainty around the likely rate of uptake of HEVs in the next few years. Global EV production is increasing, but production has

been affected by supply chain disruptions and manufacturers are struggling to meet demand.

- There is also uncertainty around the design and degree of effectiveness of other policies to support low carbon vehicle uptake that are being developed in parallel with this proposal (such as the Clean Heavy Vehicle Grant scheme recently agreed through Budget 23). This makes it difficult to estimate the likely timing of reaching the two percent target and the resulting likely level of foregone revenue from the policy.

- Our modelling assumes the preferred option is announced in the middle of 2023, and is therefore factored into purchasing decisions from then. An extension to 2027, announced at the same time, would presumably cause a lower HEV uptake than option three, though this was not specifically modelled. The 'option 2' figures for uptake therefore depict option three if it stopped in 2027.

- Projecting HEV uptake is difficult because there is a small number of HEVs in NZ and our understanding of their uptake is limited (e.g. we don't know the impact of Low Emissions Transport Fund (LETF) co-funding to date versus the impact that the RUC exemption has had on HEV uptake). Large uncertainty would be associated with their projections. Therefore, the results should be treated as provisional.

- We project revenue foregone using estimated average RUC rates for medium trucks (with a gross vehicle mass over 3.5 tonnes and up to 10 tonnes), heavy trucks (with a GVM over 10 tonnes) and buses. The RUC system is complex and these are only weighted averages of selected rates, reflecting RUC compositions and purchasing behaviour of RUC transactions in 2020/21 only. Changes in vehicle composition and vehicle travel of a RUC type in future could affect the average rates, but some changes may also cancel out each other's impacts.

Responsible Manager(s) (completed by relevant manager)

Marian Willberg

Manager

Demand Management and Revenue

Ministry of Transport

22 May 2023

Quality Assurance (completed by QA panel)

Reviewing Agency:	Ministry of Transport
Panel Assessment & Comment:	*This Regulatory Impact Statement (RIS) has been reviewed by a panel of representatives from Te Manatū Waka Ministry of Transport. It has been given a 'meets' rating against the quality assurance criteria for the purpose of informing Cabinet decisions. The panel notes that there was limited engagement with Māori, however it acknowledges that the subject matter makes direct engagement with Māori challenging.*

Section 1: Diagnosing the policy problem

What is the context behind the policy problem and how is the status quo expected to develop?

The Government has committed to ambitious emissions reduction goals to tackle climate change

1. Freight emissions need to be reduced by 35 percent by 2035 and reach net zero by 2050. The *Decarbonising Transport Action Plan 2022–25* sets out a range of ambitious polices to support the sector in achieving the target.

2. The transport sector contributes 47 percent of domestic CO_2 emissions. The Government's focus is on reducing emissions from light vehicles (65.1 percent of transport emissions). However, heavy vehicles are a major contributor to greenhouse gas emissions (24.4 percent) despite being a small proportion of the fleet.[1]

3. The Sustainable Biofuels Obligation has been cancelled, leaving an abatement gap that needs to be addressed through other policies.

New Zealand has some policies in place that will support reducing emissions from heavy vehicles

4. HEVs have been exempted from paying road user charges (RUC) since 2016 to incentivise their uptake. Where a vehicle can enjoy a long RUC exemption (e.g. over five years), and is driven long distances annually, operators can receive a meaningful financial incentive.[2] However, due to the high purchase prices of HEVs, this incentive is still not enough to achieve total cost of ownership (TCO) parity with equivalent non-electric vehicles. In addition, there have until recently been very few commercially available HEVs. The HEV RUC exemption is due to expire on 31 December 2025.

5. The New Zealand Emissions Trading Scheme (ETS) will support the transition to HEVs. As the NZ ETS price increases over time, this will in turn increase the price of diesel, in theory incentivising the transition to HEVs which do not carry this price burden. However, this is projected to have a limited impact due to the small proportion of the ETS within the fuel price (compared with other components that determine the price).[3]

6. To date, the LETF delivered by EECA has supported co-funding HEVs to demonstrate viability of the technology.[4] However, many of these applications have now been demonstrated (battery EV, battery-swap and hydrogen fuel cell vehicles (HFCVs)) and

1 Decarbonising Transport Action Plan 2022-25, page 7 https://www.transport.govt.nz/assets/Uploads/MOT4716_Emissions-Reduction-Plan-Action-Plan-P04-V02.pdf

2 Cost savings could be between $172 to $435 per 1,000 kms for medium to large trucks. Total annual savings will vary widely depending on distance travelled, with a medium truck that covers 20,000 kms annually saving about $3,500 and a large truck covering 50,000 kms saving around $20,000.

3 Every litre of diesel used in a truck causes 2.72 $kgCO_2e$ of greenhouse gas emissions. Every additional $1 of carbon price increases the price of diesel by 0.272 cents per litre. For example, a $100 per tCO_2e carbon price would add 27.2 cents per litre to the diesel price. https://environment.govt.nz/assets/Publications/Files/voluntary-ghg-reporting-summary-tables-emissions-factors-2015.pdf

4 The Low Emission Transport Fund (LETF) delivered by EECA supports the demonstration and adoption of low emission transport technology, innovation and infrastructure to accelerate the decarbonisation of the New Zealand transport sector.

these vehicles are being widely commercialised, therefore are now unlikely to be eligible for funding support through the LETF.

7. Through Budget 23 Ministers recently agreed to a tagged contingency to set up a Clean Heavy Vehicle Grant scheme to be administered by EECA. The scheme's settings are yet to be agreed, but the intent is to give grants to zero emissions heavy vehicle purchasers to help overcome high purchase price barriers to uptake.

8. In 2021, the Government set a requirement that only zero-emissions public transport buses are to be purchased from 2025 and set a target to decarbonise the public transport bus fleet by 2035. Support provided through Budget 2022 also supports public transport authorities to achieve these outcomes.

The HEV RUC exemption has been a key policy to help decarbonise the heavy vehicle fleet

9. Under the Road User Charges Act 2012 (the RUC Act), operators of all vehicles that do not use a fuel that is charged fuel excise duty (FED)[5], or heavy vehicles with a gross vehicle mass (GVM) greater than 3.5 tonnes (primarily trucks, buses and some trailers), are subject to RUC. The purpose of RUC, as set out in the RUC Act, is to impose charges on vehicles for their use of the roads in proportion to the costs that the vehicles generate. Vehicles paying RUC must purchase and display RUC licences, which are bought in advance of travel in units of 1,000 km. Almost all RUC vehicles are diesel-powered, but vehicles using other fuels such as electricity and hydrogen are also subject to RUC, are currently exempted.[6]

10. The Government has been promoting the uptake of EVs as a key part of a transition away from fossil fuels for the transport sector. Greenhouse gas emissions from transport are nearly all carbon dioxide (CO_2) and transport is responsible for 47 percent of total domestic CO_2 emissions. New Zealand cannot achieve its emissions reduction targets without largely decarbonising transport.

11. When Cabinet extended the end date for the light EV RUC exemption in 2016 [CAB-16-MIN-0108.01 refers] it agreed that HEVs would also be exempt from RUC until they comprise two percent of the heavy vehicle fleet. For simplicity, the RUC regulations used the date of 31 December 2025 for the exemptions to end for HEVs. A Regulatory Impact Analysis covering the extended light EV exemption and the new HEV exemption, was attached to that Cabinet paper.[7] The Cabinet paper stated that EV RUC exemptions were a "transparent and efficient way of providing a financial incentive to encourage consumers and businesses to opt for EVs over equivalent conventional vehicles".

12. The number of HEVs in our fleet has been rising steadily since 2016, but with 594 HEVs in the fleet in April 2023, numbers are still well short of the two percent target. At current rates of uptake, we expect that there will be around 1200 HEVs in the fleet by the end of 2025. This would be 0.51 percent of the heavy vehicle fleet. When the exemption expires, HEV owners will begin paying RUC at the full legislated rate applicable to their vehicles. **Annex One** contains a table of HEVs commercially

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5 Petrol, CNG and LPG fuels are taxed fuel excise duty (FED) at the point of import or manufacture.

6 Ethanol, a biofuel, is the only transport fuel that is not subject to RUC or FED.

7 https://www.transport.govt.nz/assets/Uploads/RIA/EV-RUC-RIS-2016.pdf

available, or soon to be, in New Zealand, and what RUC rate they will pay under the status quo (i.e. from 1 January 2026).

What is the policy problem or opportunity?

13. EVs support Government's decarbonisation goals by reducing harmful pollutants and CO_2 emissions from transport. Exempting EVs from RUC has supported their uptake until now, but at a cost of revenue foregone from the National Land Transport und (NLTF). The Government proposes to continue the HEV RUC exemption until the number of HEVs reaches two percent of the heavy vehicle fleet, which will not be met by 2025. A new date needs to balance uncertainties around the two percent-of-the-fleet target with revenue risks.

14. We do not have any specific data on the effect the existing HEV RUC exemption has on increasing HEV uptake. The absence of specific data means that an optimum date or target for when the exemption should be ended cannot be accurately estimated. We, therefore, propose to continue the 2016 policy agreed by Cabinet, that the exemption should remain in place until the number of HEVs reaches two percent of the heavy vehicle fleet.

15. Because HEVs will not be close to two percent by the current exemption end date of 31 December 2025, it is necessary to propose a new end date for the HEV RUC exemption. This date needs to balance the uncertainties around when HEVs will reach two percent, with the risks to revenue from the exemption continuing longer than is desirable.

16. Under the current scenario, HEVs will reach two percent of the heavy fleet by 2032. The proposed Clean Heavy Vehicle Grant scheme is expected to increase HEV uptake faster than that scenario.

Treaty of Waitangi considerations

17. The Crown has obligations under the Treaty of Waitangi relating to partnership, protection and equal treatment. Regarding transport, we understand that:

    a. low-income households spend a higher proportion of total income on transport, and Māori households tend to have lower incomes, and

    b. the three lowest-income quintile groups had negative gross savings compared to gross disposable income and final consumption expenditure, and Māori are disproportionally represented in the three lowest quintile groups.

18. Based on our current understanding of impacts for Māori, any additional costs for road users from this policy is likely to be of greater significance for Māori.

19. Individual owner-operators are less likely to purchase HEVs than larger operators with sufficient capital to afford the high purchase price, so the impact on prospective individual Māori purchasers may be less than occurs, for example, with purchasers of light EVs that are more commonly purchased by individuals.

20. Where operational cost savings are passed on to consumers in the form of lower freight costs, Māori can also be expected to benefit.

21. No submissions received on the *Driving Change* discussion document commented on particular effects on Māori from this proposal.

What objectives are sought in relation to the policy problem?

22. The policy objective is to increase HEV uptake. Increased HEV uptake is intended to help reduce greenhouse gas emissions in the heavy transport sector. A secondary objective is a policy that is transparent and predictable for the sector, so that prospective purchasers of HEVs receive a clear signal of the Government's intent to support HEV uptake over the longer term. The policy should also be simple to administer.

23. We do not have enough data to estimate the specific effects of the exemption on HEV uptake in isolation from other policies. Nor do we know the optimum date to remove the exemption, from the perspective of encouraging HEV uptake. The proposed extension is therefore intended to continue the previously agreed policy to exempt HEVs from RUC until they make up two percent of the heavy vehicle fleet, balanced against the need to ensure the overall cost of the exemption to the land transport revenue system remains affordable.

Section 2: Deciding upon an option to address the policy problem

What criteria will be used to compare options to the status quo?

24. The following criteria is used to evaluate options for resolving the policy problem:

- **Effectiveness** – the extent to which the option is likely to contribute to the 35 percent fleet emissions reduction target.
- **Cost** – the extent to which the option poses a risk to NLTF revenue through foregone RUC.
- **Fairness** – the extent to which the option is consistent with the key principle of the RUC Act and system, that road users pay "for their use of the roads that are in proportion to the costs that the vehicles generate".[8]
- **Implementation** – how difficult the option is to administer for Waka Kotahi and to comply with for RUC payers.

What scope will options be considered within?

25. The scope of the options was constrained by the Ministerial decision directing the Ministry to prepare a Cabinet paper for a Cabinet decision to extend the exemption to 2030, ruling out amending the RUC Act to extending the end date beyond 2030 (OC220992 refers). There are no existing policies to reduce operating costs for HEVs.

26. The RUC Act could be amended to allow lower RUC rates for the purpose of incentivising these vehicles, but as with extending the exemption beyond 2030, an amendment to primary legislation has been ruled out of this analysis. Legislative options have therefore been confined to regulatory changes.

What options are being considered?

27. Aside from allowing the HEV RUC exemption to expire, as legislated, on 31 December 2025 (the status quo), it is possible under existing settings to extend the end date through an Order in Council up to December 2030. In principle any new end date (before 1 January 2031) can be selected under this approach but for the purpose of this RIA we analyse two options against the status quo. Option two is to extend the exemption to the end of 2027 (an approximate half-way point between the status quo and option three). Option three is to extend by five years to the end of 2030.

28. Option three, extending the RUC exemption to 30 November 2030, is the preferred option. The extension by five years balances the value of the exemption to purchasers, the likely date of reaching the two percent target, and the need to ensure the cost of the exemption to the land transport revenue system remains affordable.

29. The exemption's effects on uptake, CO_2 emissions, and foregone RUC are compared in Table 1 below. This modelling assumed that the RUC exemption extension increased HEV uptake slightly over the base case by 2030. Though EV uptake has typically been lower than our models have predicted, the proposed Clean Heavy Vehicle Grant scheme is expected to increase uptake over the base case.

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[8] Section 3(a), Road User Charges Act 2012

Table 1: HEV uptake and effects on revenue and CO_2 emissions under option three

Year	Number of HEVs (range)	HEV % of the fleet (base case only)	Km travelled (Base case only)	Kilo tonnes of CO_2 avoided (Base case only)	Expected RUC foregone ($ million) (range)
2023	514-639	0.32%	23,318,489	0.53	0.12 - 0.24
2024	662-1,039	0.46%	34,149,169	2.88	0.56 - 1.23
2025	834-1,536	0.61%	46,838,846	6.63	1.18 - 2.86
2026	1,042-2,199	0.80%	61,633,297	11.05	13.31 - 24.12
2027	1,275-2,936	1.01%	77,930,259	15.99	15.98 - 31.59
2028	1,534-3,754	1.26%	96,245,037	21.10	18.91 - 40.01
2029	1,813-4,710	1.55%	116,655,671	25.75	22.02 - 49.34
2030	2,112-5,776	1.87%	139,229,613	29.44	23.12 - 54.67
Total	**5,776**	**1.87%**	**553,800,031**	**113.3**	**95 - 204**

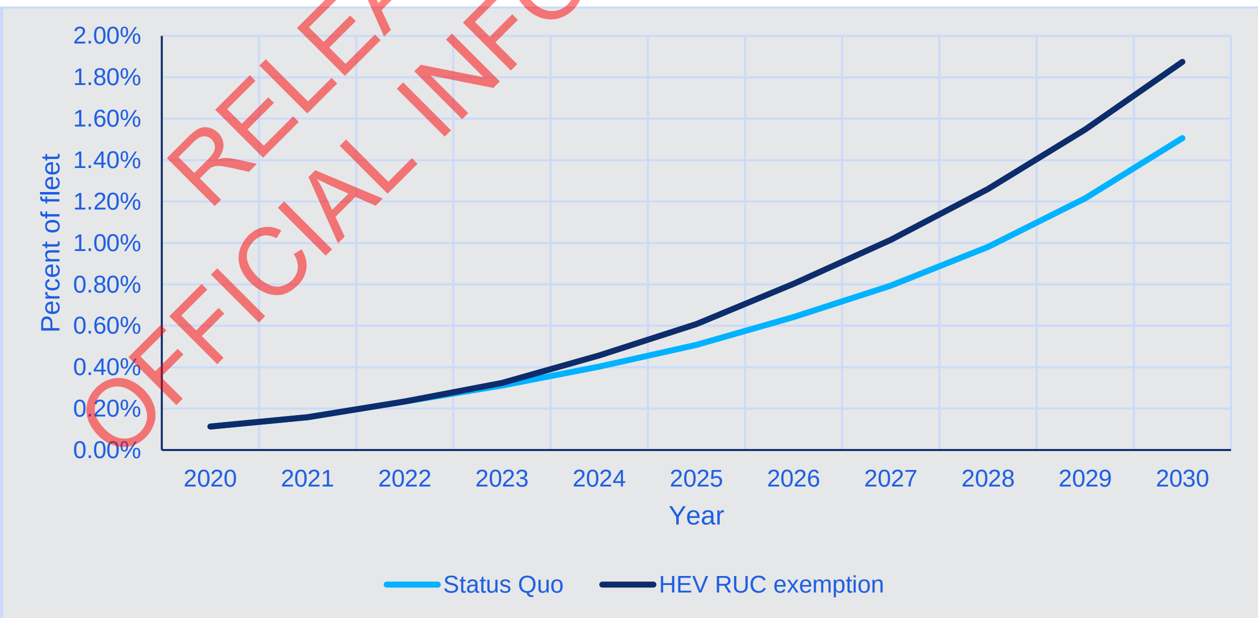
Status quo

Option two

Option three

30. Figure 1 below compares the exemption out to 2030 with the status quo. Option two was not modelled for this graph, but uptake is presumed to be higher than the status quo and lower than option two.

Figure 1: HEV uptake as percentage of the heavy vehicle fleet



Option One/status quo – HEV RUC exemption expires on 31 December 2025

31. Without legislative change, the HEV RUC exemption will expire on 31 December 2025. After that date, HEV owners will need to pay RUC at the same rate as comparable non-electric heavy RUC vehicles. The specific rate they pay will depend on the vehicle type and configuration (see **Annex One** for indicative rates).

32. Without a RUC exemption extension, HEV uptake will be driven by existing policies. These include the ETS price, the requirement for all new public transport buses coming into New Zealand to be zero emissions by 2025, and the HEV RUC exemption that is in place until 2025.

33. Under this scenario the transition to HEVs would happen slowly and would not be fast enough to meet our targets. Due to the projected increases in the number of trucks coming into NZ to support expected freight volumes, this would still see emissions from heavy vehicles increasing out to 2035, rather than decreasing.

Analysis

Effectiveness

34. As shown in table 1, under the status quo the annual tonnes of CO_2 **not emitted** is 6.63 kilo tonnes in 2025 when the exemption ends – a cumulative saving of 10.04 kilo tonnes from mid-2023 to the exemption's end. This is caused by HEVs becoming a less attractive purchasing option, and fewer of them entering the fleet.

35. Modelling predicts around 1000 HEVs in the fleet when the exemption ends. In the base scenario HEVs would reach two percent of the fleet in 2032.[9] When the exemption ends in 2025 HEVs in the fleet would be comprised of 615 buses, 142 heavy trucks (above 10 tonnes) and 194 medium trucks (3.5 – 10 tonnes).

36. Though we do not have any research on what effect allowing the RUC exemption to expire would have on HEV sales, we assume that an increase in operating costs, represented by the need to pay for road use through RUC, will make these vehicles a less attractive purchase option compared to non-electric equivalents. That may depress HEV uptake and the expected emissions abatement.

Cost

37. These vehicles paying RUC means there will no longer be foregone revenue to the NLTF from these vehicles after 2025.

38. For a comparison for how the foregone revenue can be expected to scale, the exemption is expected to cause $1.18 - $2.86 million in foregone revenue in 2025. This is in the context of a total expected $1.16 billion in heavy RUC revenue in the same year (the higher-end figure of $2.86 million is 0.2 percent of heavy RUC revenue for 2025). Over the course of the exemption (mid-2023 to the end of 2025) the cost will be around $1.86–$4.33 million (the upper figure being 0.1 percent of heavy RUC revenue over that period).

Fairness

39. Option one is the fairest to road users because these vehicles no longer being RUC exempt will mean they pay for their road use like all other road users.

[9] The low uptake scenario expects the two percent target being reached in 2036.

Implementation

40. This option requires no legislative change - the exemption will simply expire. There will be a small administrative burden on Waka Kotahi to begin charging these vehicles (expected to be over 1,200 in 2026) RUC. Waka Kotahi will need to ensure it has correct odometer or hubodometer readings from these vehicles so it can charge them from the correct start distance.

41. There will be a small compliance burden imposed on these new RUC payers. Unlike light RUC vehicles, heavy RUC vehicles are not required to display paper RUC licence labels, and many heavy RUC vehicles already utilise electronic RUC services[10] that provide automated RUC payments and help diminish the compliance burden. There is no evidence HEV owners are less able to meet these RUC compliance obligations than other heavy RUC payers.

42. For prospective HEV purchasers transitioning from diesel vehicles, they will likely already know how the RUC system works, and how to maintain their compliance.

43. Though 1,200 new RUC payers is a small increase when compared to the existing 200,000 heavy RUC payers, it will represent a small influx that Waka Kotahi will need to administer when the exemption expires.

Option Two – Extend the exemption to November 2027

44. The exemption can be extended up to December 2030 through an Order in Council. To implement the extension, new regulations under the RUC Act are needed to change the end date from 31 December 2025 to 30 November 2027.

45. Extending to November 2027 instead of December 2027 (i.e. falling just short of a precisely two-year extension) avoids the problem of HEV owners needing to purchase RUC licences, and Waka Kotahi as RUC collector needing to process these purchases, over the holiday period.

Analysis

Effectiveness

46. As shown in table 1, extending the exemption to 30 November 2027 will result in annual CO_2 avoided of 15.99 kilo tonnes by the time the exemption expires in 2027. Over the period of the extension (i.e. the two years from January 2026 to November 2027) the cumulative amount will be 27.04 kilo tonnes.

47. These results will be driven by HEV uptake, but the two percent of the fleet target is still unlikely to be met by 2027, with around 1,900-2,900 HEVs in the fleet (between 0.67 and 1.55 percent of the fleet). The base case models that at that time HEVs would be comprised of 1,002 buses (96 more than the status quo), 408 heavy trucks (166 more than the status quo) and 515 medium trucks (157 more than the status quo).

Cost

48. As shown in table 1, extending the exemption to 30 November 2027 will cause around \$15.98 - \$31.59 million in foregone revenue in 2027. This translates to a cumulative \$23 - \$53 million over the course of the exemption extension from 2026 to 2027. However, that foregone revenue is in the context of the approximately \$2.4 billion in

[10] Annually, electronic RUC now accounts for over 50 percent of RUC collected from heavy vehicles.

heavy RUC revenue over the same period (the higher-end figure of $53 million foregone RUC is 2.2 percent).

Fairness

49. RUC exemptions are inconsistent with a key principle of the RUC Act and system, that road user pay for the costs of their road use. Extending the exemption means HEV owners will not be contributing for the costs their vehicles impose for a further two years.

50. Companies with more readily available capital which can afford the upfront HEV purchase price are more likely to take advantage of this exemption. Smaller operators who cannot afford HEVs will not benefit from a RUC exemption. This may further advantage the commercial position of large operators, who may then be able to assert or consolidate market dominance.

51. However, some smaller companies can (and do) lease trucks, and could therefore take advantage of the RUC exemption without paying the high upfront cost - although larger lessors would have an advantage over smaller ones for the same reasons of capital. Also some large companies don't own their own trucks, so might fall into the ‘smaller purchasers’ category as their contracted drivers each have limited available capital.

52. It is also worth noting that to meet our carbon emissions targets eventually all operators need to transition to low and zero emission vehicles, and the ‘first movers' who purchase HEVs are taking on risk and high costs in doing so. However, HEVs will simply be unsuitable for some uses.

Implementation

53. This option has similar administrative and compliance costs as the status quo because it simply defers the introduction of HEVs into the RUC system. Though there would not be a greater compliance burden on any individual HEV owner, the administrative task for Waka Kotahi can be expected to be slightly greater if there are more HEVs from which they need to collect RUC.

54. Modelling suggests there will be around 2500 HEVs that will start paying RUC in 2028, compared to the status quo of around 1200. In the context of around 200,000 heavy vehicles already paying RUC in 2023, the extra burden is minor. However, because they will be entering the RUC system for the first time, this influx of new payers may require extra resourcing for Waka Kotahi to help them transition into RUC. Operators transitioning from diesel to electric trucks will already be aware of their RUC compliance obligations.

55. Setting the end date in November 2027 instead of December 2027 avoids the status quo’s problem of transacting RUC purchases during the holiday period.

Option Three - Extend the exemption to November 2030 (preferred option)

56. Same as option two, except the new end date would be 30 November 2030.

Analysis

Effectiveness

57. As shown in table 1, extending the exemption to 30 November 2030 will result in annual CO_2 not emitted of 29.44 kilo tonnes by the time the exemption expires. Over the period of the extension (i.e. the five years from January 2026 to November 2030) the cumulative amount will be 103.33 kilo tonnes. This is 93 kilo tonnes higher than the

status quo and 76.3 kilo tonnes higher than option two. These results will be driven by HEV uptake.

58. We estimate that around 3,600 HEVs will be in the fleet by 2030 under option three. Though this is higher than the status quo and option two, modelling suggests the two percent of the fleet target will still not be reached by 2030. Rather, this option would see the two percent target reached in 2031 (one year ahead of the status quo) when HEVs will comprise 2.22 percent of the fleet. The modelling's high uptake scenario shows the two percent target being reached in 2029, when HEVs will reach 2.46 percent of the fleet.

59. Base case modelling indicates that by 2030 HEVs would be comprised of 1,501 buses (148 more than the status quo), 895 heavy trucks (300 more than the status quo) and 1,222 medium trucks (262 more than the status quo).

Cost

60. Extending the exemption to 30 November 2030 will cause cumulative foregone revenue of around $93 - $200 million (from 2026), on top of the cost of the existing exemption. That foregone revenue is in the context of the approximately $6.3 billion in heavy RUC revenue in the same period (out to 2030). The upper estimate represents 3 percent of heavy RUC revenue.

Fairness

61. Same as under option two: an exemption from RUC is unfair to other road users.

62. As with option two, the RUC exemption will advantage operators who can already afford HEVs. Lower costs for these operators may further advantage their commercial position against operators who cannot afford HEVs.

63. However, the 'first movers' who purchase HEVs, and therefore contribute to our emissions reduction targets, are taking on risk and high costs in doing so.

Implementation

64. Similar to option two. Likewise Waka Kotahi can be expected to administer more vehicles under this option (3,618 by 2030). By comparison, the status quo would see 700 fewer vehicles by the same time (2,907) . As with option two, this is not a significantly greater burden for either Waka Kotahi or HEV owners.

65. However, because they will be entering the RUC system, this influx of new payers may require extra resourcing for Waka Kotahi to help them transition into RUC. On the other hand, a longer extension also gives Waka Kotahi more time to prepare for this influx. Diesel vehicle owners transitioning to HEVs will also already be familiar with the RUC system.

How do the options compare to the status quo/counterfactual?

	Option One – Status Quo (exemption expires December 2025)	Option Two – Extend to Nov 2027	Option Three – Extend to Nov 2030 (preferred option)
Effectiveness The extent to which the option is likely to contribute to the 35 percent fleet emissions reduction target.	0	+ **27.04 kilo tonnes.** cumulative tonnes of CO_2 not emitted. The two percent target will also not be met (0.67 – 1.55 percent of the fleet by 2027). Though not modelled, there will also be reductions in other harmful emissions (PM10, NOx, SOx, VOC, CO). These benefits will accrue past the lifetime of the exemption because the vehicles will remain in the fleet	++ **103.33 kilo tonnes** of CO_2 not emitted. The two percent of the fleet target will not be met, but will be one year ahead of the status quo. Though not modelled, there will also be reductions in other harmful emissions (PM10, NOx, SOx, VOC, CO). These benefits will accrue past the lifetime of the exemption because the vehicles will remain in the fleet
Cost The extent to which the option poses a risk to NLTF revenue through foregone RUC.	0	- **$23 - $53** million foregone (1 - 2.2 percent of heavy RUC revenue)	- **$93 - $200** million foregone (1.5 - 3 percent of heavy RUC revenue)
Fairness The extent to which the option is consistent with the principle of road users paying for their road use.	0	- Inconsistent with a key principle of the RUC Act and system, that road users pay for the costs of their road use. RUC exemptions help those who can already afford HEVs' high purchase price. However, some companies lease their trucks, so would benefit from the exemption without having to overcome the purchase price.	- Same as option two - inconsistent with a key principle of the RUC Act and system, that road users pay for the costs of their road use. RUC exemptions help those who can already afford HEVs' high purchase price. However, some companies lease their trucks, so would benefit from the exemption without having to overcome the purchase price.
Implementation How difficult the option is to administer for Waka Kotahi and to comply with for RUC payers.	0	0 Extending the end date only defers the administrative cost to the new date. The cost's scale may be slightly larger for Waka Kotahi because there will be more vehicles in the fleet to begin charging RUC. In the context of the existing heavy RUC fleet, this increase is minor and manageable. Diesel vehicle owners transiting to HEVs will already know how to maintain RUC compliance	0 Similar to option two – though there may be more HEVs in the fleet. In the context of the existing heavy RUC fleet, this increase is minimal. On the other hand, a longer exemption gives Waka Kotahi more time to prepare for these new RUC payers Diesel vehicle owners transiting to HEVs will already know how to maintain RUC compliance
Overall assessment	0	-	0

Example key for qualitative judgements:

++	much better than doing nothing/the status quo/counterfactual
+	better than doing nothing/the status quo/counterfactual
0	about the same as doing nothing/the status quo/counterfactual
-	worse than doing nothing/the status quo/counterfactual
- -	much worse than doing nothing/the status quo/counterfactual

What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

66. Option three, the preferred option, has the same rating as the status quo option, but is assessed as best meeting the assessment criteria because it best balances the incentive to uptake and resulting decarbonisation benefits, against the long-term risk to NLTF revenue. The administrative cost is the same as option two, but higher than the status quo - though the difference is evaluated to be minor and manageable.

67. Option three is also preferred over the status quo because although it has the same overall rating, the compound emission reductions from the preferred option are greatly higher than the status quo. The evaluation above accounts for carbon emissions reductions only for the lifetime of the exemptions, but the benefits will persist beyond that because they are tied to the vehicles' lifetime.

68. It is difficult to extrapolate from the very small number of HEVs currently in the fleet, but assuming an HEV remains in the fleet for 20-25 years, further emissions savings will be gained.[11] Table 2 below shows annual and cumulative carbon emissions reductions from HEVs over the 20-year period after the preferred option expires. A RUC exemption is an incentive to purchase these vehicles – once in the fleet they will continue to provide emissions savings even after the exemption expires, and we assess this in the favour of option three over the status quo.

Table 2: Kilo tonnes of carbon emissions avoided in annual and cumulative terms

Year	Base case	High case	Cumulative emissions saving			
			Period	Base case	High case	Low case
2030	29.44	41.67				
2031	30.33	43.29				
2032	28.97	41.28				
2033	27.34	38.87				
2034	25.56	36.27				
2035	23.83	33.73	**2031-35**	136.0	193.4	60.7
2036	22.07	31.20				
2037	20.34	28.77				
2038	18.69	26.46				
2039	17.15	24.25				
2040	15.82	22.32	**2036-40**	94.1	133.0	43.0
2041	14.62	20.59				
2042	13.51	19.00				
2043	12.39	17.44				
2044	11.29	15.88				
2045	10.14	14.29	**2041-45**	62.0	87.2	28.6
2046	9.02	11.79				
2047	7.97	10.38				
2048	7.09	9.12				
2049	6.30	7.98				
2050	5.67	7.06	**2046-50**	36.1	46.3	17.3

[11] Based on the average age at which diesel buses and trucks leave the fleet. HEVs have not existed in New Zealand's fleet long enough to draw strong comparisons.

What are the marginal costs and benefits of the option?

Table 3: Marginal costs and benefits of option three

Affected groups	Comment	Impact	Evidence Certainty
Additional costs of the preferred option compared to taking no action			
Other road users/general taxpayers	Cabinet decides how foregone revenue is handled. Hypothetically, non-HEV owners who pay for their road use (through RUC or FED) may face a lower level of service in the form of less maintenance and infrastructure if revenue is not backfilled. Revenue could be backfilled by increasing FED/RUC rates on other road users, or through general taxation.	Where foregone RUC revenue is not backfilled, the cost of operating and maintaining the land transport system is borne by these users (i.e. they pay disproportionately for their road use).	Low
Waka Kotahi	Processing new RUC payers when the exemption ends.	Low – modelling suggests 3618 HEVs in the system by 2030, which Waka Kotahi will begin charging RUC. This will not significantly add to the existing task of charging 200,000 heavy RUC payers.	Medium
Smaller freight companies/operators.	Companies with more readily available capital which can afford the upfront HEV purchase price are more likely to take advantage of this exemption. Smaller operators which cannot afford HEVs will not benefit from a RUC exemption. This may further advantage the commercial position of large operators, who may then be able to assert or consolidate	Low - this may lead to some rationalisation in the sector, with job losses and business failure. However, a higher tare weight (largely added by the battery) means an operator will pay a higher RUC rate or carry less payload, reducing efficiency in the industry.	Low

	market dominance. However, some operators lease their trucks, so do will not face the purchase price barrier.		
Total monetised costs	Foregone RUC revenue.	$145.55 - $199.73 million (cumulative, out to November 2030). This is a small figure in the context of total NLTF revenue of $11.4 billion over the same period	Low – depends on several factors including the design of other policies to increase HEV uptake and vehicle use patterns.
Non-monetised costs			
HEV operators	Industry compliance costs. Freight costs	Low: HEV owners will pay RUC from 1 December 2030 and will need to ensure they comply with the RUC requirements for the vehicle they operate (purchasing RUC licences every 1,000km at the correct rate). This burden is the same as for non- electric vehicle owners who currently pay RUC. RUC rates are based on weight and axle configuration. Increasing a vehicle's weight by adding a battery on the same axle configuration will mean the vehicle carries smaller payload, needing to make more trips to deliver the same volume of goods.	Low
Road users	Additional road wear from HEVs being heavier than diesel equivalents.	Impacts on road wear and tear are not yet conclusive. This is because currently HEVs weigh more; however, literature points to vehicles being similar in	

		weight to today's diesel trucks in the next decade, when their adoption will be significantly greater. If vehicles do not become lighter than diesel equivalents, then roading costs could increase, all other factors being equal.	
Additional benefits of the preferred option compared to taking no action			
HEV purchasers (freight operators, heavy machinery operators, non-PT bus operators) As these are mostly commercial operators these benefits may be passed onto the end consumer	Ongoing operating cost savings from not paying RUC over the period of the exemption.	This is RUC not paid by operators, so is represented by foregone RUC revenue of $93-200 million (cumulative, out to November 2030).	Low
Consumers	Where freight operators face lower operating costs (in the form of a RUC exemption), they may pass this saving on to consumers in the form of lower freight costs.	Low	Low
Public transport authorities	The zero emissions public transport requirement will be easier to meet while operating costs for their buses are lower.	Low	Low
Total monetised benefits	Represented by foregone RUC	$93-200 million	Low
Non-monetised benefits			
New Zealand (wider society)	Decarbonisation of the heavy vehicle fleet and reduced greenhouse gas emissions from tail pipe emissions	103.33 kilo tonnes	Medium
	Reduced air pollution and costs associated with harmful emissions (PM10, NOx, SOx, VOC, CO). The Health and Air Pollution in New Zealand 3.0 report	Low	Medium

	indicated that, in 2016, the social costs due to air pollution from motor vehicles were $10.5 billion. This represented about 67.3% of the total social costs of all human-made air pollution ($PM_{2.5}$ and NO_2) in New Zealand in 2016. These social costs reflect the cost of all air pollution impacts to New Zealand in terms of direct costs incurred in the health system and also due to loss of life, lost quality of life and lost productivity. Such costs would be reduced with a higher prevalence of HEVs in the fleet.		

Section 3: Delivering an option

How will the new arrangements be implemented?

69. The exemption can be extended to 30 November 2030 through an Order in Council. To implement the extension, new regulations under the RUC Act are needed before the exemptions expire to set the new end dates. This would involve changing the end date from 31 December 2025 to 30 November 2030.

70. To gain the full benefit of the exemption's extension this would not come into force until the current exemption expires. There is a test included in the RUC Act that requires the Minister to be satisfied that the exemption will encourage and support the uptake of heavy electric RUC vehicles, before recommending an Order be made by the Governor-General.

71. Because the proposed change confers a benefit and only affects owners and potential purchasers of EVs, it is not intended to consult further with the public (beyond the *Driving Change* discussion document) before making these regulations. This is consistent with the approach taken in 2016 when the exemption was first made, and in 2021 when the light EV exemption's end date was last amended.

72. Following gazetting of the exemption extensions the Ministry of Transport and Waka Kotahi will work together to publicise the exemption extension and Waka Kotahi will continue to communicate how RUC payers can maintain their RUC compliance.

How will the new arrangements be monitored, evaluated, and reviewed?

73. It is important to balance the benefit to HEV purchasers through incentivising uptake, with the risk to NLTF revenue through them not paying RUC. It is a key principle of the RUC system that road users pay for the cost of their road use, meaning the exemption cannot continue indefinitely.

74. Ministry officials will continue to monitor the HEV RUC exemption's impact on uptake and the amount of RUC revenue foregone over the course of the exemption. The exemption's end date can be modified through a further Order in Council if necessary.

Annex 1: HEVs available in New Zealand

The table below shows the RUC rates that several HEVs, most already available in New Zealand, would be paying from 1 January 2026.

Name	Weight Class	RUC Type	RUC rate ($ per 1,000 km)
LDV eDeliver 9	4 tonnes	1	82
Fuso eCanter	7.5 tonnes	2	126
Hyundai Mighty Electric	7.5 tonnes	2	126
Volvo FL	16 tonnes	2	315
Scania BEV	29 tonnes	6	434
Hyundai XCIENT FCEV	36 tonnes	6	434
Mercedes eActros	40 tonnes	6	434
XCMG E700	50 tonnes	14	435

Climate Implications of Policy Assessment: Disclosure Sheet

This disclosure sheet provides the responsible department's best estimate of the greenhouse gas emissions impacts for New Zealand that would arise from the implementation of the policy proposal or option described below. It has been prepared to help inform Cabinet decisions about this policy. It is broken down by periods that align with New Zealand's future emissions budgets.

Section 1: General information

General information	
Name/title of policy proposal or policy option:	Extending heavy electric vehicle exemptions from road user charges
Agency responsible for the Cabinet paper:	Ministry of Transport
Date finalised:	*30 April 2030.*
Short description of the policy proposal:	The proposal is to extend heavy electric vehicles' exemption from road user charges to incentivise their uptake. A greater number of EVs in the fleet will help decarbonise the transport sector. The current exemption is legislated to expire on 25 December 2025, and it is proposed to extend this end date to 30 November 2030.

Section 2: Greenhouse gas emission impacts

Sector & source	Changes in greenhouse gas emissions in kilo tonnes of carbon dioxide equivalent (CO_2-e)						
	2023–25	**2026–30**	**2031–35**	**2036–40**	**2041–45**	**2046–50**	**Cumulative impact**
Transport	10 (6.5 to 16)	103 (49 to 147)	136 (61 o 193)	94 (43 to 133)	62 (29 to 87)	36 (17 to 46)	441 (205 to 623)
Total	10 (6.5 to 16)	103 (49 to 147)	136 (61 o 193)	94 (43 to 133)	62 (29 to 87)	36 (17 to 46)	441 (205 to 623)

Section 3: Additional information

Additional information
The impacts of this policy proposal on the uptake of heavy electric vehicles are projected using the Ministry of Transport's EV uptake projection model. The EV model projects EV uptake based on a set of assumptions on vehicle purchase prices, fuel and electricity prices, time period for EV RUC exemption, and barriers to EV uptake including EV driving ranges and EV variety limitations. It is useful to note that projecting EV uptake rates for heavy vehicles is difficult because we only have a small number of heavy EVs in New Zealand and our understanding of their uptake is limited. Although most recent data has been considered, large uncertainty would be associated with their projections. Therefore, the results of projected emission reduction shown here should be treated as provisional. Please also note that these are tailpipe fuel combustion emissions only and those emissions from electricity generation associated with the electricity used by EVs are ignored here as they are insignificant.

Section 4: Quality assurance

Quality assurance
The Ministry for the Environment's Climate Implications of Policy Assessment (CIPA) team has been consulted. Full quality assurance of the emissions analysis was unable to be completed due to a lack of time. However, the scale of estimated emissions reduction appears reasonable, and the CIPA team has no general concerns with the modelling methodology employed. Ministry of Transport officials will work with the CIPA team to assess the emission impacts of further RUC proposals as they are advanced, as appropriate.

Cabinet

Minute of Decision

Road User Charges: Electric Vehicle Exemptions and Report Back from the Driving Change Consultation

Portfolio **Transport**

On 21 August 2023, following reference from the Cabinet Economic Development Committee, Cabinet:

Extending the exemption from road user charges for heavy electric vehicles

1 **noted** that:

1.1 light electric vehicles (EVs) are exempt from paying road user charges (RUC) until 31 March 2024;

1.2 heavy EVs are exempt from paying RUC until 31 December 2025;

1.3 owners of these vehicles will need to pay RUC from these dates unless the legislation is amended;

2 **noted** that light EVs are expected to reach two percent of the light vehicle fleet in 2024;

3 **agreed** to allow the RUC exemption for light EVs to expire, as legislated, on 31 March 2024;

4 **noted** that charging light EVs RUC will generate revenue of $55 to $86 million;

5 **noted** that Waka Kotahi New Zealand Transport Agency (Waka Kotahi) will begin communications in November 2023, explaining the future RUC compliance obligations to owners of light EVs;

6 **noted** that amendments to primary legislation will be necessary to support the changes outlined in the paper under CAB-23-SUB-0378, and that if these are not enacted before 1 April 2024, Waka Kotahi will implement transitional arrangements until new legislation is in place;

7 **noted** that although the number of heavy EVs in the New Zealand fleet is rising, the numbers are still below two percent of the national fleet;

8 **agreed** to amend the Order in Council under section 37A of the Road User Charges Act 2012 to extend the heavy EV RUC exemption to 30 November 2030;

9 **noted** that extending the heavy EV RUC exemption to 30 November 2030 will cause foregone revenue of $95 to $200 million;

10 **noted** that the heavy EV exemption is in place to help the fleet reach 2 percent, and that officials will monitor uptake and revenue impacts and will recommend changes to the exemption, if necessary;

11 **noted** that further public consultation on the RUC exemption for heavy EVs is not necessary as the proposed extension confers a benefit on the public, and that this approach is consistent with previous exemptions;

Report back on the Driving Change consultation

12 **noted** that on 18 November 2021, the Cabinet Environment, Energy and Climate Committee agreed to the release of a discussion document on proposed changes to the RUC system (the *Driving Change* consultation), and invited the Minister of Transport to report back on the results of consultation and with recommendations for legislative change [ENV-21-MIN-0064];

13 **agreed** that battery EVs and plug-in hybrid EVs should pay RUC when the light EV exemption ends;

14 **agreed** to amend the Road User Charges Act 2012 to enable the setting of partial rates;

15 **noted** that the policy intent of enabling partial RUC rates is to avoid subjecting owners of vehicles liable to both fuel excise duty and RUC to the full rate of RUC;

16 **agreed** to remove the ability for plug-in hybrid EV owners to apply for fuel excise duty refunds for those vehicles;

17 **agreed** that vehicles powered by compressed natural gas and liquefied petroleum gas should pay RUC;

18 **agreed** to exempt certain very light EVs with a gross vehicle mass of less than one tonne from the obligation to pay RUC;

19 **authorised** the Minister of Transport to determine what very light EV types are exempt from RUC;

20 **agreed** to remove the requirement that RUC licences need to be displayed or carried for all RUC vehicles unless a vehicle owner requests a licence label and pays the administrative fee;

21 **agreed** that electronic RUC devices in heavy vehicles should not be required to display a RUC licence;

22 **noted** that Waka Kotahi will develop an online portal, in consultation with New Zealand Police, for vehicle owners and enforcement officers to check a vehicle's RUC before the licence display requirement is removed;

23 **noted** that Waka Kotahi and New Zealand Police will ensure that, when the display requirement is removed, New Zealand Police has adequate access to vehicle data to enable enforcement action at all times and locations;

24 **agreed** to enable Waka Kotahi to use historical RUC rates to determine unpaid RUC in auditing assessments;

25 **agreed** to allow Waka Kotahi discretion regarding the time allowed for an assessment review;

26 **agreed** to allow a limited increase of Waka Kotahi access to third party records to assist with RUC assessments;

27 **agreed** to exempt travel for a Certificate of Fitness check from RUC if the vehicle is normally used off road;

28 **agreed** to reset the RUC bands to align with Land Transport Rule: Vehicle Dimensions and Mass 2016, and to remove concession type licences 308 and 408;

29 **agreed** to establish a 54 tonne RUC band at a rate proportional to that of a 54-tonne vehicle;

30 **agreed** that the RUC exemption should be removed from mobile cranes;

31 **agreed** to modify the definition of all-terrain cranes in the Road User Charges Regulations 2012 from a tyre contact area of more than 1,500 cm^2 per tyre to 'single large or single mega tyred axles';

32 **noted** that the following seven proposals from the *Driving Change* document will be progressed in separate workstreams to the Bill amending the RUC system:

32.1 including externalities in the costs considered in setting RUC rates;

32.2 including impacts on greenhouse gas emissions when setting RUC rates;

32.3 using electronic RUC devices to improve road safety;

32.4 adjusting the overweight permit regime;

32.5 removing the requirement to display other transport labels;

32.6 adjusting RUC offences and penalties to be consistent with the Effective Transport Financial Penalties Framework;

32.7 creating a requirement for RUC electronic system providers to notify Waka Kotahi of the status of RUC payments;

33 **noted** that the following eight proposals from the *Driving Change* document will not be included in the Bill amending the RUC system or directed to other workstreams at this time:

33.1 exempting vehicle combinations where the motive power is from a vehicle exempted from RUC;

33.2 exempting low emission vehicles from RUC based on distance travelled;

33.3 including fuel type, origin, and blend in RUC rates;

33.4 reviewing the requirements for electronic RUC (including the Code of Practice's fitness for purpose) and mandating electronic RUC for all heavy vehicles;

33.5 allowing for the purchase of RUC licences in amounts less than 1,000 kilometres;

33.6 changing Certificate of Fitness and Warrant of Fitness requirements so the assessor must report evidence of odometer tampering;

33.7 clarifying the definition of ‘accurate’ for a distance recorder in a light vehicle;

33.8 clarifying the requirements that certain persons must make and retain certain records;

Legislative implications

34 **invited** the Minister of Transport to issue drafting instructions to the Parliamentary Counsel Office to give legislative effect to the above paragraphs (including for primary legislation and any associated regulations), including any consequential amendments, savings and transitional provisions;

35 **noted** that the Road User Charges Amendment Bill has a category 5 priority on the 2023 Legislation Programme (drafting instructions to be provided to PCO before the 2023 general election);

36 **authorised** the Minister of Transport to make decisions that are consistent with the overall policy outlined above when the RUC amendment Bill is considered for introduction.

Rachel Hayward
Secretary of the Cabinet