

Office of the Minister of Transport
Office of the Minister of Energy and Resources

Chair
Cabinet Economic Growth and Infrastructure Committee

PROMOTING THE UPTAKE OF ELECTRIC AND OTHER LOW EMISSION VEHICLES

Proposal

1. In March 2016 Cabinet invited the Minister of Transport and the Minister of Energy and Resources to report back on how a contestable fund could best be utilised to help promote the uptake of low emission technologies. Cabinet also asked for further advice on the costs of an agreed demonstration of electric vehicles (EVs) across government fleets [CAB-16-MIN-0034 refers]. This paper reports back on these two matters.

Executive summary

2. Low emission vehicle technologies, especially EVs, provide New Zealand with the opportunity to reduce transport greenhouse gas emissions, without compromising individual mobility or economic growth. However, there are some market failures that mean uptake may not happen as fast as it should.
3. For this reason, I proposed a package of measures to Cabinet last month to encourage the uptake of EVs. Parts of that package were agreed, and I was asked to report back on the contestable fund that I had proposed and provide advice on the EVs demonstration that was agreed.
4. The overarching principle of the contestable fund is that it should enable and promote the deployment and uptake of EVs and other low emission vehicles into New Zealand, that might otherwise not occur.
5. The fund would be invested in projects that accelerate the uptake of EVs and for innovations that would not otherwise be funded. The projects may well be high profile in nature. The projects could be developed by businesses, local communities, or government. To be funded, projects would be required to commit co-funding.
6. I believe there is a clear rationale to establish the fund, and I seek your agreement to do so. I expect officials to report back to me on the assessment process, work programme and other detailed aspects of the fund, which I propose is administered by the Energy Efficiency and Conservation Authority with oversight from the Ministry of Transport and the Ministry of Business, Innovation and Employment.
7. I am also proposing that the fund is established with reprioritised funding of \$4.0m from the Energy Efficiency and Conservation Authority in 2016/17. While I have secured funding for this first year of the fund, I am considering other options for funding in out-years, including the option of re-purposing an existing energy or

transport levy. I will soon be seeking Cabinet approval to release a consultation document with options for re-purposing an existing levy before reporting back by August 2016 with my preferred funding option.

8. Given the more significant procurement work proposed in my earlier Cabinet paper, I do not intend to progress the demonstration of EVs at this time.

Background

9. In March 2016 Cabinet agreed to a package of measures to encourage the uptake of EVs in New Zealand. The agreed measures include: an information campaign, the EVs demonstration, an extension and expansion of the current road user charges exemption for EVs, the establishment of a leadership group, and legislative change to enable EVs to use bus lanes [CAB-16-MIN-0034 refers]. Cabinet also directed the Ministry of Business, Innovation and Employment to investigate the feasibility of joint public and private procurement using baseline funding, and report back to Ministers¹ by June 2016.
10. In addition, the March 2016 Cabinet paper proposed the establishment of a contestable fund to complement the other measures. While I have secured funding for this in 2016/17 from the Energy Efficiency and Conservation Authority, I am considering other options for funding in out-years, including the option of re-purposing an existing energy or transport levy.

Scope of the proposed fund

11. The contestable fund will encourage innovation and investment to ensure the increased use of low emissions vehicles in New Zealand. It is intended to be able to be utilised to target specific initiatives which would leverage investment from other parties (public and private sector). This would include initiatives to promote a shift in consumer attitude and facilitate the utilisation of EVs. This is discussed in more detail below.
12. As has been found with packages such as the Urban Cycleways Fund², co-funding leads to greater leverage of the available funding and greater engagement from local government and the private sector with the initiatives.

Low emission vehicles

13. Cabinet requested advice on how the fund could be best utilised to promote not just EVs, but the uptake of a wider set of low emission vehicle technologies³.

1 Specifically, the Minister of Economic Development and Minister of Transport.

2 Once fully leveraged with funding partners, the Crown's \$100 million investment in Urban Cycleways resulted in a \$333 million investment programme, the country's single-biggest ever investment in urban cycleway infrastructure.

3 CAB-16-MIN-0108.01 Decision 9

14. For the purpose of the scope of the contestable fund, I intend that the term 'low emissions vehicles' should refer to vehicle and related technologies that use our renewable electricity advantage to significantly reduce greenhouse gas emissions, air pollutants and other environmental impacts over the long-term in transport. This would include electricity-based technologies such as hydrogen fuel cell vehicles, and two types of EV: battery-electric vehicles⁴ and plug-in hybrid electric vehicles, along with their related infrastructure. Conventional hybrid vehicles (such as the Toyota Prius), which have an internal battery charged by a petrol or diesel engine, are not included in this definition of LEVs as they do not use low carbon energy sources.

What is the rationale for establishing a contestable fund?

15. Government has a clear role to intervene where there are market failures, such as coordination and information problems. At the more specific level, engagement with stakeholders has identified there are a number of immediate barriers to EV uptake specifically and to LEVs more broadly. Issues identified by stakeholders include:
- lack of supply of suitable vehicles into the New Zealand market
 - price differences with conventional vehicles
 - concerns over residual values and maintenance.
16. The contestable fund would be invested in projects that accelerate the uptake of EVs and for innovations that would not otherwise be funded. This would include initiatives to promote a shift in consumer attitude and facilitate the utilisation of EVs meaning projects may well be high profile in nature. The projects could be developed by businesses, local communities, or government. To be funded, projects would be required to commit co-funding.
17. A fund would also enable innovative developments to promote LEVs, that might otherwise not occur.
18. In addition, there is potential for innovation to take place in the systems around EVs and LEVs which may provide new industries and economic growth opportunities for New Zealand. A contestable fund has the potential to address these areas through increased focus and by enabling co-funding arrangements.

Principles for the contestable fund

19. The overarching principle of the contestable fund is that it should encourage innovation and investment to promote, enable and accelerate the uptake of electric and other low emission vehicles into New Zealand, that might otherwise not occur.

⁴ The term electric vehicle includes both motor vehicles powered solely by electric batteries (BEVs) as well as plug-in hybrid electric vehicles (PHEVs) that operate on a combination of batteries that are charged externally, along with a petrol or diesel motor.

20. The fund will not be used to subsidise the purchase price of EVs, or to compete directly with the private sector.
21. I propose the guiding principles of the contestable fund to promote the uptake of low emissions vehicles, including electric vehicles, are to:
- 21.1. support innovative activities to promote the supply of LEVs that would not otherwise occur
 - 21.2. implement measures that will enable rapid uptake of EVs, and other LEVs as they become available
 - 21.3. remove barriers to uptake, including the reduction of financial risk and provision of charging infrastructure
 - 21.4. provide value for money (within the context of the EV programme)
 - 21.5. be co-funded, by businesses, industry bodies, local communities, and government.
22. Proposals could be developed by businesses, industry bodies, local communities, and both local and central government. I expect the leadership group agreed by the March 2016 Cabinet paper would play an important role in developing initiatives for funding.
23. A set of standard criteria will be applied to assess all initiatives on a fair basis, both as a means of ensuring focus on core objectives and as a levelling mechanism, especially where initiatives may vary significantly in terms of size and type. [REDACTED]
24. I have asked my officials to report back to me as Minister of Transport and Minister of Energy and Resources with a detailed proposal for how the assessment process would be deployed, including an indicative plan for years after 2016/17, and proposals for the role of the leadership group established by the March 2016 Cabinet decision⁵. Section 9(2)(f)(iv)

What types of initiatives could be funded?

25. The March 2016 Cabinet paper proposed a number of possible areas where initiatives could be funded. These included:
- 25.1. the creation and promotion of branded tourism routes using EVs. On such routes tourists could hire EVs, and preferentially park and charge them at participating tourist attractions, information centres, cafes and accommodation venues
 - 25.2. demonstrations of vehicle types currently not used in New Zealand, such as electric buses utilising new technologies and electric vans in commercial fleets
 - 25.3. EV car sharing schemes that promote EVs and new ways of addressing transport demand.
26. These areas have already been subject to some initial consideration and indications are that at least some of these could be implemented relatively quickly. For example, I

understand that Greater Wellington Regional Council is interested in conducting demonstrations of electric buses in the Wellington region. Both Auckland City and Christchurch City Councils are also reported to be considering the opportunities that EVs present in particular around ride sharing schemes using EVs.

27. In addition to potential demonstrations of electric buses, there are parts of NZ, especially urban arterials with stop-start driving, where electric buses (and trucks) could improve air quality. This could be a useful focus for a demonstration of heavy EVs in the New Zealand context as there is currently only one fully electric truck in New Zealand.
28. I have asked my officials to develop these initiatives further as part of their programme of work and to report back to me with more comprehensive proposals.

Administration of the contestable fund

29. I propose that the contestable fund will be governed by a group of senior officials from the Ministry of Transport, the Energy Efficiency and Conservation Authority, and the Ministry of Business, Innovation and Employment. They will work with the leadership group established by the March 2016 Cabinet paper.
30. As part of the report back agreed in the March 2016 Cabinet Paper⁶ on the make-up of the leadership group, further working details of how the leadership group would assist with administration will also be reported back to the Minister of Transport and the Minister of Energy and Resources, as necessary.
31. Once established, I propose that the Energy Efficiency and Conservation Authority administer the contestable fund, with oversight from the Ministry of Business, Innovation and Employment and Ministry of Transport. The report back to me will also consider how administration costs for the contestable fund will be met.

Where will the funding come from?

32. As proposed in the March 2016 Cabinet paper, the fund will initially be established through a mixture of reserves and reprioritised existing baseline funds from the Energy Efficiency and Conservation Authority. Funding of \$4.0 million is already available for this first year (2016/17), but not for out years.
33. For the initiatives such as those outlined in paragraph 25 to have an impact, I propose a contestable fund of up to \$6 million per year will be required in out years.
34. For out years (2017/18 onward), I am considering options to re purpose an existing energy or transport levy. Although there are existing levies collected in the transport and energy sphere, none can be used to fund initiatives such as promoting EV uptake without legislative amendment.
35. Further work, including public consultation, is needed to determine the most appropriate existing levy for the contestable fund. I will soon be seeking Cabinet

6 CAB-16-MIN-0108.01 Decision 32

approval to release a consultation document with options for re-purposing an existing levy before reporting back by August 2016 with my preferred funding option.

Report back on proposed demonstration purchase of EVs

36. The March 2016 Cabinet paper invited the Minister of Transport and the Minister of Energy and Resources to report back on the costs of the proposed EV demonstration across the government fleets, initially involving approximately 24 vehicles, with the potential for the demonstration to be expanded⁷.
37. Given the more significant procurement work proposed in my earlier Cabinet paper, I do not intend to progress the demonstration at this time.

Consultation

38. The Energy Efficiency and Conservation Authority, the Ministry of Business, Innovation and Employment, the Ministry for the Environment and Treasury were consulted in the preparation of this paper. The Department of Prime Minister and Cabinet was informed of the paper.

Treasury Comment

39. The Treasury does not support the establishment of a contestable fund. It is not clear that there will be high-value investment ready projects to fund. Additionally, the funding mechanism for out-years has not been established.
40. If Ministers did want to be in a position to fund investment ready initiatives that did occur over the next year, the funding that has been reallocated within the Energy Efficiency and Conservation Authority's baseline could be used. A dedicated fund is not needed for this purpose.

Financial implications

41. The proposals in this paper do not require any additional funding from the Crown at this stage, so there are no financial implications.
42. The fund and demonstration will be funded from re-prioritisation within, and reserves from, the Energy Efficiency and Conservation Authority in 2016/17, and I will be reporting back by August on funding options for out-years.
43. If a levy or other funding is not approved, the contestable fund may exhaust its funding beyond 2016/17.

Human rights implications

44. There are no human rights implications for these proposals.

⁷ CAB-16-MIN-0108.01 Decision 10.2

Legislative implications

45. No legislative changes are proposed by this paper. Legislative change would be required to expand the purpose of an existing levy so that it can be used to resource initiatives such as the contestable fund to promote electric and other low emission vehicles. If Cabinet agrees to the establishment of a contestable fund for electric and other low emission vehicles

Section 9(2)(f)(iv)

Regulatory Impact Analysis

46. A regulatory impact analysis is not required as no legislative changes are proposed at this stage.

Publicity

47. Cabinet has already noted that the details of the central government contribution to the government-industry EV package will be announced shortly after Cabinet has taken its decisions. I will include information about the establishment of the fund as part of this announcement.

Recommendations

48. The Minister of Transport recommends that the Committee:
1. **note** that a contestable fund is a key part of an electric vehicles package of measures designed to work in concert with the other initiatives to encourage innovations that accelerate the uptake of EVs and other low emission vehicles in New Zealand
 2. **agree** that a contestable fund of up to \$6 million per year be established to co-fund industry and government initiatives aimed at promoting the uptake of electric and other low emission vehicles
 3. **agree** that the overarching principle of the contestable fund is that it should encourage innovation and investment to promote, enable and/or accelerate the uptake of electric and other low emission vehicles into New Zealand, that might otherwise not occur.
 4. **agree** that the guiding principles of the contestable fund to promote the uptake of low emissions vehicles, including electric vehicles, are to:
 - 4.1 support innovative activities to promote the supply of low emissions vehicles now that would not otherwise occur
 - 4.2 implement measures that will enable rapid uptake of electric vehicles, and other low emissions vehicles as they become available

- 4.3 remove barriers to uptake including the reduction of financial risk and provision of charging infrastructure, required to deploy low emissions vehicles
 - 4.4 provide value for money (within the context of the electric vehicle programme)
 - 4.5 be co-funded, by businesses, industry bodies, local communities, and local government
 - 4.6 not subsidise vehicle purchase price or competing directly with the private sector
5. **note** that officials will report back to the Minister of Transport and the Minister of Energy and Resources with a detailed proposal for how the assessment process would be deployed, including an indicative plan for years after 2016/17 and proposals for the role of the leadership group
 6. **note** that the fund may include activities to promote other low emission vehicles, especially as these become more market-ready
 7. **note** that the costs for the first year of operation of the contestable fund, including administrative costs, will be met through the use of Energy Efficiency and Conservation Authority reserves and reprioritisation of expenditure within Vote Business, Science and Innovation: Energy Efficiency and Conservation totalling up to \$4.0 million to the end of 2016/17
 8. **note** that there are options for legislative change to expand the purposes of an existing energy or transport levy to recover the costs of the contestable fund from 2017/18 onward
 9. **note** I will soon return to Cabinet to seek approval to release a consultation document with options for re-purposing an existing levy before reporting back by August 2016 with my preferred funding option.
 10. **agree** that the contestable fund be administered by the Energy Efficiency and Conservation Authority with oversight provided by the Ministry of Business, Innovation and Employment and the Ministry of Transport and the leadership board established by the March 2016 Cabinet decisions [CAB-16-MIN-0108.01]
 11. **note** Cabinet previously invited the Minister of Transport and the Minister of Energy and Resources to report back on the costs of the proposed EV demonstration across the government fleets [CAB-16-MIN-0108.01 Decision 10.2].
 12. **agree** to rescind the report back referred to in recommendation 10 and 11.

Hon Simon Bridges
Minister of Transport
Minister of Energy and Resources

[REDACTED]

- | [REDACTED]
- | [REDACTED]
- | [REDACTED]
- | [REDACTED]
- | [REDACTED]