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Ministry of Transport
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Moving the light vehicle fleet to low-emissions

Meridian appreciates the opportunity to comment on the proposals in the discussion document *Moving the light vehicle fleet to low-emissions*. Meridian is strongly supportive of the Government's proposals to introduce standards and discounts incentivising cleaner vehicles in New Zealand. Meridian's Chief Executive, Neal Barclay welcomed the proposals in a press release and noted that:¹

"Transport represents a huge opportunity for New Zealand to reduce emissions, meet climate targets, and lower running costs for families and individuals.

Too many vehicles on our roads are fuel inefficient and emission-intensive. For a country that trades on its environmental credentials, doing nothing is no longer an option. We're fortunate that New Zealand has a high proportion of electricity generated from renewable sources, around 85%. We should be using this to power our transport where we can."

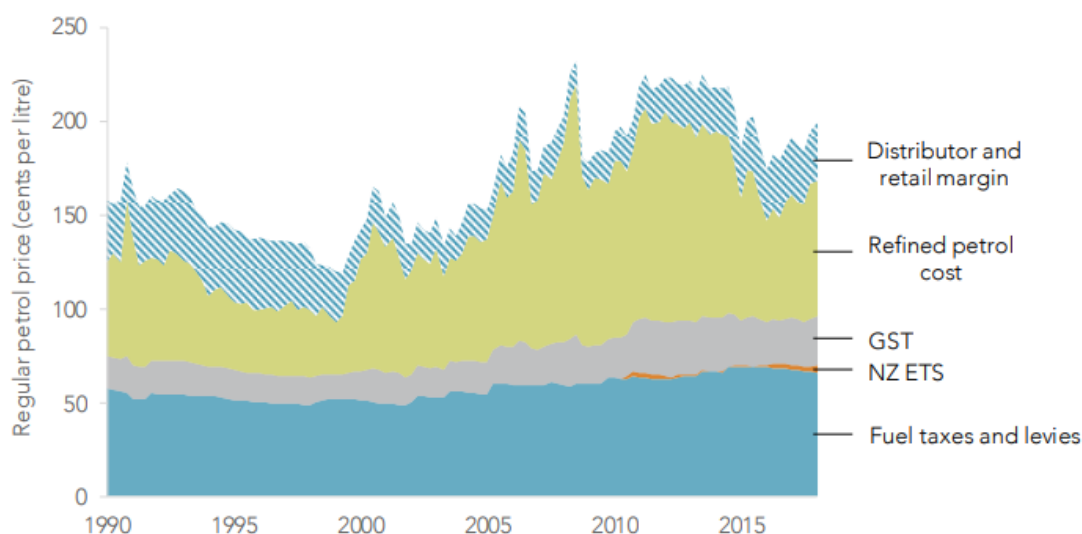
Transport is New Zealand's second largest source of greenhouse gas emissions, contributing nearly 20 percent of gross emissions. Electrification of the light vehicle fleet is therefore one of New Zealand's best levers for reducing emissions. In most sectors of the economy the New Zealand Emissions Trading Scheme (ETS) provides an appropriate level of price incentive to ensure New Zealanders favour low-emissions alternatives. The Government should generally be cautious in considering additional, sector-specific interventions. This is

¹ <https://www.meridianenergy.co.nz/news-and-events/meridian-energy-welcomes-action-on-cleaner-cars>

due to the potential for unintended consequences and the risk that emissions reductions are not as efficient as they could be under an economy wide ETS.

However, in transport policy there are good reasons to supplement the ETS with additional measures:

- Emissions costs make up a small portion of total fuel costs. While it is fuel importers and producers that have the ETS obligation, costs are largely passed through to consumers. The small impact of the ETS on fuel costs is evident in the extract below from the Productivity Commission's *Low-emissions economy* report:



- The ETS therefore has a small effect on consumer behaviour – New Zealand consumers' vehicle choices are more motivated by the upfront capital costs of a vehicle rather than fuel or whole of life costs.
- Because New Zealand consumers change vehicles infrequently, we need to start importing different types of vehicle *now* if we want to see the composition of the fleet change fast enough to meet emissions targets. Vehicles stay in the New Zealand fleet for a long time, locking in the associated emissions for their lifetime. The earlier that EV uptake accelerates, the lower New Zealand's total emissions will be over the next few decades.
- Productivity Commission modelling indicates that a rapid uptake of EVs will be critical to achieve a low-emissions economy to “electrify the bulk of the light vehicle fleet by 2050, nearly all newly registered vehicles would need to be electric by the early 2030s.”² However the Ministry of Transport projections in the discussion

² Productivity Commission *Low-emissions economy* (August 2018) page 347
https://www.productivity.govt.nz/sites/default/files/Productivity%20Commission_Low-emissions%20economy_Final%20Report_FINAL_2.pdf

document suggest that only around 40 percent of vehicles entering New Zealand will be electric in 2030 without further government intervention or incentives.

Meridian therefore strongly supports the proposed vehicle emissions standard and feebate scheme. We believe these policies are timely and necessary if New Zealand is to achieve net zero greenhouse gas emissions by 2050. The proposals will bring New Zealand into line with other developed nations, prevent the dumping of high-emission vehicles in New Zealand, and provide fiscally responsible financial incentives for the importation of an increasing number of EVs.

We agree with the Ministry of Transport that together the Clean Car Standard and Clean Car Discount will induce a gradual phase-in of more low-emission vehicles to the domestic used vehicle market, benefiting all used vehicle buyers, including low income households, through a wider choice of affordable low-emissions vehicles and reduced fuel costs. Meridian supports the implementation of both policies as soon as reasonably practical and notes that delays in implementation could result in reduced EV uptake while purchasers wait for the feebate scheme to take effect.

As well as supporting the Government's proposals, Meridian is doing its part to help New Zealand transition to electric vehicles and so achieve emissions goals:

- Meridian has converted around 80% of its passenger fleet to electric vehicles with a goal of 90% by 2020.
- Meridian, in partnership with EECA and a range of businesses is rolling out electric vehicle charging infrastructure around New Zealand, including in parts of New Zealand where there was previously no public charging available.
- Meridian offers customers an EV plan with competitive overnight charging rates.

The table appended to this submission addresses the specific questions from the discussion document. In addition, the remainder of this cover letter goes beyond the scope of the Ministry of Transport's current consultation to highlight other areas where the Government and regulators could do more to remove barriers to EV uptake, namely:

- reforming the pricing structures of electricity lines businesses; and
- allowing competition to drive the efficient roll out of EV charging infrastructure.

Reforming the pricing structures of electricity lines businesses

Transmission and distribution costs make up around 40% of the average household's electricity bill. The 29 local lines or distribution companies allocate the costs of running, maintaining and expanding their networks to customers in a range of different ways but the dominant methodology is to allocate network costs on a variable, per kilowatt hour basis. Variable charging like this is poorly aligned with the true drivers of network costs and is not providing realistic or efficient cost signals to customers, particularly the adopters of new technology.

Research undertaken by Concept Consulting indicates that the current flat structure of most retail electricity tariffs constrains the uptake of electric vehicles because the electricity cost from charging EVs at off peak times (like overnight) is generally too high. Overall, pricing misalignments are expected to slow the uptake of EVs relative to optimal levels, resulting in:

- costs to the country of between 300 and 700 million of dollars³; and
- significantly increased greenhouse gas emissions.⁴

Transmission and distribution pricing reform is needed to ensure there are efficient price signals and the charging and discharging of electric vehicles is incentivised at the right times (and is therefore cheaper for consumers). The Electricity Authority is working on both transmission and distribution pricing reform and both projects should be supported and progressed urgently.

Allowing competition to drive the efficient roll out of EV charging infrastructure

Competition by a range of businesses for EV charging infrastructure will lead to the best consumer outcomes. Competition will ensure:

- downward price pressure for charging services;
- innovation in the type of services provided;
- that the beneficiaries of charging services pay for them; and
- that investors bear the risk of their investments in charging infrastructure.

³ See Concept Consulting *Electric cars, solar panels, and batteries in New Zealand Vol 2: The benefits and costs to consumers and society* (June 2016).

⁴ According to Concept Consulting *Driving change* (2018) New Zealand could expect 37 percent higher emissions from the light vehicle fleet in 2050 under a continuation of non-cost-reflective electricity distribution prices.

Increasingly Meridian is seeing regulated monopoly lines companies investing in EV charging infrastructure. A recent data request from the Commerce Commission revealed that 16 lines companies are making such investments as part of their regulated expenditure,⁵ meaning the cost of the investment is passed on to all consumers on the network regardless of whether the charging infrastructure is used and guaranteeing the lines company a regulated return on the investment.

Some lines companies offer “free” EV charging on their network. As noted above, this infrastructure is not in fact “free” but is paid for by all consumers in a network region through the lines component of household electricity bills. Non-lines companies cannot compete in the provision of charging infrastructure in these regions. Local monopoly owned EV charging effectively restricts competition and prevents competitive entry by non-regulated, non-monopoly providers.

The Electricity Authority and Commerce Commission seem aware of this issue but are moving slowly. For example, the Commerce Commission is gathering information from distributors regarding emerging technologies and reminding them of their obligation under the Commerce Act to not take advantage of their substantial market power in emerging markets that they are seeking to enter or are already participating in.^{6, 7} The letter said that with limited exceptions the Commission does not consider electric vehicle chargers to be part of the regulated service. This is because “the main purpose of EV chargers is to charge cars, not the provision of the regulated service (defined as conveyance of electricity by line). Therefore, our starting point is that we would not expect the costs and revenues associated with EV chargers to be within the scope of the regulated service.” The Electricity Authority and Commerce Commission also have a joint project called “Spotlight on Emerging Contestable Services” to consider the extent to which lines company activities in emerging market like EV charging could hinder the development of competition in the long term.⁸ Meridian will continue to encourage the regulators to act on this issue. Currently the joint project is on hold. Private investments in charging infrastructure in relevant regions may also be put on hold, to the detriment of consumers, until the issue is resolved.

⁵ <https://comcom.govt.nz/regulated-industries/electricity-lines/electricity-distributor-performance-and-data/impact-of-emerging-technologies-in-monopoly-parts-of-electricity-sector?target=documents&root=100658>

⁶ https://comcom.govt.nz/_data/assets/pdf_file/0023/90581/Open-letter-Our-intention-to-gather-information-relating-to-emerging-technologies-9-May-2018.pdf

⁷ https://comcom.govt.nz/_data/assets/pdf_file/0026/90719/Notice-to-supply-information-and-documents-to-the-Commerce-Commission-23-July-2018.pdf

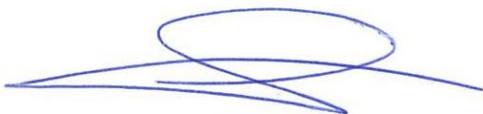
⁸ https://comcom.govt.nz/_data/assets/pdf_file/0026/144593/Electricity-Authority-and-Commerce-Commission-joint-project-Spotlight-on-emerging-contestable-services-Updated-terms-of-reference-7-May-2019.pdf

Competition by a range of businesses to provide EV charging infrastructure will lead to the best consumer outcomes. Price signals will be efficient and reflect the true price of the service provided. The risk of the investments will be borne by the companies investing (rather than passed on to consumers as lines companies are able to do). And dynamic efficiency will ensure the most competitively priced charging is provided and that investments are made to scale up the extent of charging infrastructure commensurate with consumer demand for the service. None of this will occur if competition is stymied by networks offering “free” EV charging and recovering their costs as part of the regulated revenue allowable through electricity bills.

In conclusion, Meridian supports the implementation of the Clean Car Standard and Clean Car Discount. Meridian also encourages the Government to closely monitor the speed and effectiveness of regulatory projects to remove the barriers to EV uptake noted above.

Please contact me if you have any queries regarding this submission.

Yours sincerely



Sam Fleming
Regulatory Counsel

Appendix

	Question	Comment
Clean Car Standard		
1	Is the Clean Car Standard appropriate for New Zealand? If not, why?	Yes.
2	Is an average emissions target of 105 grams CO2 per kilometre by 2025 an appropriate target for New Zealand? If not, why?	Yes.
3	What effect do you think the Clean Car Standard would have on vehicle supply and prices?	<p>Following the transition period, vehicles supplied to the New Zealand market will on average meet the standard. Larger, high-emitting vehicles would still be imported but would need to be offset by low-emissions vehicles.</p> <p>It is unclear whether these would be any impact on vehicle prices because of the standard. The change in supply that results over time from the standard could mean that low-emission vehicles become slightly cheaper to buy in New Zealand, while high-emission vehicles become slightly more expensive. However, whether that price impact eventuates would be dependent on future consumer demand for different types of vehicle – something difficult to predict.</p>
4	Do you consider the overall process outlined for the Clean Car Standard is workable? If not, why?	Yes.
5	The Clean Car Standard will cover new vehicles and used vehicles being brought into New Zealand. Should people who import three vehicles or less be exempted? If not, why?	<p>Meridian considers this exemption worthy of further consideration. If the exemption is applied there is a risk that the Government's emissions goals could be circumvented by large numbers of small importers who set themselves up as private sellers of imported, high-emission vehicles, effectively providing a direct import service for purchasers.</p> <p>If the exemption is retained, it should be reviewed over time to ensure that it is not being used to enable mass bypass of the Clean Car Standard.</p>

6	<p>Do you support phasing-in the 105 grams CO2 per kilometre emissions target by:</p> <ul style="list-style-type: none"> • adopting multiple targets that progressively lower to 105 grams? OR • using the increasing percentage of fleet approach? <p>Please explain why you prefer the approach you have chosen.</p>	<p>Meridian supports a phased transition and considers either option to be workable. Vehicle importers will be better placed to comment on the pros and cons of each option.</p>
7	<p>Do you support the timeframe for the phase in period? If not, why?</p>	<p>The Ministry of Transport should consider how each transition option and different timeframes will shape New Zealand's transport emissions trajectory overall and which option is more likely to enable New Zealand's emissions budgets and 2050 target to be met.</p>
8	<p>Do you support adopting a weight-adjusted Clean Car Standard? If not, why?</p>	<p>Yes, this recognises that suppliers have different mixes of vehicle models depending on the consumer market they are targeting.</p> <p>On the other hand, the proposed feebate mechanism should not be weight adjusted. This will ensure a range of vehicles remain available but that there are financial incentives to discourage the use of high weight and high emissions vehicles.</p>
9	<p>Do you support a penalty of \$100 for each gram CO2 per kilometre that a supplier of new vehicles exceeds its fleet target? If not, why?</p>	<p>Yes, the standards need to be enforceable with penalties that deter exceedance of the standard. As a starting point the penalties are low compared to similar schemes around the world, therefore the level of penalty could be reviewed in future to ensure the deterrence proves adequate.</p>
10	<p>Do you support a penalty of \$50 for each gram CO2 per kilometre that a supplier of used imported vehicles exceeds its fleet target? If not, why?</p>	<p>Yes, see our response to question 9 above.</p>
11	<p>Do you support the banking mechanism to provide flexibility for vehicle suppliers? If not, why?</p>	<p>Yes.</p>
12	<p>Do you agree that the new vehicle sector should have the added flexibility of borrowing? If not, why?</p>	<p>Yes, if borrowing is time limited, i.e. it must be repaid the following year. Exceedance of the annual emission target needs to be enforceable, which could become</p>

		challenging with borrowing periods any longer than a year.
13	Do you support an arrangement for suppliers to pool their vehicles together to comply as a group? If not, why?	Yes.
14	Do you agree that new and used vehicle suppliers should not be able to pool their vehicles and comply as a group? If not, why? If you think they should be able to comply as a group, how should the different lifetime emissions of new vehicles and used vehicles be measured and balanced?	Yes, this seems pragmatic and could more easily enable compliance from vehicle suppliers that specialise in a certain type of vehicles, for example heavy utility vehicles.
15	Do you support having the following penalties for misreporting data for the Clean Car Standard: <ul style="list-style-type: none"> • for an individual, a fine not exceeding \$15,000 • for a person or an organisation other than an individual, a fine not exceeding \$75,000? If not, why?	Yes.
16	Do you support the sanction of disqualification from being a registered motor vehicle dealer if a supplier deliberately attempts to evade meeting annual targets? If not, why?	Yes.
17	Do you support amending the Fuel Consumption Information Rule so that only vehicles tested to the WLTP, NEDC, the JC08, and the American Federal Test Procedure meet requirements for entry certification? If not, why?	Yes.
18	Do you agree with the proposed process for setting future emission targets? If not, what would you change and why?	Yes.
Clean Car Discount		
19	Is the Clean Car Discount appropriate for New Zealand? If not, why?	Yes.

20	Is the emissions benchmark of 105 grams CO ₂ per kilometre by 2025 an appropriate one to have for the Clean Car Discount? If not, why?	Yes.
21	Would an initial emissions benchmark of 150 grams CO ₂ per kilometre be suitable for the first year of the Clean Car Discount? If not, why?	Yes.
22	Would the level of the fees and discounts in the example feebate schedules (Appendix 4) increase demand for low-emission vehicles? If not, what changes would you make?	Yes. Meridian supports adjustments to the extent of fees and rebates over time as monitoring data shows the impact that the scheme is having. The proposed Climate Change Commission could play a role in recommending future settings for the feebate scheme that will help New Zealand meet emissions budgets and targets.
23	In the example schedules the schedules change every year to lower the emissions benchmark and to keep the scheme self-financing. Do you think annual change is practical or should there be less change?	It is important that the feebate scheme not be viewed as a tax, therefore it must remain fiscally neutral and neither cost the Crown nor be used to raise revenue. Annual adjustments will be necessary to keep the scheme balanced as the nature of imported vehicles changes.
24	Should new vehicles include near-new vehicles less than 3 years old?	Yes.
25	Do you think a zero band is appropriate? If not, why?	Yes.
26	Do you think the size of the zero band in the example feebate schedules is appropriate? If not, why?	Yes.
27	Do you support the proposal to apply the fees and discounts directly at the point of vehicle purchase? If not, why?	Yes, this will increase consumer understanding of vehicle emissions and may be more of an incentive than price alone for environmentally conscious consumers.
28	Do you support the penalties outlined in this section to ensure that fees and discounts are displayed on each vehicle and are correctly applied by vehicle suppliers? If not, why?	Yes.