



COVERSHEET

Minister	Hon Dr Megan Woods Hon Dr David Clark	Portfolio	Energy and Resources Commerce and Consumer Affairs
Title of Cabinet paper	Delivering Better Fuel Monitoring and Enabling the Expansion of the Low Emission Vehicles Contestable Fund	Date to be published	9 June 2021

List of documents that have been proactively released

Date	Title	Author
February 2021	Delivering Better Fuel Monitoring and Enabling the Expansion of the Low Emission Vehicles Contestable Fund	Offices of the Ministers of Energy and Resources and Commerce and Consumer Affairs
17 March 2021	DEV-21-MIN-0040 Minute	Cabinet Office

Information redacted

YES / NO [select one]

Any information redacted in this document is redacted in accordance with MBIE's policy on Proactive Release and is labelled with the reason for redaction. This may include information that would be redacted if this information was requested under Official Information Act 1982. Where this is the case, the reasons for withholding information are listed below. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Some information has been withheld for the reason of Confidential advice to Government.

Budget Sensitive

Office of the Minister of Energy and Resources
Office of the Minister of Commerce and Consumer Affairs
Environment, Energy and Climate Committee

Delivering better fuel monitoring and enabling the expansion of the Low Emission Vehicles Contestable Fund

Proposal

- 1 This paper seeks agreement to two proposals relating to the petroleum or engine fuel monitoring levy:
 - increase the share of the levy funding for fuel quality monitoring without increasing the levy rate; and
 - raise the total levy cap for the Energy Efficiency and Conservation Authority to increase the funding for the Low Emission Vehicles Contestable Fund.

Relation to government priorities

- 2 One of our Government's key priorities is laying the foundations for a better future, with a focus on tackling climate change. As part of this, we will take steps to decarbonise the transport fleet and the expansion of the Low Emissions Vehicles Contestable Fund will be an important part of this.

Executive Summary

- 3 The petroleum or engine fuel monitoring levy (PEFM levy) is collected from importers of fuel and Refining NZ. It funds fuel quality monitoring and New Zealand's obligations under the International Energy Agreement, as well as some of the Energy Efficiency and Conservation Authority's activities including the Low Emission Vehicles Contestable Fund.

Levy funding for fuel quality monitoring

- 4 We propose increasing the appropriation of the PEFM levy for fuel quality monitoring and compliance by \$2.093 million (from \$1.007 million to \$3.1 million) per year starting from 2021/22. The appropriation has not increased since 2013. In that time many new players have entered the fuel market and New Zealand is no longer meeting the international standard for testing.
- 5 There is a projected surplus in the levy account because COVID-19 has resulted in lower costs for New Zealand's international obligations in the period to 2021/22. Therefore, the higher appropriation for fuel quality

monitoring need not result in any increase to the levy rate in the next financial year.

- 6 While there will be an accrued surplus in the PEFM levy account, it is prudent to retain the levy rate at its current level until a review of fuel security policy settings is complete later this year. Following this, the Minister of Energy and Resources will bring a proposal to Cabinet regarding the levy rate.

Increasing funding for the Low Emissions Vehicle Contestable Fund

- 7 The Minister of Energy and Resources proposes raising the cap on the total levy amount for the Energy Efficiency and Conservation Authority (EECA). This is to give effect to the Labour Party's Election manifesto commitment to progressively increase funding for the LEVCF to \$25 million per year, with the funding evenly shared by Government contributions and sector levies.
- 8 An initiative to Budget 2021 to step up Crown funding to \$12.5 million by 2023/24 has been submitted. I propose that the PEFM levy funding should be increased at the same rate as the Crown funding (contingent on the decisions on Budget 2021). To do this, Cabinet will need to raise the existing cap on total levy funding for future years from \$17.519 million per year to \$20.389 million for 2022/23 and \$23.259 million from 2023/24 (a \$2.87 million per year increase in each year).

Background

- 9 The petroleum or engine fuel monitoring levy¹ (PEFM levy) is collected from importers of liquid fuels and Refining NZ. The levy is currently set at 0.61 cents per litre and includes:
 - a **fixed** rate² of 0.5 cents per litre, which covers costs relating to fuel quality and safety monitoring and compliance with the International Energy Agreement (IEA) to maintain 90 days of oil stocks.
 - a **variable** rate which is set annually depending on the requirements of EECA's levy-funded programmes including the LEVCF. For 2021/22 the variable rate is estimated to be 0.11 cents per litre, which is the current rate.
- 10 The fixed and variable rates are independent of each other. The total amount of the PEFM levy to be collected during 2021/22 is forecast to be approximately \$40 million, assuming that the volume of fuels remains similar to that in 2020/21. The fixed rate levy will be approximately \$33 million.

¹ Section 14 of the Energy (Fuels, Levies, and References) Act 1989

² The formula to calculate the fixed rate levy is calculated is set in the Energy (Petrol, Engine Fuel, and Gas) Levy Regulations 2017.

Fixed rate levy

Levy funding for fuel quality monitoring

- 11 The Ministry of Business, Innovation and Employment is the regulator for fuel quality monitoring. At present, \$1.007 million per year of the PEFM levy is appropriated for the inspection and monitoring of liquid fuels. This has not been increased since 2013 although the market has changed considerably since that time.

Levy funding for International Energy Agreement obligations

- 12 The PEFM levy also funds the cost of meeting IEA obligations, which is primarily from managing and purchasing oil tickets (forward purchase contracts for oil supply). Oil ticket costs fluctuate over time depending on changes in the oil market and foreign exchange movements.
- 13 In 2019, the *Management of IEA Oil Stocks 2020-2024 (M28)* multi-year appropriation was created to better manage the foreign exchange exposure for oil tickets [CAB-19-MIN-0153.02]. The Prime Minister, the Minister of Finance and the Minister of Energy and Resources agreed to raise the fixed rate from 0.2 to 0.5 cents per litre because the cost of New Zealand's IEA obligations increased significantly at the time and the PEFM levy account was forecast to go into deficit [MBIE briefing 4045 18-19 refers]. They also agreed to review this component once the levy account is no longer in deficit or by 1 March 2022 to see if the levy can be lowered.
- 14 Internationally, the cost of future oil tickets is uncertain. While annual oil ticket costs are currently low due to the impact of COVID-19 on the global fuels market, the lifting of border restrictions and the possibility of Refining NZ transitioning to a fuel import terminal could lead to a significant increase in oil ticket costs.

Variable levy

- 15 Every year EECA proposes the variable component of the PEFM levy which will be used to fund some of its activities (including the Low Emission Vehicles Contestable Fund). The Minister of Energy and Resources then approves the levy.
- 16 EECA also raises levies on electricity and gas. The total amount of funding it can obtain for its programmes from the PEFM, electricity and gas levies has been capped by Cabinet at \$17.519 million per year [CAB Min (07) 12/1(56) refers].

The Low Emissions Vehicle Contestable Fund

- 17 The LEVCF offers between \$6 million and \$7 million of co-funding a year to projects that will accelerate the uptake of electric and other low emission vehicles. Currently, it is solely funded by the PEFM levy. The 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” [EGI-15-MIN-0069]. To date, 163 projects have been approved through the fund ranging from electric truck trials to pilot vehicle-to-home charging systems.

- 18 The Labour Party’s Election manifesto set out a commitment that Labour will progressively increase funding for the LEVCF to \$25 million per year, with the funding evenly shared by Government contributions and sector levies.
- 19 The Minister of Energy and Resources has submitted a Budget 2021 initiative entitled “*Expanding the scope and size of funding for low emission transport technologies and fuels*” (starting 1 July 2022) to progressively step up the Crown funding for the LEVCF to \$12.5 million in 2023/24. Any changes to the LEVCF will be conditional on Budget 2021 decisions.

Analysis

Fixed rate component of the PEFM levy (Minister of Energy and Resources and Minister of Commerce and Consumer Affairs)

- 20 We propose:
 - increasing the *Vote Business, Science and Innovation Departmental Output Expense: Commerce and Consumer Affairs: Trading Standards* appropriation for fuel quality monitoring and compliance from \$1.007 million to \$3.1 million per year starting from 2021/22; and
 - a one off minor capital injection of \$0.045 million in 2021/22 for the *Vote Business, Science & Innovation: Ministry of Business, Innovation and Employment – Capital injection* line to fund the initial set up of front line resources.
- 21 There is a projected surplus of more than \$20 million per year in the fixed rate levy account because of lower purchasing costs for oil tickets in the period to 2021/22. Therefore, the higher appropriation for fuel quality monitoring need not result in any increase to the levy rate in the next financial year.
- 22 While there will be an accrued surplus in the PEFM levy account, the Minister of Energy and Resources is monitoring the levy account and considers it prudent to retain the fixed levy rate at its current level until a review of fuel security policy settings is complete later this year. Following this, the Minister will bring a proposal to Cabinet regarding the fixed levy rate.

Levy funding for fuel quality monitoring

- 23 The current levy funding for fuel quality monitoring and compliance is not enough to keep pace with international standards for fuel testing or changes in the New Zealand fuel industry.

BUDGET SENSITIVE

- 24 MBIE monitors the quality of around seven billion litres of fuel per annum against Engine Fuel Specification Regulations through a statistically based sampling and testing programme benchmarked against the European fuel quality monitoring standard³. The European standard recommends that New Zealand collect and test no less than 100 samples per grade of fuel per annum. However, currently MBIE can only test around 70 samples per grade of fuel in a year.
- 25 While this volume of testing was considered adequate before, changes in the fuel industry, along with new fuels entering the market, mean that this testing needs to increase. Over recent years the market has become more fragmented as there have been new entrants to the fuel market. There are now 19 fuel retailers operating in New Zealand, where previously there were five. The new entrants may not be in a position to easily maintain or upgrade their fuel infrastructure and some retailers (such as supermarkets and new discount supply chains) do not have the same quality management system experience which creates a risk of contamination.
- 26 Officials have consulted with industry stakeholders (including fuel supply companies, testing laboratories and consumer advocacy groups) who have all confirmed the importance of maintaining a robust, independent fuel quality monitoring programme.
- 27 There are two other changes on the horizon which may increase the costs of fuel monitoring:
- Cabinet has agreed in principle to a biofuels mandate which will increase the scope and volume of fuel quality testing [CBC-20-MIN-0139]. The Minister of Transport and the Minister of Energy and Resources will report back to Cabinet by 30 April 2021 with a proposal for public consultation on biofuels. Biofuels are more complex to test than conventional mineral-based fuels. Depending on the design of the biofuels mandate, it may lead to a further increase in testing costs.
 - From 2022 there is likely to be new fuel quality testing requirements resulting from New Zealand's accession to Annex VI of the International Convention for the Prevention of Pollution from Ships (MARPOL), which seeks to address the impact of shipping emissions.
- 28 The changes in the fuel market highlight the need for more resources for rigorous testing to meet international standards, information for new market entrants and investigating potential and known cases of non-compliance.
- 29 The funding increase we have proposed would allow MBIE to increase its frontline capability and testing volumes. This will enable:
- the number of fuel samples collected and tested to be increased (to meet the European standard) and further development of an ad hoc sampling programme targeted to emerging issues and high risk fuel parameters;

³ BS EN 14274:2013 *Automotive fuels. Assessment of petrol and diesel quality. Fuel quality monitoring system*

BUDGET SENSITIVE

- a more deliberate and robust approach to testing biofuels, consistent with international best practice (although it would not cover all of the costs to monitor biofuel under a biofuel mandate, it would establish a system to support its successful introduction);
- new investigatory and enforcement functions in combination with increased market surveillance capability to audit and investigate site concerns and fuel supply chain issues relating to fuel quality and quantity measurement (both reported and proactively identified);
- a minor capital injection of \$0.045 million to fund the set-up of office and IT equipment for new staff doing extra fuel quality monitoring work.

Implications for the fixed rate component of the PEFM levy

- 30 COVID-19 has led to lower costs for purchasing oil tickets because oil ticket prices are lower, and less reserve stock is needed because of lower fuel consumption, particularly for international air travel.
- 31 This has resulted in a forecast annual surplus in the PEFM fixed rate levy account of more than \$20 million per year for 2020/21 and 2021/22 assuming no changes in oil ticket costs.⁴ The accrued levy account surplus under these forecasts could be approaching \$50 million by June 2022.
- 32 However, the future cost of oil tickets is very uncertain. For example, when border restrictions are lifted there will be higher demand for jet fuel which will likely lead to higher prices for oil tickets and higher reserve stock needed. Also, Refining NZ plans to simplify its refinery operation and is actively considering a transition to a fuel import terminal. This would lead to a fall in commercial oil and fuel stock held in New Zealand, which could increase the amount of reserve stocks needed and therefore the number of oil tickets that we would need to purchase.

33 Confidential advice to Government

34

35

⁴ Hale & Twomey, *IEA Reserve Stock Requirement Forward Outlook*, 1 September 2020.

Changes to the variable component of the PEFM levy (Minister of Energy and Resources)

36 I propose progressively increasing the levy funding for the LEVCF from 1 July 2022 at the same rate as the proposed Crown funding, which is contingent on Budget 2021 decisions. To do this, Cabinet will need to raise the existing cap on total levy funding for future years. This should be contingent on the LEVCF receiving Crown funding in Budget 2021.

Increasing funding for the Low Emission Vehicles Contestable Fund

37 The proposed increase in the funding for the LEVCF is set out in Table 1.

Table 1: proposed sources of funding for the Low Emission Vehicle Contestable Fund

LEVCF funding source	2021/2022	2022/23	2023/24	2024/25 and out years
Proposed PEFM levy funding (subject to annual consultation with levy payers by EECA)	\$6.76 million*	\$9.5 million	\$12.5 million	\$12.5 million
Proposed Crown funding (subject to decisions on Budget 2021)	\$6.76 million	\$9.5 million	\$12.6 million**	\$12.5 million
<i>Total</i>	<i>\$13.5 million</i>	<i>\$19 million</i>	<i>\$25.1 million</i>	<i>\$25 million</i>

* EECA's consultation on the variable component of the proposed PEFM levy for 2021/22 ended on 21 December 2020.

** In the Budget 2021 initiative for the LEVCF, we seek \$0.1 million of Crown funding for MBIE to undertake or commission an independent evaluation of the expanded LEVCF in 2023/24.

38 The expanded LEVCF would part-fund delivery of both demonstration projects and wider diffusion of low emissions technologies in the transport sector. Examples of how the funding could be used include:

- co-investing with businesses for the purchase and installation of public EV chargers and other low emissions refuelling networks to expand and optimise the public network;
- co-funding to support demonstration of low emission transport technology and services where commercial returns are not yet strong enough to justify full private investment (such as biofuels and green hydrogen projects); and
- providing co-funding for the upfront costs of cleaner vehicles, which are commercially available yet currently more expensive than petrol/diesel vehicles.

- 39 To increase the LEVCF levy funding to \$12.5 million without affecting EECA’s other programmes, the cap on EECA-related levies would need to be raised to the amount specified in Table 2.

Table 2: proposed cap on EECA levies

Year	Proposed cap on EECA levies (gas, electricity and PEFM levies)
2021/22	\$17.519 million (no change)
2022/23	\$20.389 million (\$2.87 million increase)
2023/24	\$23.259 million (\$2.87 million increase)

- 40 The combined impact of these is an increase the PEFM levy rate by approximately 0.09 cents per litre of fuel by 2023/24 (on top of the existing levy rate of 0.61 cents per litre).
- 41 Fuel suppliers will likely pass on the cost of the levy increase to consumers. There is a risk that the levy increase will be perceived as an increase in ‘fuel taxes’ with adverse effects on fuel prices, although fuel prices are expected to be relatively subdued between now and mid-2022.

Financial Implications

- 42 The proposed increase in the appropriation for fuel quality monitoring and compliance will be funded from the existing levy account until Cabinet has made any decisions on fuel security settings. Confidential advice to Government
- 43 The proposed Crown funding in the LEVCF is contingent on Budget 2021 decisions.

Legislative Implications

- 44 There are no legislative implications from these proposals.

Impact Analysis

Regulatory Impact Statement

- 45 There are no regulatory proposals in this paper, and therefore Cabinet’s regulatory impact analysis requirements do not apply.

Climate Implications of Policy Assessment

- 46 The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements do not apply to this proposal as the emissions impact is unable to be accurately determined in quantitative terms. While the proposal to expand the LEVCF will contribute directly to emissions reductions, the scale of reductions will depend on exactly what is funded and how much is provided. This proposal will also have significant indirect emissions reduction benefits by supporting EV and low

emission vehicle uptake though co-funding EV charging and other fuelling infrastructure, and funding for demonstration of innovative low emission vehicle technology.

Population Implications

- 47 The proposal to raise the total levy cap for EECA will increase the PEFM levy rate by approximately 0.09 cents per litre of fuel in 2023/24, assuming EECA seeks the maximum amount of levy. The PEFM levy is payable by fuel importers, who pass the cost on to consumers in the form of fuel price increases.
- 48 The financial impact of this proposal will fall on people using internal combustion engine (ICE) vehicles and public transport vehicles reliant on liquid fuels. People whose primary mode of transport is electric vehicles or walking will be affected by this proposal to a lesser extent or not at all. The difference in impacts between ethnic groups and genders is not expected to be significant.
- 49 The proposal to increase the share of the levy funding for fuel monitoring does not change the levy rate, and therefore is not expected have any implications for any population groups.

Human Rights

- 50 The proposals are consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Consultation

- 51 The Treasury, the Ministry of Transport and the Energy Efficiency and Conservation Authority have been consulted on the proposals in this paper.

Communications

- 52 We do not consider that the proposal to increase the appropriation for fuel quality monitoring needs a specific public communications plan.
- 53 Should the Budget bid entitled “Expanding the scope and size of funding for low emission transport technologies and fuels” be successful, the Minister of Energy and Resources will announce the expansion of the LEVCF and the associated funding increase after Cabinet decisions on Budget 2021.

Proactive Release

- 54 We intend to release the Cabinet paper proactively after the announcement of Budget 2021.

Recommendations

The Minister for Energy and Resources and the Minister of Commerce and Consumer Affairs recommend that the Committee:

B U D G E T S E N S I T I V E

- 1 note that the petroleum or engine fuel monitoring levy (PEFM levy) is currently 0.61 cents per litre and includes:
 - 1.1 a variable rate for EECA's programmes (including the Low Emission Vehicle Contestable Fund) which is estimated to be 0.11 cents per litre for the 2021/22 financial year; and
 - 1.2 a fixed rate of 0.5 cents per litre, which covers the costs of monitoring fuel quality and compliance with the International Energy Agreement;
- 2 note that the appropriation of PEFM levy funds for fuel quality monitoring has not increased since 2013 and it is now inadequate to meet the European standard for fuel quality assessment and keep pace with changes in the fuel industry and regulatory developments;
- 3 agree to increase the appropriation of PEFM levy funds for fuel quality monitoring and compliance by \$2.093 million (from \$1.007 million to \$3.1 million per year) starting in 2021/22;
- 4 agree to increase spending to provide for the decisions in recommendation 3, with the following impacts on the operating balance and net core Crown debt:

	\$m – increase/(decrease)				
	2020/21	2021/22	2022/23	2023/24	2024/25 & Outyears
Operating Balance Only Impact	-	2.093	2.093	2.093	2.093
Net Core Crown Debt Only Impact	-	0.045	-	-	-
Total	-	2.138	2.093	2.093	2.093

- 5 approve the following changes to appropriations and departmental capital injections to give effect to the decisions in recommendations 3 and 4:

	\$m – increase/(decrease)				
	2020/21	2021/22	2022/23	2023/24	2024/25 & Outyears
Vote Business, Science and Innovation Minister of Commerce and Consumer Affairs					
Departmental Output Expense: Commerce and Consumer Affairs: Trading Standards (funded by revenue other)	-	2.093	2.093	2.093	2.093
Vote Business, Science & Innovation Ministry of Business, Innovation and Employment - Capital Injection	-	0.045	-	-	-
Total Operating	-	2.093	2.093	2.093	2.093
Total Capital	-	0.045	-	-	-

BUDGET SENSITIVE

- 6 agree that the proposed changes to appropriations and departmental capital injections for 2021/22 above be included in the 2021/22 Main Estimates;
- 7 agree that the expenses incurred under recommendations 3 and 4 above be charged against the between-Budget contingency established as part of Budget 2020;
- 8 agree that the departmental capital injection incurred under recommendation 4 above be charged as a pre-commitment against the Budget 2021 capital allowance;
- 9 note that the proposed increase in PEFM levy funding for fuel quality monitoring will not affect the levy rate in 2021/22, as it will be offset by a fall in oil ticket costs;
- 10 Confidential advice to Government

The Minister for Energy and Resources recommends that the Committee:

- 11 note that I have submitted an initiative to Budget 2021 for Crown funding of the Low Emission Vehicles Contestable Fund to reach \$12.5 million in 2023/24;
- 12 note that EECA proposes raising \$6.76 million of PEFM levy funding for the Low Emission Vehicles Contestable Fund in 2021/22, increasing to \$12.5 million in 2023/24 (an increase of approximately 0.09 cents per litre of fuel);
- 13 agree to increase the cap on all EECA-related levies by \$2.87 million per year for the next two years, increasing the cap from \$17.519 million per year to \$20.389 million in 2022/23, and to \$23.259 million from 2023/24, to allow EECA to increase funding for the Low Emission Vehicles Contestable Fund without affecting its funding for other programmes.

Authorised for lodgement

Hon Megan Woods

Minister of Energy and Resources

Hon Dr David Clark

Minister of Commerce and Consumer Affairs