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Department of Infrastructure Regional Development, and Cities

Submission on Consultation RIS: HVRR Phase 2: Independent price regulation of heavy vehicle charges

INTRODUCTION

1. EROAD is a technology company that specialises in regulatory telematics, providing services in New Zealand, Australia and North America. Our submission comprises three parts:

   Part 1: About EROAD, to help you understand our perspective

   Part 2: General comment on the Regulation Impact Statement and options

   Part 3: Specific responses to your questions.

2. We appreciate the opportunity to provide this submission. Representatives of EROAD are available to speak on the submission at your convenience.

PART 1: ABOUT EROAD

3. EROAD is a global leader in application of telematics technologies to helping the road transport sector satisfy the letter and spirit of its regulatory requirements, is a high growth publicly-listed New Zealand company (NZX: ERD). EROAD has been ranked in the fastest growing 300 technology companies in Asia-Pacific for five years, and is the second largest and fastest growing regulatory telematic company in Australasia. EROAD is committed to maintaining its leading role.

4. As a provider of regulatory telematics, we have a strong interest in clear and consistent legislation and regulation. With services in New Zealand, Australia and North America, we have accumulated a broad and firm foundation of knowledge about what works in the effective delivery of compliance, tax, and safety regulations using modern technologies.

5. We released our original technologies in 2009 for New Zealand, to become the first in the world to deliver a network-wide GNSS based road user charging (RUC)/mass-distance levy system. Since then, at no cost to the New Zealand government, we have collected over $2 billion in mass-distance levies. Similarly, we support our customers in optimising vehicle maintenance, operation, routing, and tasking, leading to significant reductions in unsafe driving practices, operational costs, and fuel use and emissions.

6. If you would like to know more about EROAD, you can visit the following websites:

   https://www.eroad.com.au/

   http://www.eroadglobal.com/global/capabilities-and-expertise/

PART 2: GENERAL COMMENT ON THE REGULATION IMPACT STATEMENT AND OPTIONS

7. We would like to acknowledge the complexity of the task confronting the development of this Regulation Impact Statement (RIS). We note these derive from the constraints imposed by the sequencing of the wider Heavy Vehicle Road Reform (HVRR) programme and elements.

8. As such, while we recognise the practicality of the HVRR roadmap and of splitting and sequencing the tasks, we consider it important to recognise the significance of the constraints this imposes on attributing and assessing the benefits of the Phase 2 components: i.e. the Forward-looking Cost Base (FLCB) and Independent Price Regulator (IPR) proposals. In particular, while aspects of the FLCB and IPR are necessary for achieving the benefits of the whole HVRR, neither is sufficient – alone or in combination – without the rest of the whole reform to create any attributable benefits.

9. The following things are out of scope for the RIS, yet are vital to the realisation of benefits from the FLCB and IPR:

    a. Better optimised access. The whole point of transport is to improve access by easing the frictions of mass, bulk and distance. Transport policy responds to the coordination difficulties that arise from the myriads of different transport tasks competing for network space. None of the other benefits have meaning without reference to achieving a socially agreed optimum quality of access.

    b. Hypothecation. The more explicit the cost basis for charging is made, the more important it is that the funds be seen to go back to meeting those costs. The credibility of the HVRR hangs off Phase 3

    c. Light vehicle cost share attribution. While it is practical to assume no road-wear costs from light vehicles, they impose capacity costs and should carry a proportionate share of common costs (weathering, signage etc). Failure to size and recognise these costs makes any general taxation contribution to roading costs look like a subsidy of heavy vehicles and invites unnecessary challenge of any fairly set heavy vehicle charges. This sensitive topic is completely out of scope, but needs to be resolved by Phase 4 if the IPR is going to be truly able to fulfil its role.

    d. Revenue sufficiency. Various documents allege or evidence historic deficits in both maintenance and new infrastructure funding. No matter how good the science of price-setting, if the target revenue take is inadequate, then the asset quality outcomes will be out of reach. More importantly, the IPR will be drawn out of role and into debating allocative trade-offs with road managers, road owners, and other public funders. Or it will be ignored.

10. There seem to be difficulties with how the cascade of outcomes – as shown in figure ES2 Contribution of Reform options A and B to end-state benefits – has been framed. Table ES 1 provides useful additional detail, but it is illustrative, not determinative. So:

    a. Both the figure and the discussion map 'association' without demonstrating 'causality'. It is unclear what actual level and character of functionality is really needed for the component to be able to deliver the benefit. What is the right threshold; what minimum quantity and quality actually starts to make a difference?

b. The lack of an intervention logic linking from the right back to the left obscures the interdependencies with other aspects of the HVRR, as well as with important factors that are outside the scope of the whole exercise.

c. Allowing for the specific ambitions of Phase 2, and the constraints set out above, the logical starting point – the end state characteristic of particular interest – should be evidence-based asset management practice to ensure the proper maintenance of a fit-for-purpose road network. Transparency and confidence around how asset management plans have been set are the foundations of a credible FLCB and IPR. From this, the intervention logic flows back to reveal what the FLCB and IPR need to be able to do to promote and protect that transparency, and to support and sustain the credibility of those plans.

d. Noting the more detailed explanatory material available in the 2017 Deloitte HVRR cost benefit analysis report and the 2017 Farrier Swier FLCB policy report, excluding consideration of access outcomes may be the root cause of the attribution difficulties confronting this RIS. The desired quality of access dictates the level of service required from the asset. This in turn informs the initial asset design and the subsequent optimal maintenance and renewal requirements. From these optimal requirements the objective substance of a FLCB can be derived, and the IPR can reveal for debate any allocative trade-offs in proposed budgets and prices.

11. Noting all of the above, these lead to the particular difficulties, that you discuss in the RIS, of attributing benefits to reform options A and B under scenario 1 – i.e. if no subsequent reforms occur. If access benefits are brought into scope, then levels of service and asset performance deficits are also brought into the mix. The stand-alone benefits of A and B under scenario 1 might then be able to be assessed on the basis of:

    a. success at revealing and encouraging reductions in road maintenance deficits/better aligning road maintenance expenditure to the areas of greatest economic cost due to under-maintenance

    b. consequently, shifting the burden of cost to a more optimal mix of privately funded vehicle repairs (perhaps also including social cost from under-maintained vehicles due to unrepaired road-caused damage) and publicly-funded road/asset repairs.

    c. Consequently, reducing the net economic cost of poor road conditions relative to required levels of service and access.

12. Scenario 2 requires that scenario 1 be implemented in a way and at a minimum scale that enables the IPR to scale up its activities as the subsequent reforms come on line. However, it is not at all obvious that scenario 2 actually involves greater cost than scenario 1, because it is not certain that scenario 1 as currently designed actually establishes the FLCB and IPR at a 'no regrets' level of capability that would ensure useful performance, with or without subsequent reform. Scenario 1 needs to be at that no regrets level to be a viable option; at that level, it may in fact encompass what is needed for scenario 2.

13. Reform option A clearly lacks key elements necessary for the IPR to function at a useful level above what is already delivered through the status quo. The only benefits attributable to reform option A come from scenario 2, which is the option-value that might be created by having the FCLB and IPR set up in a more easily scalable form (assuming that this is what the whole HVRR would need).

PART 3: RESPONSES TO THE QUESTIONS ASKED

Question	Comment
Background questions	
1. Is the reform objective appropriate?	Yes. Australia is exposed to wider land transport funding and planning changes than just those considered through heavy vehicle road reform (HVRR). However, the lessons that can be learned and capabilities that can be developed through the HVRR will provide necessary building blocks for further modernisation.
2. In general, do you support the program of heavy vehicle road reform?	Yes. The HVRR programme encompasses the necessary elements. The sequencing of the programme elements seems practical given the complexity of the change sought. However, a number of the components are necessary, while none of them on their own are sufficient. As such, the realisation of benefits is dependent on implementation of all the necessary components, as well as the effectiveness of each individual component.
Overview questions	
3. Of the reforms considered in this Consultation RIS, which reform option(s) do you support? What are your reasons/concerns?	We support developing the Forward-Looking Cost Base (FLCB). Road taxes add cost to supply chains. They are largely unnecessary given the coverage of company, employee and goods and services tax, *except* to the extent that they charge road users for the cost of their road use and those charges are in fact returned to the roads concerned. The FLCB addresses the first part of this conditional arrangement, by providing a means to ensure that the rates of any road user charges are informed by an accurate understanding of the whole of life costs of the road network given: current and expected usage; and historic asset management choices (reflected in maintenance and capacity expenditure). The proposed form of the FLCB is pragmatic, given current conditions, but rudimentary. That a FLCB *mechanism* might exist is not a guarantee that it is effective in performing its *function*.

Question	Comment
	The real benefits of the FLCB are dependent on the continuing evolution of the cost model that underpins it and the evidence base needed to inform the model. We support appointing an Independent Price Regulator (IPR) to, inter alia, steward and apply the FLCB. Current rate-setting and funding arrangements are heavily mediated by political preferences and expedients. An independent body is needed to bring greater transparency to and accountability for the use of existing road user charges. Our concern is that the IPR gains its greatest value from the further reforms that are out of scope of Phase 2, specifically: • Placing access outcomes at the centre of the reform objective • Hypothecating at the least the road maintenance and renewals components of any road user charges to road maintenance and renewal purposes • Demonstrating the fairness of heavy vehicle charges by revealing and reflecting the light vehicle cost share • Ensuring revenue sufficiency for the full packet of road network expenses to ensure maintenance and renewal budgets are not eaten into by other demands and the prices set by the IPR retain credibility.
4. Do you think that the preliminary analysis presented in this RIS understates or overstates the costs of any of the options? If so, by how much and in what ways?	Understates. We are not in a position to assess by how much. However, it is unclear that the level of capability presented in the options is actually the minimum level required for the IPR in particular to add a useful level of functionality above what the status quo already provides. As such, more capability and cost may be needed here. Also, it is clear that continuous improvement in the measurement and understanding of the current condition of the asset base and the size of any level of service deficit is a necessary pre-condition to an effective FLCB and IPR. This will require further improvement in road manager/owner data and capabilities, with commensurate costs. (Recognising, however, that these may be out of scope for this RIS.)
5. Do you think that the preliminary analysis understates or overstates the benefits of any of the options? If so, by how much and in what ways?	The preliminary analysis lacks a sufficiently detailed intervention logic that shows how the options as framed would actually create benefits, where, and with what dependencies. As such, it may mis-state the benefits. By placing access benefits as out of scope the analysis

Question	Comment
	may have missed the opportunity to assess the specific direct benefits the reform options might be able to achieve by influencing investment response to road damage and delay costs to vehicles and operators due to poorly maintained assets.
a. What impact will Reform option A or B have on road maintenance costs?	None to little, as the *expenditure* impact is dependent on subsequent reform stages, while the *cost* impact may be heavily mediated by other factors.
b. What impact will Reform option A or B have on road capacity expansion costs?	Potentially upward pressure on *expenditure*. The FLCB may quantify the impact of under-maintenance on capital renewal expenditures, drawing existing funding across to meet any deficit and requiring additional funding to be sourced to meet capacity expansion plans.
c. What impact will Reform option A or B have on road quality and levels of service?	None to little. The exposure to impact of level of service choices is dependent on subsequent reform stages.
6. Do you believe that any of the reform options will result in other impacts (such as regulatory burden, competition impacts or increased risks) compared to the current arrangements?	Greater transparency around the cost shares attributable to any one class of road users– and the prices they should pay – will inevitably create questions about other classes of road user. These reforms could accelerate the need for a light vehicle pricing debate and any associated concerns with imposing a new regulatory burden on light vehicle users.
7. Thinking of your preferred reform option, are there particular elements that you feel strongly about and either support or oppose? Please explain your reasons and describe the change in costs and/or other changes that are likely to arise.	Reform option B seems most likely to provide a mix of capabilities that would add something useful to the status quo. The IPR should be able to define and bind the maintenance component of a price. Where political trade-offs have deflated maintenance expenditure, this approach could see additional transport costs shifting onto general taxes due to the greater share of road user charges remaining in maintenance funding pools.
8. What other matters should decision-makers take into account when considering whether to implement an IPR and FLCB?	Please refer to the general comments provided in Part 2 of this submission.

Question	Comment
Transitional arrangements	
9. Can you identify particular changes for which a different transitional arrangement would provide a benefit?	Revenue neutrality through any change is an expedient parameter designed to contain for the time being any debate about road tax increases and keep the debate focussed. However, it may be a barrier to long-term achievement of the HVRR goals. The revenues from direct cost recovery (i.e. road user charges and registration, less GST) appears to be below direct public expenditures on road maintenance and construction: one set of figures suggests a gap $300million per annum, which only gets wider as other transport services, externalities, and revenue sources are factored in. It might be useful to clearly reflect these other cost drivers and revenue sources in supporting materials to provide better context around the whole question of 'revenue neutrality'.

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