Fleet and fuel:
the future of petrol, diesel and electric

allstar

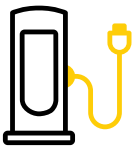
End of the internal combustion engine?

Despite surging interest in EVs, petrol and diesel still have a vital role to play for fleets.

Despite the increased focus on the new wave of electric cars and commercial vehicles, petrol and diesel are still the predominant fuels in the UK – and this situation is likely to continue in the fleet sector for many years to come.

In the UK every year, light goods vehicles cover more than 50 billion miles, and cars 47 billion, with more than 36 billion litres of fuel pumped through UK forecourts. More than half of that petrol and diesel volume is bought by businesses.

In contrast, in 2018, there were approximately 190,000 pure electric and plug-in hybrid vehicles on UK roads. Assuming an annual 8,000 mileage for each one, they are currently covering less than 2% of the total distance of all cars and vans, whether running on electric or hybrid power.



100,000

Charging units needed by 2021 to meet EV demand - currently 20,000

Emissions are changing

While petrol is fast becoming a more favoured fuel in the UK following concerns about diesel NOx and particulate emissions, the situation is changing. Testing by German automobile club ADAC showed that some of the latest diesel cars emit almost no NOx – with nearly all cars tested emitting less than 50mg/km – suggesting the latest models are as clean as their petrol counterparts.

In January 2020, tougher RDE2 rules will be introduced, requiring all new models launched to achieve 80mg/km or less (60mg/km for petrol).

Under the current company car tax rules, diesel vehicles that achieve RDE2 will have the 4% diesel surcharge discounted in employees' benefit-in-kind tax bill, which means that companies should not yet entirely give up on diesel, especially for high mileage work.

The landscape of engine technology is changing rapidly, and a blended solution of diesel, petrol and electric for fleets looks a judicious approach until electric vehicles can cover the distance, at similar operating costs, of their internal combustion engine (ICE) counterparts.

This looks likely to happen over the next decade. Analysts suggest that due to increasingly cheaper batteries, the upfront cost of EVs will become competitive on an unsubsidised basis by around 2024 (albeit with the increased cost of Euro 7 standards for ICE vehicles also helping to narrow the gap), and reach parity with ICE segments five year later.

Until that point, each fuel type needs to be chosen depending on specific roles, and selecting the right one is critical to ensuring a fleet runs as efficiently as possible.
For higher mileage, diesel is still a viable option, and in stop-start travel in urban environments, EVs can deliver, although wholelife costs, especially for commercial vehicles, need to be factored in. Ultimately, you need to understand the cost of your fuel for every journey.

The challenge of EVs

The issue of range anxiety is well-documented, but the improvement in battery storage is beginning to ease fears for medium and shorter journeys, with even mid-market EVs offering 150-mile range.

For the higher mileage business motorist though, this issue still remains, and is brought into sharper focus because a fast-charging, easy-to-use and readily-available network is a fundamental requirement. According to Go Ultra Low, there are now nearly 20,000 public chargers in the UK, of which 1,500 are rapid chargers – but with the number of EVs predicted to rise to one million in the next few years, analysts suggest around 100,000 units will be needed to meet the increasing demand.

In October 2018, the House of Commons Business, Energy and Industrial Strategy Committee report *Electric vehicles: driving the transition* said: "The existing proliferation of multiple types of plugs and sockets, open access and subscription networks, payment systems and pricing regimes has meant that it has not always been easy for motorists to locate available charge points, to compare charge speeds and costs."

It added that the network must be far-reaching and convenient if drivers are to be convinced that EVs provide a serviceable alternative to petrol and diesel vehicles, and that they will not switch, even when price parity is reached, if they are not confident that they can charge their vehicle in local areas and on major roads.

Petrol and diesel: global influencers

There are many factors involved in the price of fuel, from global to local levels.

The price of fuel is influenced by numerous factors. For the base cost of oil, these factors are geopolitical and often hard to predict, and unforeseen events or political issues are usually highly impactful.

2018 was especially volatile in this regard, with the price of a barrel of Brent Crude dropping to around $50 late in the year from a high of more than $86 in the autumn, due to the US/China trade war, a reduction in production in Venezuela, OPEC and Russia refusing to increase supply, sanctions on Iran and a slowdown in global trade, especially in China.

Indeed, since 2010, prices have varied markedly, from as low as $30 and to as high as nearly $130. Fuel management which mitigates against such volatility is increasingly essential.

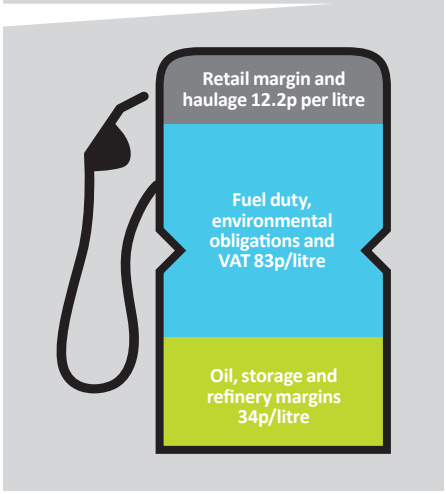
The Pound v the Dollar

For the UK, foreign exchange rates are the major determining factor on price, and in particular exposure to the US Dollar, in which oil is traded. According to Allstar Business Solutions' research, uncertainty and the impact of Brexit is the biggest concern for 70% of fleets, and since the Brexit referendum in June 2016, the cost price has increased by 9p per litre, with 5p attributable to the resulting fall in the Pound against the Dollar, while the cost of oil adds 2p and other factors including increasing environmental obligations adds a further 2p.

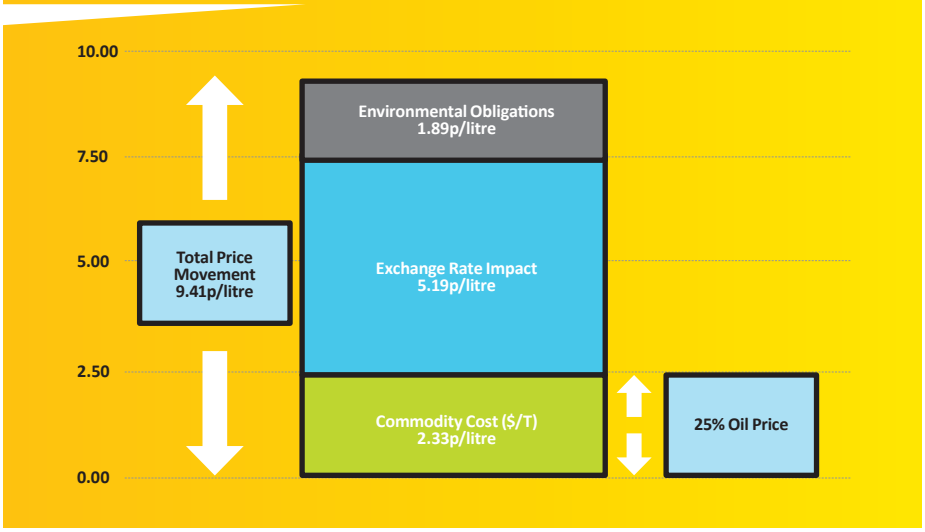
The cost of UK fuel in 2019

Currently, Allstar analysis suggests that for 2019 prices will stay relatively stable through the first half of the year, with a slight increase towards the end, although it must be noted that exchange rate weakening of the Pound against the Dollar, in particular due to Brexit pressure, may exacerbate the rise.

The cost of fuel: how it is made up



Impacts on fuel price rise since 2016 EU referendum



Where to buy

Supermarkets are cheaper for petrol and diesel than oil companies by between 3-5p per litre, generally because they are in high-volume, population-dense areas and so have greater throughput, while the oil companies are spread further and wider on A-roads and motorways which have high costs in terms of supply.

Critics argue that retailers tend not to pass on the savings when the price of oil falls, but Allstar Business Solutions' reporting finds that the base cost of fuel and the cost at the pump do mirror each other closely with a price margin of 7-8 p per litre, when timing issues are taken away.

+20%
Rise in oil consumption globally since 2009

What can your business do?

Understanding the market, and then acting both strategically and tactically will result in significant savings.

Understand the market and study global trends

It is important to keep abreast of current global pressures on fuel prices, so that you can budget accordingly or even bulk-buy or hedge at opportune moments. But as Allstar Business Solutions analysis shows, UK fuel prices are heavily influenced by such a wide range of economic and political factors it may not be possible to moderate all those international circumstances.

Instead, it is at a local and national level where you can make a difference.

What can influence the price?

MACRO

- Political disputes
- Natural disasters
- Seasonality
- Oil refinery/terminal shutdowns
- Weekly US inventory reports
- Foreign exchange rates
- Supply & demand
- OPEC/non-OPEC countries
- Stock markets

UK

- Brexit (foreign exchange rates)
- Fuel duty
- Government environmental legislation

$130 - $30

Oil price volatility: highest/lowest between 2010 and 2019

How to plan fuel purchases, driver behaviour and vehicle procurement

There is a two-pronged approach needed for fuel purchase, with the biggest efficiency to be made through reduced consumption. Much of the pump price is non-negotiable - albeit there are attractive savings available for bunkering and wholesale purchase - but more economical operating can have a dramatic effect too.

In order to do this, you need to understand the performance of all the vehicles on your fleet so that you can root out those that do not deliver the required economy in the real world.

Look at journeys to ensure that the best routes are being taken for specific jobs (the shortest isn't always the most fuel-efficient), as well as where fuel is being purchased.

Also, monitor drivers to find those who are regularly paying too much or driving too inefficiently. It will quickly become apparent which employees are driving too fast, badly or not maintaining their vehicles. Fuel usage doesn't lie. Then you can use the information at your to fingertips to highlight exceptions and potential fraud, where purchases don't match the mileage claims being made.

Smarter buying allied to clear, actionable data will result in significant savings for your business.

Where to buy, and creating an operational balance

As shown, fuel retailers tend to always follow a pattern, so supermarkets are generally cheaper and some retailers will always tend to be more expensive, but while analysis will show that picking particular brands can help save costs, it is important not to be dogmatic about this: the network must suit your vehicle movements, because forcing drivers to spend time and money searching out particular suppliers could cost you more money than you save.

What are your operational constraints? Where do you need to access fuel out on the road and what controls do you have over your drivers? If you're operating larger vehicles such as HGVs, then you are likely to have more control as they need to fuel much less often.

For cars and vans, with drivers' time and resources at a premium, you need to think hard about fuelling which takes people out of their operating area. So should you be offering a solution that limits deviation off a route, or does it make more sense to provide wider choice, within certain parameters?

Creating the right fuel purchasing strategy is a balance between cost, time, ease-of-use and benefits, which is why you need expert advice, from a provider who intrinsically understands the fuel market, and can build the ideal profile for your business.

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