Consultation Document

Energy Savings Opportunity Scheme

Response from:

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BVRLA, the industry and its members

- Established in 1967, the British Vehicle Rental and Leasing Association is the UK trade body for companies engaged in the rental and leasing of cars and commercial vehicles. Its members operate a combined fleet of 2.75 million cars, vans and trucks.

- BVRLA members buy nearly half of all new vehicles sold in the UK, supporting around 184,000 jobs and contributing more than £14bn to the economy each year.

- By consulting with government and maintaining industry standards, the BVRLA helps its members deliver safe, sustainable and affordable road transport to millions of consumers and businesses. For more information, visit www.bvrla.co.uk.

Executive Summary

The BVRLA welcomes the opportunity to comment on the UK Government's approach to implementing the EU Energy Efficiency Directive ('the Directive') which requires all Member States to introduce a programme of regular energy audits for 'large enterprises' known as the Energy Savings Opportunity Scheme ("ESOS").

Key Principles

We support the UK Government's aim to ensure that the EU Directive is transposed into UK law to help deliver the following principles:

- ESOS should provide high quality and well-targeted advice to large enterprises on cost-effective energy efficiency opportunities, driving significant net cost savings;
- a proportionate approach to implementation is adopted to minimise the administrative burdens placed on affected UK firms;
- ESOS fits with and is complementary to the landscape of existing energy efficiency and climate change policy instruments; and
- the implementation of Article 8 avoids 'gold plating' that disadvantages UK businesses relative to their European competitors.

We support the proposal, insofar as it provides an opportunity for large enterprises to conduct a regular review of their energy / emissions related to their direct business-related travel. We also believe the proposal will be a catalyst for delivering energy savings and costs for UK firms.

We wish to acknowledge the very productive and informative engagement we have had with both DECC and DfT. In particular, we very much welcomed the helpful discussions held during our recent workshop. We look forward to the opportunity to continue this constructive dialogue as we remain keen to provide input and support to the department to ensure that it delivers against the principles outlined above.

As discussed at our recent workshop, BVRLA members are well-suited to assist larger customers with the task of conducting an energy audit on their vehicle-related emissions and in many instances already undertake such activities.

Our key calls in the consultation are:

- All commuting should be out of scope of the ESOS as this is private use
- All business related travel activities should be in scope of the ESOS
- Vehicle Rental and Leasing firms should be able to conduct audits
- A 3% de-minimis to allow organisations to exempt activities which produce a minimal energy spend when compared with their own total energy spend.

The role of Rental and Leasing companies

Currently, BVRLA members operate a fleet of 2.75 million vehicles. Average CO_2 emissions of a lease car registered in 2012 was 123 g/km, compared with the average of 151 g/km[1] for all vehicles on the UK's roads. This figure represents a drop of over 20% in CO_2 emissions in the past 5 years.

270,000 of the 2.75 million vehicles are operated by BVRLA members as rental vehicles, with the total UK market size estimated at 325,000 vehicles. The typical rental life of a car before disposal is seven to 12 months or 15,000 miles. BVRLA members handle around 10 million rental transactions annually.

As well as providing vehicles, BVRLA members provide additional services to their customers which include promoting low emissions vehicles as a means of:

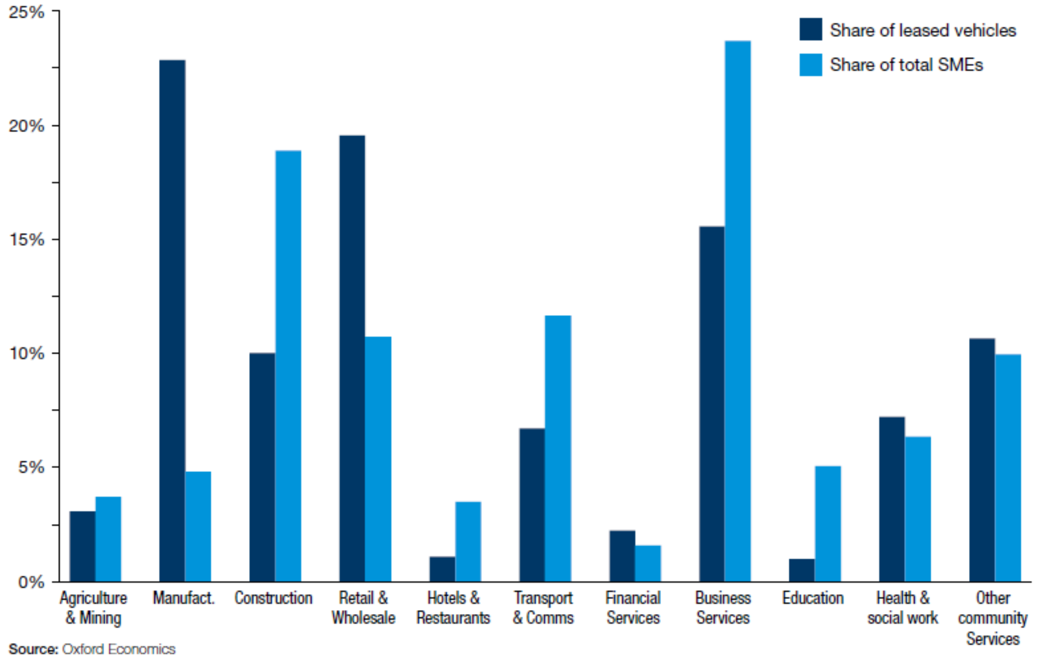
- reducing their carbon footprint;

[1] Source: Defra/DECC's greenhouse gas conversion factors 2011

- improving the company's image
- being at the forefront of adopting new technologies
- reducing personal taxation liabilities for employees; and,
- reducing fuel usage / costs.

The below graph demonstrates the impact of vehicle leasing across UK industry.

Figure 1: Leasing take-up and SME distribution by industry in 2011



Source: Oxford Economics

We therefore believe that rental and leasing companies should be recognised for the role they play in assisting fleets to reduce their business-related vehicle emissions and that they should be able to conduct an ESOS audit on a company's vehicle fleet.

They would be able to assess accurately a company's current vehicle emissions and as demonstrated above would be ideally placed to provide solutions as to how these emissions could be reduced.

By choosing to rent or lease a business can reduce their CO_2 emissions and their costs and improve air quality in comparison with an employee using their privately owned vehicle, commonly known as 'grey fleet', to drive business miles and subsequently claiming the costs back at a fixed mileage rate.

This was demonstrated by research conducted by the Office of Government Commerce (OGC) when investigating the use of grey fleet. The Environment Agency, as part of an OGC initiative, conducted a case study into their grey fleet usage. They found that by implementing a structured policy for business travel which included requiring employees to hire a car for any journeys being undertaken that were more than 100 miles and having low emitting pool cars available for shorter journeys they were able to save around 460 tons of carbon.

The OGC also published best practice guidance for organisations to assist them review their grey fleet usage and showed the below table to demonstrate the cost alternatives:

Method	Grey fleet	Public transport	Hire car[2]	Lease car
Explanation	40p/mile	Standard rail, booked in advance	Astra-sized, petrol, delivery/collection	£2,000 for 10,000m, 12p/m
Miles	240 mile round trip between London and Bristol			
Cost	£96	£49	£60	£76
Saving	-	£47	£36	£20
CO_2 emissions	16 g/km		11 g/km	11 g/km
CO2 emission savings			5 g/km	5g/km

Why businesses lease

Leasing is a contractual agreement where a leasing company (lessor) makes an asset it owns available for use by another party (a lessee) for a certain period of time in exchange for a payment, with the payment typically structured as a series of regular instalments over the period of the lease.

Leasing plays an important role for businesses of all types and is particularly important for businesses that are credit-constrained, either because of general credit conditions or because of their characteristics. For example, young businesses with only a short track record and small and medium sized enterprises (SMEs) often find leasing an attractive solution, particularly for the flexibility it offers, the fixing of costs, minimised administration and the competitive costs available relative to other forms of financing.[3]

[2] Spot hire cost of £60 based on one-day rental, but even where the journey is spread over two days, the spot hire cost would be £84 and a £12 reduction on equivalent grey fleet cost
[3] The use of leasing amongst European SMEs, Oxford Economics, November 2011

Motor vehicles are a popular item for businesses to acquire through lease agreements. Leasing companies provide longer term vehicle hire with an agreed mileage limit, typically for a period of 24, 36 or 48 months. There are a number of leasing options and the choice depends on a range of customer characteristics, including whether the lessee is a business or private customer, whether they want to take the residual value and service, maintenance and repair risks associated with the vehicle and whether they want the option to buy it at the end of the lease. The dominant form of lease is contract hire, which accounts for more than 50% of the market.

By leasing motor vehicles, opportunities are provided to businesses that may not exist if vehicles are purchased outright. For example, leasing a fleet of modern vehicles may not only reduce a business's motoring costs – through potentially better terms than available from lenders or investors, and lower maintenance and running costs – but also provide an improved image to customers, leading to increased activity. The benefits from leasing are not limited to commercial operations, leasing can also provide credit constrained households access to vehicles when the upfront cost of a vehicle is prohibitive.

Recent research conducted by Oxford Economics on behalf of the BVRLA[4] showed that businesses choose vehicle rental and leasing as it offers:

- greater certainty of future costs and less volatility in the financial status of the business;
- scope to reduce costs associated with emissions, for example through lower vehicle excise duty or need to purchase carbon credits; and,
- an improved image, conveyed by the use of modern, higher-quality vehicles.

Businesses already put a great deal of focus on fuel efficiency and CO_2 emissions as the cost of fuel over the last few years has increased. This is particularly true of the transport sector, whose biggest variable expense is fuel, which adopts best practice in criteria such as vehicle selection, journey planning, the minimisation of empty running and driver training.

Why businesses rent?

A rental company provides a flexible product to businesses as a replacement for a company car which is off the road or as a vehicle for use by employees who do not have a company provided vehicle but need to travel on business.

[4] The economic impact of the motor vehicle full-service leasing and renting sector

Vehicles can be rented from several hours up to several months. Vehicles provided are under 12 month's old, low mileages and have the latest technology.

Rental companies provide reports to their business customers on a regular basis detailing the vehicles which have been rented, CO_2 emissions, miles driven and duration of rental.

It will therefore be relatively simple for businesses to report their CO_2 emissions from vehicles they have rented.

Specific Comments

Q2. Do you agree that there should be one energy audits scheme applied on a UK-wide basis, and are there any regionally specific needs that should be taken into account for enterprises operating in England and Wales, Scotland and Northern Ireland

We believe that for simplicity there should be one energy audits scheme applied on a UK-wide basis. This will ensure a minimal cost burden is placed on businesses in terms of compliance.

Q3. Do you agree with this overall approach to defining the 'enterprise', and could you currently identify if you (or organisations you are familiar with) are in scope?

Specifically are you content with the approach proposed with respect to:

a. Group enterprises

b. Voluntary disaggregation of group enterprises

c. Non-UK firms

d. Franchisors

e. Subcontractors

f. Universities

Yes / No / Qualified Support (Please give reasoning)

We support the Government's approach to defining large enterprise as employing more than 250 people and an annual turnover greater than €50million which is consistent with other legislation. We also support the approach with regards to franchisors not having to include franchisees as part of their enterprise.

We do not believe that public sector organisations should be excluded from the scheme. Whilst we recognise there are different targets for the public sector none of these targets relate to business travel. Given that grey fleet usage is high within the public sector we would suggest there are significant carbon savings to be made through the introduction of an audit scheme.

Q7. Do you support our proposals to develop good practice guidance for organisations?

(Yes/No) If yes, what do you think should be included?

a. Minimum ESOS requirements? Yes / No

b. A draft template for ESOS reports? Yes / No

c. Best practice options? Yes / No

d. Anything else? (Comments)

Yes, we think good practice guidance should be produced to assist organisations and it should include, minimum ESOS requirements, a draft template, best practice options and case studies. We would be happy to support the department with drafting of the guidance in relation to business travel.

Q8. Should the Government set a legal energy spend based percentage threshold, to allow organisations to exempt energy that collectively amounts to no more than this de minimis percentage of total energy spend?

If yes, what percentage should this be and why?

If no, what approach should be adopted to set a statutory de minimis and why?

A percentage threshold seems a sensible approach and we would suggest that anything less than 3% of a total energy spend should be excluded. This would therefore allow an organisation to concentrate on key areas where reductions in energy spend will make a difference.

Q9. Do you agree with the Government's proposed approach to calculating energy usage by:

a. Allowing use of existing data sets in order to simplify compliance? (i.e. organisations can draw on data gathered over any period during the two years prior to the ESOS assessment being conducted)?

b. Setting a minimum six month time period which energy use data should cover to inform an ESOS assessment?

c. Promoting use of 12 months data, with the onus on organisations to comply or explain deviations from this good practice approach?

We would suggest best practice dictates that 12 months of data is used for an audit and that the minimum requirement is 6 months. From a business perspective the cost differential between setting up data capture for 6 months or 12 months would be minimal. We agree with the Government's view that 12 months would be preferable to take into account seasonal variations in usage.

Q10. Do you think that ESOS assessments should include an energy intensity ratio as opposed to HMG requiring in law energy consumption profiles for all key buildings, transport and industrial processes?

An energy intensity ratio seems a sensible approach especially as this is the same measure that publicly quoted companies will be using for their company reporting requirements. The guidance from Department for Environment Food and Rural Affairs on CO_2 reporting for publicly quoted companies states that:

"The directors' report must express emissions by way of an intensity ratio. Intensity ratios compare emissions data with an appropriate business metric or financial indicator, such as sales revenue or square metres of floor space. This allows comparison of performance over time and with other similar types of organisations. "

It therefore seems logical to follow a similar approach in the ESOS.

Q12. Do you agree that ESOS assessors should be given discretion as to the number of site visits they undertake as part of an audit?

We support this approach as it gives maximum flexibility.

Q15. With respect to transport, should an organisation's vehicle fleet be deemed to have undertaken the equivalent of an ESOS assessment if it has been subject to a Green Fleet review conducted within four years prior to the energy audit deadline, and are there other reviews similar to Green Fleet reviews that should also be considered?

We believe that Leasing and Rental companies who conduct fleet reviews on behalf of affected companies and use the reviews to demonstrate the CO_2 emission reductions which have been achieved should also be seen as an equivalent to an ESOS assessment. We are happy to provide sample assessments to show you what would be covered.

We believe it is imperative that Government recognise there are many other organisations who conduct an equivalent Green Fleet review and we would suggest that specific examples should not be used in legislation with regard to this.

Q16. With respect to transport, do you agree with our proposed approach to employee travel on company business?

a. That 'grey fleet' should be included within the scope of ESOS;

b. That travel purchased via contractual arrangements (e.g. train tickets) should not be included as a minimum requirement for ESOS;

c. That commuting should not be included within scope of ESOS; and,

d. That good practice guidance should promote the advantages of going beyond the minimum requirements of ESOS

We support the above approach on 'grey fleet'. 'Grey fleet' is often an area which a business overlooks in terms of vehicle emissions and we believe that vehicle rental and leasing companies can play a vital role in assisting businesses in delivering improvements in emissions in this area.

We understand that there may be concerns from businesses with regards to including 'grey fleet' in the scheme due to the reporting burden. However, we believe there is plenty of guidance available to assist businesses and sample templates available. For example, the Greenhouse Gas conversion factors[5] from the Department for Environment, Food and Rural Affairs provide a simple spreadsheet solution where all a business needs to do is enter the number of miles driven and the size of car and the CO_2 emissions figures will be calculated.

We believe that travel purchased via contractual arrangements should also be included in the audit scheme as this will ensure that there is no discrimination between different forms of business travel.

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[5] See the DEFRA website for more information

We support the approach of excluding all commuting from the ESOS, we believe this is not something which a business can control. We do not believe that commuting where it takes place in a company provided vehicle should be included either as this would be too complex to administer.

We agree that the good practice guidance should include recommendations on going beyond the legislative requirements.

Q21. Is there sufficient capacity within the energy efficiency advice sector to meet the demand that will be generated by ESOS, and particularly to ensure all organisations are able to conduct assessments by December 2015?

If no, what further steps need to be taken to generate that capacity:

a. By industry and professional bodies?

b. By the Government?

As we have mentioned we believe that Rental and Leasing companies should be able to apply for accreditation to assists businesses in conducting energy efficient audits in relation to vehicle emissions. This should help ensure capacity is available.

Q25. Which approach to accreditation would you prefer to be put in place and why?

a. UKAS accredit certifying bodies to certify ESOS assessors

b. The scheme administrator approves lists of ESOS assessors which are managed by professional bodies

Approach A / Approach B / Comments (Please give reasoning)

If you prefer Approach B please set out details of any registers already in existence which could be easily modified to meet the needs of the ESOS scheme.

We would suggest a UKAS accredited certifying body would be the best approach to ensure consistency in terms of assessors.

Closing Comments

We welcome the opportunity to continue our constructive dialogue and hope that our comments add value to the development of the ESOS scheme. Following our discussions at the workshop we will in due course provide further information to help shape the impact assessment.

Leasing Members

In general, vehicle leasing is an arrangement where the user simply hires the use of the vehicle and assumes operational responsibility for a predetermined period and mileage at fixed monthly rental from the owner (the leasing company). Legal ownership is, in the majority of cases, retained by the leasing company.

Short Term Rental Members

Rental Members offer hourly, daily, weekly and monthly rental of vehicles to corporate customers and consumers. As explained above, rental members are the owners of the vehicle.

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