



LIGHTING INDUSTRY SUBMISSION TO THE OFGEM CONSULTATION ON THE ADMINISTRATIVE PROCEDURES FOR EEC2

The Lighting Industry welcomes the early publication and opportunity to comment on the administration procedures that Ofgem is minded to adopt for the Energy Efficiency Commitment 2005-2008 (EEC2). Lighting has played an important role in all the previous phases of EESOP and EEC1 and we believe that it will be an important energy efficiency measure in EEC2. This is particularly true because of the equity issues surrounding lighting which, because of its low capital cost, allow the benefits to be spread more widely than is possible with any other energy efficiency measure. Furthermore, the cash savings resulting from a typical pack of CFLs given free to low income customers will more than offset the costs of EEC2 to those consumers.

The Lighting Industry has consulted widely to produce this response which is endorsed by the Lighting Industry Federation and the Lighting Association. This response focuses primarily on matters directly of concern to the Lighting Industry. In all cases, the reference numbering is that of the original Ofgem Consultation Document.

General Considerations

The Lighting Industry can well understand Ofgem's concerns that if CFLs are distributed without charge at events, etc, then they may not be installed and hence save the energy that was anticipated. However, we believe that if consumers either through the retail route or through direct sales by energy suppliers purchase CFLs, then this concern is removed. Even at subsidised prices, these CFLs are considerably more expensive than the GLS alternative and market research has shown that consumers are now well aware of the saving potential of CFLs but that their reluctance to buy them to date has been a mixture of capital cost and the fact that they are "not exactly like" a traditional GLS bulb. During EEC2, the industry is confident that the consumers will be offered CFLs which overcome most of the traditional objections in terms of shape, performance and light balance but to get consumers used to the new products, it will be necessary to promote and indeed part subsidise the new "decoratives" CFLs.

Thus we disagree with the philosophy of Ofgem when it tries to distinguish between the retail route and direct sales route for sales of CFLs to consumers. We agree with the differentiation of approach between CFLs which are distributed free to consumers from an approach where customers purchase CFLs; we do not believe there is a rationale for differentiating between the different routes to market as long as the end consumer is making a significant contribution to the cost of the CFL.

The Lighting Industry is delighted that Ofgem proposes to continue the requirement that energy suppliers can only deliver CFLs which are accredited under the Energy Saving Trust's energy efficiency recommended programme. The rigorous testing of accredited CFLs supervised by the Energy Saving Trust ensures that both consumers and the environment benefit from the use of quality CFLs only.

Ofgem and Defra have advanced very cogent reasons why the appliance market, particularly in the refrigeration and laundry sectors, should be accredited energy savings relating to the improvement from the market average rather than the minimum performance requirements of the European directive. However, we fail to understand why such an approach is not replicated for condensing boilers in those installations which are exceptions to the 2005 Building Regulations. Currently Defra and Ofgem are proposing to use the 2000 Building Regulations minimum boiler efficiency of 78 % rather than the market average, believed to be ~81%. Equitable treatment across all products would appear to be essential.

In general we accept most of the suggestions that Ofgem wishes to apply to the accreditation of energy savings from energy efficiency lighting except for those which are now detailed below.

Requirement to offer a range of CFL wattages - Paragraph 6.9 (ii)(c)

We question whether there needs to be any difference in requirements on direct sales of CFLs by energy suppliers from those for a retail purchase. In particular, we doubt the validity of Ofgem's assertion that offering a choice in the wattage and the number of lamps is required to maximise the possibility that all of the lamps will be used by the consumer. Again, part of this relates to our earlier point that consumers are unlikely to purchase the more expensive CFLs (compared to traditional GLS light bulbs) and then not use them

Additionally, in EEC1 there was distinct pressure on energy suppliers to disproportionately promote the 100 watt CFL sticks because of the greater energy saving "score" which they carried. In EEC2, with the new philosophy of averaging over all CFLs, the distorting pressure to promote 100 watt CFL sticks is removed and the pressure on energy suppliers will be to provide the CFLs that customers want most. Furthermore, about 40% of the homes in the UK still have no CFLs and for such properties the most logical starting place for CFLs is in high wattage , high usage points.

Thus we believe that suppliers should be not constrained in the direct sales route to market. This route should mirror the choice of CFLs available to consumers through the retail route and Ofgem should not be over-prescriptive but rely on consumer demand to ensure energy suppliers offer a range of lamps and wattage.

Minimum increase in retail CFLs - Paragraph 6.9 (vii)

In EEC1, the requirement to demonstrate a minimum 20% increase on 2001 sales has been a factor in energy suppliers' consideration of whether to actively to promote this route. It is not the only factor, as only 3 out of the 10 major retail outlets for CFLs have in fact entered into such CFL promotional schemes because of perceived lack of value to

the retailer. It is also noticeable that an increase in sales for appliances is not subject to a 20% minimum threshold for the savings to be accredited in EEC1.

The Lighting Industry would suggest that the 20% threshold represents a significant barrier for energy suppliers and should be removed. The total sale of CFLs through retail routes has grown from 6.0 million in 2002 to 7.5 million in 2003 (amalgam of GFK, IRI and manufacturers' data). However the growth has occurred in the non approved CFL sales and the market share of quality CFLs has declined from 32% in 2002 to 25% in 2003. This increase has come in part from the major manufacturers selling lower specification CFL lamps to remain competitive and to meet retail price points. Furthermore, the emergence and growth of CFL sales by IKEA, the switching of retailers to distributors supplying third party non-EST approved CFLs and the increase in "own label" have all exacerbated the problem. This will further increase in 2004 with the takeover of Safeway by Morrisons and Homebase moving totally to a distributor of non-EST approved CFL products. Halting the decline of quality CFLs would be an important step forward, but would fail the 20% increase rule. Hence the Lighting Industry believes that Ofgem should dispense with the 20% threshold rule for retail CFLs.

"Means Testing" and retail offers - Paragraphs 6.12 (iii) and (vi)

In general, we are wary of putting the onus on energy suppliers to explicitly "means test" householders when the value of the service being provided (2 CFLs) is fairly small. This is in contrast to insulation or heating measures costing hundreds of pounds, where there is a significant benefit to the consumer which potentially offsets any concerns about identifying themselves as being in receipt of one of the qualifying benefits.

For CFLs, we think the suggestion that a questionnaire should be issued with the measures through a retailer enquiring about whether the recipient is in receipt of any of the qualifying benefits or credits relevant to the priority group may be too intrusive relative to the received benefit.

Monitoring and sample requirements - Paragraph 6.13

We believe that the sample size requirements given in Figure 6.1 are too demanding for measures addressing smaller recipient numbers ($\leq 50,000$). We are concerned that this might lead to under recording of the energy savings attributed to the priority group.

For example, in a CFL promotion, it is likely that certain people within the priority group will take advantage of this offer. If the promotion reached 10,000 people, then according to Figure 6.1, around 40% of that sample would have to be measured in order to get the statistical significance that Ofgem is requiring. As the cost of this will be significant, then there is a risk that energy suppliers will not bother to try and establish the fraction of priority group who are benefiting from such schemes and an important piece of information which might be relevant in the development of EEC from 2008 will be lost.

We believe that the existing requirement of sampling 5% of recipients should remain for smaller initiatives. Above ~200,000 recipients, the sample sizes in Figure 6.1 could be used although the confidence levels demanded seem unwarrantedly high.

Energy Efficient Lighting - Paragraphs 7.8 and 7.44 – 7.54

This is the key section dealing with administration arrangements relating to energy efficient lighting. In general, the Lighting Industry is supportive of Ofgem's approach but we would like to point out the following.

In Paragraph 7.8, Ofgem says that it does not intend to change the annual energy savings for each measure during the course of EEC2 – we assume that that means that any technological innovation which results in longer life times for CFLs would be accredited with improved discounted life time savings although the annual energy savings for CFLs would not increase. If our interpretation is correct, then we would concur with the philosophy as there should be no disincentive to encouraging the manufacturers to produce improved products such as decorative CFLs with longer life times.

For a variety of reasons, we are surprised to see a category of low use fittings being advanced in Paragraph 7.45. These include the fact that Defra have not utilised such a category in deriving their energy saving target and that if customers pay for their CFLs, it is unlikely that they will buy them to use them in low use fittings. Furthermore, the philosophy of the averaging process adopted for the methodology of EEC2 (whereby a single average energy saving figure is used for each lamp, regardless of wattage or type or location) is contrary to Ofgem's intention in Paragraph 7.52 (iii) to assume that lamps delivered through a charitable organisation or other third party will be used in low use fittings.

In a similar vein, the proposal to limit the provision of CFLs through partnership with the charitable organisation or another third party to 1 CFL per household seems unnecessarily restrictive. We are concerned that this may foreclose an important route for ensuring equity in EEC2 as the use of the volunteer sector enables many who slip through the more traditional routes to be reached. Furthermore, the cost of realising the supply and delivery of 1 lamp lowers the viability in this area and hence may make it difficult for an energy supplier to justify.

We believe that the maximum restriction on numbers should be at least 2 and that the same average energy savings should apply to this category as to the rest of CFL initiatives. As Ofgem has genuine concerns that "free CFLs" may not be subsequently installed, an alternative approach might be to continue with the current rules but disallow some fraction of the energy saving if Ofgem can evaluate what fraction of "free CFLs" are not being installed.

Monitoring of CFLs - Paragraph 8.4

The Lighting Industry believes that the recent research undertaken by the Energy Saving Trust on CFLs has overtaken the writing of this paragraph. Once Ofgem have examined this research, they should decide whether the proposed requirement for yet further monitoring by the energy suppliers is still relevant.

Monitoring of CFLs - Paragraph 8.19

As we have outlined above, we believe that Ofgem should split the monitoring of the delivery of direct CFLs into those which are purchased and those which are distributed

free. Again some of the questions which Ofgem is asking to be monitored and evaluated here will be covered by the research recently carried out by the Energy Saving Trust.

ERNEST MAGOG

Director

Tel: 020 8772 9488; Mobile: 0788 778 0076

Fax: 020 8673 5880; Email: Ernest@lif.co.uk