Energy Efficiency Trends Vol. 26

Essential insight for consumers and suppliers of non-domestic energy efficiency in the U.K.

March 6, 2019

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Section 1. Introduction

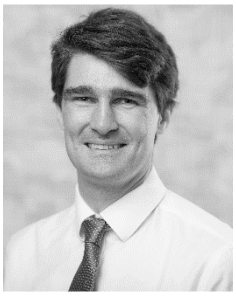
Welcome to the latest edition of U.K. *Energy Efficiency Trends* (Vol. 26, 4Q 2018), the leading source of market insight for the energy efficiency sector.

Perhaps unexpectedly – and despite the ongoing Brexit debate - our respondents posted a largely upbeat set of results this quarter. Suppliers reported strong levels of confidence in part because of a growth in overseas orders which, until now, have barely registered a murmur within the survey.

This suggests something of a Brexit effect. Either as suppliers have started looking further afield for new business, or perhaps as the lower value pound brings U.K. products and services within reach of a larger pool of overseas customers. In any case, this is a noteworthy shift for a sector that has been largely U.K.-focused to date.

Consumer respondents also appeared to carry on regardless in 4Q. On closer inspection, while the volume of projects undertaken was largely on-trend and unchanged, the typical financial value of these projects does appear to be falling. One suspects that pre-Brexit business confidence only goes so far!

All in all, a solid set of results for the sector, despite the elephant in the room.



Michael Kenefick
BloombergNEF

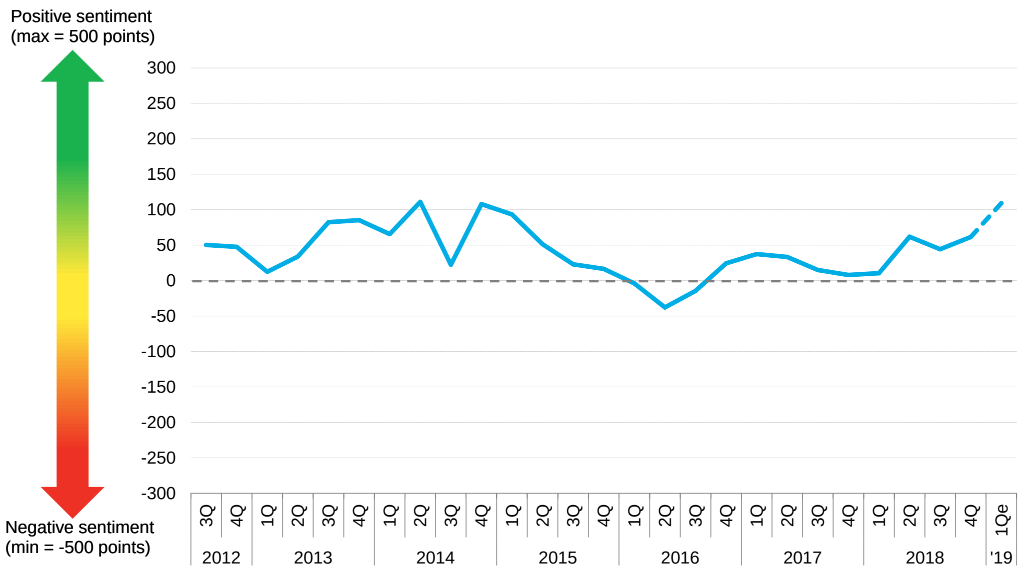
Ian Jeffries
EEVS Insight

Section 2. Executive Summary

The EEVS/Bloomberg *Energy Efficiency Trends* Survey (Vol.26) was completed by 58 U.K.-based respondents (32 consumer organizations and 26 suppliers), between January 9 and February 9, 2019. Their answers relate to the situation in the fourth quarter of 2018.

2.1. Supplier trends

Figure 1: Market Monitor – tracking industry confidence



Source: EEVS, BloombergNEF. Note: based on weighted confidence indicators from Figures 3, 4, 5, 6, and 9. Zero represents neutrality.

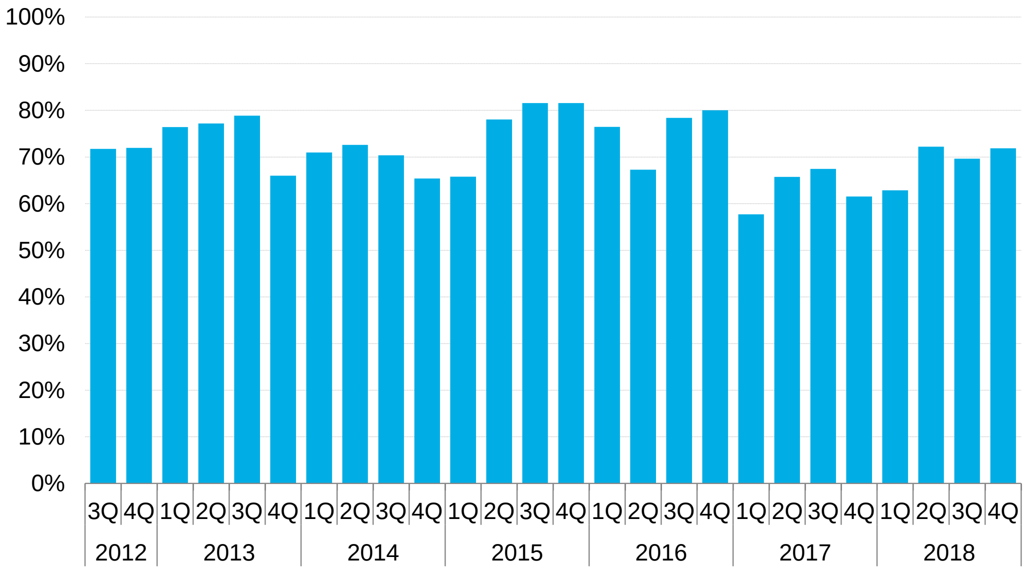
- **Overall confidence**: Figure 1 above shows a modest rise in market confidence this quarter. This renewed sense of optimism is also expected to increase and withstand the next three months. This is likely due to increases in recruitment and in overseas orders, alongside some of the other factors highlighted below.
- **Orders**: this quarter continues to sustain the rise in order volumes from 3Q with 31% (see Figure 3) of suppliers reporting a slight increase in U.K. orders. There is also a more positive outlook at an international level, Figure 4 showing a sharp 12% rise in orders from overseas customers. This increase is a significant change on previous results and is expected to continue into 2019.
- **Staffing**: Recruitment trends are more optimistic this quarter as staffing numbers have recovered from the decrease in 3Q and are set for an upward trajectory. Headcounts are generally increasing, with only 4% of suppliers reporting a significant fall in staffing levels. This positive trend is set to continue into the next quarter.
- **Prices:** Figure 6 (page 6) displays an improvement in sale prices compared to the last quarter as 27% of suppliers reported a slight increase in prices. However, this is likely to be a

temporary adjustment as sale prices are predicted to fall back in line with the long-term trend by 1Q 2019.

- **Government action:** Negative attitudes toward energy efficiency policy have strengthened as 53% of respondents reported the government's approach to be ineffective or very ineffective (Figure 9). Low levels of confidence were also shared in relation to the wider economy. The slight increase in support for government action in the last quarter has been lost with only 19% of suppliers considering the Government's management of the economy to be effective (Figure 10).

2.2. Consumer trends

Figure 2: Consumers commissioning energy efficiency projects



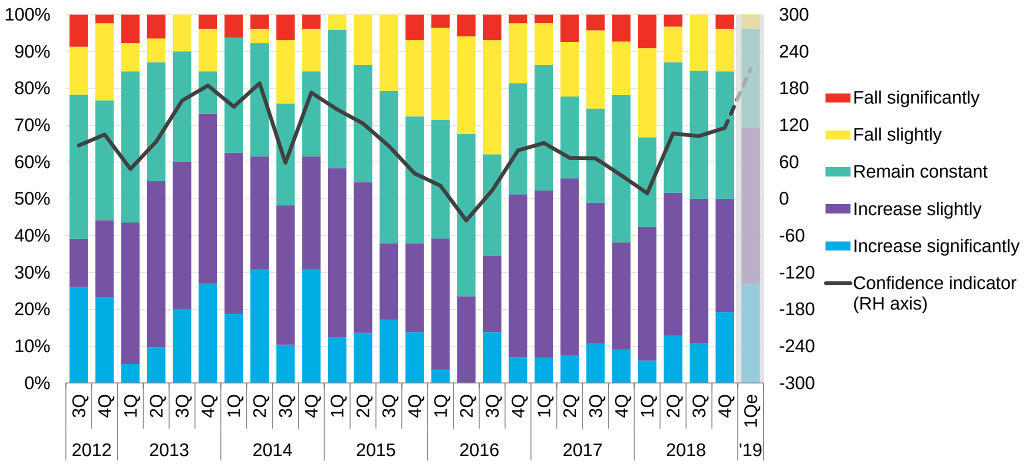
Source: EEVS, BloombergNEF. Note: shows the proportion of respondents who have commissioned (or plan to commission) projects in a given quarter.

- **Procurement:** Figure 2 above shows a sustained level of consumer procurement in 4Q 2018, without any material change to report.
- **Technologies:** Figure 11 (page 9) shows that high-efficiency lighting continues to be the leading technology. Building energy management systems (BEMS) faced a sharp decline however, with a material reduction in projects being commissioned by consumers this quarter. Interest in behavior change schemes increased, which perhaps points to lower cost options as more favorable given uncertainties around Brexit.
- **Spending:** Figure 15 (page 11) shows a continued trend toward lower customer spending per project, with medium-sized projects in the £100-500k band in particular feeling the squeeze.
- **Project finance and expected payback:** Figure 16 (page 11) shows no material increase in the use of third-party finance, with in-house sources of capital continuing to fund the majority of projects. Figure 17 (page 12) also shows that customers continue to expect projects to yield a financial 'return' within a 3 to 5 year period.

Section 3. Supplier trends

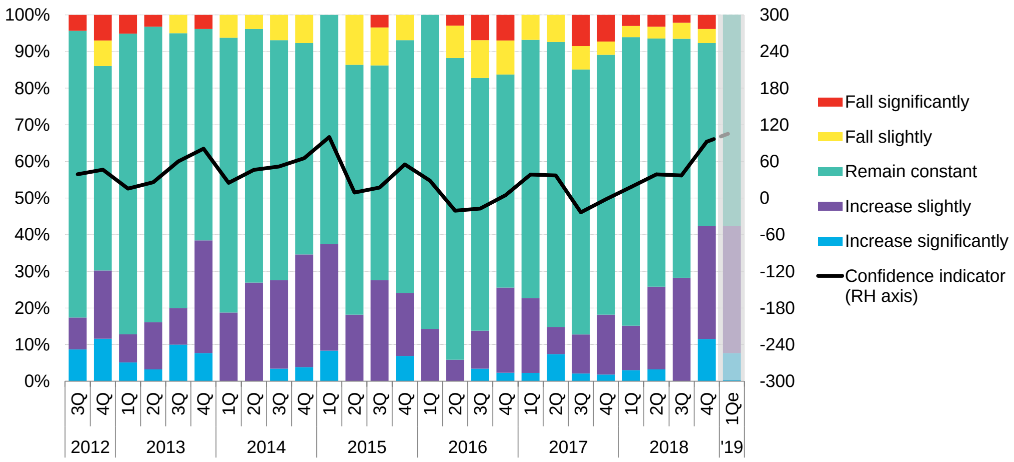
3.1. The order book

Figure 3: Trends in orders from national customers



Source: EEVS, BloombergNEF. Note: the confidence indicator is an input from the market monitor in Figure 1. Zero represents neutrality.

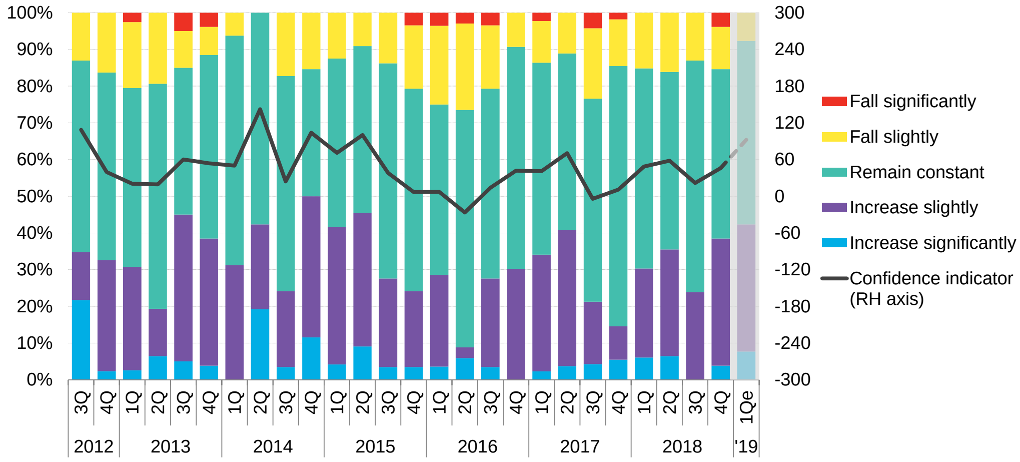
Figure 4: Trends in orders from overseas customers



Source: EEVS, BloombergNEF. Note: the confidence indicator is an input from the market monitor in Figure 1. Zero represents neutrality.

3.2. Staff numbers

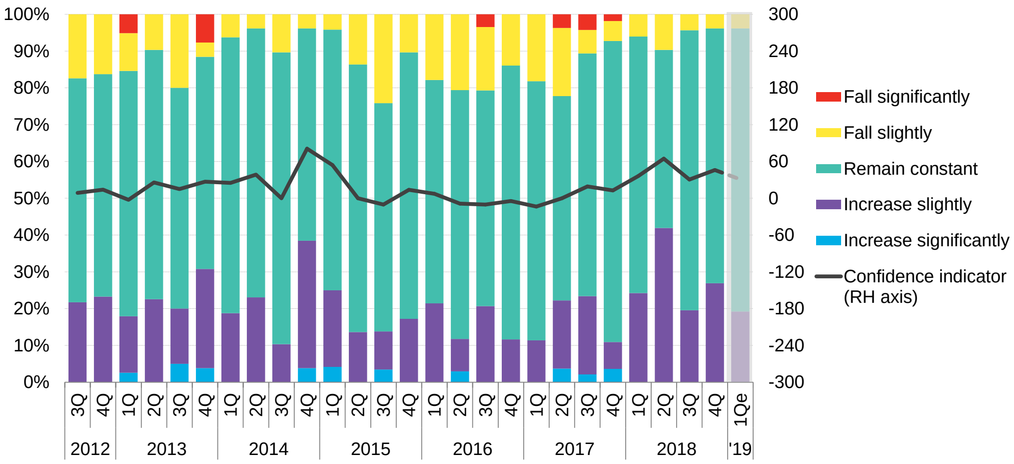
Figure 5: Trends in the number of staff employed



Source: EEVS, BloombergNEF. Note: the confidence indicator is an input from the market monitor in Figure 1. Zero represents neutrality.

3.3. Sale prices

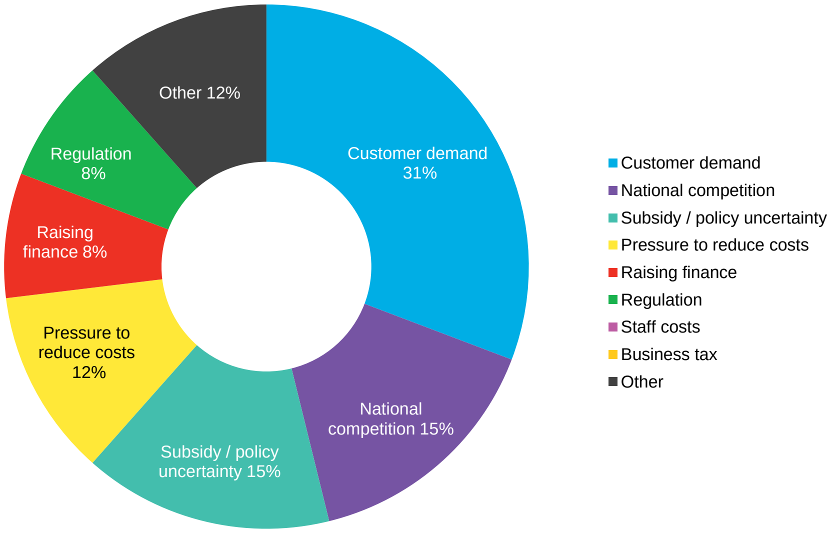
Figure 6: Trends in sale prices achieved



Source: EEVS, BloombergNEF. Note: the confidence indicator is an input from the market monitor in Figure 1. Zero represents neutrality.

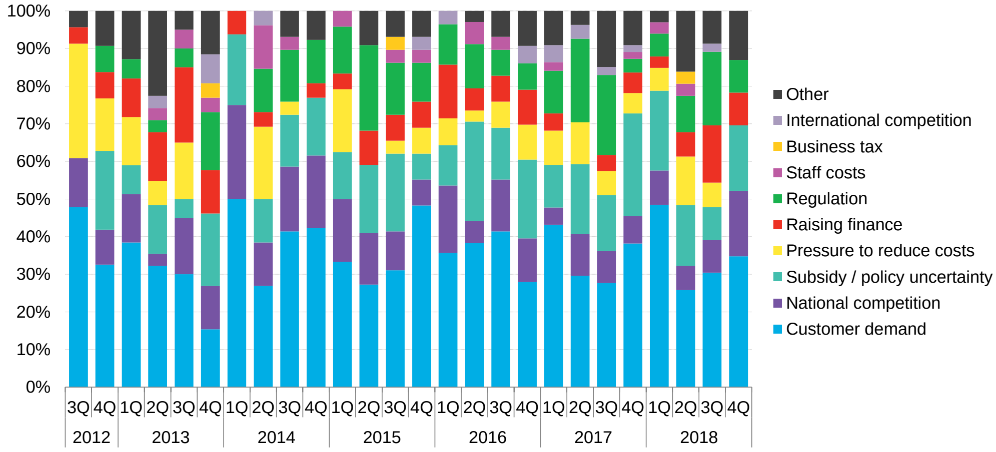
3.4. Industry risk

Figure 7: Key issues of concern to energy-efficiency suppliers, 4Q 2018



Source: EEVS, BloombergNEF. Note: each supplier respondent was asked to select their primary issue of concern.

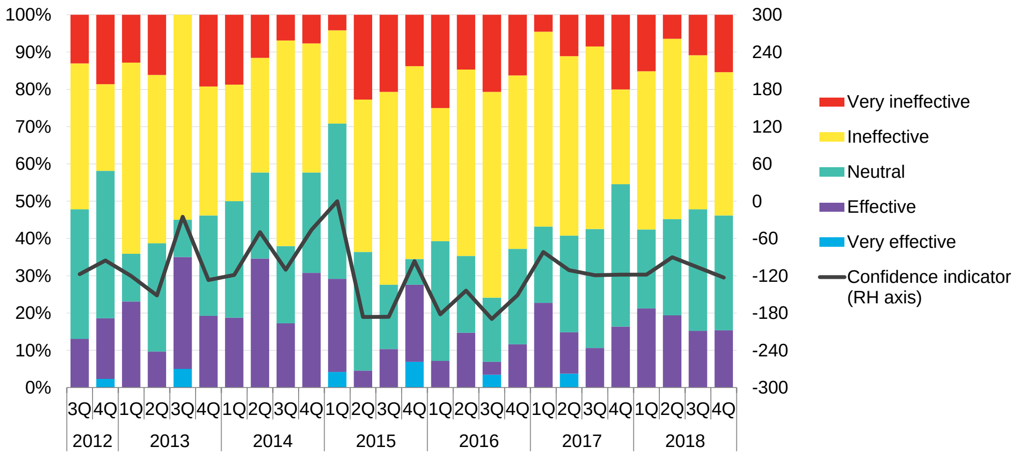
Figure 8: Trends in key issues of concern



Source: EEVS, BloombergNEF. Note: each supplier respondent was asked to select their primary issue of concern.

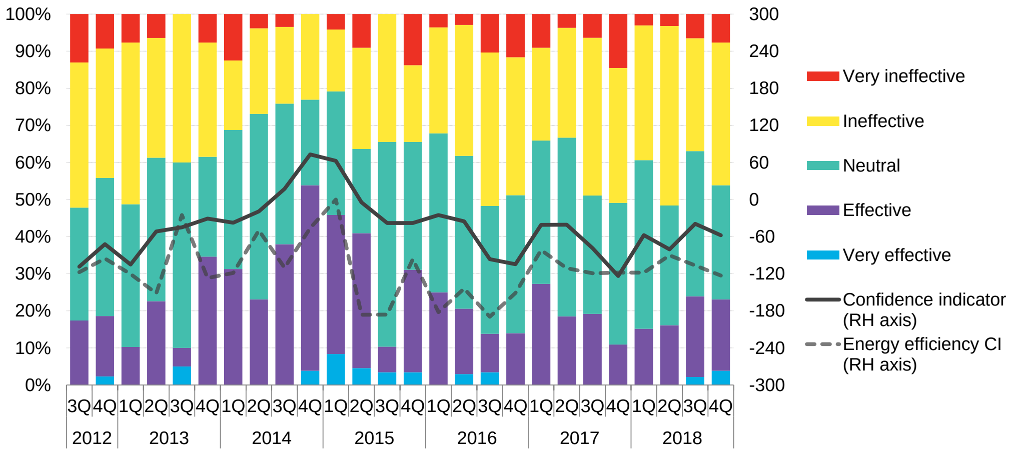
3.5. Government Effectiveness

Figure 9: Trends in industry views on energy efficiency policy



Source: EEVS, BloombergNEF. Note: the confidence indicator is an input from the market monitor in Figure 1. Zero represents neutrality.

Figure 10: Trends in industry views of the wider economy's management

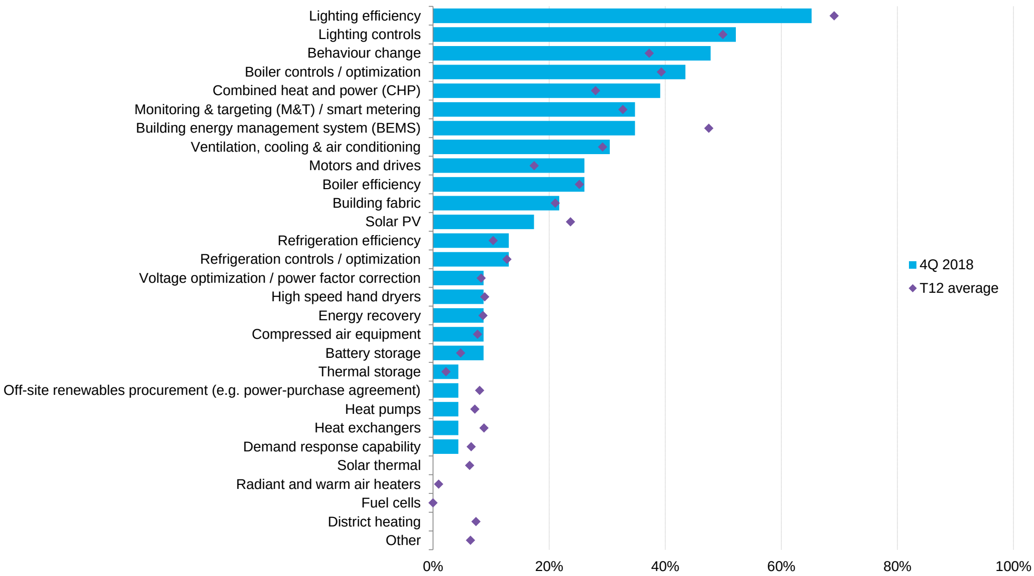


Source: EEVS, BloombergNEF. Note: CI = confidence indicator. The dotted line represents the CI from Figure 9, which is overlaid here for comparison with views on the wider economy. Zero represents neutrality.

Section 4. Consumer Trends

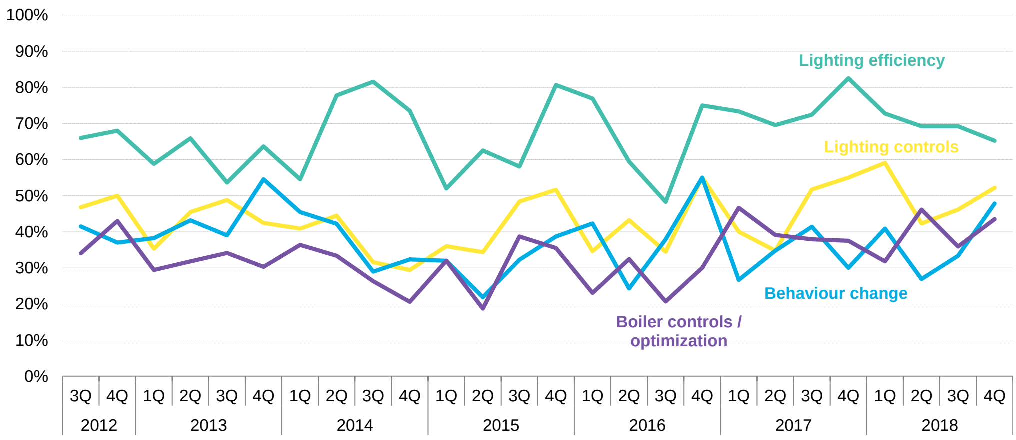
4.1. Technologies and measures

Figure 11: Uptake of energy efficiency technologies, 4Q 2018 versus four-quarter average



Source: EEVS, BloombergNEF. Note: The graph ranks technologies according to the proportion of consumers who commissioned a project in each technology, out of the total number of consumers commissioning projects.

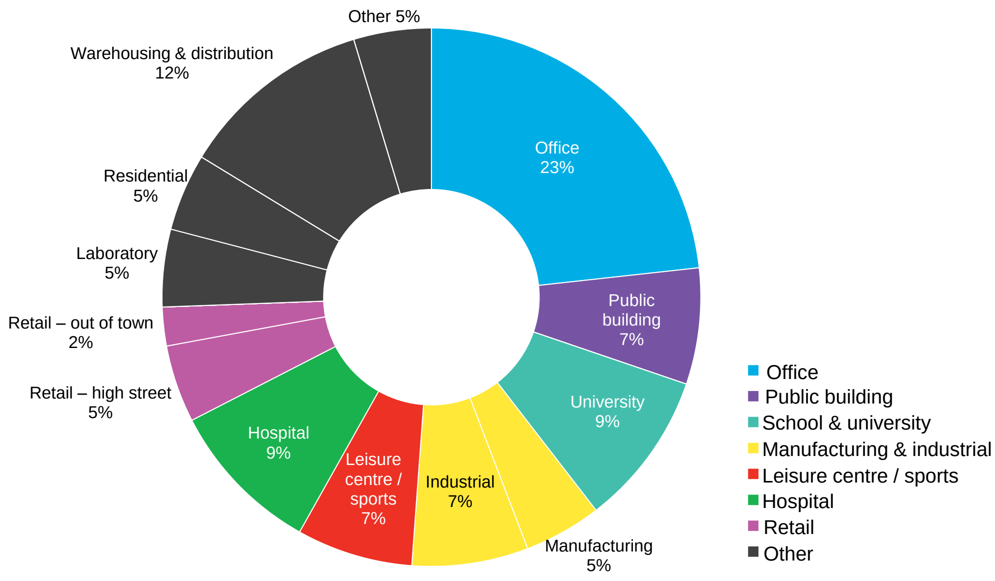
Figure 12: Trends in top technologies for consumer uptake



Source: EEVS, BloombergNEF. Note: The graph shows the proportion of respondents who commissioned a project in the respective category, out of the total number of respondents who commissioned a project.

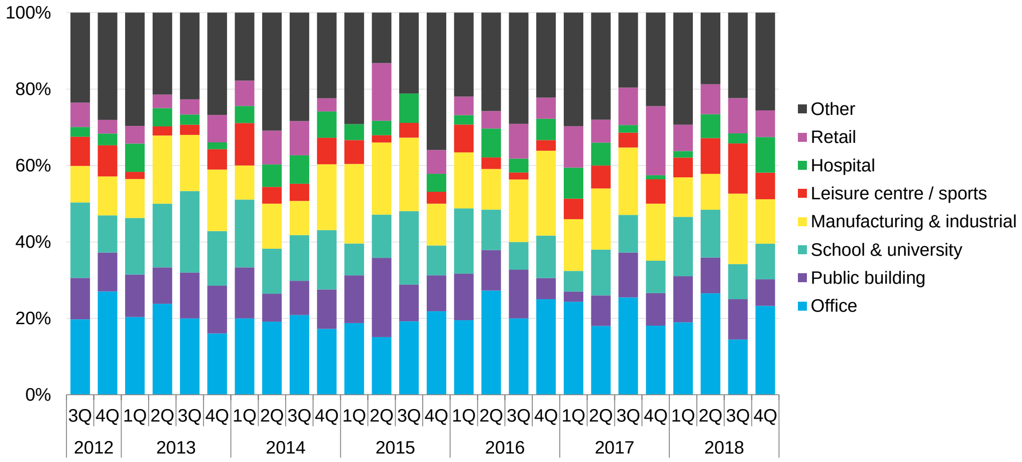
4.2. Property types

Figure 13: Breakdown of commissioned projects by property type, 4Q 2018



Source: EEVS, BloombergNEF

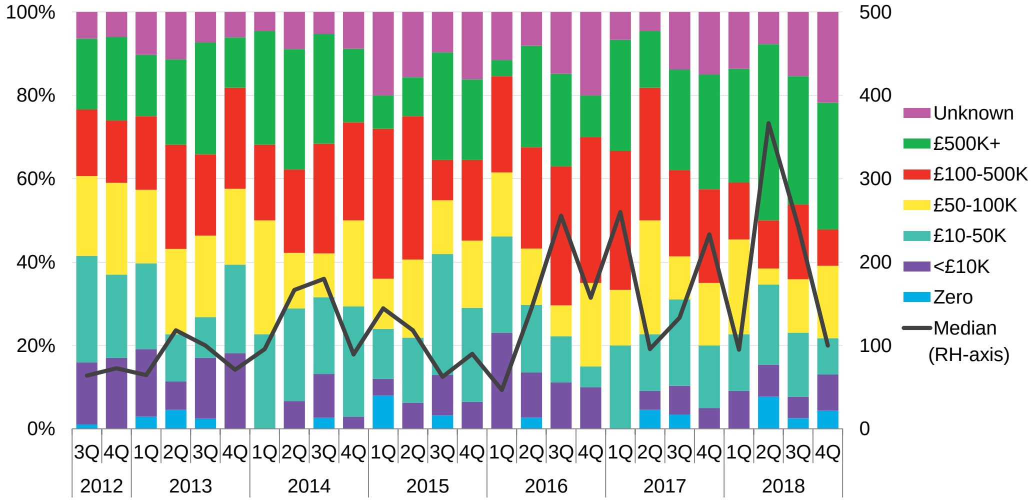
Figure 14: Trends of commissioned projects by property type



Source: EEVS, BloombergNEF

4.3. Project costs

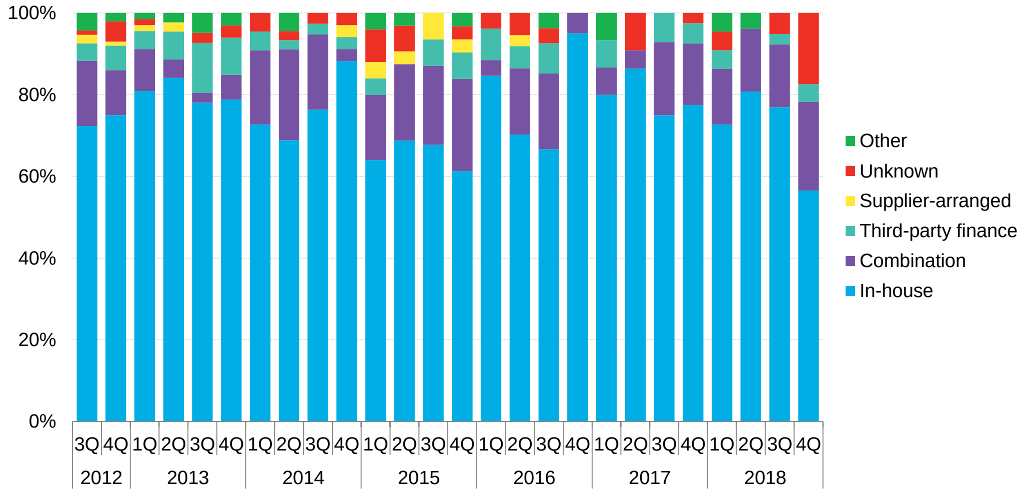
Figure 15: Trends in capital costs



Source: EEVS, BloombergNEF. Note: the line shows the cost trend for energy efficiency projects over time based on the estimated median.

4.4. Project finance

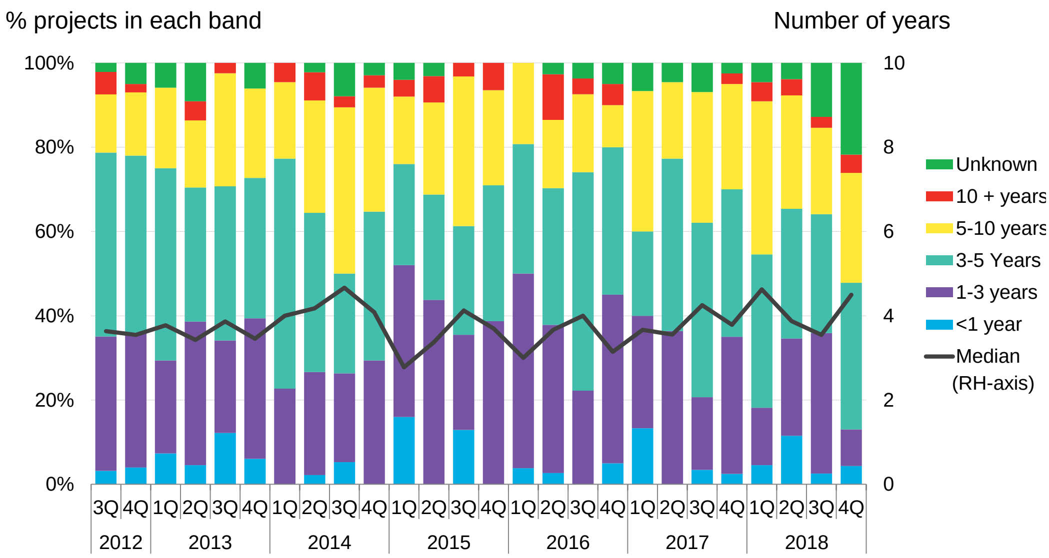
Figure 16: Trends in finance models



Source: EEVS, BloombergNEF

4.5. Financial payback

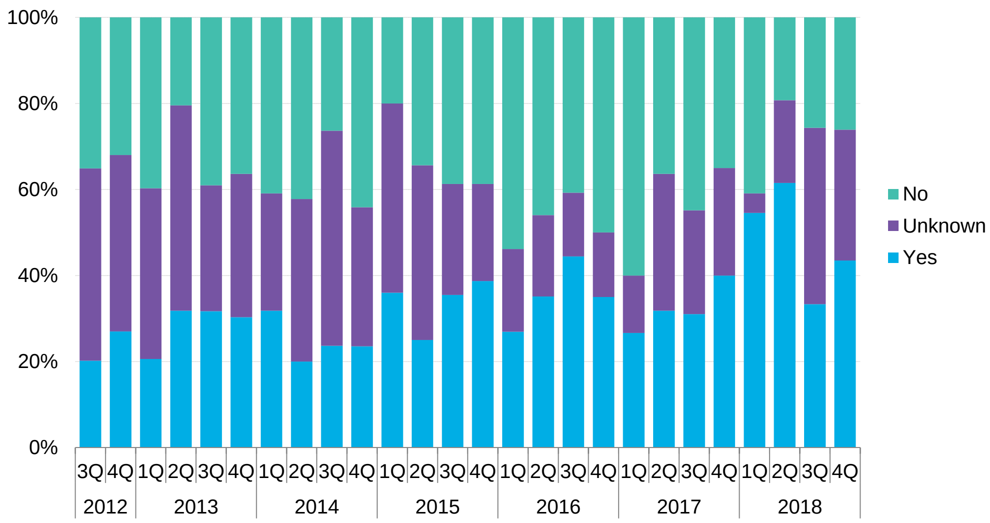
Figure 17: Trends in expected payback periods



Source: EEVS, BloombergNEF. Note: the line shows the expected payback trend for energy efficiency projects based on the estimated median.

4.6. Measurement and verification

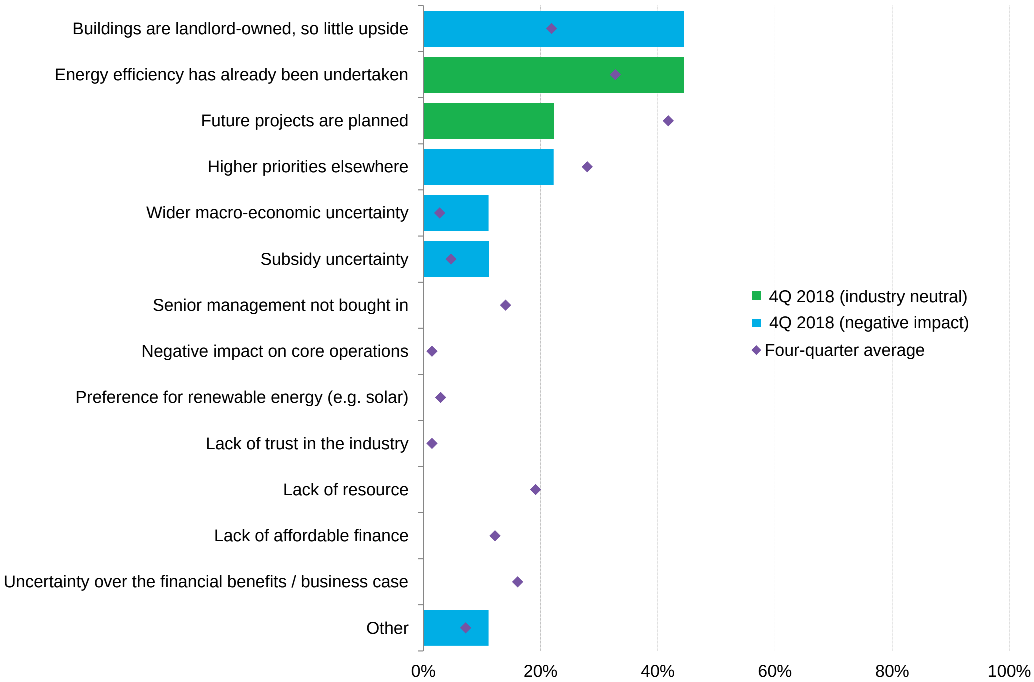
Figure 18: Trends in the use of good practice M&V



Source: EEVS, BloombergNEF. Note: M&V = measurement and verification.

4.7. Consumers not undertaking energy efficiency

Figure 19: Consumer reasons for lack of efficiency uptake, 4Q 2018 versus four-quarter average



Source: EEVS, BloombergNEF. Note: respondents not commissioning projects may have cited multiple reasons. The chart shows the proportion of respondents in each category, out of the total number of respondents not commissioning projects. Therefore, results do not add up to 100%.

Appendices

Appendix A: Methodology

The EEVS/Bloomberg *Energy Efficiency Trends* Survey (Vol.26) was conducted between January 9 and February 9, 2019, and completed by 58 U.K.-based respondents (32 consumer organizations and 26 suppliers).

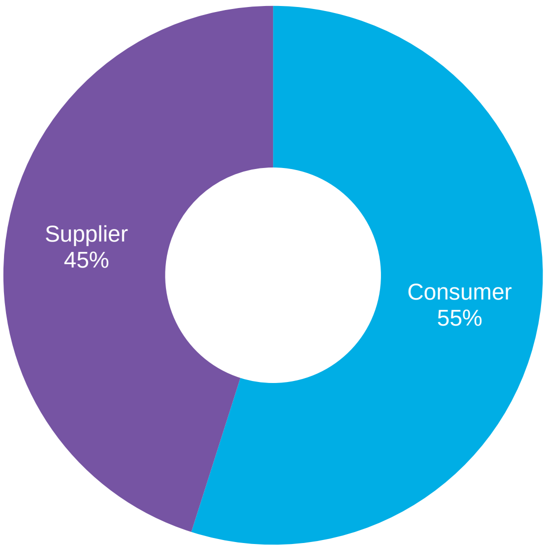
This is the 26th in a series of reports showing industry trends in non-residential energy efficiency. As the report series evolves, we continue to make minor tweaks.

Initially, the report covered a broad range of European countries, but since Volume 8, it has presented U.K.-based results only, as these consistently accounted for the bulk of data received.

In focusing the report on a single country with better data coverage, we were able to present cleaner, more robust results. This coincided with a revamp of the analysis including the introduction of a set of time series charts.

Please reach out should you wish to discuss any of the trends observed in the charts.

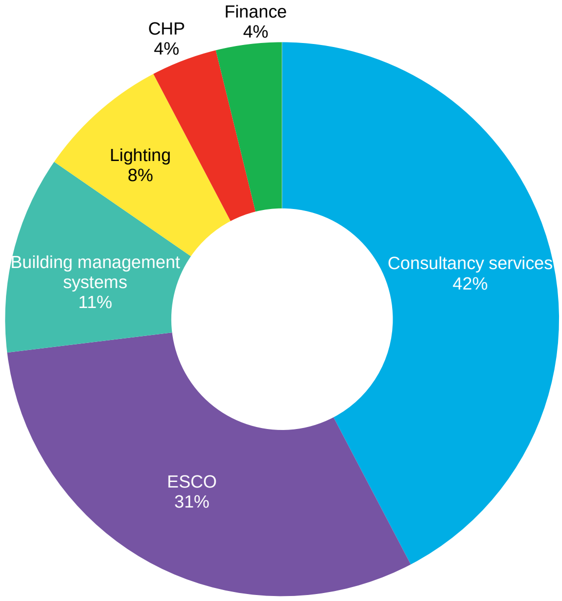
Figure 20: Who completed the survey?



Source: EEVS, BloombergNEF

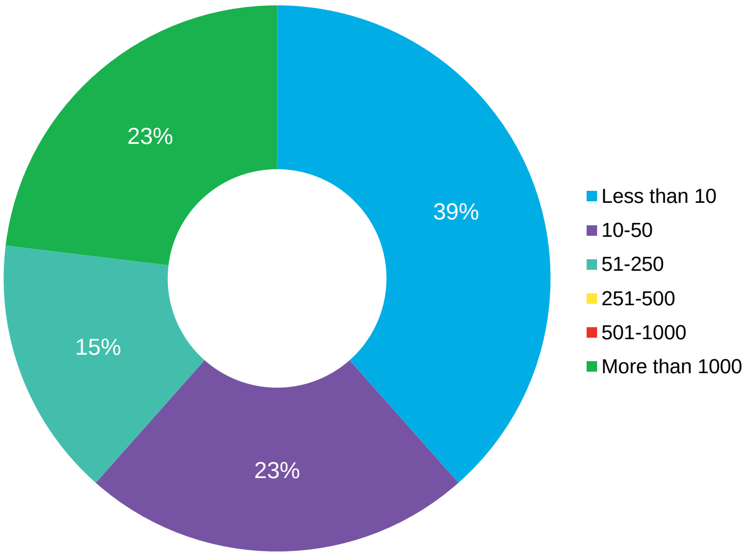
Appendix B: Supplier respondents

Figure 21: Breakdown of respondents by supplier type, 4Q 2018



Source: EEVS, BloombergNEF

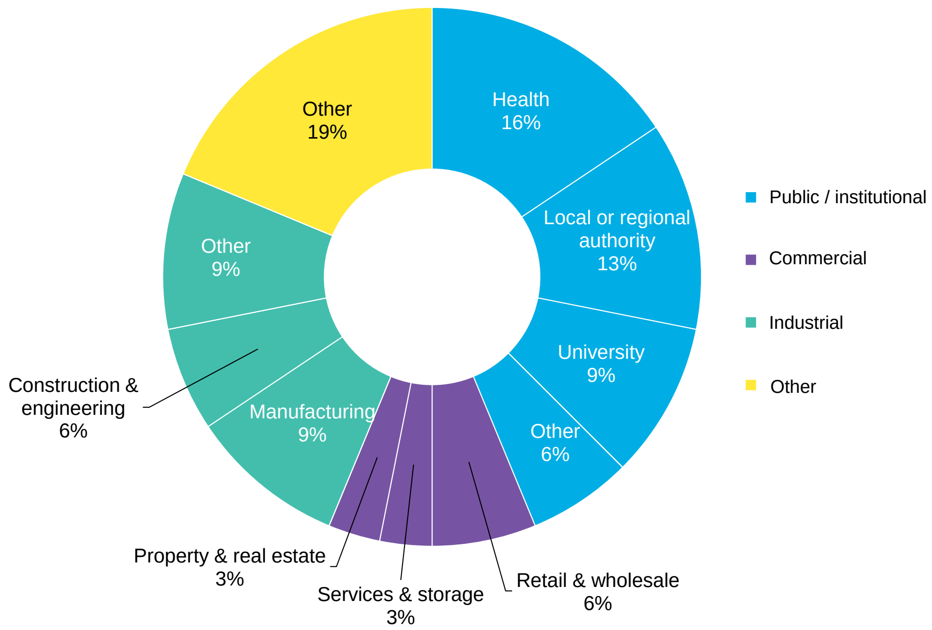
Figure 22: Organization size of supplier respondents (no. of employees), 4Q 2018



Source: EEVS, BloombergNEF

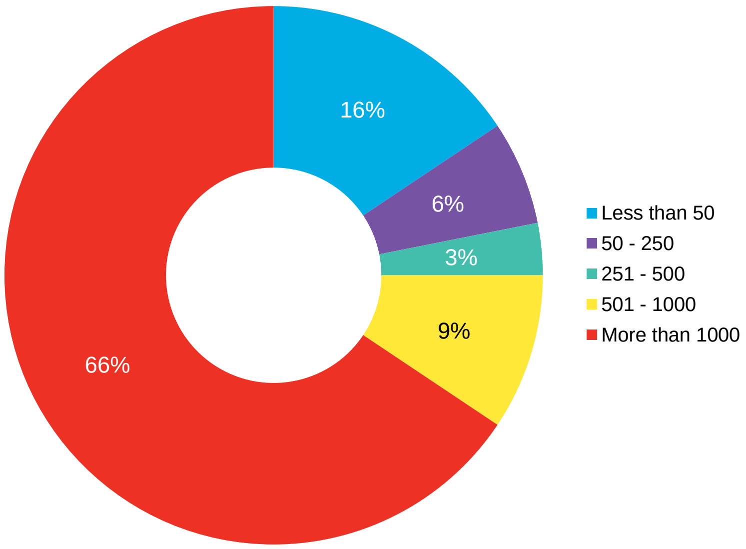
Appendix C: Consumer respondents

Figure 23: Consumer respondents by sector, 4Q 2018



Source: EEVS, BloombergNEF

Figure 24: Organization size of consumer respondents (no. of employees), 4Q 2018



Source: EEVS, BloombergNEF

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Contact us

EEVS:	Ian Jeffries ian@eevs.co.uk +44 (0) 33 0313 8488	EEVS Insight Ltd 22 Long Acre London WC2E 9LY
BloombergNEF:	Michael Kenefick mkenefick2@bloomberg.net +44 (0) 20 3525 4144	Bloomberg L.P. 3 Queen Victoria Street London EC4N 4TQ

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