

Energy UK Briefing: Energy Bills for Businesses

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Summary

The non-domestic energy retail market has long been a competitive market, with at least seventy suppliers operating a wide range of business models and customer services.

The market came under significant pressure during the height of the global energy crisis which saw record-high wholesale prices but has remained broadly resilient, continued to offer contracts throughout, and conditions are now starting to return to normality.

This sustained period of exceptionally high wholesale prices, paired with a cut in the Government's bill support, however, has resulted in many businesses struggling to pay their energy bills.

The difficult economic backdrop has also increased the level of risk for energy suppliers in offering contracts, meaning in some instances suppliers have been required to request significant security deposits.

Energy UK is working with its members and business groups to see what more can be done to help business customers and improve engagement with suppliers.

Energy UK's website has additional information to support businesses, including advice on how to lower energy bills through energy efficiency and on-site generation [found here](#).

What is the non-domestic energy market and how does it differ to households?

Regulation differs between non-domestic (business) customers and domestic customers (households). Business contracts also vary on the risk profile of a business, alongside contract length and usage patterns.

Under the GB energy regulatory system, energy suppliers are under no duty to offer a business an energy contract. The rules are different for households, where there is an obligation to supply.

How does the non-domestic energy market work in practice?

Like any prudent business, energy suppliers have to consider their own exposure when choosing whether to offer a contract to a business, and a potential customer's risk profile is taken into account when designing products to offer.

Each non-domestic customer poses a different set of risks compared to a household. Businesses can have very different energy contracts due to their different needs.

This is because, for example, a pub, an office, and a nursery might use the same amount of energy, but they may represent an entirely different risk to a supplier because of their business models. Energy suppliers, therefore, must assess each customer and the associated risk attached.

With the current volatility and credit risk in the market, suppliers are looking closely at their credit checking of consumers before offering a non-domestic contract. Each supplier will also view risk differently and some may offer products tailored to different risk or consumption profiles or sectors.

Where a supplier does choose to offer a product, as part of their credit risk management, they may consider applying certain terms to offset potential risk, which can include requesting that customers pay an upfront security deposit.

Businesses may be refused an energy contract for various commercial reasons including a credit risk profile which is out of the range the supplier will accept for their own hedging in the energy market.

Why are businesses on fixed contracts still paying high prices?

Energy suppliers buy energy they sell to customers on the wholesale market. As non-domestic contracts can cover bigger volumes and be longer in length than domestic contracts, this can result in large amounts of capital outlay. All suppliers regularly hedge their contracts and buy energy in advance to supply to their customers.

By hedging ahead, suppliers are usually able to absorb any volatile prices over that contract period because they have bought the energy in advance. Ultimately providing a lower price for the customer and greater certainty of the cash flow for businesses.

While hedging is the responsible thing to do because it provides stability, it does mean that prices may not reflect the current wholesale price because the energy has been bought upfront.

What is the Government doing to help?

The role of the Government's support throughout this energy crisis should not be understated. The Energy Bill Relief Scheme (EBRS) was critical to keeping businesses afloat throughout the winter months. However, while a new energy bill support scheme (Energy Bills Discount Scheme) remains in place for businesses, the amount of the Government-backed discount to customers is significantly less than the EBRS.

Further, the design and delivery could be improved to provide confidence and certainty for non-domestic customers and energy suppliers. Energy UK is calling on the Government to revisit the level of support offered to businesses.

What are energy suppliers doing to help?

Energy UK is working with members and business groups to see what more can be done to help business customers and improve communications. This includes helping businesses better understand the energy market and their options, the help available from their suppliers and the potential for energy efficiency and self-generation.

Alongside the Best Practice Guidance on security deposits which we are working on with Ofgem, we believe this could make a material difference to the cash flow of customers by reducing supplier capital requirements to cover risk on existing and new contracts.

We are also extremely supportive of Government and Ofgem extending regulation into the market for Third Party Intermediaries and Brokers, through which the majority of non-domestic contracts are secured.

What should non-domestic customers do in your constituency?

Government business support schemes are available including financial support to reduce energy bills as well as incentives and grants for energy efficiency measures and clean, onsite generation which can lower energy bills.

If in financial difficulty, businesses should contact their supplier in the first instance to discuss any support available during their contract. Further supporting information is available on Energy UK's website [found here](#).

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