

<b>Title:</b> Energy Bill Relief Scheme (EBRS) <b>IA No:</b> BEIS072(F)-22-NZBI  <b>RPC Reference No:</b> RPC-BEIS-5234(1)  <b>Lead department or agency:</b> Department for Business, Energy and Industrial Strategy (BEIS)  <b>Other departments or agencies:</b> N/A	<b>Impact Assessment (IA)</b>			
	<b>Date:</b> 6/02/2023			
	<b>Stage:</b> Development/Options			
	<b>Source of intervention:</b> Domestic			
	<b>Type of measure:</b> Secondary legislation			
<b>Contact for enquiries:</b> energybill2021@beis.gov.uk				
<b>Summary: Intervention and Options</b>			<b>RPC Opinion: Not Applicable</b>	

**Cost of Preferred (or more likely) Option (in 2022 prices)**

Total Net Present Social Value	Business Net Present Value	Net cost to business per year	Business Impact Target Status
NQ	NQ	NQ	Qualifying provision

**What is the problem under consideration? Why is government action or intervention necessary?**

The UK is currently experiencing an unprecedented rise and volatility in non-domestic energy bills driven by rising global energy prices. The scale of price increases and volatility in energy prices creates an undue burden on businesses, as well as the public and third sectors. While fluctuations in prices are a normal part of markets functioning, the current and projected levels of these are unprecedented. This creates unnecessary risks for businesses navigating investments and employment decisions. Government intervention is needed to protect businesses, workers and consumers from economic and welfare losses.

**What are the policy objectives of the action or intervention and the intended effects?**

The high-level objectives of intervention are to:

- i. Support economic growth
- ii. Prevent unnecessary insolvencies of businesses unable to pay their energy bills
- iii. Protect jobs from termination due to energy bill costs
- iv. Limit inflation caused by increasing energy bills and knock-on impacts on prices of labour, goods and services

The intended effect of the policy is to provide immediate relief on energy costs this winter, while a review is conducted of where there may be a case for further support beyond March 2023.

**What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)**

While energy bill saving measures such as improving energy efficiency have a role in addressing rising energy costs in the long term, no combination of demand reduction measures can feasibly deliver a reduction in costs at sufficient scale to deliver the policy objectives in time for this coming winter other than direct support. As such, on 8 September 2022, the government announced the Energy Bill Relief Scheme to provide a level of support linked to the market prices being faced by different consumers. This option for direct support has therefore been considered against a counterfactual of doing nothing. Two other options were considered (a fixed discount per non-domestic consumer, and a fixed discount per MWh for all non-domestic consumers), but were not quantified as they were not considered viable.

Is this measure likely to impact on international trade and investment?					Yes / No					
Are any of these organisations in scope?					<b>Micro</b>	<b>Small</b>	<b>Medium</b>	<b>Large</b>		
					Yes	Yes	Yes	Yes		
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)					<b>Traded:</b>			<b>Non-traded:</b>		
					NQ			NQ		

**Will the policy be reviewed?** It will be reviewed. **If applicable, set review date:** January 2023

*I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.*

Signed by the responsible Minister:

Graham Stuart

Date:

9th February 2023

# Summary: Analysis & Evidence

# Policy Option 1

**Description:** Introduce the Energy Bill Relief Scheme, which provides reductions in gas and electricity costs per MWh for non-domestic consumers according to the timing and type of energy contract they are on.

## FULL ECONOMIC ASSESSMENT

Price Base Year	PV Base Year	Time Period Years	Net Benefit (Present Value (PV)) (£m)			
			Low: Optional	High: Optional	Best Estimate: N/A	
<b>COSTS (£m)</b>		<b>Total Transition</b> (Constant Price) Years	<b>Average Annual</b> (excl. Transition) (Constant Price)		<b>Total Cost</b> (Present Value)	
Low	Optional		Optional		<b>Optional</b>	
High	Optional		Optional		<b>Optional</b>	
Best Estimate	NQ		Optional		<b>NQ</b>	
<b>Description and scale of key monetised costs by 'main affected groups'</b>						
<p>The primary cost of this intervention will fall on the Exchequer in the form of a transfer to non-domestic consumers. We estimate HMG could pay £29bn to non-domestic electricity and gas suppliers over the period to end March 2023 to cover the difference between market wholesale and Government-defined 'supported prices'. This estimate is highly uncertain, however, as it depends on future energy prices (this estimate uses future energy costs as estimated over 10 days to 12<sup>th</sup> September 2022) and on future energy demand. Suppliers will incur familiarisation and admin cost to comply with this intervention. The estimated cost of this is £5m-£15m, with a central estimate of £10m.</p>						
<b>Other key non-monetised costs by 'main affected groups'</b>						
<p>Any increases in energy consumption will lead to social costs from increased carbon emissions as well as air quality impacts. However, this impact is uncertain and is in the context of energy prices still being higher than historic levels, so we have not quantified it for this assessment. As an illustration of the potential impacts, an increase of 1% in energy demand would lead to a net social cost of around £340m due to carbon and air quality impacts.</p>						
<b>BENEFITS (£m)</b>		<b>Total Transition</b> (Constant Price) Years	<b>Average Annual</b> (excl. Transition) (Constant Price)		<b>Total Benefit</b> (Present Value)	
Low	Optional		Optional		<b>Optional</b>	
High	Optional		Optional		<b>Optional</b>	
Best Estimate	0		0		0	
<b>Description and scale of key monetised benefits by 'main affected groups'</b>						
<p>The assessment does not include any monetised benefits.</p>						
<b>Other key non-monetised benefits by 'main affected groups'</b>						
<p>The most significant non-monetised impact is the avoidance of firm closures and redundancies. The benefits of avoiding closures will accrue to business, while the benefits of avoided redundancies will provide broader benefits to society.</p>						
<b>Key assumptions/sensitivities/risks</b>					<b>Discount rate (%)</b>	3.5
<p>The largest most significant source of uncertainty is the size of the overall relief. This represents a significant risk to the Exchequer. The uncertainty is driven by a number of things, including the future prices of energy, scale of demand for the duration of the intervention as well as the nature of existing contracts. The most notable risk is of fraud as well as the ability for suppliers to deliver the intervention in time across all non-domestic consumers.</p>						

## BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m: NQ			Score for Business Impact Target (qualifying provisions only) £m:
Costs: NQ	Benefits: NQ	Net: NQ	
			N/A

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## 1. Introduction

1. On 8 September Government announced a new six-month scheme - the Energy Bill Relief Scheme (EBRS) – to protect all businesses and other non-domestic energy users, including the public and voluntary sector organisations from soaring energy costs. This support will be equivalent to the Energy Price Guarantee put in place for households.
2. The EBRS will provide support to energy suppliers to enable them to provide a p/kWh price reduction for all businesses, public and third sector organisations whose current gas and electricity prices have been significantly inflated due to unprecedented price rises. The price reduction will be linked to the wholesale element of non-domestic gas and electricity bills, as it is in the wholesale market where the price rises have predominantly been and unlike the domestic retail market there are a large range of non-domestic energy contracts on the market, with suitability varying hugely by organisation, meaning that targeting retail prices would not be desirable nor practical.
3. HMG will determine the level of price reduction which suppliers will be required to apply to businesses based on defining a reasonable wholesale gas and electricity price ('Supported Price') for the period of EBRS support and comparing this to the relevant forward wholesale market prices to calculate the amount of support provided to suppliers to enable a reduction in the unit price charged to customers.
4. The price reduction will apply to the actual gas and electricity consumption of an eligible business during the EBRS period, which will run for six months from a retrospective date of 1<sup>st</sup> October. A review will be held after three months, with decisions being taken by the end of the initial six-month EBRS period, on whether the scheme should continue beyond the initial six-month period and, if so, in what form. Price reductions will not be applied retrospectively to cover costs incurred before the start of the EBRS period, on 1 October. The relevant price reduction for each business should be automatically applied to their bills by their supplier based on their contract type and start date.
5. The EBRS will utilise existing energy system mechanisms to limit the level of market disruption caused by interventions; the aim is for the competitive supply market to continue as it would have done before the energy crisis.

## 2. Proposed Legislation

6. The Energy Prices Act 2022 will enable the EBRs secondary legislation for Great Britain and for Northern Ireland to:
  - Establish scheme eligibility;
  - Establish scheme rules applicable to different types of non-domestic customers and energy supply;
  - Provide for the regulations to apply to charges for energy supply that occurred before the regulations came into force;
  - Provide for the delegation of functions (including functions involving the exercise of a discretion) to be exercisable by any person or corporate entity (including the BEIS Secretary of State);
  - Provide for duties to be imposed on, or powers to be conferred on, any person(s) under the scheme;
  - Provide for powers or duties related to information-gathering;
  - Provide for the modification of contracts or other arrangements relating to energy supply to non-domestic customers;
  - Make provision for civil penalties and enforcement of the obligations under the regulations;
  - Make provision for the exclusion of liability under the scheme;
  - Make provision to deal with the consequences of, or to prohibit or otherwise regulate, transactions or arrangements that manipulate or otherwise abuse any support scheme or the availability of any support scheme; and
  - Make provision to the terms on which licensed suppliers are to provide energy supply to which a support scheme relates to a specified description of customers (financially disadvantaged customers).
7. Alongside this, the Energy Bill Relief Scheme Pass-through Requirement (England and Wales and Scotland) Regulations 2022 will establish a requirement to pass through benefits of the scheme to the end user. Similar legislation for Northern Ireland is expected to follow shortly.
8. The legislation as drafted will require suppliers to apply the price reduction to each eligible customer. This is subject to enforcement by Ofgem for Great Britain or by UREGNI for Northern Ireland. The risk of the supplier not passing on the appropriate discount to their customers has been identified, and legislation has been drafted with clauses to mitigate this risk:
  - A clawback clause and possibility of a proportionate fine so HMG can directly recover defrauded funds and/or levy fines against suppliers.
  - Specifications around data required incorporated into legislation to ensure suppliers provide HMG with sufficient data to identify businesses and allow validation of funding.
9. Similarly, a risk exists that intermediaries will not pass on benefits of the scheme to the end users (e.g. if a landlord includes energy bills as part of the rent). To reduce this risk, the pass-through requirement regulations include a requirement for intermediaries to pass on the benefits of the scheme to the end user.
10. Where suppliers are unwilling to offer fixed price contracts or offer unaffordable terms, for example because they are considered poor credit risks, and suppliers do not take the appropriate steps to offer reasonable contracts, legislative powers may be taken to compel suppliers to make reductions to their charges to financially disadvantaged customers.



### 3. Problem Under Consideration & Rationale for Intervention

11. The UK is currently experiencing an unprecedented rise and volatility in non-domestic energy bills driven by rising global energy prices. Following the announcement that Nord Stream flows would not resume as scheduled, Q4 2022 gas prices closed at 411p/therm (21/09/2022), nearly 10 times higher than the Q4 2021 levels.<sup>1</sup> While there is a large amount of uncertainty, prices may not return to pre-crisis levels until around 2025 when new gas sources come online.
12. The scale of price increases and volatility in energy prices creates an undue burden on businesses and puts pressure on public and third sector organisations. While fluctuations in prices are a normal part of markets functioning, the current and projected levels of these are unprecedented. This creates unnecessary risks for businesses navigating investments and employment decisions. Businesses need increased certainty and time to adapt their operations and optimise their decision making. An intervention is needed to protect businesses, workers and consumers from economic and welfare losses.
13. Evidence from the economic literature suggests that negative impacts of unemployment can persist for the individual as well as the economy<sup>2 3</sup>. This is referred to as a scarring effect. The evidence finds that unemployment at some point in a person's life, particularly at the beginning of a working career, tends to increase the probability of unemployment in the future, and can permanently reduce income as well. The negative impact of this effect could be an unintended consequence of not taking action to limit increases and volatility in energy prices.
14. In addition to the cost and volatility challenges for non-domestic consumers, they also face a different level of risk of securing energy supply. Energy suppliers have no obligation to provide energy to the non-domestic retail market. This means some non-domestic consumers could be refused supply, which is especially challenging for new customers without a pre-existing relationship with a supplier.
15. Non-domestic consumers are finding it increasingly difficult to secure energy supplies, particularly if they have poor credit histories or are in exposed sectors (hospitality, Energy Intensives) and suppliers cannot or will not bear the risk of entering into contracts with some customers in the current market conditions. In these situations, businesses may end up on 'deemed tariffs' which are expensive and exposed to wholesale price volatility, informal feedback from the industry indicates this could be around 30% of businesses and growing before the introduction of any support.

### 4. Objectives of the Policy

16. The high-level objectives of EBRS are to:
  - i. Support economic growth
  - ii. Prevent unnecessary insolvencies of businesses unable to pay their energy bills
  - iii. Protect jobs from termination due to energy bill costs
  - iv. Limit inflation caused by increasing energy bills and knock-on impacts on prices of labour, goods and services

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<sup>1</sup> ICIS NBP Data, Sept 2022

<sup>2</sup> <https://www.bankofengland.co.uk/-/media/boe/files/speech/2020/the-potential-long-term-effects-of-covid-speech-by-dave-ramsdem.pdf>

<sup>3</sup> <https://ec.europa.eu/social/BlobServlet?docId=13626&langId=en#:~:text=Evidence%20from%20the%20literature%20suggests,and%20having%20lower%20prospective%20earnings>

## **5. Rationale and evidence to justify the level of analysis used in the IA (proportionality approach)**

17. While energy bill saving measures such as improving energy efficiency can be part of a longer-term solution, no combination of measures can deliver energy cost reductions at sufficient scale to achieve the policy objectives in time for this coming winter. Further, without direct support this winter, there is no other option available to mitigate the immediate knock-on effects of the expected large-scale unemployment that would ensue from the closure of businesses which are unable to pass on higher costs, or rely on discretionary consumer spending. As such, the Energy Bill Relief Scheme is considered against the alternative of doing nothing further than the measures already announced in the Energy Security Strategy.
18. Given the short time since the scheme's announcement on the 8<sup>th</sup> September 2022, and the nature of the key benefits and costs of this scheme, only the cost of funding support and have been monetised. Other potentially significant costs and benefits are considered qualitatively in this assessment.

## **6. Options**

### **6.1 Do Nothing (the counterfactual)**

19. No intervention will mean that energy suppliers would pass through soaring wholesale prices onto non-domestic consumers, and where contracts had already been signed at prices substantially above historic trends.
20. In this scenario, we would expect there to be an increase in unemployment as businesses which are unable to pass on higher costs, or that rely on discretionary consumer spending, are forced to close. Manufacturing sectors would in particular be at risk, as they are highly exposed to price pressures through trade, and would therefore be less able to pass on higher energy costs to consumers.
21. This would be expected to lead to rises in business closure redundancies and a reduction in longer-term capital investments.
22. Further, many organisations in the third sector such as charities, social enterprises and community groups would face budgetary pressures. Without an increase in funding from donors many would likely have to close, forgoing the societal good delivered.
23. Public sector organisations will face budgetary pressures that could affect delivery of vital services to the public. This could include use of hospital wards and schools, to heating public swimming pools. It may also lead to decision-making to save energy by limiting services, for example, there may be a risk of schools facing pressure to move to remote teaching for part of the time, with knock on impacts on student learning and childcare.

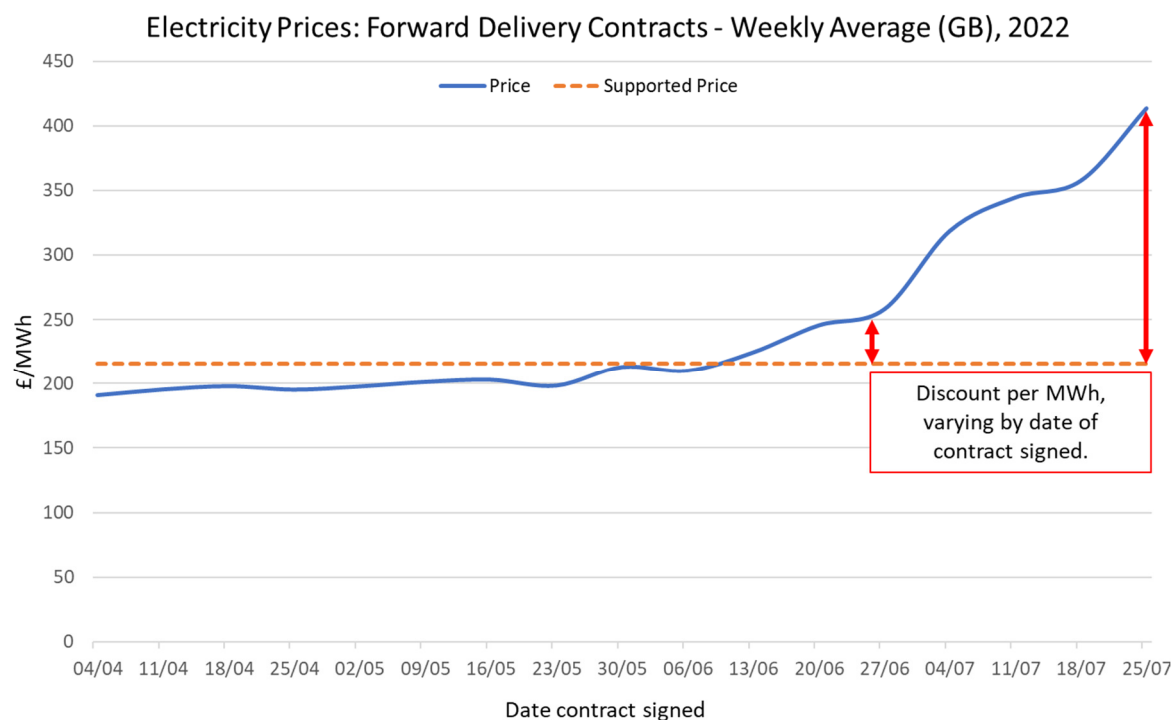
### **6.2 Option 1 - The Energy Bill Relief Scheme**

24. The EBRS scheme will provide energy bill relief for non-domestic customers in the UK. Discounts will be applied to energy usage between 1 October 2022 and 31 March 2023.
25. The EBRS will provide support to suppliers to enable them to provide a p/kWh price reduction for all businesses, public and third sector organisations whose current gas and electricity prices have been significantly inflated due to the energy crises. The price reduction will be linked to the wholesale element of a non-domestic gas and electricity bill, as it is in the wholesale market where the price rises have predominantly been and unlike the domestic retail market there are a large range of non-domestic energy contracts on the market, with suitability varying hugely by organisation, meaning that targeting retail prices would not be desirable nor practical.
26. To calculate the discount, the estimated wholesale portion of the unit price that a consumer would be paying this winter will be compared to a baseline 'Government Supported Price' which is lower than



currently expected wholesale prices this winter (see Figure 1) and offers comparable support to the Energy Price Guarantee for domestic customer.

Figure 1: Illustration of discount per MWh for fixed contracts<sup>4</sup>



27. For all non-domestic energy users in Great Britain and Northern Ireland this Government Supported Price has been set at:

- £211 per megawatt hour (MWh) for electricity; and
- £75 per MWh for gas.

28. For comparison, wholesale costs in England, Scotland and Wales for this winter are currently expected to be around<sup>5</sup>:

- £600 per MWh for electricity
- £180 per MWh for gas

29. The discount applied will be in pence per kilowatt hour (p/kWh). The p/kWh government support for comparable contracts will be the same across suppliers, but the absolute level of individual bills will continue to vary across different contracts and tariffs.

30. For fixed contracts the discount will reflect the difference between the government supported price and the relevant wholesale price for the day the contract was agreed. The government will publish the wholesale prices we will use for calculating this for each day from 1 December 2021.

31. For variable, deemed and all other contracts, the discount will reflect the difference between the government supported price and relevant wholesale price, but be subject to a 'maximum discount' (£345/MWh for electricity and £91/MWh for gas).

<sup>4</sup> Electricity price data from Ofgem Wholesale Market Indicators "Electricity Prices: Forward Delivery Contracts – Weekly Average (GB)" <https://www.ofgem.gov.uk/energy-data-and-research/data-portal/wholesale-market-indicators>

<sup>5</sup> <https://www.gov.uk/guidance/energy-bill-relief-scheme-help-for-businesses-and-other-non-domestic-customers>

### 6.3 Option 2 – A fixed absolute discount per non-domestic consumer

32. This option would seek to deliver support in a way broadly similar to the Energy Bills Support Scheme available to domestic electricity consumers. This involves a fixed discount, set in monetary terms, that would be paid to all non-domestic organisations for the duration of the scheme.
33. However, there is much greater variation in gas and electricity consumption between different types of non-domestic users than in the domestic sector. A non-domestic uniform monetary support scheme would therefore hugely overcompensate some organisations while likely providing insufficient support to others.
34. A non-domestic cost reduction scheme similar to EBSS would therefore require varying levels of support, depending on multiple characteristics of the organisation. This is highly complex and costly for suppliers to administer. This option has therefore been dismissed.

### 6.4 Option 3 – A fixed discount per MWh for all non-domestic consumers

35. This option would provide volumetric support to non-domestic consumers, so the level of support would scale with consumption and mean MWh by MWh support would be constant. This would make it relatively more straightforward to deliver than Option 1.
36. However, there is large variation in the price non-domestic consumers are paying for electricity and gas, depending on their contract type and when the contract was signed. A fixed volumetric support would therefore likely overcompensate some users while under-supporting others. This option has therefore been dismissed.

## 7. Analytical Results

37. **Error! Reference source not found.** summarises the costs and benefits considered in this assessment. As noted above, we have focused on assessing the most significant cost implications of the EBRS, which is the cost to the Exchequer. It has not been possible to monetise the benefits. The largest and most significant benefit is expected to be avoided closures and redundancies. We discuss the details of each impact as well as how we have assessed these in the relevant sections below.

Table 1: Summary of Main Costs and Benefits

<b>Agent</b>	<b>Costs</b>	<b>Benefits</b>
<b>Energy suppliers</b>	<u>Monetised</u> - Familiarisation and Administration costs	
<b>Businesses</b>	<u>Not-monetised</u> - Familiarisation and Administration costs for intermediaries (e.g. landlords)	<u>Not-Monetised</u> - Avoided closures - Value of higher Energy consumption
<b>Government</b>	<u>Monetised</u> - Cost to Exchequer (transfer)	
<b>Society</b>		<u>Not-Monetised</u> - Avoided redundancies - Negative externalities <ul style="list-style-type: none"> <li>○ Carbon emissions and air quality</li> </ul>

### 7.1 Costs

#### 7.1.1 Cost to Exchequer (transfer)

38. This represents the cost HMG will pay out to non-domestic electricity and gas suppliers to cover the difference between wholesale market prices and the supported prices. For the purposes of the appraisal, this is treated as a transfer between government and non-domestic consumers.
39. To calculate an illustrative cost, we assume that consumption levels remain consistent with 2019 DUKES<sup>6</sup>. This this was chosen instead of 2020 and 2021 to avoid including the impacts of Covid-19. We then calculated the difference between the projected energy costs and the supported price levels. Based on this, we estimate the scheme will cost HMG £29bn. This estimate is highly uncertain, however, as it depends on future energy prices and on future energy demand. This estimate uses future fuel costs as estimated over 10 days to 12<sup>th</sup> September 2022 (taking an average over those days).

### 7.1.1 Administration and Familiarisation Costs

40. The changes to the price of gas and electricity under EBRS will be automatically applied to non-domestic consumers' bills, so there will be no direct administration or familiarisation costs to these non-domestic consumers for the scheme to operate.
41. There will be some administration costs to HMG (e.g. associated with designing and delivering the scheme) and also Ofgem and UREGNI (for compliance and enforcement) but these have not been estimated here.
42. Administration and familiarisation costs will apply to suppliers, who must monitor and implement the changes to the price of gas and electricity made under EBRS. For analysis purposes, these costs have been split into three sections:
- i. Administrative costs of price updates
  - ii. Administrative costs relating to costs of compliance and monitoring
  - iii. Familiarisation costs relating to administrating, compliance and monitoring

#### *Administrative costs of price updates to suppliers*

43. Suppliers incur administrative costs each time they change prices for consumers. These costs will be incurred by suppliers when they initially adjust prices to the guaranteed level, as well as any future updates made to the price level. These administrative costs include:
- Costs associated with reflecting changes in prices or discounts in supplier's billing systems
  - Adjusting contracts and notifying businesses of the change
44. As part of the 2018 Final Impact Assessment for the Default Tariff Cap, Ofgem launched a consultation to seek evidence to inform their consideration of these sorts of impacts on suppliers in the domestic market. They received a number of cost estimates from suppliers. Costs per customer taken as a weighted average of the data they received ranged from £0.20 to £1.80, with £0.87 as a mid-point.
45. Note that this figure relates to the domestic market. There are reasons to suspect that these costs are not directly comparable to the non-domestic sector and could be an underestimate. We have therefore used the upper end of this scale as our low case, with central and high figures reflecting scenarios where this average cost is 2 and 3 times higher (respectively). The reasons for this can include:
- Some customer accounts relating to a large number of meter points and therefore contracts – for example a large pub chain having numerous individual sites and meters. This adds complexity and the time needed to update prices;
  - Some accounts will relate to more complex buildings (e.g. factories), and we lack evidence on the additional complexity this will bring; and

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<sup>6</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1094285/DUKES\\_1.1-alternative\\_units.xlsx](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1094285/DUKES_1.1-alternative_units.xlsx)

- Added complexity of non-domestic supplier pricing and contracts
46. It is our current understanding that the vast majority of non-domestic customers are currently on fixed tariffs, with only a small proportion on non-fixed tariffs as of August 2022. We can assume that all customers in the non-fixed tariff category will have some aspect of their price changed by their supplier during the policy window.
  47. Of the remaining customers on fixed contracts, some proportion will have signed their new contracts since December 2021 or will be rolling off between October 2022 and April 2023 and so will be eligible for support and contribute to the administrative cost of changing prices. Extrapolating supplier contract data, a significant proportion of these remaining customers would need to have their price changed before the policy ends in April 2023.
  48. This would mean an administrative cost for suppliers of changing their customer prices estimated at £6m, ranging from £3m to £9m.

*Administrative costs relating to costs of compliance and monitoring for suppliers*

49. In order to be compensated for the bill reductions made through the lifetime of the scheme, suppliers will be required to face additional administrative costs. These could include monitoring the number of customer accounts needed to be adjusted, the costs that suppliers have incurred as the difference between their energy costs and the supported price level, and providing evidence that they have complied with the scheme.
50. While the exact mechanism through which suppliers will be compensated is uncertain, the costs could have the potential to be large. There is a potential for some suppliers to have systems in place already to make this a fast process, others may be required to take on additional FTE to undertake this task. It is therefore difficult to ascertain a firm estimate for the administration costs associated with this.
51. Taking a conservative view of the complexity of this process, and the length of time required to undertake these activities we estimate these costs to be between £2m - £5m, with a central estimate of £3m. The low end of this range is based on discussions with industry experts, who suggested that for many suppliers 2FTE could be required over the course of the 6 months of the scheme. As with the other administration costs, we have applied uplifts of +100% and +200% to produce central and high scenarios, to reflect uncertainty in key assumptions (e.g. larger suppliers may require additional FTE).

*Familiarisation costs relating to administering, compliance and monitoring for suppliers*

52. The policy will require suppliers to incur familiarisation costs in order to be able to reconcile claim the relevant support from government.
53. This is estimated to not take a great deal of time for those involved in the administration of the scheme, with these costs estimated to be between £10,000 and £20,000 in total.

*Table 2: Total Supplier Administration and Familiarisation Costs*

<b>£m, 2022 prices</b>	<b>Low</b>	<b>Central</b>	<b>High</b>
<b>Administration &amp; Familiarisation</b>	5	10	15

*Administrative and familiarisation costs to intermediaries relating to passing on scheme benefits (unquantified)*

54. The policy will require any intermediaries (e.g. landlords, EV charging hubs, heat networks) to pass the benefits they receive from the policy through to the end user (e.g. the tenant, the EV charging customer, the heat network customer). This process will cause these intermediaries to incur administrative and familiarisation costs as they amend the prices charged to the end user. These costs have not been quantified.
55. Enforcement of this pass through of benefits is mainly expected to occur through existing mechanisms, meaning that in any cases where benefit is not passed through correctly, the end user may look to recover debt through the courts. Such a scenario would pose administrative costs to both end users and intermediaries, and a cost to government via an increase to volumes of court cases. These costs have not been quantified.

56. For heat networks, customers will be able to escalate complaints of non-compliance to the Energy Ombudsman. When this occurs a case fee will be charged to the heat network operator at a similar level to current case fees charged to heat networks that are registered to Heat Trust. Additionally there will be a requirement for heat network operators to provide a one off notification to the Office for Product Safety and Standards. This goes beyond the existing requirement of notification once every four years so would have an administrative cost.

### 7.1.2 Negative externalities of energy consumption – Carbon costs and air quality

57. Any intervention to reduce price rises and volatility could be expected to increase energy demand compared to the counterfactual (in which high energy prices could result in demand being lower). A scenario in which demand is higher than it otherwise would have been would lead to costs to society from increased carbon emissions and worsening of air quality. However, this intervention will reduce energy prices from otherwise very high levels that would lead to under consumption of energy compared to previous levels. Given the scale of the expected price increases and that the Government Supported Price is still above historic energy price norms, this is not expected to place the UK off track for meeting its carbon budgets and net zero target.

58. The impact on consumption is very uncertain and we have therefore not estimated nor monetised the potential size of any demand response to the proposed intervention. Our best estimate is that our intervention will enable consumers to deal with the unprecedented price rises and volatility and maintain levels of consumption in the short to medium term.

59. However, the table below provides an illustrative example of the potential costs to society from an increase in energy consumption compared to the counterfactual. This scenario assumes a 1% increase in energy consumption across all non-domestic consumers. This increase in demand would lead to a net social cost of around £340m due to carbon and air quality impacts.

*Table 3: Carbon and Air quality impacts of an illustrative change in consumption for non-domestic consumers*

£m, 2022 prices	Carbon Impacts	Air quality
1% increase in demand	£300	£40

## 7.2 Benefits

### 7.2.1 Avoided Firm Closures and Redundancies

60. If firms close, we would expect workers to be displaced and wages to follow a lower projected path than if the proposed intervention is in place. This lower wage path is based on ‘The Losses of Displaced Workers’ BEIS paper<sup>7</sup>. Therefore, a benefit of the scheme is that it keeps firms open and prevents large wage losses for displaced workers.

### 7.2.1 Inflation Impacts

61. At a macroeconomic level, by directly influencing the unit price of energy for non-domestic customers, this intervention could mitigate increases in inflation metrics (CPI, CPIH, RHI) when compared to the “do nothing” scenario. The bundle of composite inputs for businesses, of which energy is a component, will decrease. There will be a delay between input costs falling and lower prices for consumers appearing in National Statistics such as the CPI.

62. This is different to Energy Bill Support Scheme (EBSS), which the ONS confirmed on 31 August would be treated as an income transfer. Payments under the EBSS are classified as a current transfer paid by central government to the household sector. This transfer increases household incomes rather than reducing household expenditure and so will not affect the CPI or CPIH. By contrast, the EBRS reduces business expenditure on energy and so will be reflected in national inflation statistics.

<sup>7</sup> Page 97, BEIS Research Paper Number 6, ‘The Losses of Displaced Workers’, March 2017, prepared by Frontier Economics

## 7.2.2 Retaining production and investment in the UK

63. As the price of energy increases, investment, and output decreases, ECB research shows that corporate investment decisions are sensitive to the price of electricity. The EBRS lowers the price of electricity and gas compared to the counterfactual for up to six months.

## 7.2.3 Mitigate the rise in global emissions

64. The EBRS reduces the competitive disadvantage faced by UK based companies caused by relatively higher industrial electricity prices. If UK production was to move to countries with lower climate change ambitions or a higher marginal emissions factor, global emissions would be higher than the policy scenario where production remains in the UK. This benefit is not quantified as global emissions are not currently accounted for in green book SNPV calculations.

## 7.3 Summary of analysis

65. The table below sets out the monetised elements of the analysis. The primary monetised impacts estimated cover:

- i. Cost of bill relief (transfer): estimate of £29bn. This is a transfer to non-domestic consumers from HMG. An equivalent benefit – less any deadweight loss impacts – should be accounted for the purposes of appraising net social impacts, including through avoided firm closures and redundancies.
- ii. Administration and familiarisations costs to suppliers: £10m (£5m-£15m)

## 7.4 Equivalent Annual Net Direct Cost to Business (EANDCB)

66. The direct impact on businesses reflects the administrative burden on suppliers. There is no direct cost to businesses other than suppliers as EBRS is automatically applied to gas and electricity bills and therefore there is no action required from businesses.

67. The bill relief provided through the scheme is a transfer from government to businesses and is not accounted for in the figures below.

68. The EANDCB and quantified NPV to businesses covers the six-month period the current intervention has been announced to be in place (October 2022 - March 2023).

69. The Business Impact tests score is based on an annualised impact of the aforementioned impacts.

Table 4: EANDCB All Figures Present Value (£m 2020)

Figures (£m 2020 prices, discounted to 2022)	£m
NPV to Business	-10
EANDCB	20
Business Impact Test Score	10

## 8. Risks and uncertainties

### 8.1 Size of relief

70. The most significant source of uncertainty is the size of the overall relief. This represents a significant risk to the Exchequer. The uncertainty is driven by a number of things, including:

- i. **Future energy prices** – this is subject to global commodity price pressures. Costs are most sensitive to wholesale energy price expectations at the beginning of the scheme, from which date we expect a large portion of the market to enter a six-month fixed contract with a fixed level of discount based on forward market information at that point. For example, industry feedback suggests that we can expect around 60% of the discount value to be agreed by 1<sup>st</sup> October 2022.

- ii. **Size of energy demand** – this can differ from year to year for a number of reasons, including differences in temperatures.
- iii. **The nature of existing contract** – different types of energy contracts between suppliers and businesses will require different levels of relief. The exact balance across the different contract types as well as the level of energy demand could change the overall level of relief that will be required.
- iv. **Evidence limitations** – Our modelling does not cover the portion of flex contract consumption that might have been hedged in the last six months for delivery this winter or the associated weighted average price – this may increase the consumption eligible for a discount. Furthermore, some portion of fixed contracts started since April 2022 will have been signed far enough in advance that they will not be eligible for support which means we are likely overestimating this portion of the policy costs.

## 8.2 Suppliers are unable to administer discounts on time

71. There is a risk to the overall delivery of the scheme and for suppliers to be able to administer the discounts on time for customers. For the suppliers to administer the discount on time there are several internal and external dependencies and risks to consider:

- i. The scheme needs to be in place and be able to cover bills from 1<sup>st</sup> October 2022, noting that October's bills are usually issued in November. The scheme therefore needs to be designed in order to cover any customer bills from 1<sup>st</sup> October to assist businesses and other non-domestic users.
- ii. Internal delivery – The correct legislation needs to be passed and enforcement controls in place, all of which are required to be delivered on time to allow suppliers time to organise the administration of the discounts.
- iii. External delivery – The delivery body will need to ensure they have the correct resourcing and technology available in order to facilitate the scheme, along with a comprehensive understanding of the legislation. Periodic reviews will need to be established to assess the development and delivery of the scheme.
- iv. Suppliers – The suppliers themselves will need to fully understand the scheme and have the resources available in order to administer the discounts

## 8.3 Fraud risks

72. The following current top five risks of fraud have been identified:

- i. Suppliers could manipulate / falsify the volume of energy supplied to businesses- suppliers overestimating the amount of energy used and submitting figures to intermediaries. This could lead to suppliers fraudulently claiming for energy not used and the supplier receives payment from HMG for energy which was not supplied to a customer.
- ii. Business submitting false meter readings (over or underestimating) in order to obtain payments under the scheme to which they otherwise would not be entitled-this will result in businesses obtaining public funds to which they are not entitled.
- iii. Supplier may not pass on the benefit of support scheme to business, despite the supplier having claimed it- this results in the business not receiving the support it is entitled to.
- iv. There may be mandate fraud in the payment chain – bad actors could attempt to contact individuals in the scheme paying bodies to divert funds.
- v. Use of the scheme for phishing, smishing and ID fraud – bad actors could create fake communications purporting to be from the schemes in order to charge individuals for services that are free and/or obtain personal information to commit ID fraud.

## 8.4 Additionality

73. As the scheme is not targeted, there is a risk of deadweight and lack of additionality of benefits to those with higher energy consumption in particular. It is likely that many businesses receiving financial support in sectors that are less energy-intensive, less trade-exposed and less reliant on discretionary spending would not have been forced to close in the counterfactual do-nothing scenario. Furthermore, while we do hold some information about the ratio of fixed to variable tariffs across the whole economy, we do not have a clear picture of the split within different sectors. It may be the case that a relatively large share of businesses in the same sector are on variable contracts, which would enhance the ability to pass-through costs to their customers and reduce the need for Government support. This risk of deadweight needs to be traded-off against the need to provide quick and wide-ranging support for non-domestic customers in time for the winter. The government is reviewing what support might be provided beyond March 2023.

## 8.5 Uncertainty around flex contract hedges

74. There is an uncertainty around the proportion of electricity and gas volumes which fall under flex contracts. These volumes are not considered to be on a variable tariff based on contract volumes shared by suppliers. It is not clear what proportion of the flex contract volumes should be considered variable, nor the price at which the fixed elements have been set.

## 8.6 Cost Modelling Assumptions

*Table 5: Summary of Key Assumptions*

Assumption	Description
Consumption	Our costing estimates assumes energy demand is similar to 2019 levels reported in DUKES <sup>8</sup> – this was chosen instead of 2020 and 2021 to avoid covid impacts.
Counterfactual energy prices – Oct-22 to March-23	The counterfactual price assumed for contracts entered into from 1 <sup>st</sup> October has been based on forward curves produced from ICIS data. The central scenario looks at an average over a 10-day period up to and including 12 <sup>th</sup> September. However, wholesale energy prices are currently very volatile and uncertain.
Counterfactual energy prices – Apr-22 to Oct-22	Counterfactual prices for those entering a fix since 1 <sup>st</sup> April have also been taken from ICIS data, looking at the average price of contracts offered per day from 1 <sup>st</sup> April to 8 <sup>th</sup> September for delivery in Winter 2022. As only one week of September data was available the level of discount for August has been assumed for September – latest data suggests this may be an overestimate.
Seasonality	Costs for those entering a fix between Dec 2021 and April 2022 have not been estimated, due to a lack of data. We estimate that these would be small in proportion to overall scheme costs. To estimate eligible consumption this winter, seasonality has been applied to consumption figures based on Energy Trends <sup>9</sup> data on average non-domestic quarterly consumption since 2002. Consumption is then assumed constant across months within quarters.



Demand sensitivities	Demand sensitivities have been informed using the min and max consumption for each quarter since 2002.
Policy Response Rate	We do not make any explicit assumptions about how the intervention to stabilise energy prices changes demand. We have assumed business maintain 2019 levels of consumption.
Appraisal Period	The policy is assessed over the six-month period, starting in October 2022. Where appropriate (including on financial calculations) we have accounted for longer time horizons to account for full effects of any impact.
Admin costs	Admin costs have been estimated on a bottom-up basis, using data provided by Ofgem from suppliers. This provides information on various aspects of the administrative burden of the intervention, including the relative time burden of given activities and staffing costs.
Tariff information on eligible consumption	For the portion of consumption assumed to have entered a fixed contract since 1 <sup>st</sup> April, we have assumed a linear profile of uptake across weeks. If this profile is more concentrated towards the beginning of this period, the total size of the discount will be lower.  As above, costs for those entering a fix between Dec 2021 and April 2022 have not been estimated, due to a lack of data. We estimate that these would be small in proportion to overall scheme costs.

## 9. Small and Micro Business Assessment (SaMBA)

75. The scheme will be available to everyone on a non-domestic contract including businesses, voluntary sector organisations, such as charities, and public sector organisations such as schools, hospitals, and care homes. These consumers will not need to incur any effort cost of getting the relief, ensuring businesses will benefit from the support, regardless of their size.
76. The primary impact of the scheme is on suppliers, who will face administrative and familiarisation costs to comply with the scheme. There are over 70 suppliers in the non-domestic retail energy market, with around half of these businesses (36) classified as either a small business<sup>10</sup> or micro business<sup>11</sup> as of September 2022. Of these, they represent just 2% of the total consumer base on variable gas tariffs, and 1% of consumers on variable electricity tariffs.
77. To ensure equal treatment for non-domestic consumers and to ensure the full benefits and objectives of the scheme are achieved, HMG will apply this regulation to all non-domestic energy suppliers. This is so that all businesses eligible for government-backed support are able to be supported by this policy.
78. In practice, we may expect this measure to impact smaller suppliers proportionately less. SMB suppliers have a large proportion of their customer base on fixed term tariffs, which if agreed before 1 December 2021, and expiring after March 2023, would not be eligible for this policy. Evidence shows that 95% of customers with a supplier that is a small or micro business are on fixed term contracts, compared with 78% for large suppliers.

<sup>10</sup> A business with between 10 and 49 employees (FTE)

<sup>11</sup> A business with less than 10 employees (FTE)

## 10. Public Sector Equality Duty

79. The scheme provides a discount to energy suppliers (businesses) and available to all registered Ofgem suppliers, so there would be no basis for discrimination. The policy is aimed at businesses and not at individuals. The scheme is intended to be broadly applied and does not require active involvement of end energy users.
80. If the proposed intervention is implemented, there will be no specific impact on any protected characteristics and thus no unlawful discrimination.
81. As the scheme will avert business failures and redundancies (which would have occurred in the do-nothing scenario) it could support equality of opportunity where it disproportionately retains the jobs of people with protected characteristics. Being employed is directly related to people's ability to participate in public life, and unemployment often has a disproportionate impact on the opportunities of minorities both in finding a job and achieving equal pay (scarring), underscoring the importance of maintaining employment for these groups.
82. The policy will also support the equality of opportunity for business owners in these sectors, but information on their characteristics, at sector level, is not available.
83. Our overall assessment is that we do not have any reason to believe that the scheme will have any differential impacts on individuals or groups based on their protected characteristics, or have adverse impacts on equality of opportunity, and so is compliant with the Public Sector Equality Duty and section 75 of the Northern Ireland Act 1998. We will look to gather further evidence and review this assessment as needed through the accompanying Monitoring and Evaluation plans.

## 11. Monitoring and Evaluation

84. We are planning an approach to monitoring and evaluating the EBRS that is proportional and provides the necessary insights around whether the policy has met its expected objectives.
85. We envisage that we will gather data on scheme delivery which will be able to provide insights on the policy's expected early benefits and outcomes. Any initial insight will be expected to feed into the 3-month EBRS review point and help inform decisions being taken by the end of the initial six-month period around how the government will continue to assist the most vulnerable non-domestic customers. An evaluation will also be conducted to understand the delivery of the scheme, its impacts and value for money.
86. The EBRS will be delivered through energy suppliers, and as such, there is a need for us to collect scheme data from the suppliers to ensure that we can closely monitor the policy's outcomes. Given the short timescales and the 3-month review point, the frequency of the collection of this scheme data will need to be as close to real-time as possible. Data collected would include (but is not limited to) variables such as non-domestic energy usage (kWh), energy bill amount (£), tariff type, and meter point reference number (MPRN).
87. Alongside this monitoring, we intend to conduct a process, impact, and economic evaluation of the EBRS. This evaluation will be commissioned and is expected to start in early 2023. It will use a range of approaches to assess whether the scheme objectives have been met, as well as gathering insight into the implementation and non-domestic/stakeholder response to the scheme. The evaluation approach will require further scoping. The evaluation approach will also need to be flexible to respond to any policy changes, for example, if the 3-month review point led to an extension to the existing scheme for some users, or replacing it with a different one.
88. At a high-level, we intend to monitor and evaluate:
  - A. **Operational aspects**, to understand the delivery of the EBRS. This will be achieved through a process evaluation that will aim to understand what happened during the EBRS implementation and how the

scheme's design and administration has supported delivery of the EBRS' objectives. This will be useful in understanding the process of determining the level of price reduction and ultimately how suppliers worked to deliver the reduced energy prices to non-domestic customers. The process evaluation will also aim to understand any potential delivery issues and burdens and draw out lessons learned from an operational perspective. This work would also investigate the experiences of scheme recipients and explore their understanding and awareness of the scheme.

- B. **Outcomes and impacts** achieved by the EBRS to strengthen predictions around the scheme's benefits and impacts. It is expected that scheme data will be used to monitor the early outcomes and we will also explore wider data sources available. A full impact evaluation will also be scoped to understand, where possible, the additionality of the ERBS on supporting non-domestic customers during the energy crisis and other wider societal and economic impacts.
  - C. **Value for money** of the EBRS, including testing our existing cost assumptions around scheme delivery and costs to suppliers. This evaluation will need further scoping, but it would involve comparing the benefits of the EBRS with its costs. We also intend to explore, where possible, the benefits and costs across different characteristics of the organisations in scope.
89. The evaluation will also need to be aware of wider external factors which may influence the success of the scheme. These may include:
- a) The economic context and business uncertainty, given the high rates of inflation;
  - b) Interactions with existing non-domestic energy policies;
  - c) Wider non-domestic policy landscape.