

<b>Title:</b> Energy Bills Discount Scheme (EBDS) <b>IA No:</b> DESNZ009(F)-23-NZBI <b>RPC Reference No:</b> N/A <b>Lead department or agency:</b> Department for Energy Security and Net Zero <b>Other departments or agencies:</b> N/A	<b>Impact Assessment (IA)</b>			
	<b>Date:</b> 17/04/2023			
	<b>Stage:</b> Final			
	<b>Source of intervention:</b> Domestic			
	<b>Type of measure:</b> Secondary legislation			
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<b>Summary: Intervention and Options</b>			<b>RPC Opinion: Non-Qualifying Provision</b>	

Cost of Preferred (or more likely) Option (in 2023 prices)			
Total Net Present Social Value	Business Net Present Value	Net cost to business per year	Business Impact Target Status
NQ	NQ	NQ	Non qualifying provision

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

High energy prices have been a central part of the UK's economic story for the last two years, and continue to be high compared to historic levels. The Energy Bills Relief Scheme (EBRS), which ended on 31<sup>st</sup> March 2023, provided support for non-domestic consumers. Should there be no further support beyond this, some businesses and other non-domestic customers – particularly those who signed up to fixed price contracts during the historic price peaks over summer 2022 – would be fully exposed to high prices, with risks around the impacts on employment and economic output. Government intervention is therefore needed in order to provide that further support in the form of the Energy Bills Discount scheme.

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

The high-level Energy Bills Discount Scheme (EBDS) overarching scheme objectives are as follows:

- i. Support economic growth.
- ii. Prevent unnecessary insolvencies, including by providing enhanced support to the ETIIs.
- iii. Protect jobs, including by providing enhanced support to ETIIs.
- iv. Preserve a viable competitive market structure for ETIIs.
- v. Mitigate the effects of inflation by providing enhanced support to ETIIs.
- vi. Support non-domestic customers of heat networks broadly equivalent to EPG pricing levels.

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

Given that we are considering ways in which we can continue support after the EBRS rather than introducing an entirely new type of Government intervention, we have mainly focused on appraising the Energy Bills Discount Scheme as set out. However, we have also briefly considered all sectors receiving the same level of support, and a 'Do Nothing' counterfactual, where support ends on 31 March 2023, has also been briefly considered.

<b>Will the policy be reviewed?</b> It will be reviewed. <b>If applicable, set review date:</b> January 2022				
Is this measure likely to impact on international trade and investment?			Yes	
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> NQ	<b>Non-traded:</b> NQ

*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: Amanda Solloway Date: 25<sup>th</sup> April 2023

## Summary: Analysis & Evidence

## Policy Option 1

**Description:** Introduce the Energy Bills Discount Scheme, which provides reductions in gas and electricity costs per MWh for non-domestic consumers, with more targeted support for energy- and trade-intensive businesses (ETIs), and support for households on heat networks.

### 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

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate	NQ	Optional	NQ

#### Description and scale of key monetised costs by 'main affected groups'

Suppliers, ETIs and heat network businesses will incur familiarisation and administration costs to comply with this intervention and to receive support – estimated to be £3.1m, with a range of £1.5m-15.1m. Therefore, if this assessment was to only assess the cost to businesses of the proposed regulations, it would be expected to fall within a de minimis threshold. The primary cost of this intervention will fall on the Exchequer in the form of a transfer to non-domestic consumers, which is currently estimated at £1bn based on central case estimates.

#### Other key non-monetised costs by 'main affected groups'

Any increases in energy consumption will lead to social costs from increased carbon emissions as well as air quality impacts. We have not estimated the impact of the EBDS scheme but have instead included an illustration of the potential impacts. We estimate that an increase of 1% in energy demand compared to 2019 levels will lead to a net social cost of around £340m due to carbon and air quality impacts. However, price levels will still be higher than the energy prices assumed in the Net Zero Strategy, and we therefore expect do not expect negative carbon impacts and air quality impacts compared to the Net Zero Strategy scenario.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate	0	0	0

#### Description and scale of key monetised benefits by 'main affected groups'

The assessment does not include any monetised benefits.

#### Other key non-monetised benefits by 'main affected groups'

The assessment does not include any monetised benefits. 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. The primary benefits of supporting domestic heat network customers will be the reduction in their heating bills, improving the ability of customers to adequately heat their homes as well as maintain consumption of other necessities.

Key assumptions/sensitivities/risks	Discount rate (%)	3.5
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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.

### 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. Problem Under Consideration & Rationale for Intervention

1. Winter 2021 saw gas prices reach historic highs, driven largely by low levels of gas storage in Europe. Russia's invasion of Ukraine and subsequent drops in imports of Russian gas contributed to a sustained period of high energy prices. Forward prices for gas in February 2021 averaged around 50p/therm, jumping to over 200p/therm on average in February 2022. The weekly average peaked at just under 600p/therm in August 2022. UK Government launched the Energy Bill Relief Scheme to provide support over Winter 2022. Whilst wholesale prices for both gas and electricity have fallen over recent months, they remain comparable to the then historic highs of Winter 2021.
2. Without further support from April 2023, energy suppliers and providers would pass on the costs of wholesale energy that reached historic highs in summer 2022 and continue to be at historically high levels. Whilst current forward prices remain on a downward trend, wholesale markets remain volatile and vulnerable to the same kinds of geopolitical shocks that drove prices to historic highs over 2022. There are also customers who had to sign up to new energy supply contracts during the peaks in wholesale prices over summer 2022. Customers are locked into these contracts for months to come.
3. Furthermore, energy- and trade-intensive industries (ETIIs) are particularly vulnerable to an energy price shock and are less able to pass on higher energy costs to customers due to international competition. The EU and surrounding countries have intervened to support these sectors in their respective territories. The nature of the energy price shock, combined with some international competitors benefiting from subsidies in their respective host countries, results in a market distortion - which may be considered a short term negative externality - that could lead otherwise ETII efficient firms in the UK to fail. Further support is therefore necessary to maintain a level playing field and a relative competitive position<sup>1</sup>.
4. There are also non-standard cases where customers receive electricity and gas from license-exempt suppliers, either via the public grid or via private wire. Although the energy transmitted via private wire is usually generated by non-standard means such as biomass combustion, energy from waste or renewables, and the non-gas input fuels are not necessarily more costly than they were before the invasion of Ukraine, end customers in many of these cases pay prices pegged to wholesale energy prices. These customers are therefore exposed to the same higher costs as those receiving energy supply from licensed suppliers, hence the government is also supporting them through the 'non-standard cases' grant scheme, thereby fulfilling a pledge to support all businesses and avoiding additional potential insolvencies or financial pressures on businesses in this cohort.
5. Without support, domestic customers on heat networks would be vulnerable to commercial energy costs faced by the network operators. The Energy Price Guarantee protects other domestic customers not on heat networks. This intervention, therefore, ensures these customers would not be significantly disadvantaged.
6. Without support, energy suppliers and heat network operators will need to pass on higher costs. This would result in higher probability of firm closures, potentially increased unemployment, and a reduction in longer-term capital investments. This support should improve the ability of customers to adequately heat their homes as well as maintain consumption of other necessities. The support will reduce the number of households pushed into fuel poverty by high energy prices and avoid health costs associated with underheating and reducing the number of households going into debt to cover their bills.

## 2. Objectives of the Policy

7. The high-level EBDS overarching scheme objectives are as follows:
  - i. Support economic growth.
  - ii. Prevent unnecessary insolvencies, including by providing enhanced support to the ETIIs.

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<sup>1</sup> Further information on how sector eligibility was determined for the higher Energy and Trade Intensive Industry (ETII) support can be found here: <https://www.gov.uk/government/publications/energy-bills-discount-scheme-factsheet>

- iii. Protect jobs, including by providing enhanced support to ETILs.
- iv. Preserve a viable competitive market structure for ETILs.
- v. Mitigate the effects of inflation by providing enhanced support to ETILs.
- vi. Support non-domestic customers of heat networks broadly equivalent to EPG pricing levels.

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

8. The proposed regulations alone will not result in significant impacts. If this assessment was to only assess the impacts of the proposed regulations, it would be expected to fall within a de minimis threshold.
9. The regulations will however enable the government to provide support to the non-domestic sector with their energy bills.
10. This assessment therefore provides a high-level illustration of the potential impacts that the regulations enable through additional public support for non-domestic consumers.
11. The level of detail provided in the analysis is proportionate, consistent with the guidance provided by the Regulatory Policy Committee (RPC) and the provisions under the Small Business, Enterprise and Employment Act 2015 (SBEE)<sup>2</sup>.

### 4. Options

#### 4.1 Do Nothing (the counterfactual)

12. Policy options can be considered against the alternative of doing nothing beyond the EBRS (which ended on 31 March 2023) and the measures already announced in the Energy Security Strategy.
13. Should there be no further support, some businesses and other non-domestic customers – particularly those who signed up to fixed price contracts during the historic price peaks over summer 2022 – would be fully exposed to high prices, with risks around the impacts on employment and economic output. For reference, we estimate that there are currently over 500,000 fixed contracts/meters being supported under the EBRS whose contracted prices exceed the price threshold for the Baseline support element of EBDS.
14. ETII businesses may be particularly affected by this option, as they face international competition and may struggle to compete against businesses in other European countries that are receiving support. For example:
  - Germany has introduced price-brakes for ETIIs or energy-intensive sectors in the interest of cost containment of energy price increases. Germany has also offered targeted subsidies to eligible energy-intensive and trade-intensive companies – up to €5 billion in the form of direct grants.
  - France has capped electricity and gas prices for households and SMEs and have also implemented a €5 billion scheme to support energy intensive companies in the form of direct grants, approved by the European Commission under the State Aid Temporary Crisis Framework.
  - Italy is offering complementary tax credits for gas and electricity, fuel duty cut and a loan guarantee liquidity scheme.
  - Spain and Portugal introduced the Iberian price cap, capping costs for gas for producers from December to May 2023, with government paying the difference.
15. We have not attempted to quantify the counterfactual scenario, as to do so robustly would mean understanding in detail the status/financial viability of several million businesses and other non-domestic customers, as well as how much impact energy has for their overall costs, and formulating a prediction how they would respond (e.g., retaining or laying off employees, choosing to cease trading or continuing to trade etc) should no further price support be available. The information requirement to do this robustly, and in the time available, is not feasible to obtain. The options appraisal is therefore undertaken qualitatively, using quantified evidence and analysis where appropriate.
16. Under this option, domestic heat network customers could face heating bills over 50% higher than those covered by the Energy Price Guarantee.

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<sup>2</sup> <https://www.legislation.gov.uk/ukpga/2015/26/contents/enacted>

## 4.2 Preferred Option – The Energy Bills Discount Scheme

17. The Energy Bills Discount Scheme would consist of 3 components:

- i. Baseline support: discounts would be available to any non-domestic customer facing gas and electricity prices beyond a set threshold;
- ii. Energy and trade intensive sectors: an enhanced level of discount would be available for businesses identified as having 50% or more of their activity occurring in an energy or trade-intensive industry and they are facing gas and electricity prices beyond a set threshold;
- iii. Support for domestic customers on heat networks: an enhanced level of discount would be available for domestic customers who receive their heat from a shared network that is behind a non-domestic meter and account.

18. Discounts would be available for most non-domestic gas and electricity customers in Great Britain and Northern Ireland, should the relevant wholesale price for their contract type be above a threshold price and subject to a maximum discount. For all Non-Domestic customers, the maximum discounts of the baseline element of the scheme have been set at:

- i. Electricity - £19.61 per megawatt hour (MWh) with a price threshold of £302 per MWh
- ii. Gas - £6.97 per MWh with a price threshold of £107 per MWh

19. Support for ETIIs: Recognising that some non-domestic energy users in Great Britain and Northern Ireland are particularly vulnerable to high energy prices due to their energy intensive and trade exposure, a defined set of non-domestic energy users (ETII sectors) would receive a higher level of support, via a lower set of threshold prices and a larger maximum discount. The ETII sectors were identified via the EBRS review as those meeting certain thresholds for energy and trade intensity, in addition to sectors currently included in existing Energy Compensation and Exemption schemes . Eligibility will be determined at a company level, and there are 44,400 businesses in eligible ETII sectors. All meter points associated with the ETII company will be eligible, but this discount will only apply to 70% of energy volumes, so as to ensure that the marginal unit of gas or electricity consumed is not fully subsidised and therefore dampening the price signal to use energy efficiently. The maximum discounts and price thresholds for these sectors are:

- i. Electricity - £89 per MWh with a price threshold of £185 per MWh
- ii. Gas - £40 per MWh with a price threshold of £99 per MWh

20. Support for heat networks: The government has committed to providing support for domestic heat network customers that is in line with other domestic customers. These customers will indirectly receive support under EBDS as they are supplied from commercial contracts but, at the main rate of the EBDS, would continue to pay considerably more for their heating than those on the gas grid whose prices are capped by the Energy Price Guarantee (EPG). The EBDS heat network scheme aims to achieve parity between the support provided to heat networks domestic customers and other domestic customers, and to therefore bring the retail energy prices paid by heat networks down to the Minimum Supply Price (MSP). This is achieved by supporting up to 100% of the wholesale element of a heat networks energy tariff, up to the point that the Minimum Supply Price is achieved. The MSPs will be set at:

- i. Gas - £78.3 MWh
- ii. Electricity - £340 MWh

## 4.3 Other options considered but not taken forward

### All sectors receive the same level of support, set at ETII level

21. Recognising that gas and electricity wholesale prices remain at a high and unprecedented level, this option would provide substantial support to mirror the level of support more closely in the EBRS. The maximum discounts and price threshold for all sectors would be set at:

- i. Electricity - £89 per MWh with a price threshold of £185 per MWh
- ii. Gas - £40 per MWh with a price threshold of £99 per MWh

22. This option would provide the same level of support to all non-domestic customers, it would also eliminate any risk of distorting domestic competition. However, providing substantial support to businesses whose energy costs are likely to be low relative to their total business costs may result in significant deadweight costs to Government.
23. Under this option domestic heat network consumers would face heating bills approximately 24% higher than those covered by the Energy Price Guarantee.

**All sectors receive the same level of support, set at the non-ETII level**

24. This option would provide baseline support to all non-domestic customers (including domestic customers of heat networks), but at the level of the 'Baseline support' element of Option 1. Therefore, maximum discounts would be set at:
  - i. Electricity - £19.61 per megawatt hour (MWh) with a price threshold of £302 per MWh
  - ii. Gas - £6.97 per MWh with a price threshold of £107 per MWh.
25. Similarly to Option 2, providing the same level of support to all businesses would eliminate any risk of distorting domestic competition. However, this option would put many energy- and trade-intensive businesses at a competitive disadvantage to international counterparts given the implementation of support schemes in some of our largest international markets.
26. Under this option, domestic heat network customers could face heating bills over 50% higher than those covered by the Energy Price Guarantee.



## 5. Analytical Results

27. Table 4 summarises the costs and benefits considered in this assessment. The types of costs and benefits will be the same for both ETIs, non-ETIs and heat networks, but the scale of costs and benefits will vary between (and within) these groups.
28. The most significant cost implication of the proposed intervention is the cost to the Exchequer. In order to deliver this intervention, regulation is required whereby suppliers, ETIs and heat network businesses will incur familiarisation and administration costs, but this is considered small relative to the scale of the benefits being provided to non-domestic consumers.
29. It has not been possible to monetise the benefits. The largest and most significant benefit is expected to be avoided closures and redundancies.
30. 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*

Agent	Costs	Benefits
<b>Energy suppliers</b>	<u>Monetised</u> Familiarisation and administration costs	<u>Not Monetised</u> Avoidance of bad debt
<b>Businesses</b>	<u>Monetised</u> Familiarisation and administration costs (including 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> Negative externalities of increased carbon emissions and reduced air quality	<u>Not Monetised</u> Avoided redundancies Security of heating supply to domestic customers -avoided negative impacts of underheating

### 5.1 Costs

#### 5.1.1 Cost to Exchequer (transfer)

31. 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. These costs have been modelled as part of the Office for Budget Responsibility Forecasts for Budget 2023<sup>3</sup>, with the key assumptions listed in Section 8.5.
32. Based on this, we estimate the scheme will cost HMG between £547m-1.08bn for the EBDS (with a central estimate of £547m), with an additional £348-550m (with a central estimate of £406m) for support for Heat Networks. There is an additional administrative cost to the Exchequer that could be an additional 5-10% of these cost estimates.

#### 5.1.2 Administration and Familiarisation Costs

33. The changes to the price of gas and electricity under the baseline part of the EBDS are automatically applied to non-domestic customers' bills, so there will be no direct administration or familiarisation costs

<sup>3</sup> See: <https://obr.uk/efo/economic-and-fiscal-outlook-march-2023/>

to these non-domestic customers for the scheme to operate. However, there will be administration and familiarisation costs for ETII and heat network businesses, as these businesses will need to apply for support.

34. Meanwhile, in order to receive Government support, suppliers must monitor and implement the changes to the price of gas and electricity made under EBDS.
35. For analysis purposes, these costs have been split into three sections:
  - i. Familiarisation costs relating to applications, compliance and monitoring for suppliers and ETII and heat network businesses
  - ii. Administrative cost to suppliers for changing energy prices, and compliance and monitoring of the EBDS scheme
  - iii. Administrative cost to ETII and heat network businesses of applying to the scheme
36. We estimate that there are roughly 100 suppliers in the non-domestic retail energy market (excluding suppliers for non-standard cases). Analysis for the EBRS scheme estimated that around half of these suppliers can be classified as either a small business or micro business.
37. For most non-ETII businesses, we expect that the price threshold needed to receive government support (£302/MWh for electricity and £107/MWh for gas) will not be reached between 1 April 2023 and 31 March 2024 (the period of EBDS). Assuming only fixed contracts signed during the peak price periods between August and October 2022 are estimated to receive support, as indicated by the latest modelling, and that the percentage of energy consumption by contract type is proportionate to the number of businesses, 100,000-165,000 non-ETII businesses could therefore receive support under the EBDS in the low, central and high scenarios.
38. For ETII businesses, we estimate that 9% of captured contracts receive EBDS support under the low and central scenario and 91% under the high scenario. Based on Inter-Departmental Business Register (IDBR) data, there are 44,400 businesses in eligible ETII sectors. Using the same approach as above, this results in 5,000 businesses receiving support from EBDS as part of the ETII scheme under the low and central scenarios and 40,000 businesses under the high scenario. In order to receive support, these businesses will need to apply – resulting in a small administrative cost.
39. There are approximately 9,500 heat networks that could receive additional support to the main rate of EBDS under the preferred option. The majority of these, around 8,700, are heat networks serving only domestic customers. However, other heat networks that serve a mix of domestic and non-domestic customers will be eligible for the support as well as those using electricity to generate heat (with a heat pump). In order to receive support, these businesses will need to apply – resulting in a small administrative cost.
40. There will also be an administrative cost to intermediaries (e.g. landlords) to pass the benefits they receive from the policy through to the end-user (e.g. the tenant). Whilst these costs have not been estimated, we would not expect it to significantly change the final cost estimates.
41. Due to the significant level of uncertainty on non-standard cases (particularly the number of unlicensed energy providers and additional resource required for compliance and monitoring), these have not been quantified in our administrative and familiarisation costs. For non-standard EBDS where license-exempt energy supply is transmitted via the grid, we expect around 8-15 energy providers to come forward. There is more uncertainty in the number of providers that may apply from the cohort of non-standard EBDS where license-exempt energy supply is delivered via private wire or pipe, where eligible applicants could reach up to around 1,000 but are more likely to number 100-200.
42. Assumptions used in this section – including number of staff and hours needed to become familiarised with the scheme and apply for support – have been informed by the EBRS scheme and recent stakeholder engagement.

43. The policy will require suppliers to incur familiarisation costs to be able to claim the relevant support from government. Many aspects of the scheme are similar to the EBRs and therefore will not require significant familiarisation. The main new element is the different levels of support between ETII and non-ETII businesses.
44. We have therefore assumed that for each supplier, the scheme will require an administrative staff member to spend 2-6 hours and a senior staff member to spend 1-3 hours familiarising themselves with the scheme. Using 2022 median wages and assuming that there are 100 suppliers, this will cost £7,000—20,000 in total.
45. ETIIs and Heat Networks will also face familiarisation costs as they both need to apply for the scheme. We estimate that each business will need both an administrative staff member and a senior staff member spending 1—3hours familiarising themselves with the scheme and application process. This will therefore cost £0.25—5.8m for ETII businesses and £0.5—1.4m for heat network businesses in total.
46. The total familiarisation cost for all suppliers and businesses will therefore be £0.7—7.2m, with a central estimate of £1.4m.

#### *Administrative costs for suppliers*

47. 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. Suppliers will incur two types of administrative costs:
  - i. **Changing prices for customers.** These administrative costs include costs associated with reflecting changes in prices or discounts in suppliers' billing systems and adjusting contracts and notifying businesses of the change.
  - ii. **Compliance and monitoring.** 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. Given that the scheme is relatively similar to the EBRs, it's likely that suppliers and energy providers will already have systems in place already to make overall compliance and monitoring a relatively fast process. However, suppliers may need to take on additional FTE to undertake checks to ensure that businesses are being split correctly into ETII and non-ETII categories, and therefore receive the right level of support from HMG.
48. While the exact mechanism through which suppliers will be compensated is uncertain, the costs could have the potential to be large. However, most suppliers should already have systems in place to administer the Energy Bill Relief Scheme (EBRS).
49. As part of the 2018 Final Impact Assessment for the Default Tariff Cap, Ofgem sought evidence in a consultation on the administrative costs of price changes on suppliers in the domestic market. Costs per customer ranged from £0.20 to £1.80, with £0.87 as a mid-point. Note that this figure relates to the domestic market, and there are reasons to suspect that these costs could be higher in the non-domestic sector<sup>4</sup>. We have therefore used the upper end of Ofgem's domestic market evidence as our low case, with central and high figures reflecting scenarios where the average cost is two and three times higher (respectively).
50. Multiplying this by the 165,000 non-ETII businesses that could come into scope of the EBDS provides a total administrative cost for suppliers of changing their customer prices of £30,000—300,000, with a central scenario of £140,000. Our methodology assumes that the costs of changing prices for heat network customers are captured within the overall costs of changing prices for all non-ETII customers.
51. Meanwhile, it will cost suppliers £1,000—70,000, with a central scenario of £4,000, to change the prices for ETII businesses. Therefore, across the whole EBDS programme, the total administrative costs of price updates are expected to be £30,000—370,000, with a central scenario of £150,000. Our methodology

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<sup>4</sup> 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
- Added complexity of non-domestic supplier pricing and contracts

assumes that the costs of changing prices for heat network customers are captured within the overall costs of changing prices for all non-ETII customers.

52. For compliance and monitoring, we estimate that suppliers will need an administrative staff member and a senior staff member to each spend around 1–3 hours per month to submit claims (i.e., 12–36 hours over the length of the EBDS scheme), and 4–12 hours at the start of the EBDS scheme for an administrative staff member to register meters as ETII. Multiplying this by the number of suppliers, this will mean a total cost to all suppliers of £70,000–230,000, with a central estimate of £130,000.
53. In total, suppliers will therefore face an administrative cost of £100,000–600,000. The central estimate is £300,000.

#### *Administrative costs for customers*

54. There will be no direct administration or familiarisation costs to these non-domestic customers for the scheme to operate. However, there will be administration and familiarisation costs for ETII and heat network businesses, as these businesses will need to apply for support.
55. We estimate that ETII and Heat Network businesses will need to spend 1–3 hours finding the key documents they need to apply and listing out all their meters, and an administrative staff member and senior staff member to then each spend 1–3 hours completing the application and doing additional checks if needed. We assume that this is a one-off cost at the start of the scheme. In total, this will result in an administrative cost of £0.25–6m for ETII businesses (central scenario of £500,000) and £0.5–1.4m for HN businesses (central scenario of £1m). For all businesses, this will result in a total administrative cost of £0.7–7.2m, with a central scenario of £1.4m.

#### *Familiarisation costs relating to administrating, compliance and monitoring for suppliers*

56. We therefore estimate that the total administration and familiarisation costs for all businesses and suppliers is £3.1m, with a range of £1.5–15.1m, as shown in Table 6.

*Table 2: Total Administration and Familiarisation Costs*

<b>Total Administration &amp; Familiarisation Costs (£m, 2022 prices)</b>	<b>Low</b>	<b>Central</b>	<b>High</b>
Suppliers	0.1	0.3	0.6
ETIIs	0.5	1.0	11.7
Heat networks	0.9	1.8	2.8
<b>Total (excl. heat networks)</b>	<b>0.6</b>	<b>1.3</b>	<b>12.3</b>
<b>Total (incl. heat networks)</b>	<b>1.5</b>	<b>3.1</b>	<b>15.1</b>

### **5.1.3 Negative externalities of increased energy consumption – Carbon costs and air quality**

57. Any intervention to reduce price rises and volatility would be expected to increase energy demand compared to the counterfactual, which would be expected to lead to costs to society from increased carbon emissions and worsening of air quality.
58. The impact on consumption is very uncertain, particularly the impact of the baseline support element of the scheme where the price impacts are relatively small, and we have therefore not been able to robustly estimate the potential size of any demand response to the proposed intervention.
59. However, Table 7 below provides an illustrative example of the potential costs to society from increased energy consumption: a 1% increase in energy consumption across all non-domestic customers would lead to a net social cost of around £340m due to carbon and air quality impacts.
60. However, whilst energy prices under the EBDS will be lower than without the intervention, price levels will still be higher than the energy prices assumed in the Net Zero Strategy. We therefore expect do not expect carbon impacts and air quality impacts from the EBDS to be negative compared to assumptions in

the Net Zero Strategy, and the EBDS is therefore not expected to place the UK off track for meeting its carbon budgets.

*Table 3: Carbon and Air quality impacts of increased consumption for non-domestic consumers*

<b>£m, 2022 prices</b>	<b>Carbon Impacts</b>	<b>Air quality</b>
<b>1% increase in demand compared to 2019</b>	£300	£40

## 5.2 Benefits

### 5.2.1 Increased certainty for investment and employment decisions

61. We estimate that there are currently over 500,000 million fixed contracts/meters being supported under the EBRS whose contracted prices exceed the price threshold for the Baseline support element of EBDS. The EBDS enables these businesses to remain internationally competitive by ensuring that energy prices do not significantly exceed those in other European countries (see Table 3 for international comparisons of support) and are more likely to attract investment and/or avoid loss of investment. Additionally, these businesses are spread across the UK, and therefore mitigating the risk these energy-intensive businesses relocate internationally. It is uncertain the extent to which the baseline level of support will influence business decisions, however those on higher priced contracts will have certainty of a guaranteed level of support for as long as they remain on those contracts.
62. For heat networks, the increased level of support will help support domestic customers not protected by the Energy Price Guarantee and thereby mitigate heat network operator insolvencies. This is critical as there is no Supplier of Last Report process for these customers. It will also help further government's commitment to Net Zero. Heat networks are a crucial part of how the UK will reach its net-zero targets as they can be one of the most cost-effective ways of decarbonising heating at a fair price to customers, while supporting local regeneration. They are uniquely able to unlock otherwise inaccessible larger scale renewable and recovered heat sources such as waste heat from industry and heat from rivers and mines.

### 5.2.2 Avoided Firm Closures and Redundancies

63. While the scale of impact is highly uncertain, the support under the scheme will reduce the risk of business closure, reduction in output, or loss of jobs high prices locked into existing fixed contracts and any future spikes in energy prices – particularly for ETII businesses.
64. If firms close, we would expect workers to be displaced and wages to potentially follow a lower projected path than if the proposed intervention is in place. Evidence on the lower wage path is based on 'The Losses of Displaced Workers' BEIS paper<sup>5</sup>. Therefore, a benefit of the scheme is that insofar as it keeps firms open, it prevents large wage losses for displaced workers. It should be noted that unemployment is low in the UK at present and demand of labour is high, which adds to the uncertainty of these effects at present.

### 5.2.3 Inflation Impacts

65. At a macroeconomic level, by directly influencing the unit price of energy for non-domestic customers, this intervention could mitigate increases in inflation metrics (Consumer Price Index (CPI), the Consumer Price Index including Owner Occupiers' Housing Costs (CPIH), and the Retail Price Index (RPI)) 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.

### 5.2.4 Support Levelling Up

66. The scheme would also support the levelling up agenda. The manufacturing sector is a crucial part of local economies across England, Scotland, Wales and Northern Ireland, often providing well-paid jobs in areas where salaries fall below the UK average. While the region in which a firm is based is not a factor in determining support, it will nonetheless play a key role in maintaining output and employment across the UK.

### 5.2.5 Mitigate the rise in global emissions

67. To tackle climate change and deliver Net Zero, we need to ensure that energy-intensive businesses remain in the UK and that they fund and benefit from grid decarbonisation and continue to create jobs and growth. The EBDS reduces the risk that UK-based businesses face a competitive disadvantage caused by relatively higher industrial energy prices. If UK production was to move to countries with lower

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<sup>5</sup> Page 97, BEIS Research Paper Number 6, 'The Losses of Displaced Workers', March 2017, prepared by Frontier Economics

climate action ambition or a higher marginal emissions factor, this could contribute to higher global emissions compared to the policy scenario where production remains in the UK.

### 5.2.6 Controlling prices for domestic heat network customers

68. The primary benefits of supporting domestic heat network customers will be the reduction in their heating bills. This should improve the ability of customers to adequately heat their homes as well as maintain consumption of other necessities. The support will reduce the number of households pushed into fuel poverty by high energy prices and avoid health costs associated with underheating and reducing the number of households going into debt to cover their bills.

### 5.3 Summary of analysis

69. The following costs have been estimated:

- i. **Cost of discounts (transfer): £547m** (£547m—1.08bn) for EBDS and ETII schemes and **£406m** (£348-550m) for Heat Network scheme. This is a transfer to businesses from HMG, as this figure reflects funds provided by government which will be used to pay energy costs which will be faced by non-domestic consumers regardless of the intervention. 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. **Direct cost to non-domestic sector (administrative and familiarisation costs): £1.3m (£0.6-12.3m) for energy suppliers and ETIIs, and an additional £1.8m (£0.9-2.8m) for HN businesses.** This direct cost to energy suppliers and ETII and HN businesses is due to the administrative burden of delivering the price reduction to customers' bills.

70. In return, this scheme reduces businesses' exposure to volatile energy prices by supporting businesses if prices rise above the relevant threshold price.

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

71. An EANDCB has not been provided for this high-level assessment of impacts. Please see section 5 for further detail on the rationale and evidence to justify the level of analysis provided in this document.

## 6. Risks and uncertainties

### 6.1 Size of relief

72. Size of the overall relief is highly uncertain. This is a significant risk to the Exchequer. Degree of uncertainty, however, is lower than the previous EBRs. EBDS caps support at maximum discounts for all contract types.

73. Factors driving the uncertainty include:

- i. **Future energy prices** are subject to global commodity price pressures. Costs might increase in 2023's autumn and winter months. Due to the capped nature of EBDS, higher prices will increase total costs within the fiscal envelope but not exceed them.
- ii. **Size of energy demand** can differ annually for several reasons. This includes temperature differences. The number of ETIIs could be higher or lower than estimated. This would increase or decrease total costs respectively.
- iii. **The different nature of existing contracts** between suppliers and businesses will require different levels of relief, based on the price customers pay. This could change overall levels of relief.
- iv. **Evidence limitations.** DUKES total non-domestic consumption data for 2021 informs this analysis. We used data collected from energy suppliers during the EBRs Review to identify the type of contract and signing date for different sectors. Issues with the data include incomplete coverage of suppliers, missing or inconsistent returns, and low match rates with existing business and energy data. This could affect our estimates of energy consumption and the split in energy consumption between ETIIs and non-ETIIs.

- v. **Demand response.** It is unclear whether current conditions as well as this intervention will elicit a change in demand.

## 6.2 Additionality

- 74. Given the relatively low level of support for non-ETII businesses, there is a risk that there is little additionality of the EBDS scheme compared to the counterfactual (support ends on 31 March 2024) – particularly given that for many businesses energy makes up a relatively low proportion of their total costs. However, the scheme is designed to provide some protection against high prices and the relatively low costs can justify the risk of deadweight.
- 75. For ETII customers, there is likely to be a higher degree of additionality as these operate in competitive markets where the support rates on offer help to level the playing field compared to other major European economies.

## 6.3 Uncertainty around flex contract hedges

- 76. There is an uncertainty around the proportion of electricity and gas volume which falls under flex contracts. This volume is 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. Further work with suppliers is being undertaken to better understand this portion of the market.

## 6.4 Cost Modelling Assumptions

*Table 5: Summary of Key Assumptions*

Assumption	Description
Consumption	We assume energy demand remains consistent with 2021 DUKES <sup>6</sup> , adjusted for 2022 vs 2021 demand trends as published in <i>Energy Trends</i> .  Demand for heat networks is based on DESNZ Heat Network Metering and Billing Data. This data is compiled from a number of years up to 2018.
Counterfactual prices – Feb-23 to March-24	The counterfactual price assumed for contracts entered into from 01 February 2023 has been based on forward curves produced from ICIS data. The central scenario looks at an average over a 5-day period up to and including 08 February. Wholesale energy prices are currently very volatile and uncertain, and, as such, we have used a wide range to undertake sensitivity analysis. As well as the latest forward curve and 5-day average, we have also assessed the costs against the ICIS 30-day min and max forward curves <sup>7</sup> .
Counterfactual prices – Dec-21 to Jan-23	Counterfactual prices for those entering a fix since 01 December 2021 have also been taken from ICIS data, looking at the average price of contracts offered per day from 01 December 2021 to 31 January 2023 for delivery in Summer and Winter 2023.
Demand sensitivities	Demand sensitivities have been informed using the min and max consumption for each quarter since 2002.
Scenarios	We provide estimates for three scenarios: Low, Central and High. Central is based on the 5-day average across ICIS forward prices, while the Low and High scenarios are taken from ICIS 30-day min and 30-day max forward curves. In addition to the price assumption for each

<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)

<sup>7</sup> To derive the 75% confidence interval limit, Ofgem use a Black-Scholes model, which is a method for assessing future price uncertainty expected by the market, inferring from options prices. It is commonly used by the US Federal Reserve, the Bank of England, and options market participants



Assumption	Description
	scenario, we have assumed different shares of flexible contracts that are 'open' and hence exposed to price volatility. In the Central and Low scenarios, we set the flexible contract assumption to 40% and in High to 70%. This means that in the High scenario, 70% of all volumes under flexible contracts are exposed to forward price scenarios.
Policy Response Rate	We use <i>Energy Trends</i> data to adjust DUKES gas consumption down for non-ETII consumers, which are then reversed for ETII consumers that receive support under the scheme.
Appraisal Period	The policy is assessed over the twelve-month period, starting in April 2023. 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.
Opportunity cost of capital	It is assumed there is negligible opportunity cost of capital to suppliers, as suppliers will be reimbursed by government before or shortly after they would have received the bill from a customer under a business-as-usual scenario.
Tariff information on eligible consumption	For the portion of consumption assumed to have entered a fixed contract since 01 April 2023, we have used contract signing profiles from EBRIS outturn data.

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

77. The baseline part of 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.
78. Meanwhile, for ETIIs and heat network businesses, there will be a small effort cost in applying for support. However, this will be very small relative to the level of support available.
79. There were over 70 suppliers in the non-domestic retail energy market, with around half of these businesses classified as either a small business<sup>8</sup> or micro business<sup>9</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.
80. 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. Customers with suppliers that are small or microbusinesses will face high energy prices and are currently placed on high prices variable tariffs. It would not be fair to have the customers of some suppliers protected and others are not.
81. 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 March 2022, and expiring after March 2023, would not be eligible for this policy. Evidence shows that 95% of

<sup>8</sup> A business with between 10 and 49 employees (FTE)

<sup>9</sup> A business with less than 10 employees (FTE)

customers with a supplier that is a small or micro business are on fixed term contracts, compared with 78% for large suppliers.

82. Heat network support will require heat network suppliers to apply for support. We estimate it will take 1-3 hours per network application. This is considered a small effort cost, relative to the level of support available. Approximately 40% of heat network suppliers are small or micro businesses. Around 40% of heat network suppliers operate more than five networks, with most networks being operated by medium or large businesses. Therefore, the vast majority of effort related to the EBDS-HN scheme will fall on medium or large businesses.
83. We will continue to review the impact of the regulation on SMBs through the evaluation.

## **8. Public Sector Equality Duty**

84. The scheme is a grant to energy suppliers (businesses) and available to all registered Ofgem suppliers, so there would be no basis for discrimination. Further support will also be provided to sectors which have been identified as 'Energy and Trade Intensive Industries' and customers of heat networks.
85. The policy is aimed at businesses and not at individuals and the scheme is intended to be broadly applied and does not require active involvement of end energy users.
86. If the proposed intervention is implemented, there will be no specific impact on any protected characteristics and thus no unlawful discrimination.
87. As the scheme will provide businesses with increased certainty for investment and employment decisions, 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.
88. 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.
89. There are an estimated 440,000 domestic Heat network customers in the UK. Heat networks are known to serve a higher proportion of people who are aged 65+ and people from ethnic minority backgrounds, relative to the general population. Domestic customers who are 65+ years of age may have increased heat demand and may be more susceptible to fuel poverty. Providing support for heat network consumers, equivalent to that received by consumers covered by the EPG, should ensure that they are not at a disadvantage.
90. 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 with protected characteristics. However, we are aware that under the pass-through requirement, there may be some implications for more vulnerable customers who may be less able to raise issues with their intermediary regarding their discounts. To mitigate against this, we are developing a communications strategy to ensure that intermediaries are aware of their obligations and that support reaches those who are entitled to it. We will look to gather further evidence and review this assessment as needed through the accompanying Monitoring and Evaluation plans.

## **9. Monitoring and Evaluation**

91. We are planning an approach to monitoring and evaluating the EBDS that is proportional and provides the necessary insights around whether the policy has met its expected objectives.
92. We will gather data on scheme delivery which will be able to provide insights on the policy's expected early benefits and outcomes. An evaluation will also be conducted to understand the delivery of the scheme, its impacts and value for money.

93. The monitoring of the scheme will reflect both the delivery of the universal scheme through energy suppliers and the targeted schemes for ETIs, heat network consumers and non-standard cases. Therefore there is a need for us to collect scheme data from the suppliers and to use data collected through the EBDS Registration Portal or other application processes. This will ensure that we can closely monitor the policy's outcomes. 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).
94. Alongside this monitoring, we intend to conduct process, impact, and economic evaluations of the EBDS. It is expected that the evaluation of EBDS will be commissioned to an independent evaluator as part of an overarching evaluation contract for the non-domestic energy affordability schemes (EBRS, ND-AFP, EBDS, as well as non-standard cases). A scoping study is underway which will produce a recommended evaluation approach with findings due in May 2023. Subject to these findings, the expected approach is a representative longitudinal survey of UK organisations, along with qualitative research and analysis of economic and business data sources. Quasi-experimental approaches including a counterfactual will be used where feasible, combined with a theory-based approach to understand and quantify the impacts of the portfolio as well as individual schemes, including EBDS.
95. Further research is being developed to assess the level of support passed on to heat network customers and others by intermediaries in receipt of EBDS. For domestic households, this will mainly be covered by research under the GB and NI interim evaluations to understand the experiences of these groups and the effectiveness in ensuring that costs were passed through to these consumers by intermediaries.
96. At a high-level, we intend to monitor and evaluate:
- i. **Operational aspects**, to understand the delivery of the EBDS. This will be achieved through a process evaluation that will aim to understand what happened during the EBDS implementation and how the scheme's design and administration has supported delivery of objectives. This will be useful in understanding the process of determining the level of price reduction for the universal scheme and the effectiveness of delivery across all aspects including minimising fraud and gaming and ensuring understanding of cost pass through by intermediaries. 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.
  - ii. **Outcomes and impacts** achieved by the EBDS 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 as part of the evaluation contract we will also explore wider data sources available. We will build on the impact evaluation scoping and continue to develop and detail the methods to understand and quantify, where possible, the additionality of the EBDS on supporting non-domestic customers during the energy crisis and other wider economic impacts.
  - iii. **Value for money** of the EBDS, including testing our existing cost assumptions around scheme delivery and costs to suppliers. This evaluation will continue to be developed as part of the evaluation contract, but it would involve comparing the benefits of the EBDS with its costs. We also intend to explore, where possible, the benefits and costs across different characteristics of the organisations in scope.
97. The evaluation will also need to be aware of wider external factors which may influence the success of the scheme. These may include:
- i. The economic context and business uncertainty, given the high rates of inflation;
  - ii. Interactions with existing non-domestic energy policies; and
  - iii. Wider non-domestic policy landscape.
98. The evaluation is expected to be procured and commence in June 2023. Initial outputs are expected in Q3 of FY 24/25. We expect the impact and economic evaluation to commence after the end of the

scheme with findings in early 2025. The total costs and resourcing requirement for all of the non-domestic energy affordability evaluation (including EBRs) is expected to be up to £2.46m. The resourcing required to manage the commissioned evaluation and associated analysis is: G7 Evaluation Analyst- 1 FTE, Social Researcher SEO - 2 FTE.