



It's time to
get **smart**



**// The UK business energy market explained:
a guide for businesses**

Updated on // 8th March 2023

A quick foreword about this paper

What did businesses need the most after limping through a global pandemic?

Well, it certainly was not a gas-fuelled cost of living crisis, wrapped up in a European war; that's for sure.

With time and financial constraints greater than ever, we created Procure Smart to help businesses switch key areas of expenditure in a fast, cost efficient and transparent way, allowing them to compare deals in the same way they do with their personal costs.

The team behind Procure Smart have worked in business utilities savings for more than a decade and want to make this expertise more accessible and more transparent than it is via utilities brokers.

Education is a key principle of our business strategy. With this in mind, we have produced this definitive guide on one of our key service areas: business energy.

In this guide we cover the following:

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How the UK energy market works

You can split the UK energy sector into four parts:

1 // Generation

Generation is the creation of the energy that businesses and households consume.

In the UK, we imported 38 per cent of our energy in 2021 ([UK Energy in Brief 2022](#)). This means that the imported energy was generated in other countries and sold on the global wholesale market.

The remainder of our energy is generated within the country, via methods including natural gas (40%), nuclear (15%), renewables (39%) and others.

The country has operated this way since 2004 and is now dependent on the wholesale market to meet its energy demands. This is due to a rapid decline in coal generation over the last 30 years, peaking of North Sea production and other contributing factors.

Electricity generated by fuel type, 2020 and 2021

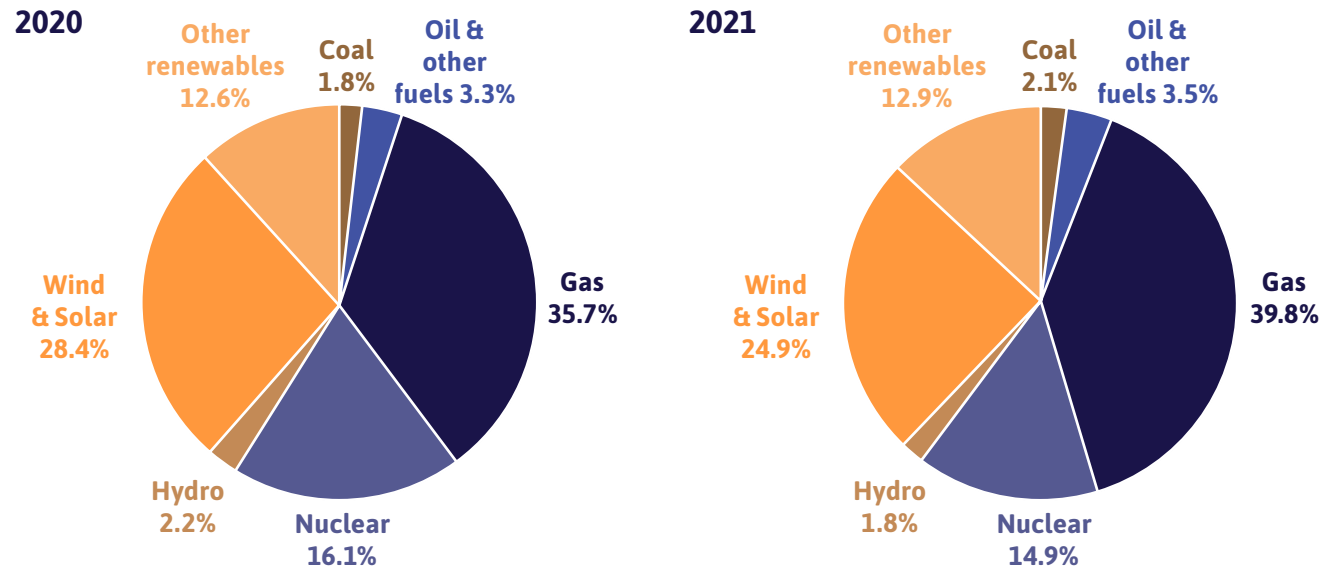


Fig A. Electricity generated by fuel type 2020 & 2021 (UK Energy in Brief 2022)

Energy suppliers operate at this point in the market. They may generate power themselves, for example EDF, or simply purchase and resell energy as one enormous administration and hedging organisation. Not all suppliers actually create energy.

2 // Transmission

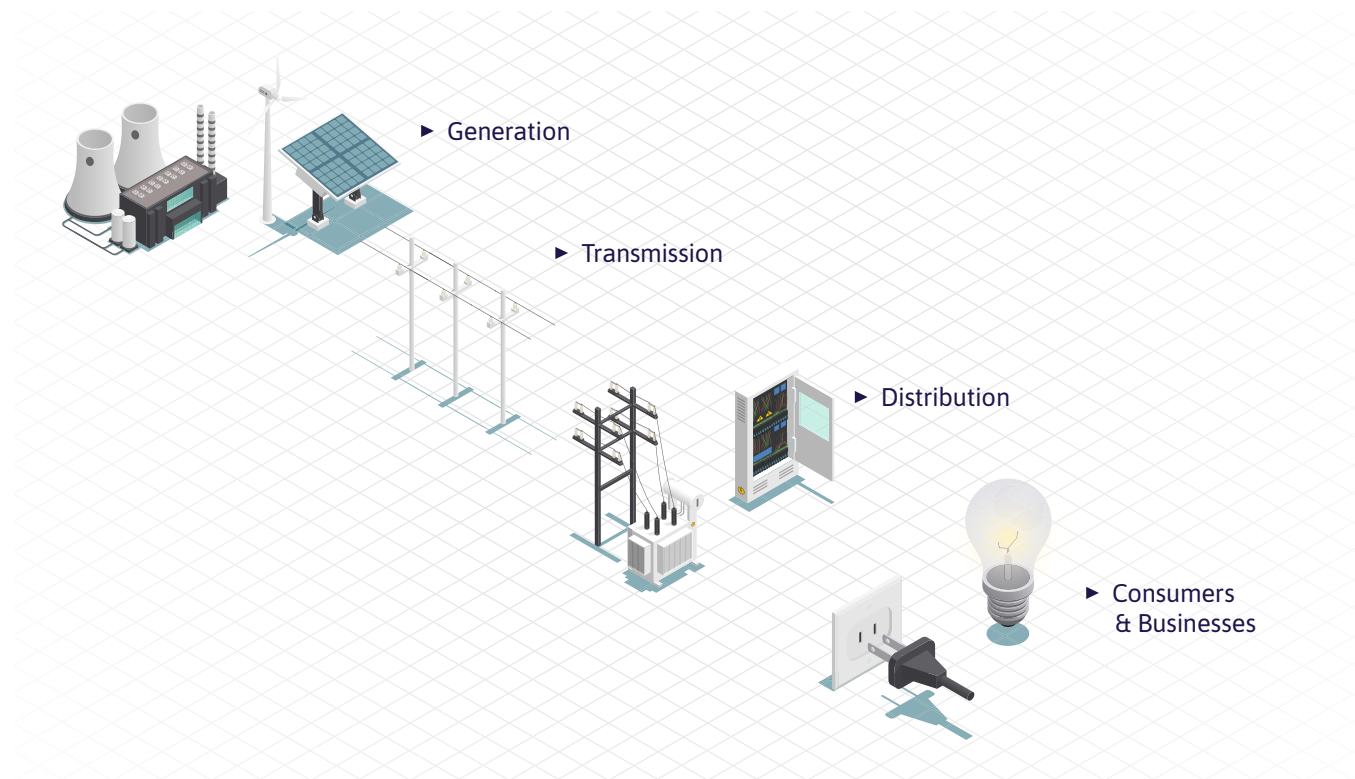
Transmission is how energy is transported around the country in pipelines, tankers and cabling. The National Grid is the main company in the UK responsible for the operation and maintenance of our transmission network. It is their responsibility to get energy from supply stage to your rough area.

3 // Distribution

Distribution is like transmission on a much smaller scale. Distributors such as Northern Gas Networks, UK Power Networks and others are responsible for taking the energy from the transmission companies and delivering it to homes and businesses on a local level. Your local distributor is known as your Distribution Network Operator (DNO).

4 // Consumption

Consumption is the part of the industry you know best: your business or home. Consumers agree contracts with suppliers for set periods of supply, either power or gas. They then pay an agreed price for that period, which incorporates the cost of transmission, distribution and the actual energy itself. More on what makes up these prices later.



What is a Third Party Intermediary (TPI)?

Third Party Intermediaries (TPIs) sit between suppliers and businesses in the UK energy market. They offer advice to businesses on the best way to procure their energy and many offer additional services to manage energy.

TPIs include switching sites, utility brokers and procurement companies.

Why would a business use a TPI to switch their energy?

Many TPIs have track records of advising businesses well on the subject of energy procurement.

The UK's larger TPIs usually offer additional services to not only procure effectively, but also reduce energy consumption, improve efficiency and use technology to improve processes.

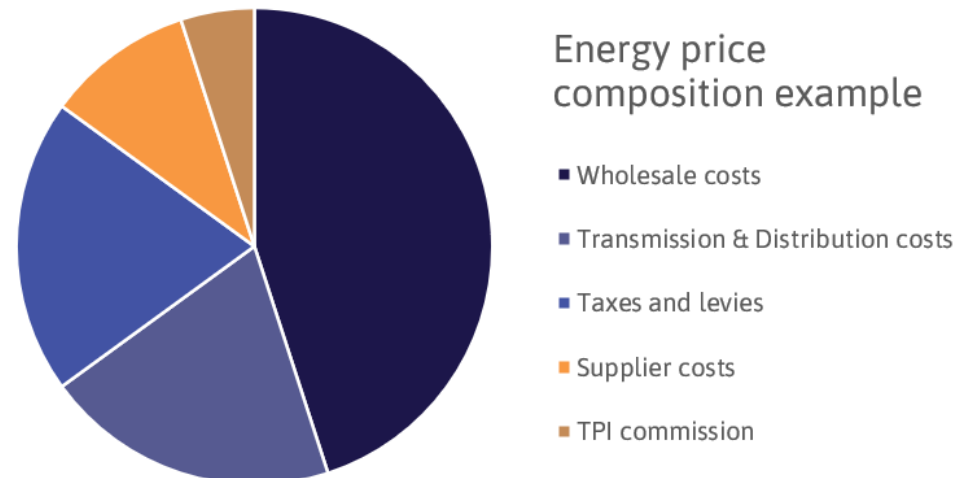
Utility brokers work in the same way as switching sites and earn a commission from suppliers, which is paid from the unit price businesses pay for their energy.

Most savvy business owners question whether they could procure the deal themselves to make it cheaper. In some instances this is correct. But, equally, there are just as many instances where TPIs can negotiate using their strong supplier relationships to beat prices elsewhere on

the market. Additionally, most TPIs offer increased levels of customer service, advice, research and efficiency that are not available by going directly to a supplier.

At Procure Smart, we operate as a TPI and are transparent regarding the commission we earn from contracts. This amount is disclosed in the terms and conditions of the contracts our customers sign, so they know what they are paying and what services they are receiving during a switch.

The concept of TPI commission mirrors that of using a financial advisor or price comparison website to choose appropriate products in your personal finances. It is a time-saving process that should come with peace of mind and savings versus the market.



How business energy differs from domestic

Business energy contracts are a lot more complex than the equivalent you may purchase for your house.

There are no two identical businesses and even those in similar sized premises and in similar sectors will have different practices. It is much harder for suppliers to generalise and offer prices to large groups.

That being so, suppliers still attempt to do this where possible. “Matrix pricing”, for example, is a complex matrix of complimentary pricing structures that suppliers publish at intervals. In periods of market volatility, the likes of which we have seen in 2022, this method of pricing becomes very difficult and suppliers withdraw matrix pricing from the market. This can leave smaller businesses with no way of securing business energy contracts and is one of the main reasons that businesses of all sizes should be pro-active in their procurement strategies.

Larger consumers cannot be priced using a matrix and have to be given bespoke pricing from their supplier. This is often in the form of a tendering process and can be time consuming for a business to obtain.

// Additional business charges

Businesses are subject to additional charges, taxes and levies from the government that domestic energy users are not.

Domestic users benefit from more regulation and protection from Ofgem and have less responsibility with regards to monitoring and reducing their usage. Businesses are expected to know more about their consumption and have appropriate strategies to manage their expenditure.

Different sectors are subject to differing VAT rates and conflicting exemptions additionally.

Business bills are also more segmented than domestic equivalents. Because of the increased complexity and the necessity for businesses to exert more control over their consumption, the non-commodity elements of a business energy bill contain more elements, which the person responsible for the contract’s agreement should consider.

kVA, for example, refers to the amount of power a commercial building is contracted to draw from the local infrastructure. Exceeding this can cause imbalances in the grid, incur expensive extra charges and potentially damage circuitry. Consistently under consuming mean that this charge is an excessive cost and should be reduced as part of the contract negotiation.

How business energy differs from domestic

// Contract objections

+ Because of the more complex nature of business energy contracts, there are far more reasons that one may not end up “live”. For domestic users, that reason will only be debt or a technical fault with their supply.

For businesses, there are more reasons that a supplier may object to a contract coming into force. This includes debt or metering issues, but also could include the method by which the contract was agreed. Certain suppliers, for example, will not agree contracts over the phone or without a piece of accompanying company literature.

Some suppliers will not provide energy contracts to certain sectors. Hospitality was hit by this policy from many suppliers during the Covid 19 pandemic. They simply represented too much risk.

There are many other reasons that contracts may not go live. People who change business names, move premises or have not completed the appropriate paperwork are all subject to delays and additional charges. Put simply, once you have signed on the dotted line, the journey has just begun.



How business energy differs from domestic

// Economies of scale

Usually, a business will use considerably more units of energy than a house, depending on their relative size.

That usually means that the unit price (per kWh) for a business will be lower than your home, because it benefits from economy of scale by comparison.

In the same vein, larger businesses will be able to attain lower unit rates than smaller ones.

Whilst this may seem an advantage, larger businesses have obligations around management usage and less regulatory protection than smaller ones, so it comes with its drawbacks. One such example is the Energy Saving Opportunities Scheme (ESOS), which closes on 5 December 2023 and holds companies exceeding 250 employees or with a turnover exceeding £44 million accountable for monitoring and reducing their consumption.



The gas price crisis and the future of energy in the UK

This crisis, in general, is associated with the war in Ukraine. However, the wheels were set in motion almost eight months before Russia invaded their neighbour and began using European energy supply as a political weapon.

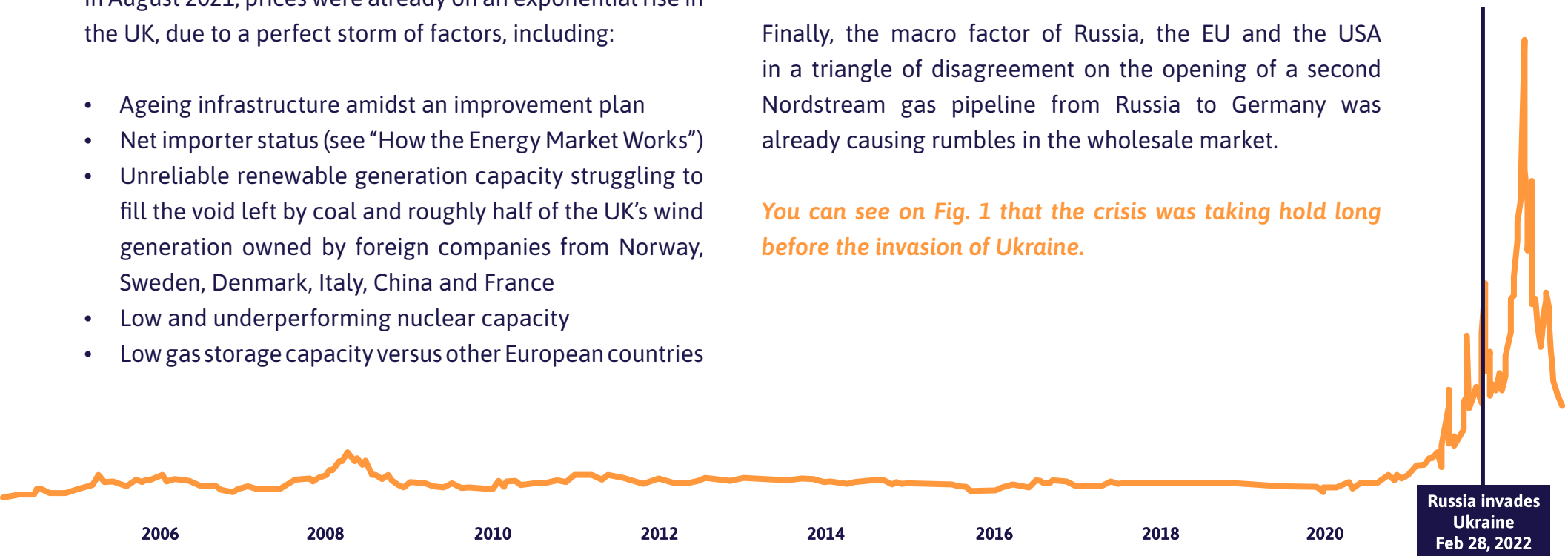
In August 2021, prices were already on an exponential rise in the UK, due to a perfect storm of factors, including:

- Ageing infrastructure amidst an improvement plan
- Net importer status (see “How the Energy Market Works”)
- Unreliable renewable generation capacity struggling to fill the void left by coal and roughly half of the UK’s wind generation owned by foreign companies from Norway, Sweden, Denmark, Italy, China and France
- Low and underperforming nuclear capacity
- Low gas storage capacity versus other European countries

This sub-optimal starting position was exacerbated in 2021 by a particularly poor yield from wind generation; increased competition for liquid natural gas from South East Asia; a depleted storage position due to low winter temperatures; and a fire at a France – UK interconnector.

Finally, the macro factor of Russia, the EU and the USA in a triangle of disagreement on the opening of a second Nordstream gas pipeline from Russia to Germany was already causing rumbles in the wholesale market.

You can see on Fig. 1 that the crisis was taking hold long before the invasion of Ukraine.



Since Russia's invasion of Ukraine, President Vladimir Putin has used various levels of justification for employing restrictions to the flow of natural gas into Europe. Due to dwindling supplies and increased scarcity, the price of gas has skyrocketed as a result.

Natural gas is used to create much of Europe's electricity as well as being a power source itself.

Due to uncertainty over supply, energy suppliers are struggling to effectively hedge and approximately 40% of the UK's suppliers have ceased trading as a result.

Suppliers are having to build incredible risk mitigation into their offered prices. Until there is a period of stability, prices in general will not be reduced.

Whilst the UK only previously imported a small amount of gas from Russia, its exposure to the issue was via the wholesale price of the commodity. As a net importer of energy, the UK has to source more than 30 per cent of its energy from the wholesale market.

The UK has moved quickly to remove any reliance on Russian gas. New deals, particularly with the USA, are delivering gas from other sources into the UK. But more work must be done to reduce exposure to wholesale market volatility.

European countries such as Germany import far more gas from Russia and will find this task more difficult and painful.

Meanwhile, the UK has fast-tracked wind generation capacity improvements via a 2022 Growth Plan. Whilst renewable generation capacity growth is essential when looking to the future, its unreliability has already been laid bare earlier in this section of the whitepaper.

Much criticism has been levelled at the UK's plans to temporarily re-fire old coal plants, but the reality is that Russia has the ability to force European countries into these emergency measures.

Mass installations of renewables, which seem the right thing to do for the climate, are destroying swathes of the natural environment in the process and are creating a toxic waste problem for future generations when they expire.

For this reason, the debate has now swung towards the role nuclear will play in the UK's energy future.

The two main political parties have fought in parliament over why each of them did not invest more in this cleaner and more reliable form of energy generation. France, for example has fared far better during the crisis thanks to its large nuclear generation and its net exporter status. It has limited price rises to just 15 per cent for its residents, in comparison to more than 200 per cent in the UK. Nuclear has struggled with an image problem for decades following several major disasters. [It is also slow, taking five to seven years to build and activate a station](#), this is double that of a coal station.

The main objective for the UK is to increase generation capacity. The key element is to find the cheapest, fastest and most reliable way of doing so.

The Government's Energy Bill Relief Scheme and Energy Bills Discount Scheme

The Energy Bill Relief Scheme (EBRS)

In response to the unsustainable environment that businesses operated in for most of 2022 and planned increases to prices for the second half of the year, Liz Truss' short-lived cabinet implemented the Energy Bill Relief Scheme (EBRS) for UK businesses.

The business secretary at the time, Jacob Rees-Mogg, announced a government-subsidised cap on the wholesale cost of gas and electricity in September 2022.

This was to run until April 2023 and was backdated until 1st December 2021 for pre-agreed contracts over a certain unit rate.

The point at which the price was capped was pre-supplier stage. IE, the EBRS did not cap the price suppliers offer; it capped the price which suppliers pay for their wholesale energy (commodity cost),

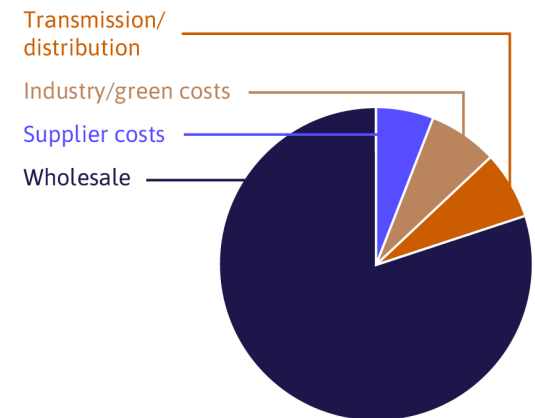
meaning the non-commodity elements of energy bills were still variable. This still allowed for competition within the market, but limited price increases to more sensible variations than were previously being seen.

The major drawback of the scheme was that it is only guaranteed until April 2023, when measures were reduced.

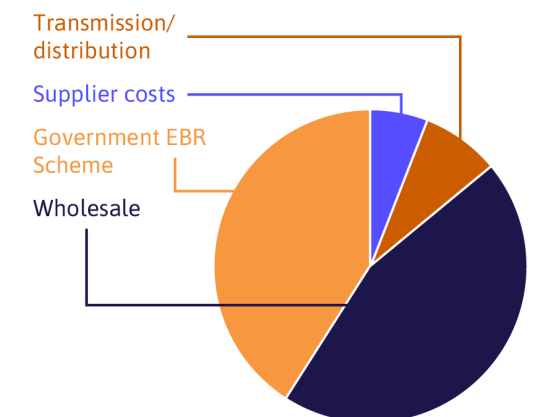
Contracts previously agreed at high rates, which were subsidised by the EBRS suppressing the wholesale elements, will once again see an increase.

The figure below shows an example of how the EBRS covered a large (purple) proportion of a typical energy bill. This purple segment will be decreased in line with the scheme's roll-back.

Typical September 2022 Bill



Typical October 2022 Bill



The Energy Bills Discount Scheme (EBDS)

With businesses thirsty for information on what the level of support looked like post-April, Jeremy Hunt and Rishi Sunak outlined the replacement scheme in January 2023.

This was unsurprisingly a drastic reduction in support, protecting the public purse but leaving businesses to foot the bill for suppliers' continuing inflated prices.

There is a two-tiered approach, segmenting standard consumers from the country's largest consumers such as manufacturers, also known as "Energy and Trade Intensive Industries" (ETIIs).

Under the new scheme, instead of capping wholesale energy prices, the government will now apply a discount to your unit rates, set at a maximum of 1.9p/KWh for electricity and 0.69p/KWh for gas.

These discounts **will only be applied** when wholesale prices exceed 30.2p/KWh for electricity and 10.7p/KWh for gas.

Bear in mind, this is a maximum discount and not all of it will be applied automatically. If the wholesale price is only 0.3p above the threshold, then this will be the only discount applied.

For Energy and Trade Intensive Industries (ETIIs) that are eligible, discounts will be set at a maximum of 8.9p/KWh for electricity and 4p/KWh for gas. With ETIIs considered more vulnerable due to their high energy usage, the wholesale price threshold for these businesses is also lower, set at 18.5p/KWh for electricity and 9.9p/KWh for gas.

[You can find out here if your business qualifies under the ETII scheme.](#)



The discount will be available to everyone on a non-domestic contract including businesses, voluntary sector organisations (such as charities), and public sector bodies, including schools, care homes and hospitals who are:

- On existing fixed price contracts that were agreed on or after 1 December 2021.
- Signing new fixed price contracts.
- On deemed / out of contract or standard variable tariffs.
- On flexible purchase or similar contracts.
- On variable 'Day Ahead Index' (DAI) tariffs (Northern Ireland scheme only).

For everyday businesses, the discount will be applied automatically to your bills and requires no action from your end. Only eligible ETII customers will have to apply for the higher level of support.

Furthermore, be conscious of potential scammers trying to take advantage of the uncertainty. If you receive a message from someone requesting your bank details that you believe may be fraudulent, you can [officially report any suspicious messages online to the UK government](#).

A working example of the EBDS

Standard consumption business

Wholesale market price of electricity:	32.1p
Supplier price offered:	42.1p (inclusive of non-commodity, supplier margin etc)
EBDS discount applicable:	1.9p (18.5p activation level, maximum 8.9p payable)
Business price payable per KWh:	40.2p KWh
Business hypothetical AQ:	100,000 KWh
Annual cost without EBDS:	£42,100 (AQ x Unit cost / 100)
Annual cost accounting for EBDS discount:	£40,200
Discount %:	4.5%

ETII business

Wholesale market price of electricity:	25.0p
Supplier price offered:	35.0p (inclusive of non-commodity, supplier margin etc)
EBDS discount applicable:	6.5p (18.5p activation level, maximum 8.9p payable)
Business price payable per KWh:	28.5p KWh
Business hypothetical AQ:	10,000,000 KWh
Annual cost without EBDS:	£3,500,000 (AQ x Unit cost / 100)
Annual cost accounting for EBDS discount:	£2,850,000
Discount %:	18.6%

Three key things to consider when switching your business energy contracts

1. When and where to switch
2. Consumption and energy management
3. Working with an expert



1 // When and where to switch

The timing of when you agree a new contract is as important as what supplier you select.

That is because pricing is based on a live marketplace and can change on a daily basis. The key, as suppliers themselves must consider, is when to buy. There is almost always a benefit in buying ahead of your contract's renewal window. That is because the general trend globally determines that energy prices are rising.

There are short term drops for periods, before corrections see prices exceed previous heights.

Despite the wholesale price dropping between 2018 and 2020 (see fig.1 in the [energy price crisis section of this guide](#)), the prices offered to businesses still rose during this time due to increases in non-commodity elements.

To be able to take advantage of dips, businesses should monitor the market over a period and understand the world events which influence wholesale prices.

Whilst this seems a time-intensive task, it can reap financial advantages. It is one of the benefits of working with a TPI, who monitor the market every day as a matter of course, saving their customers time as well as money.

Three key things to consider when switching your business energy contracts



The “where” of this section refers to which supplier to choose. The starting point of this will always be based on price.

But this should always come with additional due diligence. When you use a comparison site to choose an insurer, you will often see a Defaqto rating. Although Defaqto does not apply to energy suppliers, you should think about them in the same way.

A rock bottom price may not be accompanied by the level of support that businesses require for enquiries, queries or billing. It is always advisable to check on a supplier’s online reviews, customer service SLAs, contact details and additional services before making a choice.

If you are struggling with a billing issue as a busy business owner, it is unlikely you have an hour spare to sit on hold on the phone.

Suppliers feature differing levels of technological support via portals, apps and web products, too. The key is to find the right balance between cost, products and features to ensure your business is appropriately positioned.

Three key things to consider when switching your business energy contracts

2 // Consumption and energy management

In a rising market, such as energy, the only real opportunity to make genuine savings on previous years is to reduce your consumption. Use less to pay less.

There are a range of tools available to do this, from consumption reports to training courses for key staff members in positions to affect changes.

Along with obligations to reduce emissions, businesses need to start thinking more creatively about their usage and create a holistic energy strategy.

Some kind of consumption monitoring software is the essential first step in creating this strategy, so it is advisable for businesses to invest in this. They can be accessed relatively cheaply, depending on annual consumption size.

A rule of thumb applied across the M&T spectrum is that pro-active use of consumption data can save up to 10% of a business' consumption. Therefore, if a business budgets for an annual cost of under 10% of its consumption, that system will be paid for in savings in its first year.



Three key things to consider when switching your business energy contracts



Procure Smart is developing its own web-based M&T solution, which can be tailored to a bespoke level depending on business size and made affordable based on tiered subscriptions.

For example, a hair salon probably does not need to know the performance of each individual bulb on its premises, but does need to know its split per room per time of day.

However, a manufacturer who had carried out a LED project on its production floor would want to monitor the improvements in consumption to calculate ROI and payback periods.

Most M&T products would be overkill for low and standard consuming businesses, which would be paying for features that were not relevant. Look out for our offer launching in 2023.

Three key things to consider when switching your business energy contracts



3 // Working with an expert

Granted, Procure Smart is biased in this scenario. However, many of the main factors we have highlighted in considerations 1 and 2 above can be impacted positively by working with an excellent TPI.

TPIs have their own account managers at energy suppliers, making turnaround time for queries considerably faster for TPI customers than those who “go direct” with their procurement. Indeed, TPIs can often answer queries about bills, consumption and legislation themselves, without the need to speak to a supplier, providing extra expertise at your organisation’s fingertips.

A competent TPI can offer a holistic approach to energy strategy. Larger TPIs hold relationships with renewables providers, project managers and other organisations which can enhance your procurement project to an extent that a business owner can not.

Many TPIs also link energy to other utilities products such as water, payments and telecoms. This can suddenly make unsavoury energy price rises seem a little more palatable.

Three key things to consider when switching your business energy contracts



Time is money, or so the saying goes. How much time would it take a small business owner to carry out a thorough energy comparison on 10+ energy suppliers? Bearing in mind that forms would need to be submitted each time; phone calls would need to be had with each supplier due to the scarcity of quality online business pricing tools; and research on the market completed.

Thanks to internal systems and relationships, a TPI can complete this task in seconds for smaller businesses and hours for more complex ones. Think of the productivity gains you could make by letting someone else put in the hard yards for your business.

At Procure Smart, we offer the human touch. We carry out regular calls with our customers to check that their contracts have gone live without a hitch, to investigate other areas for savings and to ensure our own service levels have been met. [Take a look at our Trustpilot page to see how we're doing.](#)



Jargon Buster – Business Energy Terms Explained

Sick of seeing acronyms that mean nothing? A charge you don't recognise on your bill? Supplier baffling you with justifications for price rises you don't understand?

Fear not, Procure Smart is here to clarify and educate.

These common energy-related terms should help. If you can't find what you're looking for, you can always give us a ring or drop us an email.

AQ	Annual Quantity	How much gas and electricity you use in a year.
CCL	Climate Change Levy	A small 'non-commodity' element of the price of your energy.
Capacity Charges		A significant proportion of your bill.
CED	Contract End Date	Day your contract ends.
CfD	Contracts for Difference	CfDs incentivise investment in renewable energy by providing developers of projects with high upfront costs and long lifetimes with direct protection from volatile wholesale prices.
DNO	Distribution Network Operator	The company responsible for actually getting your electricity to you in your area.
DUoS*	Distribution Use of System	A 'non-commodity' element of your price, which pays for the maintenance of your local energy infrastructure.
EAC +	Estimated Annual Consumption	An estimate of how much gas and electricity you use in a year. Related to AQ, which is a more accurate version.



FIT	Small-Scale Feed in tariff (FiT)	The FIT scheme is a government programme designed to promote the uptake of small-scale renewable and low-carbon electricity generation technologies.
HH	Half Hourly	HH supplies over 100,000 kWh usage. HH meters read usage every 30 minutes and apply to medium to large consumers.
kWh	KiloWatt Hour	A measurement of energy usage – the power in kilowatts multiplied by the time in hours.
kVA	Kilovolt ampere	The measure of how much power is coming into your building via your electricity meter. Find out more on KVA in our dedicated blog article.
LOA	Letter of Authority	This allows someone to deal with your account on your behalf. At Procure Smart, we'd use this to go to market and tender out your contract.
Load Shedding		Reducing usage at strategic times of the day in order to manage not only the cost of use but also unlocking the savings potential in certain types of energy contract.
MOp	Meter Operator	The company responsible for fitting, operating and maintaining your electricity meter. A MOp is appointed for all Half Hourly electricity meter contracts (sites over 100kW).

**MPAN**

Meter Point
Admin Number

Unique reference for your electricity meter.

MPRN

Meter Point
Reference Number

Unique reference for your gas meter.

NHH

Non Half-Hourly

Electricity meters that don't read data at half-hourly granularity – usually smaller supplies.

Pass-Through

A Pass Through contract allows you to fix your commodity cost into your unit price, but your non commodity elements will be charged separately to you at cost, making it slightly cheaper. The potential benefits of this are that, although you carry more of the risk as a consumer of potential price rises on the non-commodity costs, you also receive the benefit of any reductions throughout your contract. This gives you the opportunity to control your energy by lowering your consumption during grid peak periods (4-7pm) and in turn, reduce your costs.

RO

Renewable Obligation

An obligation imposed on suppliers by the government to source a proportion of the electricity they supply from renewable energy sources.

Standing Charge

The fee you pay your supplier to give you access to their energy.



TNUoS*

Transmission Network Use of System

A 'non-commodity' charge which is paid to the Transmission Network Operators for maintenance of the national transmission infrastructure. Your TNUoS charge is worked out using 'Triads' (see below).

Triads

Data from half-hourly meters is used to judge usage of the grid over periods of highest demand (known as 'Triads'). Your usage during these times against the highest users will determine your TNUoS charge (see above). A multiplier based on your geographical location will also be applied to give you your final TNUoS charge. These are soon to be a thing of the past under the Targeted Charging Review (TCR), which changes how your usage is measured.

**If you are on a fixed price contract, these non-commodities will be built into your unit price.
If you are on a pass-through contract, they are variable and will be itemised on your bill.*



Procure Smart In A Nutshell: How We Help Businesses Switch & Save

Now we have provided you with some useful information on how business energy works, it's time for our shameless pitch.

We have some exciting products in the pipeline that we will launch in 2023, including a Monitoring and Targeting system, a customer portal and some small business pricing solutions to make switching your business energy faster and easier than ever before.

We recognise that customers want a choice about how they interact with such a complex marketplace. That's why we provide options for customers on how they want to access our services.

We believe there will always be a place for that "human touch". Which means that every account is assigned an account manager, dedicated to solving your queries as quickly and informatively as possible.

You can discuss your approach to reducing business costs direct, or you can take matters into your own hands with our range of tech solutions, due to launch in 2023.

Our vision is to create:

A business contract switching service which exceeds customer expectations of speed, transparency and results.

Working towards this vision at all times will ensure that Procure Smart is a breath of fresh air in the business costs market.

Our internal processes mean that we pro-actively carry out additional behind-the-scenes work on every customer's business with an aim of presenting them with new savings opportunities they didn't even know could exist.

It's this customer-first approach which we believe will differentiate Procure Smart; and we hope our commitment to exceeding your expectations means you will consider us to help your business **get smart**.



We love a challenge

Speak to one of our Procurement Solutions Managers to see if we can help you switch and save today.

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