

Energy Security and Net Zero Committee

Oral evidence: [The cost of energy](#), HC 736

Wednesday 9 July 2025

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Members present: Bill Esterson (Chair); Ms Polly Billington; Torcuil Crichton; Wera Hobhouse; Anneliese Midgley; Luke Murphy; Melanie Onn; Mike Reader; Claire Young.

Business and Trade Committee Members present: Sarah Edwards and Charlie Maynard.

Questions 182 - 271

Witnesses

I: Beth Barker, Senior Policy Officer (Industrial Decarbonisation), Aldersgate Group; Arjan Geveke, Director, Energy Intensive Users Group; and David Mitchell, Senior Energy and Climate Change Executive, Chemical Industries Association.

II: Verity Davidge, Director of Policy and Public Affairs, Make UK; David Wigham, Commercial Director, Admiral Taverns and representing British Beer and Pub Association; and Paul Wilson, Policy Director, Federation of Small Businesses.

Written evidence from witnesses:

- [Aldersgate Group](#)
- [Chemical Industries Association](#)
- [Make UK](#)
- [British Beer and Pub Association](#)

Examination of witnesses

Witnesses: Beth Barker, Arjan Geveke and David Mitchell.

Q182 **Chair:** Welcome to this afternoon's session of the Energy Security and Net Zero Committee and our latest session in our inquiry into the cost of energy. We will be looking at high energy costs for industry and businesses and how they affect, in particular, competitiveness in international markets; and, in our second panel, at the impact on SMEs in domestic sectors. Welcome to our first panel. If you could introduce yourselves, we will start with the questioning.

Beth Barker: Hi, everyone. I am Beth Barker from the Aldersgate Group. We are a multi stakeholder alliance of businesses, civil society organisations and academic institutions, and we work collectively to push for a competitive and sustainable economy.

Arjan Geveke: Good afternoon. My name is Arjan Geveke. I am the Director of the Energy Intensive Users Group, and that is a group of the most energy-intensive manufacturing industries in the UK.

David Mitchell: Good afternoon, everybody. My name is David Mitchell. I am representing the Chemical Industries Association, which is a trade body representing chemical and pharmaceutical businesses here in the UK.

Q183 **Chair:** Thank you all very much. You are extremely welcome. To start our session, we want to assess the impact of high energy costs on large and heavy industry. Where do high energy costs rank in the list of concerns facing UK heavy industry today? Who would like to start with that? Maybe, Arjan, that is a good one for the Energy Intensive Users Group to go first with.

Arjan Geveke: Almost by definition the highest; the hint is in the name. Obviously, there are other issues as well for any industries, but because of the nature of the electricity and gas consumption, the cost of energy ranks the highest. My members do survey basically the energy-intensive companies about what the major issues are regularly, and I am sure David can explain for the chemical industry, but across the board energy costs, in particular electricity costs, rank the highest.

David Mitchell: Yes, I would agree with that entirely. Our members have consistently said for years that energy is their No. 1 business critical, business survival issue, far and above any other factor impacting their business.

Chair: Thank you very much. Beth Barker, what about your members' views?

Beth Barker: Yes, very similar. As the other panellists have said, there are other challenges and obviously other things that can be done, but high energy costs rank the highest. This is not a new issue. It has been



going on for some time, but it has become more acute recently. It is important to think about how it impacts. It is not just the actual impact of the costs but relative to other countries, and that is where it comes to the competitiveness point.

Q184 **Chair:** Some sectors are impacted more than others. Do you want to say a bit more about that?

Beth Barker: Yes. There is some really good analysis out there, but the sectors that are most impacted are those where energy costs make up a significant proportion of their gross value added, and which are highly exposed to trade or there is a lot of international competition. There was a really good ONS report that looked at this and it was able to show how our particular energy-intensive industries were impacted more than our other sectors. You can see that the high cost of electricity correlates to the impact on industrial output comparative to other sectors.

Q185 **Chair:** Yes, we looked at evidence that the price doubled between quarter one of 2021 and quarter four of 2023. That is from the ONS, and I think that is what you were alluding to. Arjan, what is the difference between different sectors?

Arjan Geveke: First, there is a difference between energy-intensive industries and relatively less energy-intensive industries. Within the energy-intensive industries there is normally a separation between electricity and gas-intensive industries. Electricity is used for both manufacturing processes and chemical processes.

Electricity prices have probably been the highest priority because of the key electricity price differential between the UK and particular European countries. The focus has been on that, but we should not ignore the impact on gas-intensive industries as well. Although gas prices in the UK tend to be relatively competitive with European countries, they are not compared to the US or the Middle East.

Q186 **Chair:** How far is the actual cost of energy the problem, and how far is the challenge one of competitiveness because the costs are higher than elsewhere, as you have just been saying? I will start with Arjan because he just touched on it.

Arjan Geveke: At the moment—you may have picked this up in the media—it is leading to severe pressure, up to the point that businesses will have to close. You are probably familiar with steel, particularly British Steel; the Government has more or less taken over the management of the company. It has been struggling, partly due to gas energy prices as well.

I will leave David to explain what is in the chemicals, but certainly in glass we recently had the closure of Nippon Electric Glass in the UK because it was unable to compete on the manufacture of glass fibres compared to other countries. Ceramics has seen a raft of closures, like Royal Stafford and Heraldic Pottery. Johnson Tiles has moved production



HOUSE OF COMMONS

as well. These are the closures that are actually in the media. What has happened as well is that, because of these pressures, energy-intensive industries have just stopped part of their production. They do not immediately pop up in the media, but they are not using the full capacity in which they have invested. That is not sustainable in the longer term.

Q187 **Chair:** Thank you. David Mitchell, I know that your organisation used the word “crisis” to describe the fall in output in the chemicals industry. Is this about competitiveness internationally because of energy prices?

David Mitchell: It is absolutely that. It is international competitiveness. The UK used to have a pretty significant competitive advantage globally for the petrochemical sector. We, by definition, are energy intensive. Bunsen burners on the desks were there for a reason back in our chemistry lessons. You need heat, and you need significant quantities of heat. We are both electro intensive and gas intensive, and obviously with being gas intensive you bear the carbon costs associated with the consumption of gas.

However, in addition we also use gas as a feedstock. We crack some of the gases, the methanes, the ethanes, your hydrocarbons, to make the building blocks of everything we have today: everything that goes into the aerospace industry, the construction industry, renewables such as windmills, the polymers, the plastics, the coatings, food packaging. You almost cannot live without chemistry.

At the moment we face the most expensive costs globally. With multinational businesses, we have seen closure after closure after closure of historic production facilities in the UK, particularly those that are energy intensive, whether it be gas or power or both, because many members are actually intensive on all fuels, gas, and power.

There are a number of pretty major brands out there, pretty major names out there that have closed. You will have seen in the press the closure of the ammonia production plant in Teesside. That was the last remaining ammonia and nitrogen fertiliser production plant in the UK. Its American parent company took the decision to cease production and moved to importing.

If you have gas, pick a number over in America for 30 pence equivalent, and we are currently paying today somewhere between 80 pence and £1. During the gas crisis we were paying £4. You have to add into that transportation fees, levies and carbon costs. It just does not stack up.

We have seen closure after closure. The cracker in Teesside was recently announced by Sabic as a permanent closure in the UK, again moving to imports. Cracking of ethane to make your PEs, your polymers, your ethylenes, your plastic pipes that serve all our utility companies, our gas and water businesses that depend on those plastic pipes—the foundation building block is now going to be imported. It has major supply chain effects.



If you take out the core production of some of your base case chemicals, the impact on your supply chains and the impact on other businesses that use the products is pretty significant. It is like the argument for batteries. If you can get battery production in the UK, with it will inevitably come the production of cars and vehicles, and the same is true of chemicals. The chemicals feed the batteries, but the analogy is true.

Q188 Chair: There are those who argue—not necessarily represented today in this Committee—that this does not matter because as long as we can import what we need, everything is fine. What is your response to that?

David Mitchell: It is an economic argument, but ultimately it depends on what you want in the UK. It depends on what you want. If you want your foundation businesses and you want good, strong employment in STEM sectors, engineering, if you want the added value—we were a major exporter. We add about 1% GDP to the UK as it stands. That was clearly a much bigger number a few years ago. There is an argument for supporting these businesses, ensuring we have our competitive advantages, because of the consequential impacts across the wider economy.

You also import carbon. Some of our businesses are the most energy efficient because we have invested over the last few years to combat the carbon costs. Therefore, we have a much lower environmental footprint. Alternatives are produced in countries where they have limited environmental legislation, and some of them are using coal.

Beth Barker: I want to add that our foundation industries provide good, above average pay jobs across the regions, and that is an important point when we are looking at future-proofing our industry. That is why it plays an important role in our economy.

I also wanted to add an additional point around competitiveness: it is not just about the day-to-day operational competition; it is also about competition for investment. Energy costs, where they are a lot higher than other regions, lead to us losing out on investment, both of the businesses that are international and have sites all over the world, but also from financial organisations.

Q189 Luke Murphy: Welcome to the witnesses. This is a question following up what the Chair asked. There are those who argue that the sprint or the push for clean energy and renewables over the last 10 or 15 years is the driver of the problem, and that we should be fracking and exploiting more of our oil and gas. Would you agree that that is the issue—that decarbonisation itself is the issue?

Arjan Geveke: No. If you go back to the analysis of what drives energy costs, and if you go further back than a decade or one and a half decades ago, the impact of the policy cost was probably bigger—the various policy costs to support low carbon technologies were probably bigger. However, for most energy-intensive industries, these policy costs have been



HOUSE OF COMMONS

removed. Certainly, with the energy crisis that hit after Russia invaded Ukraine, it is the wholesale electricity price that has been the dominant factor in driving electricity prices.

Q190 Mike Reader: I was just going to pick up on the point you made, Chair. When we lose our sovereign production, we then have to go overseas. Particularly for chemicals, that puts us in quite a difficult position for supply chain. When industry is thinking about energy costs, do you see enough from Government on the impact of supply chain resilience, particularly, let's say, fertilisers, which now come from Russia and Turkey and countries that may have had more volatility in recent years? Does that conversation come in when you are talking as a business about where you invest?

Arjan Geveke: A little. Just to explain, I am an ex-civil servant, so I was involved in those resilience discussions while I was in government, particularly around Brexit and covid. There was a flurry of activities within government to analyse the supply chain and to identify those materials that are crucial for the economy, but when the crisis dissipates, that whole knowledge and awareness disappears.

Q191 Chair: Is it fair to say, from what you have been saying in the last few minutes, that these high energy prices are a matter of national security because of the impact on supply chains and the other points you have made?

Arjan Geveke: That is a big call, but it is certainly important. For my colleague it probably is.

David Mitchell: Yes. I think one of the major lessons we all learned through the covid crisis was the importance of supply chains and the criticality of short-link supply chains and resilience. Depending on importation is a fundamental decision for Governments in terms of how reliant they want to be on other countries, particularly for their core products.

If I can just go back to the point on decarbonisation and self-sufficiency and fuels and the impact on the environment, electrification is a major way of unlocking the decarbonisation of all sectors, including ours. You can substitute gas for electricity. You can create heat from electricity, and technologies from heat pumps and high temperature heat pumps and alternatives to gas do exist.

The problem and the reason it is being held back is that you just cannot develop a business case for investing further in existing plants—further capital, at a price of tens if not hundreds of millions—when you do not have a core business case for operating in the first place. If you could get the business case for electrification by lowering the price of electricity and you could compete internationally, it is a no brainer: you would deliver lower carbon end solutions to consumers.

Q192 Chair: Before I move on, the price has come down a bit from the 28 that



I quoted before from the ONS, but is there a price you would like to see it fall to?

Arjan Geveke: It is what Beth said, basically. It is the relatively priced differential that is key, so the UK retail price compared to the price in France, Germany or the rest of Europe, or gas prices in the US or the Middle East.

Beth Barker: One of the challenges around electrification that David just mentioned is the electricity price relative to the gas price. We would like to see electricity be competitive and drive forward that industrial electrification.

Also, just on the fossil fuel movement to clean power point, one of the challenges for industry is volatile energy prices. Being reliant in the UK on gas, and gas setting our electricity price, means that businesses have to contend with very volatile energy prices. As we move towards clean power driven by onshore renewables, we can start to provide that stability for consumers.

Q193 **Anneliese Midgley:** Thanks very much for coming in and giving evidence to us. I am going to ask questions to you all about the recently published industrial strategy and ask for your views on what it says about energy costs. The industrial strategy was published a couple of weeks ago and included a range of existing and new ways to reduce industrial energy bills. I would be interested to hear your views on those proposals.

Arjan Geveke: We welcomed the continuation of the schemes to compensate certain energy-intensive industries for the indirect emission costs due to the carbon pricing. It is a long-standing compensation scheme that Government has in place, so that got confirmed in the industrial strategy.

The other thing we welcomed was the increase in the network charge compensation scheme to compensate certain energy-intensive industries for the relatively high network charges. Probably what you have in mind is the British industrial competitiveness scheme. That scheme does not impact on the most energy-intensive industries, i.e. my members—most of them, at least.

David Mitchell: All forms of support in trying to level the playing field internationally are clearly welcome. The existing schemes and the extension of the existing schemes, the EII electro-intensive schemes to very electro-intensive businesses is very much welcome. We have about 30 members in receipt of that. There are about 200 businesses that get that package. The problem is it is only a handful of organisations, 200. We have 29 million electricity consumers. It is only targeted at electro costs. It is not targeted at heat costs coming from gas and carbon. It is one measure.

The latest announcement clearly extends it further beyond the existing pool of electro intensive, so more businesses that are high consumers,



but not intensive consumers will get some form of funding. All we are doing is redistributing money around. Ultimately, other consumers end up picking up the bill. The bill does not shrink.

While it is welcome, it is not curing the problem. The problem is that we have fundamentally too high energy costs in this country, and all consumers bear the cost of that, whether it is gas or power. Consumers are buying heat. They are buying heat as a product. With the exception of those who use methane as a feedstock, people just want what is the cost of heat; what is the cost of generating that heat?

We need to be internationally competitive, and it needs to be affordable. It is really quite simple. We need to crack the fundamental cause behind it rather than trying to tick off and add sticking plasters to certain parts of the problem. Because the existing exemptions are things like network charges, levies, the environmental levies, and subsidies for things like feed-in tariff, it only sorts out part of the problem.

Q194 Anneliese Midgley: So what is that? What would your recommendations and solutions be to get to the nub of the—

David Mitchell: We need a fundamental rethink of policy. We need to invest more and more in electrical generation. We need to shift the supply and demand balance. We need a surplus of cheap, affordable, secure power that will enable electrification. It will enable decarbonisation, and it will enable us to compete.

Until such time as we have a surplus of electricity or much greater volume of electricity generation, renewable generation, prices simply will not come down. We have moved already as a nation from one fuel to another. We went from wood to coal, from coal to oil. In the 1970s we went from oil to natural gas in the 1980s. We need to make the same step change into electricity, but the reason we changed before we moved was because it was abundant and affordable. The problem is it just is not; as we stand, electricity is not today.

Q195 Anneliese Midgley: Beth, what is your view on it, and on what the other panellists have said?

Beth Barker: We were delighted with the announcements in the industrial strategy, and we were particularly pleased to see net zero at the heart and foundation industries well linked into the growing sectors. We definitely recognise that the announcements, particularly around network and the British industrial competitiveness scheme, are great starts at making electricity costs more competitive, but we have questions around the funding and, as other panellists have talked about, how those costs are distributed and where they are met.

There are also questions around the scale. Is it soon enough and is it enough? In the document it references 7,000 businesses. That is a small proportion, something in the region of 3% of the industrial businesses. We have key questions.



In terms of what we would recommend going forward, we think it is important that the Government publish the consultations relevant to these announcements as soon as possible and undertake thorough engagement with industry about whether it will deliver the competitiveness aim that it outlines. We were pleased to see the other announcements around corporate PPAs, connections, supply chains, and what is important as the Government undertake these consultations is to understand how this package of measures works together to support industry in different ways.

I would also like to add that there was nothing in there that we have already spoken about around scaling up electrification, so we would push the Government to look at how they will support industrial electrification through targeted measures that really make it competitive. With upcoming policy around the refresh of the industrial decarbonisation strategy and the carbon budget delivery plans, we feel that there are good upcoming opportunities to say more on the long-term vision around this.

Finally, I would say—and this relates to the point around how we deal with the different costs—that higher electricity prices are, of course, a challenge for businesses, for other consumers and for households. Electrification is something that needs to be taken across the board, so we have to think carefully across the system how different measures, exemptions, discounts, and support stack up to drive that change across the system.

Q196 Anneliese Midgley: In terms of the industrial strategy so far and the consultations coming out of that, are you satisfied with the engagement from the Government in terms of listening to and taking on board the views from the sectors? All these questions are for you all, so just jump in.

David Mitchell: We wait with bated breath for the detail. We understand the policy. We understand the principle of what is being proposed. There is more clarity around the EII scheme because we understood the intent beforehand. With the new schemes there is less clarity. In terms of engagement, the engagement is always relatively good.

Arjan Geveke: The industrial strategy followed hot on the heels of the spending review and there were things that we expected to see in the spending review that were not there. They got basically moved into the industrial strategy to beef that up, like the funding allocation to DBT to continue the compensation schemes.

However, there were things in there that the Government did not announce: for example, continuation of the industrial energy transformation fund to help industrial energies to improve their energy efficiency as well as fuel switching, and the continued decision to fund the Industrial Decarbonisation Research and Innovation Centre, IDRIC. Those



got discontinued as well. If you take this as a package, there are some positives but also some real negatives in there.

Q197 **Anneliese Midgley:** You did not answer before, because I posed the question to David, about what your top recommendations would be in terms of the industrial strategy and the industrial energy costs. What would you see as a solution for this?

Arjan Geveke: My main top priority was this time the increase in the network charging compensation scheme. The second, although it impacts my members slightly less, is removal of the levies to the Exchequer, because that will help not only energy-intensive industries that are still paying these but also other businesses and households.

Beth Barker: We very much support that as well. We see it as an important way to really drive forward electrification across the board. It allows the market to accept more of the transition. It really unleashes that investment, we feel.

David Mitchell: There are other measures that would help with relatively quick wins, things like the carbon price support scheme, whereby the carbon price that is generated by the market—the UK ETS—there is a support scheme that is added on top of that. Effectively, electricity generators that burn fossil fuels, which is now only gas because coal is off the bars, have to pay a premium on top of the carbon price, which goes into the Exchequer.

That does not do anything in terms of incentives any more, because we have already driven coal off the system. We only have gas left on the system. All it is doing is adding in a premium to the input costs of gas generators, which we still need through the transition to renewables.

The other thing is the reform of the electricity market arrangements. The market arrangements were introduced 20 or 30 years ago when I was a young man at the beginning of my career. The world is quite different now. We are in a very renewable electricity generation world, and for three, four—maybe even longer—five years we have been looking at reforming that market.

There is a series of proposals out there. It is about delinking gas as the marginal fuel because gas is the principal driver of the wholesale price. The wholesale price is typically anywhere between 40%, 60%, 70%, depending on the absolute price of the market. Only today we have had press leaks and press coverage that some of the proposals around zonal have been scrapped. We have no insight as to what the alternatives are. It has not been tabled. How we can take four or five years to reform a fundamental market, when we all know that electricity costs are some of the highest in the world, just does not seem to stack up.

We need agility in a sector to deliver value for consumers and deliver employment and security. Energy is not affordable, whether you are a



HOUSE OF COMMONS

business or a domestic consumer. We need to correct that as an economy because it drives inflation. Things like the reform of the electricity market arrangements and the carbon price support scheme, there are very quick wins that could be delivered.

Q198 Anneliese Midgley: That is great. Thank you. You have all touched on the British industrial competitiveness scheme, BICS. BICS is not coming until 2027. You have also all mentioned the 7,000 businesses in terms of this. How significant is the risk that high electricity prices will lead to site closures in your sector between now and 2027 when BICS comes into effect?

Arjan Geveke: The risk is high, but that is not because of BICS. Most of my members are in the other scheme, what the previous Government called the British industry supercharger, so they are already exempt from the renewable obligation, the feed-in tariff and the capacity market. The BICS scheme is a more limited scheme and is not new for them. Since they are already in the other scheme, it does not matter for them, but they still face the pressure, basically, of high wholesale prices.

David Mitchell: I think you could say with almost certainty that there will be businesses across the board, electro intensives as well as the less intensives, which should be entitled to the new scheme. Almost certainly some of those businesses will cease operations either in the UK or beyond.

Q199 Anneliese Midgley: What near-term action is needed to prevent these closures between now and 2027, until the scheme comes into effect?

Arjan Geveke: It probably goes back to what David suggested. You can withdraw the carbon price support mechanism, which is a unilateral carbon tax on top of the UK ETS carbon price. That will lower the wholesale price somewhat. Giving quicker clarity on market reform will help. The other point is that you can take an easy decision on removing the levies instead of going to a consultation exercise and then setting up a separate scheme just to have an exemption in place again.

Beth Barker: I definitely agree with that. Removing the levies is a key way. This is why the consultation period is so key to establish this question: is it soon enough?

Q200 Chair: Thank you very much. To what extent do you think it is possible for the market to give you the cheaper electricity that you are all making a strong and impassioned case for? To what extent should the taxpayer address that?

Arjan Geveke: In the case of the market, you generally split up the electricity price into equal components. One is the policy cost. The second one is the network charging. The third one is the wholesale electricity price. On the various impacts of the levies, the market cannot do anything about this. The Government impose obligations or levies on



electricity suppliers from a regulatory perspective, which will pass it on to end consumers, energy-intensive industries or households.

Network charging is similar. It is an obligation on suppliers for the upkeep of the infrastructure and the management of the infrastructure to transport electrons up and down the country. The third one is again the wholesale price, which is set by the market, and that is a relatively competitive market.

You then go into the discussion on how the wholesale price is set, so who sets the price, and in the case of electricity it is almost perfect textbook economics. That is where the marginal supply meets marginal demand. That continues to be gas, and a recent study from UK academics showed that for the UK almost 97% of the time it is gas. Until you break that link and that arrangement in which the market participants compete and set the wholesale price, you will continue to see high wholesale prices.

Beth Barker: If we want to come back to that competitive point, in comparison to Europe where the wholesale price is being set 36% of the time—it is 7% in France and 24% in Germany—what we are seeing is that the UK market is very exposed to gas, high prices but also very volatile prices.

One very key point that we have somewhat covered already around this is that Clean Power 2030 is an important mission for driving investment into renewable energy that is cheap and reduces our exposure. As we move into the 2030s, we should be seeing lower cost generation setting that price more. Alongside the market reforms that have been mentioned on the panel, it is really important that we continue driving that.

Also, policy support that drives industrial electrification and electrification across the board also helps to provide a strong investment signal to the renewable generators investing in development of that energy source.

Q201 **Luke Murphy:** There are proposals out there on that marginal price-setting issue around gas supply for much greater Government intervention, regulation or indeed public ownership of that gas supply. I wondered what you thought of that. At the moment Government is to a degree—certainly, increasingly in the future—held hostage by a small backup supply that is needed. Have you given any thought to those proposals? I think one organisation has proposed a RAB model. Another one has talked about public ownership.

Arjan Geveke: The Government have consulted on two options as part of the first REMA, the review of electricity market arrangements, its first consultation. It had two options in there. One was splitting the market. We have a separate market for renewables and a separate market for gas. The other one was a green power pool, up to a point similar to that proposed by Professor Michael Grubb.



HOUSE OF COMMONS

The Government have dismissed them, saying basically that it is not worthwhile pursuing them because it is too difficult to make those arrangements. Those were the two options out there, which they have dismissed, but we still have not, therefore, addressed the issue with the current marginal price-setting issues. Whether public ownership sets them, it depends again. It is not so much ownership; it is the arrangements and the rules around how the market determines its electricity price.

Q202 Luke Murphy: Returning to the issue of policy network charges—I think we have covered them, but I want to make sure that we have done so fully —Electrify Industry and Make UK have suggested that policy costs can make up around 30% of non-domestic energy bills. How much are policy network charges responsible? What proportion are they responsible for in terms of how much higher UK prices are compared to European competitors, for example?

Arjan Geveke: International comparisons are difficult because all countries have different arrangements and exemptions in place, depending on industrial or non-domestic consumer groups. That makes an international comparison difficult.

The Government do publish statistics, but they do not quite capture the nuance of these things. I am going to give the Committee a tip that the Belgian federal energy regulator hires PwC every year to do exactly that assessment. We in the UK also rely on that. The proportion again depends on how energy intensive you are, and because most of my members are already exempt from the overall cost and the contract for difference cost and compensate for some of the network charges, it is difficult to basically analyse what would have been.

UK Steel has produced a report. It does that every year because the Government refused to publish a price and bill impact report, so it does it instead. That lists basically those components you were asking for the steel industry, and that is pretty replicable for other industries as well. I do not have the numbers off the top of my head, but I will send it to you after this session.

Beth Barker: In comparison to the other policy approaches in Europe, the exemptions in the UK are lower than some, so compared to Germany and France. It is a complex policy choice choosing where costs fall in the system—I completely recognise that—but that is another reason their electricity prices are more competitive than ours.

Q203 Luke Murphy: I think you have covered this earlier, Beth, because you talked about the need to look at the system as a whole. Why should certain energy-intensive industries have their usage subsidised by government schemes, such as the British industry supercharger, while smaller businesses and consumers face high standing charges?



Beth Barker: I am happy to go first. The Government have published an industrial strategy that provides a large raft of evidence, makes a clear point about how important our foundation industries are to the UK economy and links those very strongly to our high-growth sectors. We know that these sectors are particularly vulnerable because of their high energy intensity compared to their operational costs and, of course, their international competition.

For those reasons, we are undergoing an energy transition that requires a lot of up-front investment, although the CCC has published useful analysis that shows how those costs will come down over time and save us money. While we go through that transition, vulnerable consumers should be supported so that we can future-proof industry and get that competitive and sustainable industry that we have all talked about. That is the same for our most vulnerable non-domestic consumers as it is for our domestic consumers.

Arjan Geveke: To add to that, I never use the word “subsidy” because subsidy implies that you give a subsidy to a company to do something. Basically, what the Government have done with the levy exemption and compensation is they are basically reducing the policy cost that, in my view, should never have been there in the first place. So, it is not quite the same as a subsidy. What these exemptions try to do is to lower the electricity price so that these industries do not leave or stop investing in the UK.

Q204 **Luke Murphy:** As a final question from me, it is clear from what you are saying that you would like to see the Government go further in reducing electricity costs. I just had a question about the fiscal cost of that. There does not seem to me to be a world in which costs can be substantially reduced, either for domestic consumers or industrial users, without a substantial fiscal cost to the Treasury.

Do you agree with that, and do you see any other parts of the system—if there is not enough money to cover whatever it is, whether you call it a subsidy or a cost to the Exchequer, or however you want to define it—where we could not necessarily cover that, but we could find other savings to cover the cost to the taxpayer? Do you agree that it does imply fiscal cost to the Treasury? Have you got any ideas of where we could find that money in the system?

David Mitchell: It is worth remembering that here in the GB market, we have chosen to meet our nationally determined carbon contributions and decarbonise by principally attacking the generation sector first. We are one of the most progressive in terms of decarbonising our power generation, not only in Europe but across the world.

That comes at a price because we went first, and we were dealing with new technologies. We were developing offshore wind, and we had to build offshore grids. The national grid did not exist in the North Sea. We had to



HOUSE OF COMMONS

build the equivalent offshore grid in the North Sea to facilitate wind farms because we took a policy decision not to pursue onshore wind farms.

In going first and developing new technologies, new fuels and new sources, we paid a premium for deploying those technologies. As a consequence, we are left with a large bill to UK plc. It is somewhere in the realms of about £10 million per annum in terms of the subsidies that go for renewables obligation or to the feed-in tariff.

If you are electro intensive and you pass the test, you are exempt from those, as my colleagues have shared with you. Other nations do not have that bill because they have not cherry-picked their power first or they went second, third, and therefore they did it at lower cost than we did in going first.

You are absolutely right; it is a large number. Somebody has to pay for it, whether it is Treasury taxpayers, electricity consumers, or whether you exempt one party and pass further costs through to another. They are difficult decisions without a simple answer. What is clear is we have been through those early days and those early steps, and we now need to pursue in a world where gas prices have gone up.

The energy crisis we have seen through the last few years had two contributory factors. It was because globally other countries were moving away from coal to meet their nationally determined contributions, and gas is a quick win because it is a much lower carbon-emitting fuel than coal. Other countries had a dash for gas, which meant there was a dash for a precious, finite amount of supply, so the global price went up.

We are very dependent on gas because we have been burning the stuff for 200 years. It is in the vast majority of people's homes. The vast majority of businesses use it. That is fairly unique around the globe. We are dependent much more on gas. We then had the Ukraine crisis and the closure of the Russian pipelines into Europe for all the right reasons, but that meant Europe was a distressed buyer. The whole gas consequence rippled through to UK plc, so it is a difficult position.

I go back to my earlier point. There are some very quick wins. Remove the carbon price support, address the key decisions around REMA, and let's move forward and reform the market as quickly as possible. Let's remove the barriers to investment in new generation, offshore generation, onshore generation. Let's deal with the planning system.

On your point about whether the markets can raise the capital and if there a role for the Government, markets are particularly good at raising capital and particularly good at delivering projects. The Government's role is to remove the barriers and facilitate those markets doing what they are good at. That is investing in new infrastructure and renewable generation at size, at scale, at pace, so we can get through this early phase cost period and have less dependency on international markets for



gas, less import dependency, more self-security and a much greener system.

That means we can stop importing the products that we produce with energy-intensive sectors, which have a much higher carbon footprint. If we can produce them domestically with renewables at low price and compete internationally, it is a win-win-win.

Q205 Claire Young: Welcome. We have talked about the cost of purchasing electricity. I would be interested to know what role innovations in energy efficiency and on-site generation play in increasing resilience and reducing energy costs for business.

Arjan Geveke: Energy efficiency still has a role to play. Because energy-intensive industries are the most exposed to high gas and electricity prices, they are thinking of ways to reduce that exposure and minimise their energy costs, and innovation is certainly an aspect of that. Innovation also brings a degree of uncertainty with what effect that might have on your existing processes, which my members also have to consider.

In terms of on-site generation, you can put up solar PV wind farms, but the volume of electricity and the amount they can generate on site is relatively minor compared to their consumption levels. There is interesting innovation around data management and getting all kinds of data in from the market and everywhere else and from your production process and how to speed that up. The other thing is probably demand-side responses, an interesting innovative aspect, and how to participate in that. Again, it depends on how the Government set the rules for these things.

Beth Barker: I am happy to come in on this. It is an important question, and there are other ways in which we can also look at tackling high energy costs and electricity costs in particular. Energy efficiency is absolutely key, and there has already been work done in industry to reduce not only carbon but costs. We were pleased to see in the industrial strategy an emphasis on facilitating that.

I am particularly citing the Made Smarter programme, which really helps SMEs make use of the fantastic innovations around digital and software. That is important. There is so much more that can be done there if we have the right policy incentives and mechanisms and support for energy efficiency.

Similarly, on-site generation has a role. There are barriers around finance and so on, but the big one is around grid connections. I am sure this is something that you have all heard a lot about, but time to get a grid connection and the regulations around those connections can be something that blocks on-site generation projects.



HOUSE OF COMMONS

There is a role to play because renewable energy is great, particularly solar, where it is being used close to where it is being generated. Flexibility is important, a demand-side response, as Arjan said. The National Infrastructure Commission, now NISTA, released a report earlier this year on distribution networks. It made a very strong case for the role that industry can play in demand-side response in creating that flex in the system and, overall, it said that demand-side response could reduce the costs for the roll-out of the distribution network by 15%. This is an important area, and it is not new to industry. Industry has performed this role in previous energy systems so there is more to be done there to explore how this can be rolled out.

One final one I wanted to flag is energy co-operation with Europe. We were pleased to hear the announcement earlier this year in May around looking at that. I think Energy UK through its modelling highlighted the cost reduction to bills through more efficient trade with Europe around energy, so that is an important factor.

Q206 Claire Young: David, did you have anything to add on the issue of the role that energy efficiency and on-site generation can play?

David Mitchell: Yes, the chemical sector has been in on-site generation for years. Most of the major sites are COMAH sites—Control of Major Accident Hazards—so they effectively need self-sufficiency in the event that they have a blackout or a grid problem with their connection.

Historically, they have had on-site generation. They have moved into phase two over the last 20 years of combined heat and power because they use high temperature heat in their processes. There has been a pretty significant investment in CHP over the last 20 years. The challenge in moving into a renewable world is that those CHPs are typically fuelled with gas, or almost exclusively fuelled with gas. The option now is how to electrify all their heat requirements.

Arjan is right; if you have the land mass and you have the location where you can exploit renewables and invest in your own windmills, your own solar, you probably would. There is a business case with a payback period of a small number of years, and businesses have already done it.

The fundamental problem is if you are truly electro intensive you just do not have the land bank. You need megawatts of the stuff, and you cannot always site windmills next to chemical plants or steel plants even if you have the land bank to do it. Businesses are looking at more of a distributed generation to get their renewable power.

Q207 Claire Young: I want to come back to the issue that Beth mentioned—that there was a need for changes in policy and support from the Government, which suggests that you do not think the Government is doing enough to support on-site generation and the adoption of emerging technologies. Can you elaborate, Beth, on what support you would like to see? I am thinking of examples such as smart grids and energy storage.



Beth Barker: I am happy to provide supplementary written evidence on this, but what we hear from businesses is that there are challenges, as I mentioned, around the grid connection side and the regulations around that. It is something that needs to be looked at. I also do acknowledge that when it comes to generation projects, the Government and energy system planners are really focused on those big projects, so potentially time to focus on on-site generation will come. Another thing that businesses raise is around access to finance for those, so we have been pleased to see what has come out of the industrial strategy around access to finance. There are a range of measures, but I am happy to provide more evidence.

Arjan Geveke: As David said, if you have the space available and if you have the connection, putting solar PV or wind farms or batteries makes sense. Again in the total volume that electricity-intensive industry in particular consumes, it is probably relatively minor.

Q208 **Claire Young:** Do we need to add on support, either financial or policy support, from the Government?

Arjan Geveke: One thing on energy efficiency is that it does not help when the Government basically stop funding the industrial energy transformation fund. That was the support scheme to support industrial energy efficiency. The Government gave a small grant, and that leveraged in private capital, so they would get 10% or 15% and that would then trigger an 85% or 90% investment from the private company. Despite Treasury saying they would consider a continuation of the scheme, the spending review basically said no.

Q209 **Claire Young:** David, did you have anything to add, either on policy or financial support from government or on the issue of grid connections?

David Mitchell: Grid connections is a major issue. That affects all businesses large and small, particularly the larger ones. On energy efficiency, particularly if you are electro intensive or gas intensive, the business case is quite simple. It is a very few years in terms of payback and businesses have already exploited the low-hanging fruit. You would, because it is a no-brainer.

Beyond that, if you are looking to effectively rebuild your plant to full electrification with the maximum possible energy efficiency, you are looking at £1 billion-worth of investment to start from a major processing plant, whether it is steel, chemicals or cement, and you are not going to do that with a government subsidy. You must make the business case across all elements that go into that—people, energy, and everything else—and when you cannot make the numbers work on energy relative to China, America or in parts of Europe, you would not make the business case. The energy efficiency element is not the marginal element.

Chair: Thank you very much. Charlie Maynard has joined us from the Business and Trade Committee today. You are very welcome, Charlie,



and you have a question.

Q210 Charlie Maynard: Sorry to be late. I was in another Select Committee meeting and it overran, so apologies and thank you for having me. Going back to Beth's point about more efficient trade with Europe in electricity, my understanding is that post Brexit one of the things was being outside the single day-ahead coupling system. What are the steps back to get more efficient trade of energy between the UK and the EU? Are there any recommendations you have?

Beth Barker: I am not an expert on that particular area, but I believe that the announcements made on 19 May were key to starting off the energy trade. One key aspect of that was the announcement to link our ETS with that of Europe and the facilitation that will bring in terms of trade relating to the carbon border adjustment mechanism.

Arjan Geveke: Energy UK invited me to a roundtable discussion on this topic, hosted by the UCL, and the European Commission was there as well. To be honest, all the technical aspects went over my head.

Q211 Ms Polly Billington: Do you think the Government should help to develop the market for corporate power purchase agreements?

David Mitchell: Personally I am not sure what the Government could bring to the table. PPAs, power purchase agreements, are bilateral contracts between a buyer and a seller of power, and they have been around for many years. When you are a major consumer and somebody wants to invest in a solar farm next door or a wind generator, putting in a private wire or a private connection between one party and another is facilitated through a PPA. There are single contracts available. You can go to any energy lawyer and get a PPA off the table.

The problem is not the PPA itself. The problem is parties who want to invest in power and power generation, and finding a consumer that is prepared to lock into a long-term agreement with you for 30 years. If you have the option to generate power yourself, you will probably want to sell it into the grid and get the maximum benefit for it.

If you are a large industrial consumer, locking yourself into a 30-year contract to buy power at a site that already is struggling to compete internationally is a very difficult ask of your board—"Please sign up to this long-term contract with liabilities associated with it" when you might close the site in three years and face those liabilities. I do not think the PPA is the problem. It is a problem of the market and the market structure that is holding back people from developing, exercising, and deploying them. The contract itself is fairly simple, fairly proven, and fairly robust.

Arjan Geveke: Similar. Because of the huge volumes of consumption involved and the huge volumes of risk—the agreement is about who allocates the risk involved, and in the agreement where you allocate those risks between the two parties. Because of the volume, those risks



HOUSE OF COMMONS

are high, so nobody is touching that market for PPAs for any industries. There is a lot of activity in corporate PPAs in the commercial sector, but that is easy to do because the volume of electricity consumption is low compared to my members, and therefore the risk is lower as well, so you see it less or little in my area.

One of the things that the Government could do is underwrite these risks. That could be one thing, and whether that then triggers a boom I am a bit doubtful about. It is already anticipated in the strategy because this is a relatively easy way out for government because they do not have to do that much.

Q212 **Ms Polly Billington:** That is interesting. I was also thinking of the risk for the electricity generators; if something goes bust in three years' time, you have to hunt around for somebody else.

David Mitchell: Particularly when you cannot get a grid connection.

Beth Barker: I have heard similar things from the businesses I speak to around PPAs. We were pleased to see it in the industrial strategy and to see that there will be a consultation on it. I think it will be important to try to understand what type of businesses PPAs could help, how they fit in with the other policies as a package and what potential there is for the Government to support them further, whether it is underwriting, whether it is on types of contracts.

There is a big question about the role that they play in trying to drive competitiveness. We are interested, but we are in very early thinking about this internally, around the role that GB Energy can play in this and potential innovations around pooling or being an aggregator and creating a pool that businesses could buy power from, and what role that could play. As I say, it is very early days in exploring that, and something that we hope to look at as part of the consultation.

Q213 **Ms Polly Billington:** Would it work if you were to exempt PPA buyers from renewables contracts for difference costs or allow PPAs to be set against climate change agreement targets?

Beth Barker: That is something that Energy UK has recommended before.

Q214 **Ms Polly Billington:** What do you think?

Beth Barker: I think it might help, but I am not an expert on it.

Q215 **Ms Polly Billington:** So PPAs do not really work for your industries?

David Mitchell: They work exceptionally well where you have a buyer and a seller who are prepared to enter into this long-term commitment, so if you are prepared to underwrite. Essentially, as the buyer, you are underwriting the investment of the generator. They do work, and there are probably 100-plus already in place across my sector.



HOUSE OF COMMONS

It is that liability for that generator; if you cease production and you cease to take their power, you face the financial liabilities. If you go bust or claim force majeure, the generator cannot sell their output if they cannot get a grid connection. That is the fundamental problem. Getting somebody to buy your power if you can generate it cheaper than the market, because you do not have the myriad of levies, network costs, grid costs, balancing costs, is a no-brainer for a business and a no-brainer for a generator. But it comes with that fundamental challenge that it is a 30-year capital investment that needs underwriting.

Q216 **Ms Polly Billington:** Business confidence in that kind of timeframe is challenging.

David Mitchell: Yes, absolutely that.

Q217 **Mike Reader:** It is interesting to hear from you today and in other evidence how critical energy costs are, and it is good to hear that potentially if we solve that we will see lots of your members investing in manufacturing and production in the UK. I am sure there are no other issues that are stopping them from doing that.

Nissan told the Business and Trade Select Committee that the UK is not a competitive place to build cars as its Sunderland plant pays more for electricity than any other plant in the world. I realise that its other European plants are in Spain, where we see industrial energy costs of less than half of what they are in the UK, but they have a much higher proportion of renewables and much lower network charges and policy costs on energy, so there is obviously a mix there. Does Nissan's experience align with what your members have experienced?

Arjan Geveke: Yes. As I said at the beginning, it is about the relative price difference between the UK and other countries, and Nissan is a prime example of that.

David Mitchell: Absolutely. If your cost of heat per kilowatt at your plant is the same as everybody else's, you are on the same playing field. If yours is twice or three times the price and your electricity costs are three times the price, you cannot compete. Why would you?

Beth Barker: I would add an important point, which is that this competition on energy price is not a fixed target. It is very much a moving target. These conversations are extremely live across Europe in France and Germany where industry continue to also push for lower costs. Very recently in Germany they set out a new budget where they have announced further interventions on industrial energy costs. That is also something important for the Government to consider: how we are forecasting and looking forward, and not just where things are now.

Q218 **Mike Reader:** I guess we have heard the answer to my next question all the way through the session. Is this having an impact on international competitiveness? I wanted to explore that a bit more. If we did solve this energy cost issue, would that really drive investment from your



HOUSE OF COMMONS

businesses into the UK? Is that really the big issue that is stopping chemicals and so on investing in UK plc?

David Mitchell: It is the No. 1 issue that our members cite that affects their UK businesses, above and beyond any other factor within their business.

Arjan Geveke: Multinationals more or less have a budget to allocate for new investments. If you have an investment energy tender process, one of the key determinants of that is: what is the electricity price? With a low electricity price, you get a higher return and then you basically have a look at the other considerations as well, but the electricity price is quite key if you have an electricity-intensive manufacturing process.

Q219 **Mike Reader:** In a wider sense in terms of energy security and net zero, carbon impacts on pricing, of course. Where we have seen government investing in direct schemes—such as Peak Cluster, which will help clients in the MPA—does that boost business confidence as well, that the Government are taking more proactive actions to address some of the climate challenges of heavy intensive businesses?

Arjan Geveke: Yes, this helps. Again, you get some kind of government support behind you, particularly with an infrastructure project that as a collective industry you cannot bear yourself because of the cost compared to international competitors. There is investment in the CCS infrastructure as well as the hydrogen infrastructure, and that does help.

I am going to point out again that CCS is an electricity-intensive process. It consumes quite a lot of electricity, so again you cannot get away from electricity prices. The same applies for hydrogen, so we need to get the hydrogen direct from renewables. Electrolysers are electricity intense.

Beth Barker: We spoke at length today about the importance of energy costs but there are other things that make the UK an attractive place to invest, whether it be around skills and innovation, or of course transport links and other infrastructure. Grid connections are a strong policy towards renewables. There was a survey done that showed that basically business leaders are looking to move their sites to where they can access renewables.

Our carbon budget delivery infrastructure is important because it does provide that ongoing certainty to businesses around the direction of travel. There are things that the Government are doing and that they could do more of, which would also help drive investment alongside energy costs.

Q220 **Mike Reader:** The industrial strategy talks about the benefits of the Government's deal with the EU and exploring re-entering the EU electricity market. Do you think that would be a good idea for your industries?



Arjan Geveke: Yes. A smoother trading arrangement would minimise the transaction cost where Brexit caused that friction, so it will bring down the electricity prices.

David Mitchell: We are physically and commercially interconnected to the continent for both gas and power. When the Ukraine crisis, the Russian crisis, kicked off and they closed the Nord Stream 1 and 2 pipelines from Russia into Europe, there were about 100 million cubic metres of gas going from the UK into Europe each and every day. That is not a new phenomenon. We export typically around 20 or 30 million cubic metres a day in the summer over to Europe, but that is the amount we supported them physically.

Now, with electricity we have a number of interconnectors old and new. The French interconnector is 20-plus years old. We built new interconnectors with the world's longest subsea electricity connections over to the continent, so we are physically interconnected but you need the commercials to work. You need the free flow of energy physically and commercially. Even small differences in commercial contracts, arrangements, frameworks and regulations create barriers to trade. They create additional costs. They create perverse incentives, all of which gets loaded on the bill. Removing those barriers and ensuring that we have aligned commercial frameworks is key.

Q221 **Mike Reader:** So, whoever is going to do that exploration—if there are opportunities at DESNZ or it is going to be DEBATE, or whoever is owning that with the industrial strategy—we want to see that sooner rather than later to be able to benefit from those benefits you are talking about. Is that fair?

David Mitchell: Yes.

Q222 **Mike Reader:** Any final comments on that?

Arjan Geveke: As I said before, with the energy market, the UK had experience with the EU regulation before Brexit. There still should be some kind of institutional knowledge left about how that may work, how the negotiation worked then and what could work now.

Chair: Thank you very much for your evidence. It has been a significant session in our inquiry and added a lot to what we had already heard about just how serious the challenge is with industrial and business energy prices. We will suspend the session briefly while we change over the panel.

Examination of witnesses

Witnesses: Verity Davidge, David Wigham and Paul Wilson.

Q223 **Chair:** Welcome back to this afternoon's Energy Security and Net Zero Committee hearing into the cost of energy and in particular business cost. We are looking in the second panel at the scale of the challenge for



HOUSE OF COMMONS

SMEs. I will ask you to start by introducing yourselves.

Verity Davidge: Hello. I am Verity Davidge, Director of Policy and Public Affairs at Make UK, representing around 20,000 manufacturing and engineering companies across England and Wales.

David Wigham: I am David Wigham, Commercial Director at Admiral Taverns. We own approximately 1,300 community pubs. I am also representing the British Beer and Pub Association, which represents members with 20,000-plus pubs and also 85% of the beer production in the UK.

Paul Wilson: Good afternoon. I am Paul Wilson, Policy Director, Federation of Small Businesses.

Chair: Thank you. You are all very welcome, and Polly Billington will start the questions.

Q224 **Ms Polly Billington:** I represent East Thanet, which is Margate, Broadstairs and Ramsgate, heavily dependent on hospitality and tourism as our economy is. I am interested particularly in how the cost of energy impacts small and medium-sized businesses. I expect, David, you will probably want to go first, bearing in mind what I have already said.

David Wigham: Thank you, yes. It is very significant. Hospitality businesses need power to heat the pubs, to cool the beer, to cook the food and so on. The cost of energy is for most businesses the second highest overhead they face, and those costs today are running at about 50% to 100% higher than they were before the energy crisis. So, costs are higher, but that is not all down to input costs, the commodity costs themselves. We are seeing the non-commodity cost now representing a bigger part of the bill.

Q225 **Ms Polly Billington:** Sorry, could you explain the difference?

David Wigham: The commodity cost is the cost of the gas or electricity on the market, and the non-commodity costs are all the bits that get added to that. That includes the supplier's margin, but it also includes some of the levies, for example, from government, the transmission costs and so on. Most of our licensees do not see those because they just see their unit rate, but it is all in there. They do not see a breakdown, but those costs have gone up. They are now more than half of that unit rate. There are also standing charges, and they have certainly risen enormously over the past few years and in some cases are quite punitive.

The other dimension we see to it is out-of-contract rates. We see supplier behaviours around out-of-contract rates really penalising small businesses. Right now, at today's rates, energy is more expensive if you are on a contract, but businesses have adapted. It is making hospitality even more challenging, but if you are on out-of-contract rates it is unbearable, I would say, at the moment.



HOUSE OF COMMONS

Q226 Ms Polly Billington: It is probably best for me to ask Paul this. Are certain sectors or types of SMEs more vulnerable to energy price volatility?

Paul Wilson: It is interesting to look back at the experience from a couple of years ago when prices really spiked. What we saw among our membership was that hospitality were the ones who were most affected, in terms of potentially needing to consider closing down or radically restructuring as a result of the spike in prices. Obviously, they are not the most energy intensive, but the issue was that they are not necessarily as far ahead on their energy efficiency journey as more energy-intensive businesses.

Their customers simply cannot afford to pay increased prices, so they might have put up their prices to a degree, but they knew that if they went any further to cover the full increased costs that they faced on their electricity or gas bill, their customers simply could not afford to do it. They probably had relatively low reserves coming out of the covid pandemic. Putting all those together we found hospitality, retail and manufacturing were the top sectors who were telling us that they were struggling to continue were it not for the help that came in at that time.

Q227 Ms Polly Billington: Verity, I would like to ask you about this, because you represent those small manufacturers in the supply chains.

Verity Davidge: The UK has consistently had higher industrial electricity costs in the UK compared to our international competitors—46% higher than the International Energy Agency member countries—so already there is a huge competitiveness challenge.

While we are no longer at the 2022 kind of crisis levels, the challenges around energy costs simply have not gone away, so 70% of our manufacturing members said that it was one of the biggest challenges for their business in the year ahead and 86% are concerned that energy costs are going to rise ahead in the next 12 months. It is very alarming and is very much at the forefront of their minds.

Increasingly we see that energy costs are taking up a larger proportion of business costs. Over a quarter of our members will say that now electricity costs alone are between 11% to 25% of their total business cost. That is huge, and we have not seen that move backwards. In terms of what impact that has, on the whole it stops businesses investing. It stops them growing. It stops the creation of good quality jobs in our economy. At the operational level it increases input costs, it is squeezing margins and essentially it is stopping industrial growth, and you cannot get economic growth without industrial growth.

It is for that reason that Make UK came out very strongly ahead of the publication of the industrial strategy to say it would be fundamentally flawed if it did not tackle industrial energy costs. What we have seen with the announcement of the British industrial competitiveness scheme—



HOUSE OF COMMONS

BICS, if I can shorten it—is a huge step forward from where we are, but it needs to move faster and it needs to go further. We already know it is not going to come into place until 2027.

There is a question mark about how many businesses can cope until then if we see those costs rise. Let us remember energy costs are not the only business costs rising right now. Also, the coverage. It is great for us—7,000 manufacturing businesses will be eligible—but there are about 140,000 in the economy, so again we are only scratching the surface. So faster, fuller coverage. The other missing piece is: how long will this scheme last? It is fundamental that it is not a sticking plaster, but that this is a long-term policy, because otherwise we are back to the problem that we will only get investment with certainty. At the moment there is still a lot of the devil in the detail, and we are waiting for the consultation, whereas ideally we would have had that consultation published on the day that the announcement was made.

Q228 Ms Polly Billington: David and Paul, would you add to what Verity has said on that?

Paul Wilson: In terms of?

Q229 Ms Polly Billington: I was thinking particularly about only scratching the surface, needing it to be more long term and those kinds of things.

Paul Wilson: I think it is unlikely that many of our members will qualify for BICS going forward. To be honest—I think we will come on to talk about some of the other things that the SMEs and small businesses in the middle who are not affected will need to help them—in terms of that particular policy, the concern that we have, and what we hope to be reassured on by the Government, is that the costs will not be borne by the businesses who are not within the 7,000 covered by the scheme. Hopefully, that is something that the Committee can look into as part of this inquiry.

David Wigham: I am not familiar with the BICS scheme, so I will defer to my fellow panellists on that.

Ms Polly Billington: That is quite interesting in and of itself. Thank you.

Q230 Chair: Paul, who do you think should bear the costs?

Paul Wilson: I think that that is a question for the Chancellor. The danger is with already 60%—

Q231 Chair: Sorry; I am going to stop you there. You are here to give evidence to us. Who do you think we are looking to for recommendations?

Paul Wilson: Previously, costs have been covered by windfall taxes, I believe. I also think it would be better to look at general taxation rather than looking to add another cost on to energy bills.



Q232 **Chair:** You want to put our constituents' taxes up. Okay.

Paul Wilson: I do not want to put constituents' taxes up, but I am really concerned about the 60% of non-commodity costs that are on an SME's energy bill.

Q233 **Chair:** Okay, so taxes have to go up. That is your view. David, what is your view?

David Wigham: I just think that energy must be affordable for small businesses, and that is the bottom line. They are already struggling to meet costs as they are now, and we need to protect small businesses. The way things are now, businesses have been damaged, sometimes fatally, by some of the market dynamics. I do think there is a case for making sure we provide protection to small businesses.

The energy market is complex. Most of the businesses I represent are small, family-run businesses. They do not have the expertise or in fact the time sometimes to delve into things, so they need protection, and we have the responsibility as a country to provide protection for small businesses in the way that we do for domestic consumers. These are not far removed. In fact, a lot of our pubs have domestic accommodation and people live on site, but they are not covered by domestic protection.

Q234 **Chair:** So, who should pay?

David Wigham: I do not think small businesses in the hospitality sector can afford to pay any more. We have to find a way. I am afraid I do not know the answer, but I do not think it is small businesses that can take any more of the burden.

Q235 **Chair:** If not small businesses, that sounds like tax from somewhere else.

David Wigham: Well, we are not the only consumers in the market. There is big business, and again I am not familiar with—I know you have had other panels in here stating their case, but I think, as you have just heard from Verity, for small businesses the proportion of costs represented by energy right now leaves them with little option.

Q236 **Chair:** Your answer is identifying just how difficult this is; I accept that. We are trying to tease out recommendations that we can put to the Government, but you have probably gone as far as you can. Verity, any recommendations from Make UK?

Verity Davidge: I would say that if it were to move to general taxation, there is a strong argument that we would be unlocking considerable economic growth and providing more good jobs. In terms of that return to constituents—more jobs, better quality jobs, higher levels of pay.

It is very difficult, because we have just had a press announcement and no more. My reading is that the Government are looking to fund it via the EU ETS. I believe there is a German version of the model where they



HOUSE OF COMMONS

have removed levies in Germany, and utilising the EU ETS and auctioning off and redistributing those funds.

I am happy to provide more written evidence on that, but that seems to be where the Government were leaning towards. The answer would therefore be that they would not put it on to general taxation, and again the reading of what we have seen so far suggests that they will not. It is such a complex model.

Q237 Chair: Okay. My question is: what do you recommend? What do you want to see?

Verity Davidge: We would then opt for what they have done in Germany. I think we would steal with pride there, rather than move towards general taxation. I do not think that is what anyone particularly wants. That is always a last resort.

Chair: Okay. We would be very interested to hear a bit more about the German scheme. That would be helpful.

Q238 Mike Reader: Before I begin, I should just declare I am a member of the all-party parliamentary beer group, and we had a very good dinner last night at the annual parliamentary beer awards, supported by the British Beer and Pub Association, just in case there is any suggestion of conflict. We had a lovely milk stout last night with dessert.

We are looking at business energy caps, and we had some interesting evidence from the BBPA on that. Households have a price cap to protect them from extremely high costs, and businesses do not. Is there a case for introducing a regulated cap for businesses? I will perhaps start with Verity.

Verity Davidge: I think back in 2022, when energy prices rocketed, we came out publicly and called for an industrial energy price cap. What we received subsequently was the energy bills discount scheme. There are lots of schemes, and it is hard to remember the acronyms behind them. That immediately discounted the cost of electricity and gas and gave businesses an immediate cut, but it was short term.

When we surveyed manufacturers towards the end of last year on what government action they would like, again they said an industrial energy price cap. I think how viable that is has a question mark. Our alternative that we put forward to the Government ahead of the publication of the industrial strategy was a two-part package. One was removal of policy costs, policy levies, which we have seen the commitment to in the industrial strategy. The second part, which I think is something to put as an alternative as you are looking for recommendations, was a demand-side contracts for difference model.

In simplistic terms we would say that the Government set a strike price, which we pitched at £56 per megawatt per hour, which would make us internationally competitive but not quite the £45 to £50 rates that France



HOUSE OF COMMONS

and Germany have, and that if it goes above that strike price, government would subsidise industry, and if it goes below, industry pays in. You could have it as an opt-in model so therefore you share the risk, so it could go up or down, but also businesses can decide whether they want to take that risk or not.

There are other alternative models that are more palatable fiscally but also put the onus on to businesses. They know it is a challenge, but they could decide whether or not to opt in. I would say, yes, there is a case for an industrial energy price cap but there are other models on the table that perhaps we should explore.

Q239 Mike Reader: Paul, we heard from EDF, and it felt that that was not appropriate, because SMEs have their own usage patterns and requirements. For your members, would a price cap work, given the variety of them?

Paul Wilson: There is a strong case for extra consumer protections for the smallest businesses. Most micro business owners will have a similar level of understanding as a domestic consumer and a similar amount of time and ability to engage with energy contracts. There are other solutions that might be put in place before a price cap that is akin to domestic consumers. For me one of the most obvious ones is a cooling off period. The households get 14 days in which you can cancel your contract.

If that were in place, it would deter a lot of the mis-selling and pressure selling that our members report to us, because if you have someone on a bad rate they can come away from it in the next few days. Broker regulation is another area. At the moment they are not regulated. We hear reports from members and 19% of our members say they sign up to a contract just because they are being hassled by a broker or a supplier and to get them off their back.

If consumer protections cannot be extended to the smallest businesses—I think that would be really sensible—yes, I can see a case for a similar to domestic price cap being extended.

Q240 Mike Reader: Do you think Ofgem is doing enough to address transparency and make sure customers are treated fairly in the business sector?

Paul Wilson: I think Ofgem should be doing the 14 days cooling off period. I think on transparency they have developed a good code of practice that we fit into that is helpful. The problem is the sheer complexity of what is being charged for. You can lay it all out on a bill but that does not necessarily make it more comprehensible and understandable for us—or for me, anyway.

The key moment to make sure you are being super transparent is at the point when you are agreeing a contract and you understand exactly what



HOUSE OF COMMONS

you will be paying going forward, exactly what is fixed and exactly what is variable. That is where I think we need more protection.

Q241 **Mike Reader:** David, the BBPA did recommend to us that a price cap would be appropriate particularly for their sector. Do you think that sector-specific caps, like for hospitality, where there is such an economic and social benefit from the sector, would be appropriate?

David Wigham: From our point of view, yes, absolutely. I would call out the hospitality sector. We had price protection on market prices back in 2022 through the EBRS, and to a degree that helped when prices spiked, but it did not cover all of the excessive costs. It only covered a band of it. If that happens again, we need protection. But, as I said before, the non-commodity costs have crept up and the EBRS did not cover those. Anything we are looking at in future should look at the total costs.

As I said before, when businesses are on agreed contracts, the rates are more competitive, but as soon as they are not and they are on out-of-contract rates, there is no regulation around this—what levels are charged, what duration is charged—and we have seen quite a lot of cases where businesses have been badly damaged by the level of those rates.

I am not aware of any prescription from Ofgem that determines how the suppliers behave in those situations. I think we can help businesses through some regulations around their behaviours, but also if market prices do spike again, we need some protection for small business in the hospitality sector.

Q242 **Mike Reader:** Verity, anything more on regulation?

Verity Davidge: It is helping businesses sometimes to help themselves. The vast majority of our manufacturing members understand their energy bill. Their frustrations come from what they cannot control, which is back to the commodity versus non-commodity. One of the ways in which we can support small businesses to reduce their bills is by helping them buy better.

Many of our members are quite risk averse, and what they tend to do is to buy fixed price fixed term contracts and fire it out and forget it. They have other operational things that they need to be getting on with and frankly it sits with them, the MD, because they do not have all the other people to do it. That convenience comes at a cost, and if there were better support to help businesses procure their energy better, they would reduce their bills.

Some of our members' experiences of third-party intermediaries have been sometimes quite positive. We have not just had the negatives. Yes, you must pay for it, but they have seen the cost in hedging their bets a little bit; taking out a more flexible long-term contract is worth it. There is a lot we can do just to help businesses buy better.

Q243 **Chair:** Are you giving your members this advice?



Verity Davidge: Yes. We work closely with an organisation called Inspired Energy and we put on webinars, and we offer all the information and material to say, "Well, there are people who can help you get a better deal" and we have good testimonials about that. It just depends on how educated and informed those businesses are, but as a trade association we see our role as playing that education and awareness part.

Q244 **Chair:** Are the BBPA doing anything similar, David?

David Wigham: Yes. We guide members to take advice from third party intermediaries, and we see good advice being given by them. We get feedback from those intermediaries as well. One of the things they have fed back to us though is that sometimes they find that suppliers are unwilling to supply our sector. I will give you an example. As a company, we went to market in the last quarter of last year and out of 15 companies we approached, we only had one that was willing to supply our company with power. Most of that was down to not wanting to engage with our sector. That is certainly one of the areas that our TPIs feedback—that limitation of choice—and they are very mindful of the behaviour of some of the suppliers and try to make sure they direct our members and pubs to suppliers that they trust.

Chair: Interesting. Paul?

Paul Wilson: If I may follow up on that point, we have heard cases not where there is a failure to supply but where very high deposits have been requested from certain sectors, including pubs. Another example is a laundrette who was just simply renewing with their own existing supplier, and they were asked for a £16,000 deposit at the point of renewal. This was a couple of years back when prices were high, but you can imagine with their cash flow already being in a difficult situation what that did to them at that time. The level of deposit being requested is another thing it would be good to have a look at.

Q245 **Chair:** Yes. If you have more evidence in writing on those areas, that would be very helpful to us, as always.

David, I will come back to you. Your industry has a system of a relatively small number of pub companies with tenancy pubs. What do the pubcos do to support their tenants with energy bills?

David Wigham: First, we have a relationship with them. We review their energy situation regularly and we give guidance and advice. We use brokers to try to make sure that we direct them towards getting on to contracts, and then when we do get into situations where a licensee has an issue, we direct them to the ombudsman. The extension of the ombudsman's remit last year was helpful, and we are starting to see more referrals go through now, albeit I have to say that the most recent one I saw did not result in the outcome we were hoping for. I think there is something there to look at in terms of what the ombudsman is using as their point of reference for making decisions. We are advising and



supporting, and we do give financial support to pubs as well. Where we can see that they just need support to get through the current situation, we do that.

Q246 **Chair:** Thanks very much. Verity, I am interested in the scheme you are advocating for manufacturers. Would that apply to other parts of the economy?

Verity Davidge: We have proposed a scheme purely for the manufacturing industry, because at the time—back to the cost—we estimated that it was quite a significant cost, but also we offset that against the potential for economic growth. I think yes, absolutely, it has potential for expansion particularly if you do an opt-in. It is up to the businesses themselves whether they opt in or they decide not to, and that is a far more flexible sustainable and long-term policy option that provides that stability for inward investment and growth in the economy.

Q247 **Chair:** That is very interesting. David, what do you think of that idea of this CfD approach and an opt-in process?

David Wigham: Can you just expand that a little bit for me?

Verity Davidge: So the Government would set a price—we have pitched a price—and if it goes above that price, then the Government subsidise it, but if it goes below that price then industry pays in. You could have an opt-in. We have suggested one year; I imagine the Government would want to push us to three. Therefore, you always have that decision of whether you want to be internationally competitive when it comes to the cost of electricity.

David Wigham: Who is opting in? Is it the consumer?

Verity Davidge: The business.

David Wigham: Yes, that does not sound massively dissimilar to what we had during the EBRs time when there was that band that government covered—

Q248 **Chair:** So potentially in hospitality. Paul, do you have anything to add?

Paul Wilson: It is an interesting idea. I think I would want to look at it more closely before I came to a position.

Chair: A sensible response.

Verity Davidge: I can send you all the details, Paul. It is fine.

Paul Wilson: Great.

Chair: Thank you. That is very helpful. We have been joined by Sarah Edwards from the Business and Trade Committee. You are very welcome, Sarah, and I think you have a question on this topic.

Q249 **Sarah Edwards:** Yes. I am moonlighting here. On the Business and



HOUSE OF COMMONS

Trade Committee—obviously, you came to speak to us the other week, and thank you very much for that—we have heard so much about the problems of energy rates. We have gone around the country and heard that continuously, and I have had issues in my own patch, to the point where I have now started crusading on this point because I think it is so damaging to our businesses.

The point that I want to put to you today, though, is around a similar idea to do with a cap but also with the fact that we have completely unregulated brokers who are whacking huge profits, in some cases, on top of that kilowatt hour. If we capped the deemed rates when you move into a property, what do you think of that? They are being used as an artificial level to say, “You are going to get a great deal from me”—the energy supplier—because it is 10 pence less than the outrageous deemed rate that they are not supposed to be profiteering off, but they are, and then people are locking into multiple years on that.

I know I have heard evidence of that, and I am sure you have examples of that. The suggestion here from the Energy Consultants Association, which I have been talking to, is that that would help to bring the baseline across without necessarily needing a cap, although it is not to say that there are no other ways. That is one area that could work.

David Wigham: I could not agree more. I think absolutely when businesses move into a supply company and they end up on deemed rates, those rates are excessive. We see behaviours that result in that period on those deemed rates again being excessive. In some cases, the debt that exists at the end of that means it is not sustainable. That supplier is then able to retain that supply, because you cannot leave a supplier under the current rules if you have debt outstanding, and the thing becomes a downward spiral.

I absolutely think a cap on the cost of deemed rates and the duration and the circumstances in which they can be applied. I had a great example recently where we had a business start at the back end of last year, moved in and applied for a supply from the incumbent supplier. It took over six months, and that is partly because one of the things requested was a letter from a solicitor to validate that they were a legal occupier. They could not get that initially; it took time. That is one of the new REGO requirements.

At the end of that, they had a bill of £17,000, when it came through. That was all charged at out-of-contract rates—at deemed rates—and during that time they did not receive bills. So, a bit like your example before, Paul, a small business found that they had a £17,000 bill to pay at that point. It is hard putting away cash to meet bills of that nature, and then of course you are left with a debt to that company and cannot leave. It is, exactly as you say, an area that needs attention and needs to be addressed.

Q250 **Sarah Edwards:** That is very helpful. Paul, what are your thoughts? You



HOUSE OF COMMONS

probably have examples as well.

Paul Wilson: I completely agree. It is not an idea that we have come up with. However, it is a very clever idea, and it would be helpful. When we saw a number of suppliers go bust during the energy price crisis, we saw a number of businesses moved on to deemed rates, and then they came under huge pressure to sign up to a long-term fix at a time when the market prices were very high. I think because they came under that pressure, some of them signed deals that maybe they would not have had to if they had been able to take a bit of time to think about it. They also signed those deals because then they would qualify for more government support.

What we then saw was the need for those businesses to go to suppliers and ask if they could blend and extend those contracts because they were so uncompetitive. Some did a little bit around that, and others did not. It is a very good idea from that perspective to avoid being under the pressure to sign this fixed contract at potentially not a particularly good rate.

Q251 **Sarah Edwards:** That is great. Verity, you might have a slightly different take on this, but it would be interesting to hear your thoughts.

Verity Davidge: I think in principle yes. Fundamentally, a manufacturer would look at it that it may slightly reduce their energy bill, but by how much, so how much are they paying per megawatt per hour? That is how they think. Removing policy costs immediately reduces a manufacturer's bill by about 15%. The model that we are proposing would reduce by £10 per megawatt per hour. I think because they are bigger users of energy, it would probably be seen as a great part of a package but not a silver bullet.

Q252 **Sarah Edwards:** No, I recognise it is not a silver bullet, but the Committee is looking for all the different pieces of the puzzle to help bring this down.

Verity Davidge: In that case, yes; it is not something they would discount at all.

Q253 **Luke Murphy:** You have touched on this a bit already, but what financial support should be available to small to medium-sized companies to mitigate their energy costs?

Paul Wilson: I would like to see a lot more support for energy efficiency. What we have seen in the last couple of years is that small businesses were not very resilient to increases in electricity prices. While many small businesses have taken steps in terms of energy efficiency, there is probably quite a lot more low-hanging fruit out there, but there are a number of barriers.

There is a cost barrier when you are making an investment; there is a knowledge barrier. Most of our members do not have smart meters and



HOUSE OF COMMONS

they do not necessarily know what steps they need to take. There is a control barrier if you are a tenant and your landlord is the one in control of making those investments. There is a huge opportunity for the Government to focus resource on saving energy and that benefit compounding over many years.

We would have loved to have seen the Government announce an extension of something called the west midlands business energy advice service pilot, which is an energy efficiency scheme that attacks all those barriers at the same time. You get an energy audit, and if you qualify for it you get grant funding towards some of the cost of energy efficiency. You must put some money towards it yourself as the business owner. We think that that is a really good scheme, and we think something like that should be extended across the country. Unfortunately, that opportunity was not taken up at the spending review, but I hope that DESNZ can revisit that decision.

Verity Davidge: I absolutely agree with Paul on how we support businesses to become more energy efficient and agree we want to see the roll-out of the advisory service. Likewise, and it was mentioned on the previous panel, we were hugely disappointed that the industrial energy transformation fund no longer has a successor as we were led to believe that it would. It was not perfect. It was quite difficult for SMEs to access, and even for SMEs there was a £75,000 threshold, but it was something and we have gone from something to nothing. If you ask a manufacturer what the biggest barrier to energy efficiency is, they will say the upfront cost of capital, and we have taken away that scheme that allowed them to do so.

I would also say that we have seen some great innovations on energy efficiency through the Made Smarter programme and we have seen again strong commitments from that in the industrial strategy. We just need to ensure its longevity because if there are programmes and funding that work, let's keep them and roll them out, not create something new and replace them. Again, it is how we can help companies help themselves.

Also on business rates relief, on energy efficiency—something I think we are all very passionate about—we have had business rates relief on green technologies and building improvements, but it is always just for 12 months. The payback cycle for most manufacturers investing in green technologies is three to five years. We need to start aligning policy interventions with business investment cycles otherwise they simply do not work. We have a lot of good things that we can work on, but we need them for the longer term, and it is back to that certainty point, because only then will businesses make those long-term investment decisions.

David Wigham: In the absence of support being available, the company I represent has been investing in pubs. We have been putting energy management devices in. We spent over £3 million putting those in. We have been putting more insulation in and double glazing, trying to bring



HOUSE OF COMMONS

down just the consumption of energy. That is our investment, and anything that the Government can do to support that would be greatly welcomed.

The other area that would help is a freer market in which to switch supplier. We find people who are stuck on high rates, so if it was easier to move between suppliers and take advantage of more competitive rates. At the moment it is not a free moving market. It is not operating efficiently, and we find people are tied to certain suppliers on penal rates.

Q254 Luke Murphy: What do you think could be done to make it a freer market in that sense?

David Wigham: A couple of things. I think an obligation to supply would be helpful, so you cannot pick and choose your sectors. Beyond that, I presume Ofgem could have a remit to set some expectations around the speed with which customers can move between suppliers, and the circumstances in which they can move. Just because you have a debt with one supplier, it should not stop you moving. If you move and you get on to better terms, you have more of a chance of repaying that debt because you are on lower costs, but customers get stuck with the existing incumbent supplier, so I think some prescription from Ofgem that allows that freedom of movement and then Ofgem monitoring the behaviour of suppliers.

Consumers that are in distress do not need fees heaping on top of debt when it is already there by energy suppliers, so I think some rules around that and Ofgem overseeing it. The guidance that came out with the Retail Energy Code recently was guidance. It is not rules. We have seen suppliers picking the ones that they like out of that and not necessarily benefiting small businesses, which I think was the intention. So, I would say more prescription and more monitoring by Ofgem, I presume, to make sure that businesses can freely move around and take advantage of the suppliers who are willing to offer better rates.

Q255 Luke Murphy: What do you make of previous interventions such as the energy bill relief scheme? How effective were they?

David Wigham: At the time it came into being, we were in a crisis, the energy crisis. It was of value, but some businesses still failed. It was not enough. It did not reach all businesses, and it only covered a band of cost. There were costs above that that it did not cover, and it only covered the commodity cost, not the non-commodity costs. As I have said a couple of times, they have now become a much bigger part of the equation. I would go back to the lessons learned from that and use them to inform any approach we take in future.

Verity Davidge: It was a necessary lifeline at the time. It did the job, and the successor to that scheme then focused on energy and trade-intensive companies, which I think is when a lot of industries and businesses fell out of the scope of that second scheme. It was the lifeline



HOUSE OF COMMONS

that was needed, but it did not address the fundamental challenges of high electricity costs, so bigger reform is needed. At the time, it just discounted the cost of electricity and gas rather than moving us towards lower electricity costs and increased electrification of the industrial sector.

Paul Wilson: I agree with much of that. It was absolutely essential at the time. We would have lost so many businesses if it were not for EBRs. Now, learning the lesson from that, we do need to invest in being more resilient in the future. The problem we had was that so many businesses were just left with an incredibly unenviable set of options.

A manufacturing member of ours saw their bills go from £10,000 a month to £60,000 a month, so they are left wondering how long they can ride out making a loss. They certainly cannot increase prices to anything like that, and they do not have that number of investments, so do they just close down? For businesses like that, EBRs gave them a fighting chance. But if it happens again, which hopefully it will not, we just want to be that much more resilient.

Q256 **Luke Murphy:** Paul, would you be able to write with more detail on the west midlands scheme that you mentioned?

Paul Wilson: Yes, I would be delighted to.

Q257 **Claire Young:** We have heard that BBPA members are particularly concerned about the lack of transparency and clarity on non-commodity costs. Starting with David, how can businesses be better informed about this and the factors influencing their energy bills?

David Wigham: The bills that I see for small businesses do not break down those non-commodity costs. You see a unit rate and then you see a standing charge. I think that if you put them on to bills, they would get even more difficult to read because there are lot of component parts in those non-commodity costs. If there was somewhere they were available, visible, on a website or whatever, that would help.

My main concern is the fact that those non-commodity costs have grown. It is not just the suppliers adding into there; it is some of the levies and things. They have become a big part of the issue. Small businesses that I represent see the unit rate and the standing charge. Those standing charges have gone from being pence to being pounds. In extreme cases, we have seen £50 a day, some of these costs coming in, whereas before they were pence per day.

There has been a real shift in the composition of bills. I have to say that in the bills that I look at, they are visible, they are just high, but the breakdown of non-commodity costs is not on the bills, and I would not advocate putting them on. I think that they would get even more difficult to read. However, they should be visible somewhere.

Verity Davidge: I agree that it should be made publicly available. The Government have just published their new business growth service with



HOUSE OF COMMONS

all the support that is out there. You could share that information on there. It would also be good if they could share what the price is today, because they have to go to those third-party intermediaries and brokers to find out and they have to put all of their trust and their cost into them to get the best price. Therefore, there is that transparency and awareness piece. If we have this new business growth service that is, dare I say it, a one-stop shop for support, that seems like a natural place to go.

Paul Wilson: I agree with much of that. There is not necessarily a win to itemising everything on the bill. The win would be better transparency in general, so that if you have someone—a supplier or a broker—calling you up and quoting a rate, you can quickly check online to see if that is actually competitive. I know that it can be difficult, but I have a background looking at legal services, which are even harder to price than energy, and there is some interesting stuff that the regulator for solicitors has done on transparency. I do wonder if Ofgem can do more to get suppliers to have information that is readily available and updated regularly on the website that would allow you quickly check, “Is what I’m being quoted fair and accurate?”

Q258 **Claire Young:** Staying with you, Paul, what measures are in place to ensure transparency in our domestic energy pricing and to protect businesses from unfair practices at the moment? Are they adequate?

Paul Wilson: On the transparency side, as I mentioned, Ofgem’s guidance is helpful on the transparency side of things. It would be helpful to require suppliers to put more information on their website to help aid that comparison. Otherwise, the things that we would like are not so much about transparency but are more about regulatory protection. It is broker regulation, and it is cooling off such that if things remain untransparent, you are not trapped into something that you have been bamboozled into over the phone.

Verity Davidge: I would echo Paul’s points. That cooling-off period is particularly important. Again, learning lessons from 2022, that is when we saw so many companies say, “Wow, I’ve been locked into something. I can’t get out and I don’t know what to do”. There was that panic at a time when businesses needed handholding and support. We agree with FSB’s recommendation there about including a cooling-off period.

David Wigham: I would agree entirely with the points made.

Q259 **Claire Young:** David, how have energy suppliers communicated changes in pricing or contracts to your business, and do you feel that those practices have been transparent and fair?

David Wigham: They tend to publish them on their websites. I do not see the communication that goes directly to small businesses, but we have seen those, particularly those deemed rates and standing charges, creeping up. Obviously, if you have contracted rates, that would be



HOUSE OF COMMONS

agreed at the outset. So that should be clear, and they should not change until you come to the end of a contracted period.

This inconsistent picture of standing charges and hourly contract rates, with no consistency or explanation as to why they are what they are, is a real issue, and I do not think that that is communicated clearly. Why would one supplier charge this for an out-of-contract unit rate and standing charge, and another supplier be at very different rates?

When a customer goes into supply, pretty much as you said, Sarah, they find themselves on deemed rates initially. They then might choose a rate but when they come back off that, the deemed rates and standing charges are in the background. They do not see those. They are not what is being offered upfront; they are just in the small print. That area is one that needs attention. We find a lot of businesses end up on those out-of-contract rates and get stuck on them, and they are just not sustainable.

Q260 Claire Young: Do you have any suggestions for how to tackle that?

David Wigham: There was a document from Ofgem back in 2009 that said that they should not be unduly onerous, but that was not defined. From what I have found, looking around, that is all that there is out there. There needs to be better definition as to what is fair to charge as an out-of-contract rate and what is the justification from going from a £1 a day standing charge to an £18 a day standing charge just because your contract has ended. Nothing has changed physically. There should be hard lines issued by the regulator as to what the parameters are. They should not just be guidelines; they should be hard lines, and they should be more specific than they currently are.

Q261 Sarah Edwards: As you know, I have been crusading on this one. Last week I led a debate on commercial energy billing, which is a fascinating subject when you start to get into the real details of all the scandals that keep going on. I have a company that I have been supporting in my own patch through the Energy Ombudsman process. It was eligible before the expanded remits, but I cannot say that I am impressed with the ombudsman at all.

A lot of the stories that are coming to me are similarly unimpressed, because it does not seem to have the teeth at all. It is now able to represent businesses of up to 50 employees. On one hand, that is good. The problem is that it lacks the expertise to be able to make the right decisions. These are quite complex commercial contracts and previously it was very much dealing with a more domestic setting. What is your experience of the ombudsman, and do you think that it is fit for purpose or that its eligibility should be expanded?

David Wigham: I will go back to the example that I gave before, that one pub with a £17,000 bill. That got referred to the ombudsman, who did not find in favour of the consumer. I did not see the detail; I just saw the outcome. I can only assume that it was because they deemed that



the supplier was entitled to charge their out-of-contract rates. There is nothing illegal about that at the moment. Also, the information that the supplier requested to transfer on to a contractor was information that they were allowed to ask for under the REGO guidelines. That being a small, busy new business, doing everything it had to do, it just took six months.

I am assuming the ombudsman looked at it and thought that there was no breach of any laws, so it did not find in favour of the consumer, even though you look at it and think that it is a very unfair outcome for that business. Based on that one example I was disappointed, but I do not have enough examples to say that that is a judgment on the ombudsman, beyond that.

Paul Wilson: We have heard members disconnected with what they see as the wrong or inconsistent decisions being made. That is true also in terms of experts in the market who I speak to. I have to say that wherever we deal with ombudsmen, that tends to be an issue, and it is not unique to the energy market. In principle we are quite a big supporter of ombudsman services.

The justice system is overburdened already. It is so expensive that it is beyond the reach of small businesses. Therefore, things like making it eligible for those with up to 50 employees is a good thing. I have a question in my mind about whether the maximum payout is sufficient. It has gone up to £20,000. Given the size of energy bills that we are talking about, I fear that that does not seem enough, and £50,000 might be more appropriate.

Preparing for this session and looking into it, it is quite a complicated landscape because you have things like the dispute resolution organisation that has been set up, which is also somewhat like an ombudsman, and it is hard to understand. To avoid it getting any more complicated and hopefully make it a bit simpler, that would be helpful.

Q262 **Sarah Edwards:** One thing that has been raised with me is the fact that there is absolutely no clarity on how on earth it came to a decision about the case. In the instance of the business that I have supported and reconstructed its accounts, it is owed over £4,000 from the energy supplier. During the ombudsman process, the energy supplier did not stop pursuing it, and did absolutely nothing to comply with what should be a break period to figure that out. Then they filed in our favour, saying that, yes, it does owe us money, but still absolutely nothing has been done, and it is a £200 fine. A £200 fine is insulting.

In the six months since they have expanded their remit, they have used one fine to the maximum amount. I do not think there is enough confidence that there is any punitive reaction to when a company gets it wrong. I think that they will keep going as they are, because I am not sure that there is any work being done by Ofgem to deal with that, or the ombudsman. I am interested in gathering those stories that say, "Hang



HOUSE OF COMMONS

on a minute, in principle it's a good idea and we agree with it, but does it have any teeth and is it doing what we need it to do?"

Verity Davidge: I agree with that, because I do not think that we have lots of evidence of the performance of the ombudsman, first because there is probably a lack of awareness and, secondly, because of the criteria point, because it is fewer than 50 employees, but also around turnover and energy use. You are probably wiping out a whole load of companies that could benefit from a good-performing one, but that is why we as a sector probably have not had that evidence about the performance directly.

Q263 **Sarah Edwards:** It is interesting, because there is an onus on the supplier to make its customers aware, when it enters into a dispute, that the ombudsman service exists. In theory they are being told about that 50% of the time, from the figures that the ombudsman itself gave me, when I asked it directly. However, I do not know of anybody who really does know about it. You end up in a dispute, but you may or may not get told.

David Wigham: A supplier has eight weeks to resolve queries, so I suspect that many do not go to the ombudsman because people do not have the time or energy to go through that.

Q264 **Sarah Edwards:** They are going to go under in that time, aren't they?

David Wigham: Absolutely. Some suppliers are hard to engage with. They are hard to contact and get responses from. We get that feedback a lot. Then you have an eight-week period to wait, unless you get a deadlock letter, and then the ombudsman process takes its time. When people are busy running businesses and they are in critical situations, they do not have the time or awareness to do that, even if they are directed to the ombudsman.

We have a case going on at the moment. We have been billed by a supplier for a property that we have not owned for three years, so we are clearly not liable for it, but we are having to go to court to defend it because we are outside of the ombudsman's guidelines, even the expanded ones. It is an expensive exercise for us.

Q265 **Sarah Edwards:** A lot of businesses have told me that they do not have that capacity, so it falls to: are they going to do it, or are they going to leave it and let them get away with it, or are they just going pay it? If they end up in a dispute, they also end up with their credit rating being hit, so they cannot deal with it and they cannot move supplier. It is an endless cycle.

Verity Davidge: It just feels like a lose-lose for a business operating right now, of high energy costs and locked into certain contracts. If they want to get out, they have a dispute, and no one is going to help them fix it. What do you do as a business owner? I am not surprised that many think, "I'll just move on, I've got other things I need to be doing". Energy



costs and what is happening with energy is just one part of what is in a business owner's mind right now. It is a really difficult and challenging time, so anything that we can do to improve these kinds of practices, the better.

We need to move fast because many businesses are still hit by the autumn budget, they are hit by rising business costs, they are not feeling the support that they need right now. Things that we can do like that feels like low-hanging fruit that we can do immediately to help businesses and say that government policy is here to help them create more jobs, but that needs a quicker communication than we are doing right now.

Sarah Edwards: That is very helpful. Thank you very much.

Q266 **Ms Polly Billington:** I suspect that you have told us everything that you will want to tell us under this question, but I will ask it anyway, to give you an opportunity to totally mop up. Are the Government doing enough to support SMEs with reducing their business consumption and costs, for example on advice and support available for SMEs? I know that you are doing a lot. Is there other stuff that you think the Government could or should do?

David Wigham: I have already spoken about the business energy advice service, and that is absolutely critical. We would like to see the Government look at what can be done within things like the warm homes plan to make certain things eligible for small businesses, things like boiler upgrades and insulation. That is worth looking at. The situation that we would like our small businesses to get to is that they know what a good energy efficiency option is, and they have access to the funding to install it.

I look at a good example of a hospitality business. It saw its bills increase by 150%, and it installed double-glazing and energy-efficient lights. It invested in itself. That is good energy efficiency, but what I see too many small businesses doing is what I would call bad energy efficiency, desperate energy-saving measures where they shut off one room within the pub or literally one floor within a hotel, which I heard about. That is because they do not know what they can do, and they do not have the funds to do it even if they did.

The other thing that I would flag up by way of helpful information that Government can provide is that there is a really good website, UK Business Climate Hub. It is backed by the FSB, other business organisations, the broader initiative and the Government, but it is only used by 8% of small businesses at the moment. As the Government roll out their business growth service, it would be great to see that UK Business Climate Hub featured there and hopefully driving more awareness of what you can do within your sector and where the funding streams might be. That is the bit that I would add to what I said earlier.



Verity Davidge: As I set out from the start, we want immediate fundamental cost cuts, which would be, for us, removing of policy costs and levies. That longer-term fundamental reform, as I have set out, is our contracts for difference model. Then there is helping companies buy better. That is awareness, transparency, making sure that they know that sometimes a 12-month price fixed-term contract might not be the best deal for them. Then, as we have touched upon, there are energy efficiency measures. If the biggest barrier to energy efficiency is the cost of capital equipment, there is currently no real support measure to help that, and we have the evidence base there.

With things like business rates relief, there are things that we can already do within the system and just improve them or lengthen them. Or you could get more creative. We have full expensing; we have annual investment allowance. We had the super deduction at one point. Is there a super deduction for energy efficiency and decarbonisation, if we really want to move at pace? We have to think of all of those things as a full package. There is a strong need for government policy intervention but there are things that we can help businesses do with a bit more education and awareness.

David Wigham: Consumption reduction. We are already taking action to do what we can without government support. Hospitality businesses tend to need energy at peak times, so if there is anything that we can do to try to recognise that and how costs are applied—but you need the heat and power when you need it.

We talked through the actions that we would like to see to bring down the actual supply cost to small businesses. Without going back through those, there are actions that can be taken that relate to the behaviour of suppliers rather than just the actual market costs of the commodity and the transmission and so on that goes with it.

Q267 **Chair:** You just mentioned behaviour of suppliers, David, which anticipates very nicely what I was about to ask you. Is there anything that suppliers could and should do that will be very much in their interests because they will generate more customers as a result, that will help SMEs?

David Wigham: Yes, I do. The market is dysfunctional as it currently is. To a large extent suppliers are not easy to access, they do not have great levels of customer service. We come across frustrations all the time from consumers with the companies they deal with. If suppliers made themselves more accessible, with better service levels in place, there is business there to be won by good suppliers.

However, with things like a consumer being tied to their existing supplier and unable to move because they have debt, allowing that freedom of movement and the better suppliers to emerge—if we had a much more functional market and more competition that drove better standards of



service and naturally drove better pricing, that is where I would like to see us get to, and we are not there at the moment.

Paul Wilson: I add the point that I alluded to earlier on deposits. If suppliers can commit to not taking disproportionate deposits, that would give them a competitive advantage vis-à-vis those that are, and that would help. The point that David makes on not leaving customers trapped is really important. Can suppliers look at what is a reasonable fee to get out of a contract in the same way that domestic consumers can pay a much smaller amount? They are not just charged the full contract price. That does seem a little disproportionate and perhaps something where better competition between suppliers would help.

Verity Davidge: I agree with the deposit point. That was always the biggest challenge in 2022 and afterwards. Many of them were locking into longer-term contracts but they were trying to get the best price. However, it was the deposit side of asking for a significant deposit at the time when you are not sat on a lot of capital. We want to prevent that. We hope that we will never face another 2022 crisis, but we do not know what is around the corner. Putting those measures in place to make sure that that does not happen again would be a huge benefit to businesses.

Chair: Thank you very much. Mike Reader will have our final question.

Q268 **Mike Reader:** This is a very minor one. Paul, you mentioned the warm homes plan. How do you see that working for business? What is the recommendation there? Sorry, I did not quite follow.

Paul Wilson: If I understand rightly, things like the boiler upgrade scheme sit within the warm homes plan. Some small businesses are eligible, but take-up has been extremely low. We are talking about 200 businesses. I do not know if that is due to a lack of awareness or anything like that, but a small business would obviously potentially benefit from energy efficiency measures. Plan A would be to do something that is specific for businesses, a business energy advice service, something like that. Plan B, if not possible, look at what is possible within programmes that have been funded, things like the warm homes plan, and whether the smaller businesses can be made eligible for the grants that are available there.

Mike Reader: That would be quite beneficial where you have people living on premises, like in pubs.

David Wigham: That is just not reflected in how things are in the market for pubs at the moment. They are just treated as businesses, but they are homes as well to the families that live and operate in those pubs.

Q269 **Mike Reader:** On the advice service, didn't you say that there already is one offered by industry? Should Government offer that if industry is already providing an advice service?



HOUSE OF COMMONS

Paul Wilson: There are two different advice services. There is the website that I was talking about, the UK Business Climate Hub, the Government industry collaboration on information. That is there and that just needs awareness to be raised about it. The business energy advice service is a scheme that is specifically being piloted in the West Midlands, not by industries, but by Government and by the combined authority, and we would like to see that rolled out more broadly.

Q270 **Chair:** Luke Murphy asked you earlier to write in to us about that. That would be very welcome. Having said Mike's was the final question, there is always one more. Are businesses more likely than domestic users to engage with retrofit schemes, or less likely?

Paul Wilson: With what type of schemes, sorry?

Chair: With retrofit schemes, installation of energy efficiency and other measures.

Paul Wilson: I have not looked at the data for domestic users, so I cannot answer that, but I can go away and look and share the data that we have on what our businesses have done by way of measures.

Chair: That would be helpful, thank you. David, any insight?

David Wigham: By retrofitting, do you mean energy reduction measures? My company is doing it, but for independent pub operators to be given access to it, I think that they would take advantage of it if it were available. There are all minded to bring down what is their second-biggest overhead for their business.

Q271 **Chair:** In your sector, it sounds like you are probably ahead of the domestic market in installing energy efficiency measures.

David Wigham: We as a business. There are many businesses like ours who are doing the same. We got shocked by what happened in 2022 with the cost of energy, which meant that many businesses were not viable. We are now doing it while the energy prices are at an acceptable level, or manageable level, at the moment, because there is always the fear of what is around the corner. Bringing consumption down is one thing that we can actively address while we are also getting the cost of supply down.

Verity Davidge: The manufacturing sector is building improvements to become more energy efficient every day and using the technologies that are available to do so. That is why things like business rates relief—it is small fry, but it is important. It is less about driving incentives and more about removing disincentives, because that is always the challenge. Will this add more to my business rates bill, and therefore am I going to face a significant cost against the cost I would get from being more energy efficient?

Chair: Thank you; that is a very good place for us to finish. Thank you,



HOUSE OF COMMONS

all of you, for your excellent contributions to our inquiry, and thank you again to the first panel. I saw lots of nodding behind you, David, from one of the first panellists, so there is a lot of overlap. That brings us to the end.