

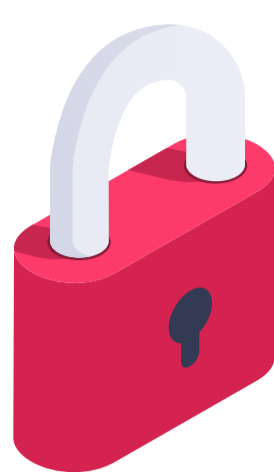
UNDERSTANDING THE ENERGY BILL DISCOUNT SCHEME

To assist businesses with their energy bills beyond the initial 6 months of support provided by the Energy Bill Reduction Scheme (EBRS), the UK Government has introduced the Energy Bill Discount Scheme (EBDS). The EBDS is much less generous than the EBRS but will run for a full 12-month period, from the 1st of April 2023 until the 31st March 2024.

There are two tiers of support, one for all UK businesses and one for Energy & Trade Intensive Industries (ETII). The discounts are based on a 'floor price' to unlock a discount up to a maximum discount. The table on the right shows the floor price and maximum discount available for all UK businesses and for those ETII businesses.

	Gas		Power	
	Floor Price	Max Discount	Floor Price	Max Discount
General	10.7 p/kwh	0.697 p/kwh	30.2 p/kwh	1.961 p/kwh
ETII	9.9 p/kwh	4.0 p/kwh	18.5 p/kwh	8.9 p/kwh

The ETII discount will only be applied to 70% of a businesses consumption with the remaining 30% being charged at the prevailing unit rate.



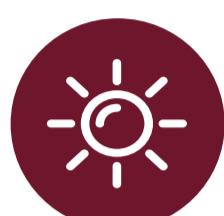
FIXED CONTRACT

As per the EBRS, discounts on fixed price contract unit rate will only be applied if wholesale prices were above a certain price threshold on the week in which the contract was locked in. It will also only apply to contracts locked in AFTER the 1st of December 2021. In order for suppliers to ascertain whether the wholesale rates were above the 'floor price' the government will need to continue running the weekly update of average wholesale prices.

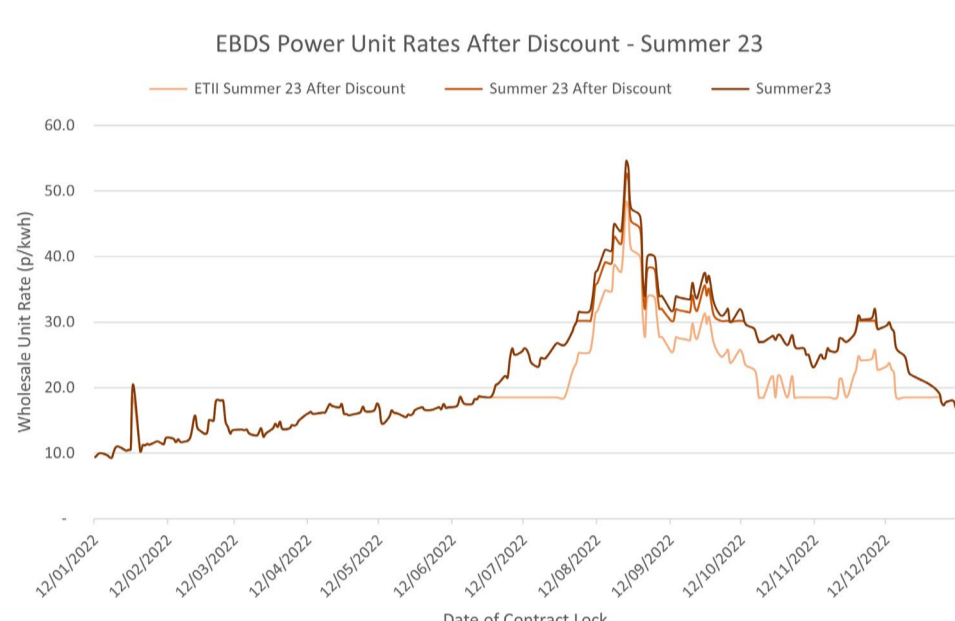
The charts below show the BWS market index tracker with discounts applied based on the EBDS methodology, for gas and power, and for the summer 23 and winter 23 seasons. Although the BWS index tracker is a daily tracker and not a weekly tracker, for the winter 22 season the BWS tracker was a good match with the published government wholesale rates.



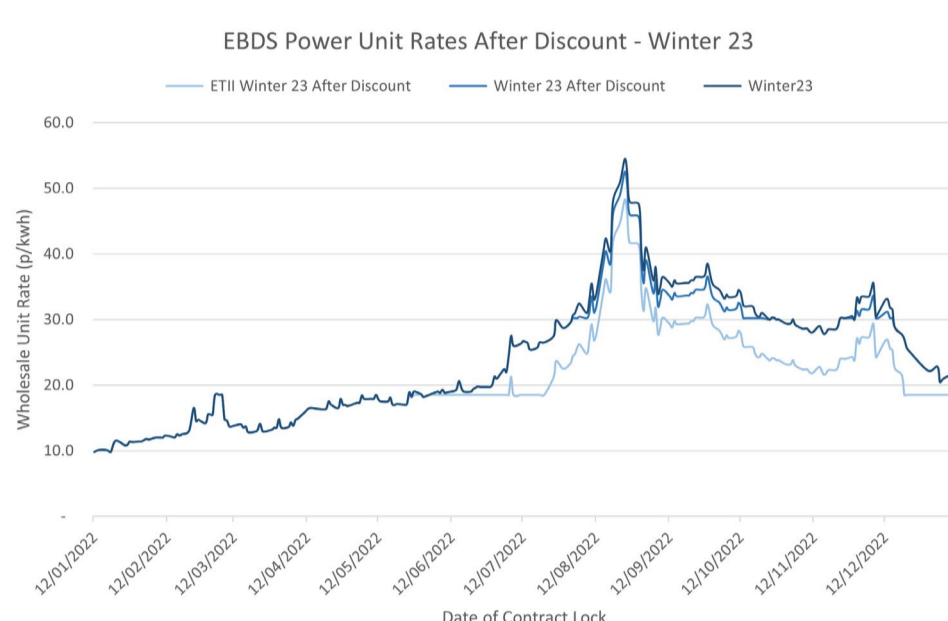
The wholesale rates and discounted rates shown here only include the wholesale element, which for a fixed price contract is rolled up into a single unit rate which includes wholesale, non-commodity, supplier fees and margins.



SUMMER



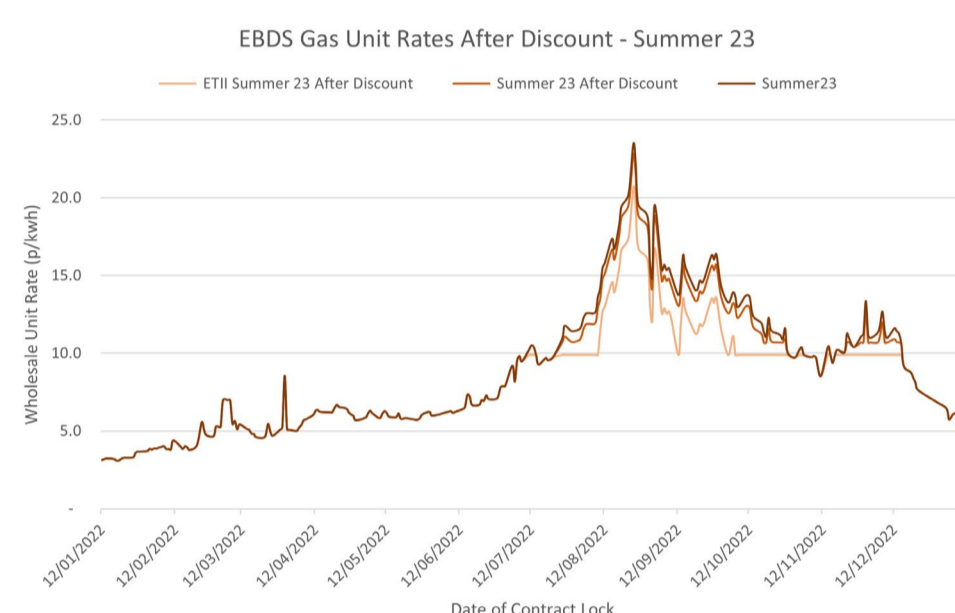
WINTER



POWER

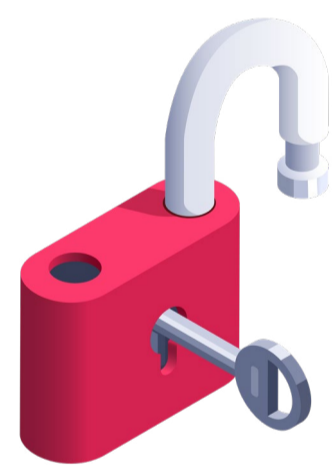


GAS



- bw** From this analysis, it is clear that support will only be provided to businesses that locked in long-term contracts during the peak period of July through to December.
- bw** For general businesses (not ETIIs) the support provided is very low, particularly when it only supports those that locked in during the peaks, the actual percentage being discounted is only around 3-5% of the wholesale unit rate.
- bw** For ETIIs, the support is more generous, up to 30% of the wholesale rate in some instances, but will still leave businesses above that floor price if they locked in contracts during the absolute peak of August to December.

For variable and flexible contracts, the same maximum discounts apply and will be phased in if the wholesale element is more than 30p/kWh for electric and 10.7p/kWh for gas. For ETIIs the discount kicks in at a lower rate, 18.5p/kWh for electric and 4p/kWh for gas.

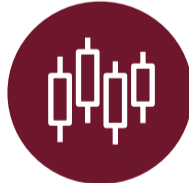


FLEX CONTRACT

Flexible contracts will get the discounts mentioned above applied to their bills if the unit rate achieved for any given period is above the price threshold.

It's worth noting that flexible purchasing has been a standout success for many businesses this winter, to the extent that many have not needed the EBRS support. The reason for this is that whilst the future pricing curves have been at historic highs, the true cost of energy nearer the point of delivery has been outperforming the EBRS support price so far this winter.

There is a common misconception that you need to be a really huge organisation with millions of pounds worth of gas and electricity consumption for flex to make sense, but that simply isn't the case.



Standalone Flex - bespoke trading strategy if the volume is big enough. Allows you to trade energy volume on the wholesale market, benefiting from low 'day ahead' pricing and locking in future volumes where it makes sense to do so.



Basket - pools energy volume from multiple businesses and trades this aggregated volume, giving them more 'blocks' to trade than they would get from a standalone flex contract. Aside from this the benefits are the same as a standalone flex.

DEEMED RATES

For those who will be out of contract come the 1st of April, the maximum discount will almost certainly be applied to all deemed rates as they are all currently way above the threshold. Despite this discount being applied, even for any ETIIs achieving the bigger discount, businesses on deemed rates will be paying a huge premium on their energy compared to getting into any kind of contract.

We also anticipate this 1st April window being one of the busiest in history, with many businesses choosing to push their 1st October 2022 renewal on a further 6 months to get the EBRS discount locked in. This means that the majority of those October renewals, plus all the 1st of April 2023 renewals all coming to the market at the same time. This is going to put huge pressure on suppliers to process these renewals in time for the contracts starting.

	Gas		Power	
	p/kwh (Fully Delivered)	After Discount	p/kwh (Fully Delivered)	After Discount
corona ENERGY	19.85	19.153	88.15	86.189
TotalEnergies	15.41	14.713	62.99	61.029
smarterenergy	26.63	25.933	71.15	69.189
drax			76.27	74.309
npower	28.408	27.711	74.88	72.919
sse Energy Solutions	15.94	15.243	85.24	83.279

BUSINESSWISE EXPERT SUMMARY



DAVID FORD,
CLIENT RELATIONSHIP DIRECTOR

For most businesses, the EBDS will provide no support. If you follow the logic through, the only businesses that have unit rates exceeding the price thresholds will be those that locked in medium-long-term contracts during the July to December period, when unit rates were at all-time highs and the EBRS discounts were 'to be announced' and then only in place for 6-months from October to March. We know that most businesses took 6-month contracts to get them to the end of the EBRS period.

To put the price thresholds into context; pre-2021 we would have expected a range of 4p/kWh up to 8p/kWh for electric and 1p/kWh and 2p/kWh for gas on the wholesale markets. This means that businesses are being expected to fund 100% of the energy cost increases up to the thresholds, which are around 5-8 times higher than pre-2021 levels.

ETIIs are the exception, as the support kicks in at a lower threshold. This is also assuming that these businesses locked in medium-long-term contracts when markets were at their peak. An added point on ETIIs is that only 70% of their volume will get the discount, so it is not nearly as attractive as the headline reads.

The ETII inclusion list was always going to create winners and losers, with some businesses set to miss out due to their official SIC code as registered with companies house. Although there will be grounds to apply it is not certain how this will be dealt with. For example some industries that are not included in the ETII list as it stands:

- bw** Agriculture, Forestry, Fishing have been excluded from the ETII with a couple of exceptions, mainly if they are processing meat, poultry or fish or if the operation is linked in any way to a dairy operation.
- bw** Some manufacturing industries have not made the ETII list, notably many automotive categories, electrical equipment, machinery, some chemicals industry categories, and some food industry categories.
- bw** Wholesale, retail, accommodation, leisure, & food service industries have been omitted from the ETII list. This will come as a real blow in particular for the hospitality sectors who would have been paying for some support over this period.
- bw** Education and Health sectors have also been entirely excluded from the ETII list.

- Notable inclusions on the ETII list which we would not normally associate as being energy intensive include:
- 9101 Library and archive activities
 - 9102 Museum Activities
 - 9103 Operation of historical sites and buildings and similar visitor attractions
 - 9104 Botanical and zoological gardens and nature reserve activities