

ENERGY BILL RELIEF SCHEME – FINANCIAL SUPPORT FOR BUSINESSES BEYOND MARCH 2023

Yesterday (January 9th) the Government finally announced the detail of financial support for business energy bills beyond the 31st of March 2023 when the current scheme ends.

The current scheme, which came into force in October 2022, effectively capped the maximum amount a business would pay per MWh of energy – the exact value depends on the type of energy contract but has been estimated to cost around £20bn to the Treasury.

The Chancellor made it clear in November that the Scheme would be scaled back from April and there has been much speculation about what would happen, with an expected announcement before Christmas finally made on the 9th of January.

This briefing details the key aspects of the scheme beyond March and how it will affect cold chain business as well as highlight several areas where the new scheme is still unclear. The full government announcement can be found [here](#).

Summary

- From April 2023, energy support to business will be significantly scaled back from the current level, with the government estimating the cost at around a quarter of the current scheme.
- The new scheme will be a fixed discount on wholesale energy prices, not a cap and last until March 2024.
- Some sectors will qualify for enhanced support worth roughly 4 times that of the basic scheme. Some cold chain businesses might be eligible for this, however the government is yet to publish full criteria and how businesses can apply.
- The CCF will continue to highlight in our media and lobbying work the impact of this policy on businesses in the cold chain and consumers, including the case for all cold storage operators qualifying for the enhanced discount.

The Energy Market

It is important to recognise the current status of wholesale energy prices and the UK economy to put the new scheme in context:

- Wholesale energy prices have been falling significantly over the last few months, they are now below the what they were before the war in Ukraine began, however are still approximately 4 times higher than when the energy crisis began in autumn 2021.
- Currently, the reduction in wholesale prices have not been reflected in bills and tariffs. This is partly due to the way energy is purchased (hedged) by the energy companies and also caution over

future volatility, but the Chancellor has written to the regulator, Ofgem, to outline concerns over the energy companies hesitation to pass on the lower wholesale cost.

- [This website](#) provides a good tracker of the 'day ahead' and 'season ahead' gas and electricity wholesale prices.
- The government is under significant pressure to reduce spending as we enter a recession in 2023 and as a result it was widely understood that the current level of energy bill support was unsustainable beyond March.

What will happen to bill support after March 2023?

Effectively the government is gambling on wholesale rates remaining lower than they were in 2022 and that this will filter through to business energy tariffs to the extent that minimal support will be required beyond March.

Initial reports that support for business would be halved have not materialised and the government estimate that the new scheme will cost £5.5bn, about a quarter of the current scheme, however the support will not be spread evenly across sectors. In summary:

- From the 1st of April 2023 the current Energy Bill Relief Scheme (EBRS) will end and a new scheme, the 'Energy Bills Discount Scheme' (EBDS) will come into force.
- The Energy Bills Discount Scheme is open to businesses who are:
 - On existing fixed price contracts that were agreed on or after December 1, 2021
 - Signing new fixed price contracts
 - On deemed / out of contract or standard variable tariffs
 - On flexible purchase or similar contracts
 - On variable 'Day Ahead Index' (DAI) tariffs (Northern Ireland scheme only)
- Although the scheme sounds similar it is a completely different design. Instead of setting a maximum price for electricity and gas, the EBDS will offer a fixed discount on the wholesale energy price, as long as it remains above a minimum threshold.
- Your bill is made up of a number of components of which wholesale costs is one (the largest), the others being network costs, VAT and other taxes. The EBDS only applies to the wholesale energy price element of your tariff.
- The discount for most businesses will be set at £19.61 per MWh hour for electricity (with a price threshold of £302 per MWh) and £6.97 for gas (with a price threshold of £107 per MWh) and continue for 1 year – to the end of March 2024.

- These thresholds mean that if your tariff's wholesale price of energy drops below the above values, no support will be paid.
- To what extent this reduces a specific bill come April will depend on the individual tariff, but with many currently paying hundreds of pounds per MWh, a discount of £19.61 per MWh is a significant reduction on what is currently being offered.
- [Some analysts](#) have calculated that this is an 85% cut in support for the average business, down to around 6.5% of total bill costs.
- Day ahead or 'spot' prices are currently significantly below the threshold rate for this discount at around £150 per MWh, but business energy tariffs do not currently reflect this reduction.
- The government has recognised that for some sectors who either use a higher proportion of energy, or are exposed to international competition, an enhanced level of support is required. This is where it gets complicated for operators of cold storage.
- Some sectors will receive a much greater (over 4 times) £89 per MWh discount on electricity wholesale prices (with a lower threshold of £185 per MWh) and £40 per MWh on gas (threshold of £99 per MWh). This is a significantly better package than what is being offered to most businesses.

Will cold storage operators receive the high discount rate?

- Eligibility has been determined by an analysis of energy and trade intensity as set out [here](#), from which a list of qualify SIC codes has been produced.
- The SIC code system of business classification does not work well for cold storage with businesses tending to use a variety of codes depending on their specific operation.
- There are a number of codes included in the proposals for the higher rate potentially relevant to some cold chain businesses – specifically food manufacturing and dairy, however [transportation and storage codes](#) are not included:

SIC Code	Description
10.11	Processing and preserving of meat
10.12	Processing and preserving of poultry meat
10.20	Processing and preserving of fish, crustaceans and molluscs
10.51	Operation of dairies and cheese making
10.85	Manufacture of prepared meals and dishes
10.86	Manufacture of homogenised food preparations and dietetic food
08.99	Manufacture of other food products n.e.c.

- There is no additional detail on eligibility or the application process yet, which the government has said they will publish by the end of March.
- We know some cold stores operate under the 'Processing and preserving' SIC codes (see your companies house entry if unsure), usually along with other codes. It is not clear whether a site operating partially under one of these codes will be eligible – we will press for further information on this ahead of the full eligibility criteria being published.

Although further clarification is required, it is likely most cold storage businesses will not qualify for the enhanced discount. Those operating dairies and food manufacturing facilities may qualify subject to the full guidance.

What happens next?

The Cold Chain Federation believe there is a strong argument that cold storage businesses should be eligible for the additional support based on our high energy use and increased need for energy in the summer months, however previous analysis for the climate change agreement suggests we will not be able to meet the current criteria of energy and trade intensity.

We will however continue to work for our members to try to clarify who will qualify and urgently make the case for cold storage operators. Specifically, we will;

- Raise the issue of cold stores receiving the enhanced support to Defra officials and ministers, starting with a meeting with the Defra Minister next week.
- Increased media activity on the impact of the scheme to the cold chain. See today's Telegraph for a quote from Shane and the [Sun website](#).
- Scope a related campaign on how SIC codes do not accurately classify cold stores and clarification on eligibility for those registered under multiple SIC codes including one of the qualifying codes.

As you calculate how the new EBDS scheme will impact your business, it would really help us to understand how you assess your costs increasing based on current estimates and what this means for your operations.

FOR FURTHER INFORMATION OR QUERIES PLEASE CONTACT TOM SOUTHALL OR SHANE BRENNAN.