

ENERGY NEWS



ENERGY INDUSTRY NEWS

THE GOVERNMENT HAS ANNOUNCED HELP FOR BUSINESSES WITH THE RISING COST OF ENERGY.

Clear support has been announced and is welcomed by businesses to offset energy prices that have dramatically increased in recent months.

What help will there be?

The government will cap the wholesale rate of energy at £211/mWh for electricity and £75/mWh for gas for all businesses that have signed a contract **on or after 1/4/22**. This is the equivalent 21.1p/kWh and 7.5p/kWh. This cap will be in place from 1/10/22 until 31/3/23. The government will also review extending this help to 'vulnerable' industries.

Is this the rate I will pay over winter?

No. The wholesale cost of the commodity is only part of your total energy rate. Once the cap is applied, we estimate prices to be in the region of 35-45p/kWh plus standing charges etc (elec) and 10-12.5p/kWh plus standing charges (gas) depending on where you are in the country, meter type, consumption profile etc.

What is my wholesale rate?

For fixed customers, the government will take the wholesale rate of the energy on the day your contract was agreed.

They will then calculate the difference between the wholesale cost on the day your contract was signed and the capped rate and apply that discount. An example the government gave is as follows:

A medium-sized manufacturing business uses 200 MWh of electricity and 1,600 MWh of gas each month. They entered a fixed contract in August 2022, giving them a current monthly energy bill of around £560,000. At the time they signed their contract, wholesale prices for the next 6 months were expected to be higher than the government-supported price of £211/MWh for electricity, and £75/MWh for gas, meaning they can receive support under this scheme.

The difference between expected wholesale prices when they signed their contract and the government-supported price is worth £360/MWh for electricity and £90/MWh for gas, meaning they receive a discount of £215,000 per month, reducing their original bill by more than 35%.

Are we best to stay 'Out of Contract' over the winter?

Categorically no. The maximum help is being suggested at 40.5p/kWh for electricity. We expect prices out of contract over the winter to be above £1.00/kWh, before the government's help. Following this method, once the discount is applied, you would net a rate of above 60p/kWh rather than the estimated 35-45p/kWh.

What can I do to maximise the benefit of this help?

If you already have a contract agreed: you do not need to take any action. The discount will be applied automatically.

If you still are yet to agree on a contract to cover the winter: our recommendation is as to follow the Enexus Step Plan.

- **STEP 1:** Take a short-term contract to cover winter (e.g. 6 months from winter). This will be very expensive on paper but will benefit from the government's help.
- **STEP 2:** At the same time, take out a follow-on contract from April for (18 months if possible), to result in a 24-month term.

Winter 22/23 is by far the most expensive period for wholesale energy.

By following this solution, you benefit from the government's help for this period and don't let the wholesale cost of this winter needlessly inflate your prices after the government's help ends.

If you would like to speak to us about our Step Plan, or any other energy issues or queries, please do not hesitate to contact us.

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Additional information for flexible purchasers:

Larger businesses that purchase in flexible frameworks will also benefit from the government's help. The detail here is a little lighter, but as we understand it, the cap will be applied to all months over this winter and the discount will be calculated from your hedged position for that month – rather than the government's wholesale price estimate. We believe the maximum help of £405/mWh will be in effect, so to take full benefit of the government's help you must keep individual months' average price below £616/mWh.

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