

# Defining “Micro-business”

## Context

So far, the place of business consumers, particularly micro-businesses, within the new consumer empowerment framework has not been addressed in detail in this series of workshops. Parallel streams of work, notably BERR and Ofgem’s consultations on redress associated with the Consumers, Estate Agents and Redress Act 2007, have however highlighted a number of views on how micro-businesses might be defined. This paper provides a summary of these positions and presents, where available, figures to assist the discussion.

In the work outlined above, there are essentially three views on how micro-business might be defined.

- (1) European Commission’s definition
- (2) BERR’s current working definition
- (3) A definition proposed by the ENA

### **(1) European Commission’s definition of micro-business**

The European Commission defines a micro-business as one which has fewer than ten employees and a turnover or balance sheet total of less than €2 million.<sup>1</sup>

According to BERR statistics, in January 2006 95% of the 4.4 million SMEs in the UK had fewer than 10 employees.

### **(2) BERR’s definition**

In their initial consultation on consumer redress schemes for gas, electricity and postal services under CEAR, BERR put forward the European Commission’s definition. Respondents from industry, however pointed out that they would be unable to easily assess whether or not a small company had fewer than ten employees or a turnover of less than €2 million. The suggestion was made that usage thresholds would be more appropriate in the gas and electricity sector, so suppliers can easily determine whether a particular customer should be referred to the redress scheme.

With this in mind BERR proposed using the size of a customer’s annual bill as one way of establishing a threshold. Accordingly they suggested that a business with an annual energy bill of less than £5000 would qualify as a micro-business. This level is the same as the upper threshold for actions brought in a small claims court and the upper threshold for a claim under the Telecommunications Ombudsman scheme.

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<sup>1</sup> On 6 May 2003 the Commission adopted a new Recommendation 2003/361/EC regarding the SME definition which replaced Recommendation 96/280/EC as from 1 January 2005.

Ultimately BERR have the final say on the micro-business definition for the energy and post redress schemes. No final decision has yet been taken on that definition. In their decision document published in December 2007 they have proposed to enter further discussions with energy businesses, energywatch and Ofgem to see if it is possible to find a better and more practical proxy for the £5000 level.<sup>2</sup>

One problem with using annual bill size to define micro-businesses is that fluctuations in energy prices will mean that customers move in and out of the micro-business group. A way around this might be to put absolute usage thresholds in energy terms.

Analysis undertaken by Ofgem in December 2007 helps to illustrate this and to put the £5000 figure given above into perspective. This work showed that if maximum usage thresholds for micro-business were set at 73,200 kWh for gas and 12,000 kWh for electricity, then this would imply maximum annual bills of around £2000 for gas and £1000 for electricity based on prices at that time. These thresholds would bring at least 70 percent of enterprises within the micro-business definition.

energywatch remain concerned that the £5000 limit would still see many small businesses excluded from the new arrangements.

### **(3) ENA Proposed Definition**

In their response to Ofgem's consultation on the Approval of Redress Schemes in the energy sector, the ENA suggested defining energy customers by "profile class" for electricity complaints and by annual usage threshold for gas complaints.

Profile class is contained within the MPAN which is available to both suppliers and distributors.

The ENA have therefore proposed defining a micro-business as having a gas consumption less than 2,500 therms (73,200 kWh) per annum for gas and being in profile classes 3-4 for electricity.

January 2007 figures from Elexon on electricity "profile classes" show that 83% of non-domestic customers fall in profile classes three and four, in total representing 2,170,050 MPANs.

The proposed thresholds for gas would mean that roughly 11% of all non-domestic customers would fall into the micro-business bracket.

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<sup>2</sup>Consumer redress schemes in gas, electricity and postal services: Full impact assessment December 2007 p.18

## **Factoring sole proprietors into the figures**

It is important to remember that many of the 3 million sole proprietors in the UK are likely to be home based and on domestic contracts. They will therefore already be captured within the new structures for consumer empowerment.