

Sent by email

14 March 2023

Email to NonDomesticRetailPolicy@ofgem.gov.uk

Thermal Storage UK response to Ofgem call for input on non-domestic electricity and gas

Dear Ofgem

We welcome the Ofgem review into non-domestic energy. This response focuses on how Ofgem and the government can encourage businesses to invest in upgrading their heating systems and machinery to improve energy efficiency. This is an important part of reducing bills and carbon emissions for small businesses.

We highlight areas for Ofgem and the government to consider in relation to energy brokers and suppliers. We note that it is not quite correct for Ofgem to say that they do not regulate energy brokers. In particular, the energy sector regulator has:

- powers over misleading marketing practice, including from brokers.
- introduced requirements on energy suppliers to improve commission transparency for energy brokers
- Required suppliers to work with energy brokers to sign up to Alternative Dispute Resolution.

Using these direct and indirect powers, Ofgem has an important role to ensure that businesses understand their energy prices, whether negotiated directly with energy suppliers or with energy brokers.

Thermal Storage UK recommends that Ofgem considers the following when reviewing the non-domestic energy market.

Broker commission can have a distortive impact on incentives for businesses to decarbonise heating systems and buildings.

Businesses who rely on brokers for advice about energy may receive insufficient advice about energy efficiency. This is because broker commission is often paid per kWh of electricity and gas consumed. In this scenario, neither the energy supplier nor the energy broker has a strong incentive for the business to use energy more efficiently.

The design of energy tariffs for businesses has an impact on the heat and building decarbonisation choices made by those businesses.

We are slowly seeing the emergence of innovative tariffs in the domestic sector, including dynamic time of use tariffs and even type of use tariffs for heating products. These tariffs are rarely available to businesses, particularly smaller ones. This means that businesses are less likely to benefit from the flexibility that low carbon electric heating and transport can provide.

More broadly, we recommend that Ofgem takes a more active role in decarbonising heating and building, including for businesses.

Electrification of heating requires at least the same focus as Ofgem and the government is giving to electric vehicles. Heat decarbonisation interventions are more complicated than the transition to electric vehicles. This might mean that Ofgem and the government need to take deeper action to ensure that the regulatory framework supports progress at pace.

To deliver change at pace, we recommend that Ofgem:

- **Introduces market-wide half-hourly settlement by December 2023.** Market-wide half-hourly settlement ensures the charges that energy suppliers face reflect the costs and carbon intensity of energy at different times of day. This accurately values the electricity produced, improving the ability and incentive for energy retailers such as energy suppliers and aggregators to offer time of use tariffs. We recommend a legislative backstop to reduce the risk of delays to the programme.

- **Requires energy suppliers to provide at least one time of use tariff for electric heating**, starting in December 2023. Along with reforms to half hourly settlement and wholesale prices, requiring suppliers to offer time of use tariffs for electric heating will facilitate the transition to low carbon electric heating.
- **Works with the government to reallocate legacy policy costs such as the Renewable Obligation from the electricity bill.** The government is currently financing these policy costs through the Energy Price Guarantee (EPG) for domestic customers. We recommend that general taxation continues to fund these policy costs for both businesses and households over the longer term.

Finally, we recommend that Ofgem works with the government on financial support for businesses to undertake decarbonisation activity. This could include tax incentives for investment or grants for specific improvement work.

If you have any questions about this input, please contact me by emailing tomlowe@thermalstorage.org.uk

This response is not confidential and can be published on the Ofgem website.

Best wishes

Tom Lowe

Founding Director
Thermal Storage UK