

Sent by email to [NonDomesticRetailPolicy@ofgem.gov.uk](mailto:NonDomesticRetailPolicy@ofgem.gov.uk)

31 August 2023

Dear Ofgem

**Thermal Storage UK response to Ofgem consultation on non-domestic market review**

We welcome the Ofgem market review into the non-domestic energy sector. This response focuses on how Ofgem and the UK 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 businesses.

We support increasing pricing transparency for businesses, covering both non-domestic energy suppliers and brokers. 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 can be 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.

As well as ensuring tariff transparency, we recommend that Ofgem takes steps to encourage non-domestic suppliers to offer flexible tariffs to businesses. The design of energy tariffs has an impact on the heat and building decarbonisation choices made by 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 the smaller ones that Ofgem's regulatory framework focuses on. This means that businesses are less likely to benefit from the flexibility that low carbon electric heating and transport can provide.

We support amending the Gas and Electricity Regulated Providers (Redress Scheme) Order 2008 to adopt the same definition as the Financial Ombudsman Service. This would mean expanding protections to include businesses that employ up to 50 employees, have an annual balance sheet below £5 million or an annual turnover of less than £6.5 million. This provides consistency for businesses, whether their complaint relates to financial or energy issues.

We recommend that Ofgem takes a more active role in decarbonising heating and buildings, including for businesses, and works with the UK government on advice and financial support for businesses to decarbonise. This could include high quality energy advice from an organisation such as the Energy Saving Trust, tax incentives for investment or grants for specific improvement work.

Finally, we note that energy consumption in the non-domestic sector is changing and we recommend that Ofgem increases its oversight of changing energy use and what this means for the regulatory framework. Businesses are looking to switch away from using fossil fuels in their processes and are more likely to install assets such as solar panels than in the past. The UK government is supporting this transition through its Industrial Fuel Switching Competition<sup>1</sup> and its Longer Duration Energy Storage Demonstration competition<sup>2</sup>. Indeed, the UK government has opened a call for evidence on industrial electrification<sup>3</sup>.

We encourage Ofgem to work with the UK government on reducing the relative cost of electricity. Today it is not possible for British businesses to buy off-peak electricity at a price close to gas. Modelling an industrial customer with a demand of 4GWh (1,000 kVA electrical connection or 30,000 kWh/day gas connection) gives a Day Rate of 34p/kWh and a Night Rate of 24p/kWh. This compares with 6.7p/kWh for gas. This discrepancy is because a number of volume (per kWh) based charges are applied to the electricity bill which are not present in the same way for gas. This includes large-scale renewable support schemes (RO, FiT and CfD) which amount to around 6.4p/kWh. Other significant electricity

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<sup>1</sup> <https://www.gov.uk/government/publications/industrial-fuel-switching-competition>

<sup>2</sup> <https://www.gov.uk/government/publications/longer-duration-energy-storage-demonstration>

<sup>3</sup> <https://www.gov.uk/government/consultations/enabling-industrial-electrification-a-call-for-evidence>

costs are balancing at 2p/kWh, losses at 1.3p/kWh, transmission costs at 1.0p/kWh and distribution costs at 0.55p/kWh.

We answer some of the questions from the consultation below. If you have any questions, please contact [tomlowe@thermalstorage.org.uk](mailto:tomlowe@thermalstorage.org.uk). This response is not confidential and can be published on Ofgem's website.

Best wishes

Tom Lowe

Founding Director  
**Thermal Storage UK**

## **More about Thermal Storage UK**

Thermal Storage UK represents companies who have developed modern thermal storage products. We promote the use of smart thermal storage in buildings in the United Kingdom and other countries to achieve net zero. Our mission is to take the carbon out of heating buildings.

You can find out more about Thermal Storage UK at [www.thermalstorage.org.uk](http://www.thermalstorage.org.uk)

## Questions

- 1. Do you agree with our proposal to agree voluntary improved pricing transparency and if so, please include comments on the particular areas you would like to see made more transparent?**

We support increasing pricing transparency for businesses, covering both non-domestic energy suppliers and brokers. 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 and low carbon technologies. This is because broker commission can be 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.

As well as ensuring tariff transparency, we recommend that Ofgem takes steps to encourage non-domestic suppliers to offer flexible tariffs to businesses. The design of energy tariffs has an impact on the heat and building decarbonisation choices made by 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 the smaller ones that Ofgem's regulatory framework focuses on. This means that businesses are less likely to benefit from the flexibility that low carbon electric heating and transport can provide.

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balancing at 2p/kWh, losses at 1.3p/kWh, transmission costs at 1.0p/kWh and distribution costs at 0.55p/kWh. We compare these costs to gas in the table below to show how much additional cost businesses face when they try to electrify processes using grid electricity.

<b>Cost</b>	<b>Electricity</b>	<b>Gas</b>
RO, FiT and CfD	6.4p/kWh	0p/kWh
Balancing	2p/kWh	0.2p/kWh
Losses	1.3p/kWh	0.06p/kWh
Transmission	1p/kWh	0.15p/kWh
Distribution	0.55p/kWh	0.02p/kWh

- 2. Do you agree with our proposed definition of ‘significantly exceeds’? Please provide your reasons.**

No comment.

- 3. Do you agree with our proposal that suppliers should review deemed contract rates quarterly? Please provide your reasons.**

No comment.

- 4. Are there any potential implications for domestic customers that the proposed guidance on deemed contract rates may impact on?**

No comment.

- 5. Do you have any further comments on our proposals for the deemed contract guidance?**

No comment.

- 6. Do you have any other comments on the other proposals in this Pricing and contract behaviour section?**

No comment.

- 7. Which documents, or combination of documents do you believe would provide a robust evidence base to demonstrate a genuine CoT/CoO?**

No comment.

- 8. Are Micro Business Consumers aware they can contact Citizens Advice for support? Do we need to introduce a rule requiring suppliers to signpost them more specifically?**

We support requiring energy suppliers to signpost Citizens Advice to Micro Business customers. We recommend that Ofgem introduce similar signposting requirements into the supply licence for non-domestic customers as those that already exist for domestic customers.

- 9. Is an obligation requiring efficient and timely complaints handling needed? If so what are the costs and benefits associated with introducing this?**

No comment.

- 10. Is an obligation requiring recording, handling and processing of complaints in accordance with consistent rules needed? If so, what are the costs and benefits associated with introducing this?**

No comment.

- 11. Do you have any views on what (if any) threshold should apply on business size for complaints handling requirements, or views on which requirements set out in the Gas and Electricity (Consumer Complaints Handling Standards) Regulations 2008 should not be expanded to apply to all non-domestic customers?**

We recommend amending the Gas and Electricity Regulated Providers (Redress Scheme) Order 2008 to adopt the same definition as the Financial Ombudsman. This would mean expanding protections to include businesses that employ up to 50 employees, have an annual balance sheet below £5 million or an annual turnover of less than £6.5 million. This provides consistency for businesses, whether their complaint relates to financial or energy issues.

**12. We are seeking stakeholder views on our suggested proposals to government around increasing access to the Energy Ombudsman. Should there be a threshold on who can access the Energy Ombudsman? If so, where should this be set?**

We support increasing access to the Energy Ombudsman. We recommend amending the Gas and Electricity Regulated Providers (Redress Scheme) Order 2008 to adopt the same definition as the Financial Ombudsman, e.g. expanding access to include businesses that employ up to 50 employees, have an annual balance sheet below £5 million or an annual turnover of less than £6.5 million. This provides consistency for businesses, whether their complaint relates to financial or energy issues.

**13. We are seeking stakeholder views on the proposed changes to the rules requiring suppliers work with TPIs who are members of a redress scheme. Additionally, what are your views on the costs and benefits associated with the different proposals?**

No comment.

**14. What are views from stakeholders on how long it would take to set up and register for a wider TPI ADR scheme, one that goes beyond Micro Business Consumers?**

No comment.



- 15. What are your views on our proposal to expand SLC 0A (non-domestic Standards of Conduct)? Do you have any views on which consumers they should or should not apply to? Please provide any views on costs and benefits of making this change.**

We support expanding SLC 0A to adopt the same definition as the Financial Ombudsman, e.g. expanding protections to include businesses that employ up to 50 employees, have an annual balance sheet below £5 million or an annual turnover of less than £6.5 million. Making this change to the licence conditions would ensure consistency with access to the Energy Ombudsman and Financial Ombudsman - see answers above.

- 16. Do you have any further comments on the proposals in this section on Competition in the market and customer complaints?**

No comment.

- 17. What are the views of Distribution Network Operators (DNOs), Independent Distribution Network Operators (IDNOs), Gas Distribution Networks (GDNs), and Independent Gas Transporters (IGTs) on the potential issues of targeting support to vulnerable end users supplied through non-domestic contracts?**

No comment.

- 18. What changes to the Maximum Resale Price direction would improve its effectiveness and what are the potential downsides to any changes?**

No comment.

- 19. What are the costs and benefits associated with the proposal to expand TPI commissions disclosures to all non-domestic customers? How long would it take suppliers to implement this policy?**

No comment.

**20. Are there views on how commissions disclosure is best presented to be understood by consumers?**

We recommend that gas and electricity commission is disclosed both on a p / kWh basis and as a total annual cost (£ / annum). This helps the business to compare unit rates in future and understand the value that the broker is providing. Providing commission as a p / kWh figure and total annual cost also minimises the risk that the commission is bundled in a non-transparent way into a standing charge.

**21. Should we expand commissions disclosure to all non-domestic customers or a subset of customers, and if a sub-set do you have views on how to define this?**

We support increasing energy pricing transparency for all businesses, covering both non-domestic energy suppliers and brokers. 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 and low carbon technologies. This is because broker commission can be 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.

We recommend that Ofgem explores the advice that energy suppliers and brokers provide to businesses about energy efficiency and low carbon technologies.

**22. Do you have any further comments on the proposals in this section on focussed consumer support?**

As well as ensuring tariff transparency, we recommend that Ofgem takes steps to encourage non-domestic suppliers to offer flexible tariffs to businesses. The design of energy tariffs has an impact on the heat and building decarbonisation choices made by 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 that Ofgem's regulatory framework focuses on. This means that businesses are less likely to benefit from the flexibility that low carbon electric heating and transport can provide.