



Greater Birmingham
Chambers
of Commerce



Briefing Paper

Energy Crisis Briefing

February 2022

Introduction

This briefing paper explores the issues that businesses are experiencing from high energy costs, what businesses can do, the support available through the Chamber, and the Chambers position. This briefing uses feedback from conversations with the local business community, data from the Greater Birmingham Chambers of Commerce (GBCC) Quarterly Business Review (QBR) Quarter Q4, wider British Chambers findings and other national research.

What is happening?

From January 2021 to November 2021, gas prices have increased from 49p to 112.5p, subsequently increasing electricity prices from 53p to 112.5p¹. This, coupled with ten-year high inflation (5.4%), is negatively impacting businesses, especially those within the energy industry and in energy intensive industries. Since November, 29 firms within the UK energy sector have gone into administration. Additionally, the GBCC QBR Q4 found that 76% of businesses expecting increased energy prices over the next six months believe it will have a negative impact². If left unaddressed, this will suppress economic recovery.

Why?

Many factors have influenced the inflation of energy prices, but the main influence is high gas prices, which have been caused by many factors. During the pandemic, energy production decreased to its lowest level since World War Two, with global gas production decreasing 3.3% in 2020. Additionally, Asia is demanding increased LNG to fuel post-pandemic growth and Russia's state-owned energy giant, Gazprom, is operating at low capacity, sending 25% less gas than usual. A lack of wind and more cloud cover than usual over the summer has meant renewable electricity generation has been lower than normal. These factors have contributed to supply not being able to keep up with demand, and so prices have increased.

The UK has been particularly hard hit because around 40% of its electricity is generated from natural gas, and 85% of UK homes use gas heating. As the UK imports around half of its natural gas, and has low domestic gas storage capacity, it has been particularly sensitive to global prices rises. Underground gas storage from other countries could be used to address this issue, however, across Europe storage is 20% lower than the ten-year average of 70%, partly owing to last year's cold winter, which diminished stored gas supplies further.

A smaller influence has been higher carbon prices within Emissions Trading Schemes (UK & EU), where heavy polluters must buy allowances to cover their greenhouse gas emissions. However, the International Energy Agency (IEA) estimates that the natural gas issue is nearly eight-fold larger than the carbon prices on energy price inflation. Therefore, it is clear the natural gas market circumstances have the overwhelming majority impact.

How is it impacting the economy and businesses?

The 2021 GBCC QBR Q4 found that over the next six months 80% of firms expect their energy prices to significantly (43%) or slightly increase (37%), with no firms expecting a decrease. Of those who were expecting an increase, 76% stated this would have a significantly (18%) or slightly negative (59%) impact and 23% said it would be neither positive nor negative. For the latter group, comments suggested that these businesses had teams primarily or completely working from home, had bills are included in building rent, or had a fixed term energy contract.

¹ Office for Gas and Electricity Markets. Wholesale Market Indicators 2021-2022. See [here](#).
² GBCC 2021 QBR Q4 findings.

In addition to the above, local businesses cited inflation as the largest external price pressure, with 33% of respondents stating it is a concern. Manufacturers are particularly concerned, with 77% expecting prices to increase over the next three months. Conversations with local businesses reveal that other than energy, price pressure concerns relate to raw materials, wages, business rates, and national insurance changes. Much of this expectation is reflected nationally by British Chambers surveying: approximately 5,500 businesses were surveyed nationally, and results found that three out of every five businesses expect their prices to increase in the next three months³. This supports and emphasises the point that many businesses are facing post-pandemic and post-Brexit cost pressures and inflation.

As many companies are facing rising bills, difficulties arise on how their costs are distributed or absorbed for business survival. This includes, whether to reduce or freeze production, cease trading or pass on prices to consumers. Dependant on the choices firms will be forced to take, job losses, further supply issues and so inflation (if demand continues) can be expected, further damaging economic growth.

The energy sector has been particularly hard hit, with more than 29 retail energy suppliers in administration. This is because they have had to absorb rising costs as they cannot pass them onto consumers because of the price cap.

Case Studies

Ann-Marie Simpson, Simpsons Gin Bar:

“Our hospitality business has been significantly impacted by the current energy price crisis. Not only have direct business energy bills increased, but our suppliers have also been forced to raise their prices from rising fuel costs, impacting our supply costs. Combined with the impacts of reduced trade caused by Covid, and significant labour cost inflation, business is increasingly difficult. With cost increases to business operations running between 10% to 15% and a 10% price reduction to encourage sales, we are precariously placed for the additional increases to fuel and NI cost from April.”

Large accommodation business:

“Our biggest concerns are inflation particularly in energy prices.... to give you an example, our energy bills are increasing this year approximately by 45% comparing to pre-covid. This means we will be paying in energy bills this year, more than what we have paid in 2019 yet, with 40% less revenues. This is a massive increase to our expenses and the sustainability of the business.”

Professor Martin Freer, Director of Birmingham Energy Institute, University of Birmingham:

“Businesses are feeling the pressure, with gas being about 35% of electricity production the increase in gas prices, which could be here for a few years, will impact on electricity prices and also the cost of gas for industrial processes. Indeed, the electricity prices in the UK are already high compared with Europe, and had grown by 40% in the last 10 years. Additionally, the removal of the price cap will see a further substantial jump.”

These changes emphasise the even greater need for acceleration of the UK's energy policy, with the transition away from natural gas imports and the ramp up of renewable energy. There is a need to transition away from gas for domestic and industrial heating and move towards heat pump solutions and hydrogen as an industrial gas. Most of all there is a need to really go to town on energy efficiency, with a re-examination of the way we take energy for granted. Analysis shows that a good fraction of the UK's condensing boilers don't run in a mode which maximises their efficiency and could be wasting up to 40% of their energy potential. The energy transition is going to take time, and it is going to be a bumpy road in the meantime, which makes energy efficiency and proper maintenance the first line of defence.”

Anecdotal evidence includes:

A large national business in the accommodation sector mentioned their energy bills have increased 45% to circa £500,000.

An SME in the hospitality sector said their energy costs had risen by 125%

One small business stated their energy bills have tripled and that given the drop in trade as a result of Omicron, they are unsure about how they will overcome their cashflow issues.

What businesses can do

Grappling with the post-Brexit and post-pandemic recovery, whilst investing in long-term energy and business security, is a delicate balance. Businesses have many issues to weigh up and priorities to consider and energy inflation, adds to the complication. There are businesses taking action on minimising disruption from these issues and accounting for the need to balance people, planet and profit. See below.

Case Study

Advanced Engineering

Advanced Engineering are an SME manufacturer in Birmingham. They switched to LED lights, installed Power Correction Factor equipment and used Elcomponent data logger to achieve savings of £15,000 per year and 60 tonnes of CO2. As a result of this, Advanced Engineering were finalists in many regional sustainability awards, including the GBCCs. This process was supported by the Low Carbon SME programme from Aston University, which advises and supports SME energy efficiency.

As the above case study demonstrates, reducing energy consumption, and thereby increasing energy security, is a result of implementing measures to reduce carbon emissions. Reducing energy use lowers costs and carbon emissions, which frees more cash and gives buffer against market volatility.

Key areas for lowering your energy bills must focus on reducing energy use, increasing energy efficiency, and improving energy management. We recognise not all businesses will have the resources to action all of steps needed, but encourage businesses to consider these measures within their operations and strategy. More detail on actions is in the next section.

How the Chamber can support

The Sustainable Business Series 2021 focussed on improving business progress to net zero. One theme was decarbonising energy for businesses. There are practical tips, guidance and best practice examples on energy efficiency, management and consumption reduction through a webinar, podcast, blogs and videos. See below for some of the content with practical tips and expert guidance on saving your energy costs and cutting carbon.

- **SBS21 Blog:** Maximising Energy Reductions for High Energy Users – Inspired Energy: [Click Here](#)
- **SBS21 Blog:** Renewable Technologies Explained – NFU Energy: [Click Here](#)
- **SBS21 Blog:** Food for Thought: Make Life Sustainable – Northern Gas and Power: [Click Here](#)
- **SBS21 Blog:** Achieving Net Zero for Building Managers with Minimal Intervention – Grid Edge: [Click Here](#)

- **SBS21 Blog:** Looking for a New Energy Supplier? Here are some Energy Procurement Tips - Utility Works: [Click Here](#)
- **Podcast:** How can businesses effectively manage their energy usage? - Inspired Energy [Click Here](#)

You can find more content, including a webinar on best practice to reduce your energy consumption [here](#).

The Chamber has also compiled regional and national support (financial and non-financial), which includes support for energy efficiency and energy consumption reduction, amongst other low-carbon topics. We encourage businesses to engage and explore the different schemes available, see [here](#).

All Greater Birmingham Chamber members are entitled to a free, no-obligation energy assessment through Inspired Energy plc. This service can be used to find a better rate for your business' utilities, or it can simply confirm that you are already on the best rate for your business. There are also a variety of value-added services available to members, dependant on energy consumption. See more [here](#).

How is the Government intervening?

The UK Government has recently announced (February 2022) short-term measures to alleviate the cost pressures experienced by consumers and energy suppliers through a £9.1 billion Energy Bills Rebate in 2022/2023. They are:

- Up to £350 for most households:
 - o £200 off all domestic electricity customer bills from October. From 2023, the discount will be automatically recovered from bills in £40 instalments over a five-year period
 - o Households in England in council tax bands A-D will receive £150 in council tax rebate from April and will not require repaying
- Discretionary funding of £144 million is available to support the most vulnerable, those in council tax bands E-H, and those on low-incomes that do not pay council tax
- The Warm Home Discount has expanded eligibility by a third, with an uplift to £150 from October

Loans for energy companies are also being considered but are not confirmed. This would allow energy companies to spread the costs relating to customers joining from failed suppliers.

The energy prices cap limits how much a company can charge per unit for energy to a domestic consumer. A rise of 54% will be effective from April 2022. The change would be effective from the start of April and will affect households on a standard variable tariff and pre-paid meter. In contrast, there is no energy price cap for the private sector.

What is the Chamber calling for?

The measures announced will be welcomed by many households and energy companies. However, they lack consideration for energy intensive industries and wider businesses. Furthermore, energy efficiency and investing more in renewable energy and associated energy storage must be at the forefront of a clear medium and long-term energy strategy.

The GBCC and British Chambers of Commerce is calling for the Government to take immediate action to protect the hardest hit businesses, and support SMEs with the high inflation of energy prices through an energy price cap and/or reductions in VAT. The Greater Birmingham Chambers call for long-term, frequent engagement with industry and

industry bodies (such as the Chamber) to develop an affordable, secure and low-carbon energy supply through:

- Increasing devolution powers for investment in infrastructure that meets local needs
- Investing in low-carbon energy storage, including hydrogen and battery technology to minimise the impact of intermittency of renewables, and reliance on fossil fuels
- Ensuring the grid is suitable for the expansion of electrification as a means of decarbonising
- Encouraging more investment in and action on clean power generation and energy efficiency programmes. Particularly by focusing on securing long-term and stable low-carbon energy supply domestically
- Supporting the growth of low-carbon technology businesses in the energy sector
- Address the issue of technology critical materials in low-carbon energy technology, see more [here](#).
- Keeping energy and electricity prices competitive for businesses, so they are not disrupted and remain competitive

The GBCC's wider low-carbon recommendations have been developed in consultation with its local business membership. See [here](#).



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