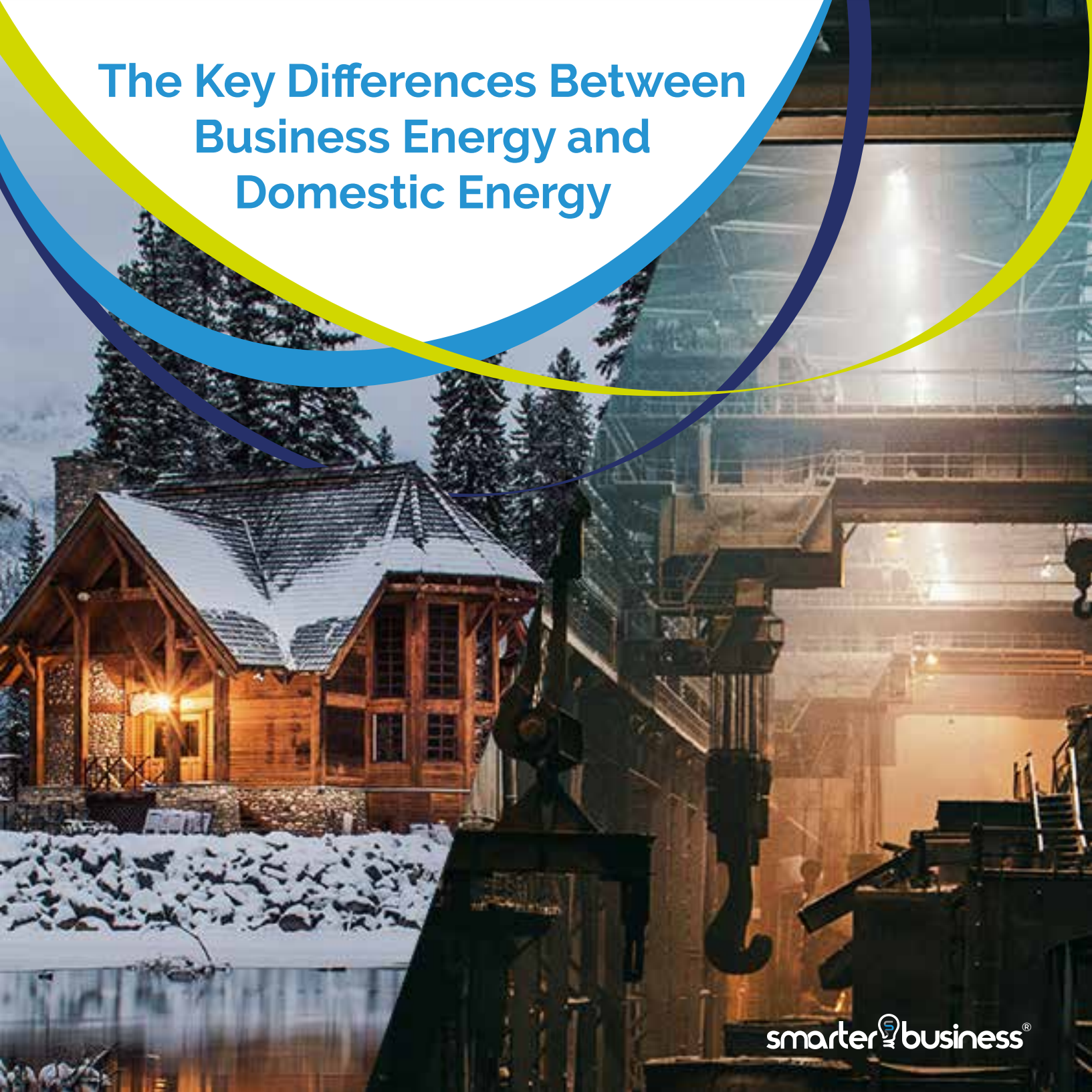


The Key Differences Between Business Energy and Domestic Energy



Having been customers for many years, most business owners will be familiar with how their domestic energy contracts work. But when it comes to business energy contracts, there are some key differences between business energy and domestic energy. In this guide, we'll unpack the details regarding business energy vs domestic energy.

Is business energy cheaper than domestic energy?

New business owners may be wondering: is business energy cheaper than domestic energy? A simple question, with a more complex answer. There are a number of factors to take into consideration when comparing business energy with domestic energy. Although the actual gas and electricity supplied to business and domestic customers travels via the same cables and comes from the same sources, energy suppliers offer different contracts to commercial and domestic customers.

Domestic and non-domestic energy operate in different ways. Although domestic energy tends to get more media attention than business energy, understanding the nuances of business energy supply and contracts can help you get the best energy deal for your business.

Prices between households and commercial energy contracts differ on a number of levels.

Average business energy rates vs average domestic energy rates

Gas and electricity unit costs may seem cheaper for business customers than for domestic customers. Businesses pay a lower per unit price for energy, largely due to volumes and economies of scale – the larger the business, the lower the unit rate. Commercial clients are also able to negotiate and choose contracts based on their needs. Household customers aren't offered tailored rates, but are charged the same amount as the rest of their region.

Why is this?

Economies of scale - suppliers are able to sell higher volumes of energy to businesses as they generally consume more than the average household.

But is business energy cheaper than domestic energy? Not necessarily, when you take other charges into account...

Wholesale energy market pricing

Most energy suppliers purchase electricity and gas on the wholesale market. For domestic customers, they will usually buy the energy several months in advance. With commercial energy contracts, however, many suppliers only purchase the gas and electricity once a fixed commercial energy contract has been agreed. For example, if a business customer signs a three-year contract, the supplier will purchase enough energy for the full three-year period. This will affect the business energy contract pricing at the time of renewal.

Price fluctuations

Commercial customers are more likely to experience energy price fluctuations than domestic customers, who usually face price changes on an annual basis. This is because business energy customers can choose flexible energy contracts that move with the market, taking advantage of its peaks and troughs. Domestic customers, on the other hand, are more likely to face energy price changes annually.

For this reason, many business customers choose fixed rate contracts over variable price contracts, allowing them to budget more accurately.

Pricing criteria

Domestic customers get generic pricing dependant on payment method and geographical location.

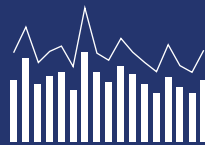
The pricing criteria for business energy customers are:



Geographical location



Business type



Demand profile



Contract length



Payment method



Credit score

Levies

Some levies are unique to business customers, such as the Climate Change Levy (CCL). The climate change levy is currently 0.188p per kWh for gas and 0.541p per kWh for electricity.

Read more about the climate change levy here.

VAT

A major difference between domestic and business energy contracts is the VAT rate.

Business energy
customers pay

Domestic energy
customers pay

20%

5%

Read more about business energy VAT here.

Energy regulations

Businesses are required to adhere to strict energy regulations and guidelines, such as:

Electricity at Work Regulations 1989

These guidelines include acceptable quality standards of equipment, protection from excess current, procedures to safely shut off electricity and other safety measures.

The Electricity Safety, Quality and Continuity Regulations, 2002

These regulations detail precautions relating to supply failure, safety of wiring and other safeguards for employees and the general public in the commercial environment.

Keep up-to-date with
Regulatory Updates on our website at:

smarterbusiness.co.uk/regulatory-updates

Business energy contracts vs domestic energy contracts

Cooling off period - What is it?

A cooling off period allows a consumer to change their mind after entering into a new gas or electricity deal. The cooling off period lasts for 14 days.

According to Ofgem: "Consumer" means an individual acting for purposes which are wholly or mainly outside that individual's trade, business, craft or profession'.

What this means is that only domestic energy customers are eligible for an energy contract cooling off period. This is to protect vulnerable households from entering into a contract without understanding it fully.

Business energy customers do not experience a cooling off period since businesses are expected to enter contracts willingly and in the full knowledge of the terms. They need to do their due diligence before signing a contract.

Contract terms

For business energy customers, contract periods vary greatly between 28 days to five years. In the domestic energy market, contracts are generally 28 days with some longer-term 'fixes'. Some customers are also offered contracts that last between 12 and 24 months.

Domestic energy contracts are often issues on a rolling basis, which means that they continue 'as is' after the agreed time period. This is not the case with business customers, which are usually placed onto more expensive Out-of-Contract rates if they do not renew or switch to a new contract.

Contract termination options

Domestic customers have the opportunity to exit an energy contract after 28 days, which essentially means that they generally can switch suppliers whenever they please; whereas business customers are locked into fixed term deals. They are required to stay with their suppliers for the duration of the contract and will face high fees if they try to terminate a business energy contract early. Some domestic customers may also be charged a small fee when requesting early termination, although this amount will be far less than a commercial cancellation.

Contract options

Domestic customers are fairly limited in terms of their contract options. Business customers generally have more access to different contract options and can take advantage of market-reflective pricing.

Businesses can also request or find contract options tailored to their specific needs.

Contract objections

Domestic energy customers will only be refused an energy contract if they have excessive debt. Business energy customers may incur contract objections if:

- They are in debt to a supplier
- They have a fixed term contract already in place
- The contract stipulates any other reasonable requirement

Energy quotes

Because there are more contract options available to business customers, it can be more confusing to compare business energy quotes, particularly where multiple sites are involved.

Business energy quotes can also be more short-lived as the market fluctuates. For example, a business customer can call a supplier one week and get a particular price, but when they call a week later, they can get a different price. The price may have gone up or gone down, depending on the movements of the market. Domestic energy prices, on the other hand, will only change once or twice a year as they have been purchased in advance.

Business energy contracts are more complex than domestic energy contracts, which is why it's advisable for businesses to seek the services of an expert energy broker.

Information needed to get an energy quote

Domestic customers need only supply their postcode to get a quote from an energy supplier.

Business customers need to supply the following:

- > Usage statistics
- > Current supplier
- > Contract end date
- > MPAN or MPRN number

Benefits of business energy contracts

- > Fixed energy prices make it easier to budget
- > Better deals
- > More varied contract options
- > Fixed or flexible pricing
- > The ability to find or tailor a contract according to the business' needs
- > Lower gas and electricity unit costs
- > Locked in prices mean that businesses are less susceptible to price fluctuations
- > When it comes to business energy contracts, there is a greater potential for savings.

The best business energy rates

Finding the best business energy deal can be a confusing and time-consuming task. But Smarter Business is here to help. Our team of energy experts will guide you through the entire energy comparison process and secure you the best business energy deal.

Call us on:
01444 220060

Summary of the difference between business energy and domestic energy

	Business	Domestic
Energy unit price	Generally cheaper	Generally more expensive
Price fluctuations	✓	✗
Pricing criteria	More criteria	Fewer criteria
VAT	20%	5%
Levies	✓	✗
Energy regulations	✓	✗
Cooling off period	✗	✓
Contract terms	Longer	Shorter
Contract termination	✗	✓
Contract type options	✓	✗
Contract objections	✓	✗
Energy quotes	Complex	Simple
Information needed to get an energy quote	More information	Less information

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