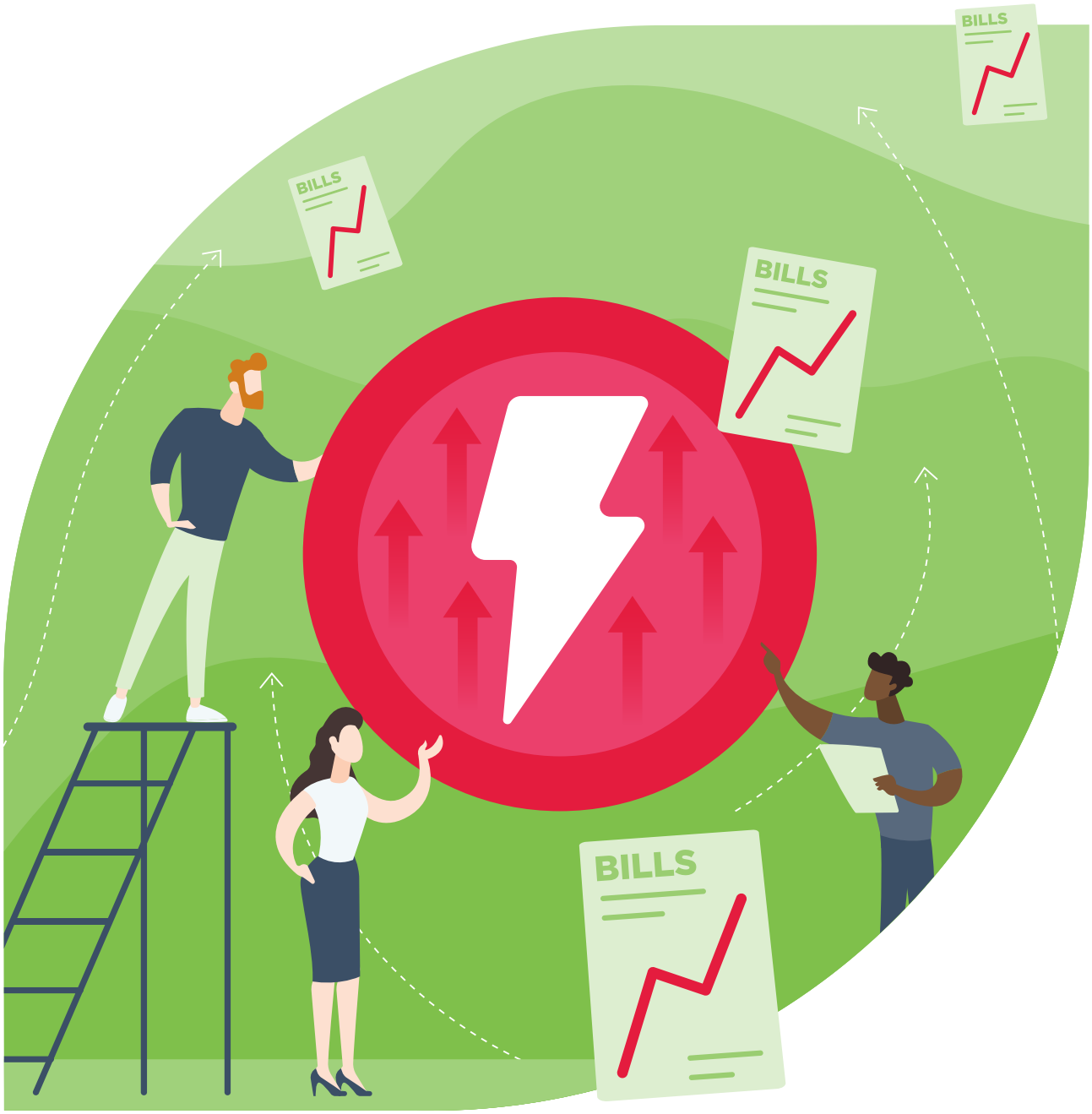


FEBRUARY 2026

POWERING GROWTH: RESETTING ENERGY COSTS FOR BUSINESSES

British Chambers of Commerce
GREEN INNOVATION

WHERE BUSINESS BELONGS

CONTENTS

EXECUTIVE SUMMARY

The UK continues to face some of the highest energy costs in the world, placing significant pressure on both businesses and households. Research from the British Chambers of Commerce's Insights Unit shows that over a quarter (27%) of businesses are finding it difficult to pay their energy bills.

High energy costs have been impacting businesses for a number of years, particularly since 2022 when energy prices increased following Russia's invasion of Ukraine. While the immediate crisis has eased from its peak, energy costs remain significantly higher than 2018 levels. Businesses consistently tell us that high energy costs are a key source of pressure on businesses to raise their prices, with 52% of businesses in Q4 2025 facing pressure to raise prices because of the cost of utilities.

While the government has introduced measures to support households with energy bills, support for businesses has been significantly limited. Without urgent action, businesses are being left to absorb significant cost pressures, restricting their ability to grow, damaging the UK's competitiveness, and impacting economic growth.

The government must introduce immediate support with the cost of energy for businesses. This must be accompanied by enhanced guidance for businesses to ensure that their energy bills are fair and transparent. Ministers must also improve access to financial support to enable businesses to switch to low carbon alternatives, recognising that upfront costs continue to be a huge, and often insurmountable, barrier for firms.

This report also sets out longer-term reforms to strengthen the UK's energy system. These include improving renewable energy storage and supporting businesses with the energy transition. In addition, grid connections reforms must be delivered as a top priority to enable businesses to expand and grow.

Addressing high energy costs both in the short- and long-term is essential for energy security and economic growth. The British Chambers of Commerce stands ready to work with the government to ensure that all businesses have the support they need with the cost of energy.

KEY RECOMMENDATIONS TO GOVERNMENT

TAKE IMMEDIATE ACTION TO REDUCE THE COST OF ENERGY

Fund part of the Renewables Obligation on business energy bills, aligning support for firms with the relief provided to households in the Autumn Budget 2025.

EXTEND SUPPORT AND ACCESS TO GUIDANCE FOR BUSINESSES

Implement a permanent, UK-wide energy advice scheme, offering free energy assessments and funding for energy-saving technologies.

IMPROVE SUPPORT FOR BUSINESSES TO SWITCH TO LOW CARBON ALTERNATIVES

Provide clear incentives for businesses with the upfront costs of electrification, such as through a Targeted Electrification Discount.

DELIVER LONG-TERM REFORMS TO THE UK'S ENERGY SYSTEM

Expand renewable energy storage capability and deliver on grid connections reforms as an urgent priority.

IMPACT OF ENERGY BILLS ON BUSINESSES

The cost of energy in the UK has risen sharply over the past five years, impacting not only households but also crucially businesses across the country. For non-domestic users, the average electricity price increased from 12.32 pence per kilowatt hour (kWh) in Q4 2018 to 25.50 pence in Q4 2024. That is an unsustainable increase of over 106%[i].

Government statistics estimated the average domestic energy bill in 2025 to be at £1,896, broadly unchanged from 2024. While this is lower than the peak of £2,307 in 2023, this remains significantly higher than the 2021 average of £1,213, before the invasion of Ukraine in 2022[ii]. To ensure that energy prices are fair for households, Ofgem sets a price cap on the maximum unit rate and standing charge for households on standard variable tariffs. At the time of publication, the cap is set at £1,758 per year for a typical household[iii], which Energy UK notes is around 40% higher than before the energy crisis[iv].

While domestic energy prices remain volatile, safeguards are in place to protect consumers. **Similiar safeguards are not in place for businesses.**

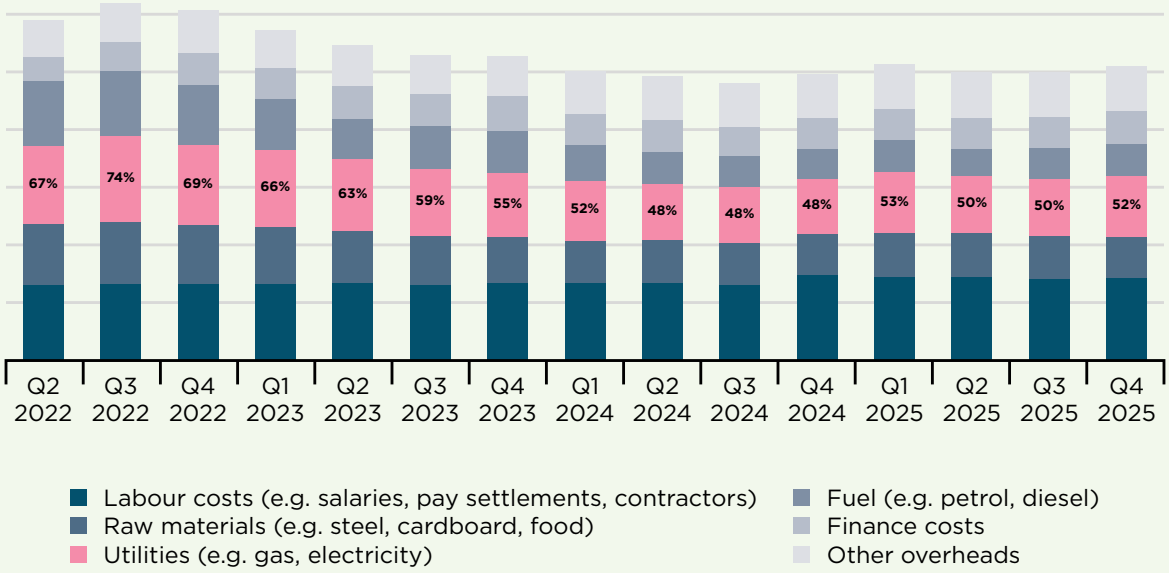
The British Chambers of Commerce's award-winning Insights Unit has been gathering data on business sentiment for decades. Its Quarterly Economic Survey (QES) is the UK's largest and longest-running independent business survey. Comprising of around 5,000 respondents each quarter, this survey provides unparalleled insight into how businesses are performing from quarter to quarter, providing an essential overview of business conditions.

As part of the QES, firms are asked about pressures driving them to raise prices, notably utilities, including energy bills. In 2022, when the energy price crisis hit, this metric went to its highest level on record, when 74% of firms reported utilities as the driver of price pressures, which was the top answer. While this percentage has since fallen, it still remains the second top source of pressure after labour costs, and it is concerning that it is trending back up. In the survey for Q4 2025, 52% of businesses said that utilities costs were a price pressure, and increase from 48% in Q4 2024. Hospitality firms are most likely to report utilities as a cost pressure (72%)[v].

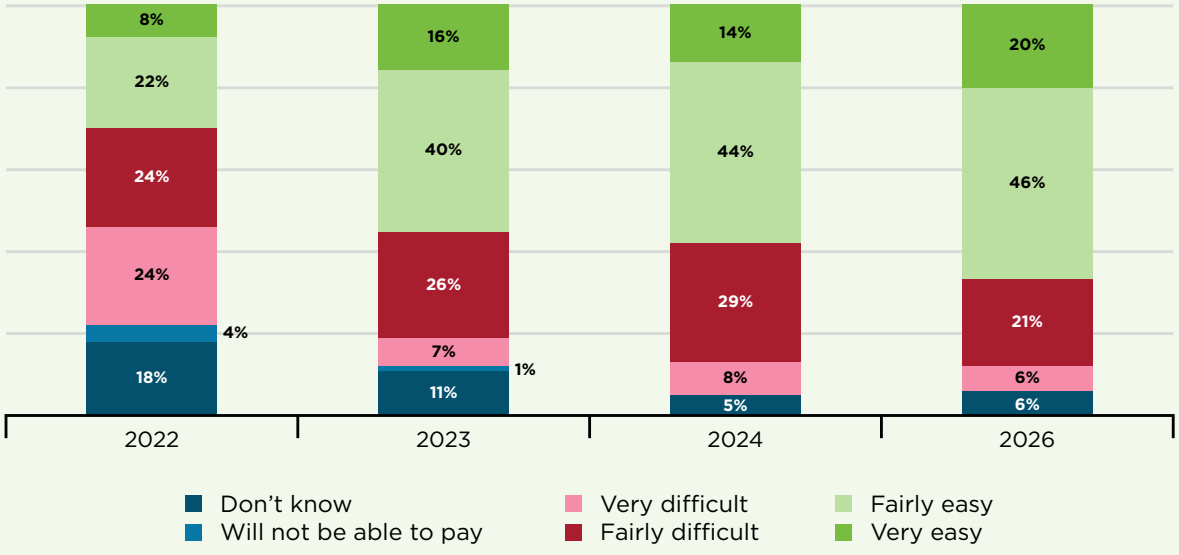
Additional BCC research at the start of 2026 shows that over a quarter (27%) of businesses said they would find it difficult to pay their energy bills over the next twelve months. This compares to 37% of businesses in 2024, 33% in 2023, and 48% in 2022[vi].

It is very concerning that more than half of businesses still face pressure to raise prices because of rising utility costs. In an environment where firms are already managing significant additional costs, and with taxation continuing to be the greatest concern among businesses, high energy bills represent yet another cost burden that businesses have to absorb and severely weaken ability to manage potential shocks. Providing firms with meaningful support to manage energy costs is essential if the UK is to strengthen growth and competitiveness.

QUARTERLY ECONOMIC SURVEY: IS YOUR BUSINESS FACING PRESSURE TO RAISE PRICES FROM ANY OF THE FOLLOWING SOURCES?



HOW EASY OR DIFFICULT WILL IT BE FOR YOUR ORGANISATION TO PAY ITS ENERGY BILLS?



ENERGY COSTS IN THE UK

The UK has some of the highest energy prices in the world. Compared with countries in the European Union, domestic electricity prices were the fourth highest in the first half of 2024, and were considerably higher than the United States and Canada[vii].

For industrial users, the UK had the highest industrial electricity prices in the International Energy Association. According to data from 2023, the UK's industrial electricity price was at 25.85 pence per kWh, compared to France at 17.84 pence per kWh, Germany at 17.71 pence per kWh, Canada at 8.69 pence per kWh, and the United States at 6.48 pence per kWh[viii].

Electricity prices in the UK reflect the strong rise in gas prices since 2021, which is linked to the global economy coming out of the Covid-19 pandemic and the war in Ukraine[ix]. This is largely due to the marginal pricing model used in the UK. Under that model, electricity prices are set by the most expensive generator needed to meet demand, which is set at half-hour intervals[x]. In the UK, gas-fired power plants are often the main generator. As one article summarises, "If 99 per cent of the electricity used that half-hour [interval] is wind, and 1 per cent is gas, we still pay the gas price for all of it"[xi].

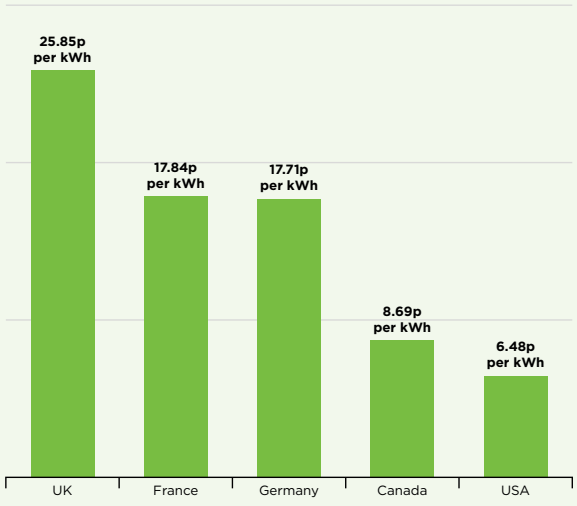
Although fossil fuels now account for a declining share of total electricity generation, driven by the decline of coal production and the expansion of offshore wind in the UK, they still play a significant role in setting wholesale prices. Natural gas provides the dispatchable capacity that frequently determines the half-hourly marginal price[xii]. While renewables currently supply an estimated 40% of the UK's energy mix, gas sets the wholesale price more than 95% of the time[xiii].

International comparisons highlight this structural difference. In France, the dominance of nuclear power means that gas plants set the wholesale price just 7% of the time. In Germany, gas plants set the market price around a quarter of the time, with coal more often acting as the marginal generator that dictates energy prices[xiv].

This demonstrates why electricity costs are so closely linked to the price of gas in the UK, and why consumers and businesses face higher prices than many other countries. As research from University Colleague London summarises, "as the most expensive generator needed to meet the last bit of demand, gas sets the price for all types of electricity generating technologies. This happens even when the bulk of electricity is generated by cheaper renewable sources"[xv].

Energy bills for businesses comprise of several components, including wholesale energy costs, supplier costs, and VAT. Crucially they also include government policy costs and levies, such as the Renewables Obligation, Contracts for Difference, and Feed-in Tariffs[xvi]. Most firms are charged VAT at 20% for business energy, although some businesses qualify for reduced rates, if certain circumstances apply.

INDUSTRIAL ELECTRICITY PRICES (2023)



International examples show alternative approaches, including where certain levies on energy bills have been removed by moving the costs from energy bills to wider taxation. In Germany, the renewables surcharge on the price of energy, the EEG, which had funded the expansion of renewables, was removed from household and business bills in July 2022. This was expected to save consumers around €200-300 annually. The cost of installing renewable technologies was instead covered through the federal energy and climate fund[xvii]. While Germany has faced similar challenges with the energy transition as the UK, such as with higher energy costs and grid connections, this example demonstrates how the government could take steps to move additional costs on energy bills into general taxation, providing immediate relief for energy consumers.

The BCC believes the UK government should explore similar options, assessing whether shifting certain levies into general taxation could help insulate businesses from fluctuations in wholesale energy prices and reduce the burden, through lower energy costs overall. This is explored later in this report in relation to the Renewables Obligation on energy bills in the UK, and recognises that businesses need support that can bring energy bills down now.

GOVERNMENT SUPPORT: ENERGY SYSTEM AND CLEAN POWER MISSION

Clean Power Mission

Since taking office in July 2024, the government has set out its mission for the UK to become a 'Clean Energy Superpower'. Ministers have set out the case for increasing homegrown clean energy to strengthen energy security, reduce reliance on imported fossil fuels, and ultimately bring down bills.

In a ministerial statement to Parliament in July 2024, the Secretary of State for Energy Security and Net Zero, Ed Miliband, referenced the Climate Change Committee's report that "British-based renewable energy is the cheapest and fastest way to reduce vulnerability to volatile global fossil fuel markets"[xviii].

The National Energy System Operator has said that the ambition to deliver a clean power system by 2030 requires "a herculean effort across the energy sector", and that this ambition is focused on "making the network operations more efficient and capable of handling the ever-changing energy generation mix"[xix].

Autumn Budget 2025

The 2025 Autumn Budget positioned energy bills as a key priority for the government, alongside wider cost of living measures. The Chancellor's statement included measures to cut household energy bills from April 2026, estimated to save around £150 per household on average. This is expected to be driven by ending the Energy Company Obligation, and the government providing funding for 75% of the domestic cost of the Renewables Obligation for three years.

In the Budget, the government also stated that it is "focused on bringing down energy bills for households and businesses, while securing the necessary infrastructure investment to build a resilient energy system and reduce the UK's dependence on imported fossil fuels. The government will subject any additional costs, including new levies, to enhanced scrutiny under a new framework to ensure they are affordable, represent value for money and do not impose unnecessary costs on households and businesses"[xx].

Despite the support for households with energy bills, it was disappointing that the government did not announce specific support with energy bills for businesses. This was a missed opportunity, which could ultimately have a negative impact on economic growth. As this report highlights, high energy costs continue to have a significant impact on firms – and government action is urgently needed.

Given the pressures and costs businesses are facing, the government should look to broaden the commitment to reduce the cost of the Renewables Obligation on non-domestic energy bills. This would more closely align support for firms with the help announced for households, and would provide immediate relief for businesses with the cost of energy.

Warm Homes Plan

In January 2026, the government launched the £15 billion Warm Homes Plan. This set out commitments to upgrade millions of homes with home insulation installations and offer government-backed, low- or zero-interest loans for solar panels, batteries and heat pumps. This recognises that many of these technologies remain too expensive for many properties[xxi].

For businesses, the Warm Homes Plan highlights the potential of district heating networks drawing on excess heat from places such as data centres and industrial sites. This could reduce bills and strengthen energy security for both households and businesses. The government has committed £1 billion over this Parliament and plans to introduce heat network zoning[xxii]. The BCC welcomes this progress, which could result in greater coherence of government policy, particularly the ability to repurpose waste heat to heat properties[xxiii].

Offshore Wind Auction: Contracts for Difference Auction Round 7

In January 2026, the government announced that Auction Round 7 had secured 8.4GW of offshore wind, enough clean electricity to power the equivalent of over 12 million homes. This represents the largest single procurement of offshore wind and is expected to unlock around £22 billion in private investment, supporting growth and delivery of the clean power mission[xxiv].

The BCC welcomes this progress and the investment that it will bring to the UK. It is essential, however, that the electricity grid upgrades are delivered to accommodate the acceleration of offshore wind deployment. It is recognised that this will lead to additional costs to achieve this, including through transmission lines. However, businesses are concerned that if delays to building out grid infrastructure continue, this will lead to greater uncertainty and additional costs on businesses through constraint payments. This is explored later in this report.

This is essential to reducing consumer energy costs and ensuring that the UK can fully realise the benefits of clean power. More broadly, offshore wind deployment must align with the energy transition in the North Sea, recognising the significant overlap between the oil and gas sector and the renewables sector, and the roles that businesses and workers play across these sectors.

Business Energy Advice Service

In January 2024, the previous government announced the Business Energy Advice Service (BEAS) pilot scheme in the West Midlands. This government-funded scheme has offered free energy assessments and up to £100,000 in match funding towards energy-saving and decarbonisation measures[xxv]. Ministers committed to a review of the pilot scheme to assess the viability of expanding it nationwide[xxvi].

The BEAS pilot is expected to deliver nearly 4,000 energy audits to SMEs in the West Midlands, providing around £10 million in grant support to businesses[xxvii]. In April 2025, the West Midlands Combined Authority (WMCA) reported that 2,400 businesses had been helped to identify measures to decarbonise and reduce energy demand. The WMCA estimated that if fully implemented, businesses would save around £16 million a year in gas and electricity costs, as well as reduce annual carbon emissions by around 34,000 tonnes[xxviii]. However, the scheme is due to end in March 2026, with no current plans for extension or wider rollout.

The BCC believes that there is a case for BEAS to be expanded across the UK on a long-term basis. This would provide strategic support for businesses through free energy assessments and access to funding for energy reduction technologies. This will reduce costs for businesses through lower energy costs through driving energy efficiency measures. Once the scheme comes to an end, the government should publish a full assessment of the pilot, examining the carbon emissions and money saved by businesses. It should also work with local firms to design a permanent national scheme, with clear estimates of costs saved for businesses.

British Industrial Competitiveness Scheme

The government's Industrial Strategy, published in June 2025, contained a pledge to support the most energy-intensive industries through a new British Industrial Competitiveness Scheme (BICS). This scheme, scheduled to start in April 2027, is expected to reduce electricity costs by an estimated £35-40/MWh by exempting eligible businesses from the indirect costs of the Renewables Obligation, Feed-in Tariffs and Capacity Market schemes. The scheme will run until 2035, with a review in 2030, and around 7,000 businesses are expected to benefit from the scheme.

Manufacturing firms within certain growth driving sectors, known as the IS-8 sectors, operating in a manufacturing frontier industry within an IS-8 sector and meeting the required electricity intensity thresholds will be eligible for the scheme. The scheme aims to drive growth through bringing manufacturing businesses' electricity costs more in line with other economies in Europe. It is also designed to boost supply chain resilience. The government recently carried out a consultation on the eligibility and approach of the scheme[xxix].

60%

Of production and manufacturing businesses are facing pressure to raise prices because of utilities costs.

The BCC supports the scheme's objectives and recognises that government had identified crucial challenges that require intervention. According to the latest BCC data, 60% of businesses in production and manufacturing were facing pressures to raise its prices from utilities costs, higher than all businesses combined (52%)[xxx].

However, several concerns remain. The consultation on BICS outlines that the scheme will be paid for through savings made from changes to existing levies, as well as "other costs in the energy system"[xxxi], without detailing what these may be. BICS sits alongside a number of other schemes such as the British Industry Supercharger. The administration of all the schemes risks becoming complex for businesses, particularly for SMEs, which often face greater constraints on time and resources. The government should set out how it intends to raise awareness of BICS and ensure that eligible manufacturing businesses can access support easily.

More fundamentally however, BICS will only support a small proportion of the UK's 5.7 million businesses. With energy bills affecting firms across all sectors and sizes, this scheme does not go far enough. The scheme will do little to move the dial for the vast majority of businesses ineligible for this scheme, who will continue to struggle with energy bills.

SWITCH TO LOWER CARBON ALTERNATIVES

BCC research shows that most firms are already taking steps to improve their energy efficiency. In 2025, 64% of businesses reported adopting energy efficiency measures, such as upgrading to LED lighting, installing more insulation, or reducing unnecessary energy consumption.

However, this research also shows that uptake of more advanced measures is lower. Just over a third (36%) of businesses said that they had switched to a renewable energy supplier. In addition, only 7% of firms said that they were using heat pumps.

The research has also highlighted some of the barriers businesses face in working towards net zero. High costs were the most frequently cited barrier, with 43% of businesses reporting it as a significant barrier, followed by lack of finance or grants, cited by 34% of businesses[xxxii].

Firms can access grants to support part-funding the cost of replacing oil and gas-based heating systems with a heat pump or biomass boiler. Up to £7,500 is available to support the installation of an air source heat pump or a ground source heat pump, and up to £5,000 is available to support the installation of a biomass boiler. Despite these grants, our evidence shows that most businesses are still unable to install heat pumps to replace fossil fuel heating systems.

Government policy should aim to create a pathway for businesses to see both the economic and sustainability benefits of investing in low carbon alternatives. For this to be achieved, it needs to be significantly easier for firms to upgrade their heating in a way that supports their journey to sustainability, while minimising cost.

As part of this, the government should consider what incentives can be put in place to support electrification. A Targeted Electrification Discount, for example, would help address the high costs of electrification faced by firms. This would help businesses to switch to more efficient electrical heating, reducing the use of and dependency on fossil fuel-based heating systems.

More broadly, the government should improve awareness of, and access to, financial support for businesses seeking to switch to renewable energy sources, to make them more affordable and accelerating electrification.

36%
Of businesses said they had switched to a renewable energy supplier

43%
Of businesses said that high costs were a significant barrier to net zero

OFGEM

As the energy regulator for Great Britain, Ofgem is responsible for ensuring that the market operates fairly for consumers. Ofgem's regulatory powers for businesses are significantly more limited than for households. For example, the energy price cap mentioned earlier in this report applies only to domestic customers. Firms do not benefit from a regulated price cap and instead operate on bespoke contracts with suppliers[xxxiii].

In October 2025, the government announced measures to strengthen protections for households and businesses in the energy market. These included halving the waiting period before customer complaints could be escalated to the Energy Ombudsman, as well as faster access to redress when suppliers let customers down, and requiring suppliers to pay compensation if the Ombudsman's rulings are not implemented promptly. Ofgem was also appointed to regulate third-party intermediaries, ensuring businesses benefit from fair treatment, greater compensation and lower commissions[xxxiv].

The BCC welcomes these measures, which strengthen protections across the energy market. The government and Ofgem must continue to ensure that business energy bills are fair, and that firms understand their rights and complaints procedures, in cases of unfair treatment.

DELIVERING THE ENERGY INFRASTRUCTURE WE NEED

Ensuring that the grid is able to meet both existing and future needs is critical for the UK's energy transition and economic growth. BCC research in 2023 showed that over a third (37%) of businesses disagreed that the national electricity grid was giving them what they needed in terms of energy supply, connectivity, and future-proofing.

In this research, businesses called for a "massively expanded grid to enable decarbonisation", and also highlighted challenges in selling renewable energy back to the grid, or its ability to meet future demands, such as with electric vehicle charging[xxxv]. Delivering on upgrades to to the electricity distribution network is essential to providing swift connection to the grid to support electrification.

As Renewable UK points out, grid equipment has physical limits on the amount of power that can be safely transmitted and distributed. When capacity limits are reached, bottlenecks form. This leads to curtailment of generation or demand, which happens frequently on the transmission network as renewable energy producers are asked to reduce their output until the bottleneck has clearedd[xxxvi].

The Net Zero Technology Centre has highlighted the scale of this problem, revealing that in the first half of 2025, 4.6 TWh of electricity was curtailed in Great Britain, which was a 15% increase compared to the same period in 2024[xxxvii]. In January 2026, it was reported that consumers spent £1.5 billion in 2025 paying for wind farms to switch off, and that wasted wind power was expected to grow in the coming years as more windfarms come online[xxxviii]. Delivering reforms to the grid, as well as delivering all planned new grid infrastructure (including transmission lines) are critical, and the government must continue to work with NESO and Ofgem to ensure these are completed as a top economic and environmental priority. Without sufficient grid capacity, the UK will not be able to deploy new renewable generation at the pace required and act as a blocker to new requirements, such as data centres or housing developments. This could both hinder progress towards the clean power mission and also undermine economic growth.

The BCC welcomes the clean energy security pact agreed at the North Sea Summit in Hamburg in January 2026. This agreement will strengthen energy security for households and businesses across the UK and Europe. Through this agreement, joint offshore wind projects will be connected to more than one country through interconnectors[xxxix]. Industry has also welcomed the Joint Offshore Wind Investment Pact, which includes commitments to a 30% cost reduction by 2040, on 2025 levels, through investment to deliver 15GW per year over the 2030s. Offshore wind is essential to the competitiveness of businesses in Northern Europe. It is essential that this pact is able to improve the security of renewable energy supplies and ultimately lead to lower energy costs in the long-term.

Businesses in the BCC Chamber Network have also reported significant challenges when trying to expand through electrification or install renewable energy generation on their site. Some firms have been given connection dates into the mid-2030s and beyond. This has a significantly damaging impact on businesses who want to support the transition to renewable energy, or electrify, but are unable to do so because of lengthy connection dates. This issue is likely to intensify and action from the government, therefore, is urgently needed.

Policymakers should assess how demand on the grid is expected to increase and set out, through a roadmap, how it will ensure this increasing demand will be met. This includes providing sufficient capital investment in grid expansion, alongside measures to support businesses in feeding surplus electricity generated back into the grid, helping to develop a fully bidirectional grid.

It is also important to recognise the costs associated with running and expanding the electricity network, and ensure this is kept as low as reasonably possible. The government must ensure that any additional spending to expand the grid and accelerate connections can fully demonstrate value for money so that businesses and households can see the benefits of additional funding being allocated towards this.

CONCLUSIONS AND RECOMMENDATIONS TO THE GOVERNMENT

Businesses of all sizes and sectors continue to struggle with high energy bills, which is constraining growth and undermining competitiveness. Firms need immediate support that brings down energy costs in 2026. While the government has a clear ambition to deliver clean power by 2030, which it says will lead to lower bills in the long-term, businesses cannot wait four years to feel these benefits.

This report has outlined the significant impact that high energy costs are having on businesses and has examined the underlying drivers of those costs. To support firms, the government should introduce measures that can provide immediate relief while also accelerating progress towards a cleaner, more secure energy system. Many of these recommendations build on existing government schemes, but strengthen them to meet business needs.

THE BCC SETS OUT THE FOLLOWING RECOMMENDATIONS TO THE GOVERNMENT

Extend support and access to guidance for businesses:

1. Publish a full assessment of the Business Energy Advice Service pilot in the West Midlands once the scheme comes to a close in March 2026. This should detail the carbon emissions and money saved by businesses, as well as gather feedback from businesses and local stakeholders around the success of the scheme, as well as identifying issues to be improved.
2. Design and implement a permanent, UK-wide energy advice scheme, offering free energy assessments and funding for energy-saving technologies, with clear estimates of costs that could be saved by businesses.
3. Ensure, with Ofgem, that energy bills for businesses are fair, and that firms are able to raise concerns about the energy market if they feel that they have been treated unfairly.

Address the high cost of energy in the UK and the impact on businesses:

4. Broaden the commitment to fund at least part of the Renewables Obligation on business energy bills, aligning support for firms with the relief provided to households in the Autumn Budget 2025.
5. Provide an assessment on the price of energy in the UK, including the numerous factors that determine the price of energy, both now and in the future.

Improve access to support for businesses in switching to low carbon alternatives:

6. Improve awareness of, and access to, financial support for businesses looking to switch to renewable energy sources, to make them more affordable for businesses.
7. Provide clear incentives for businesses to electrify and switch to more efficient electric heating, such as through a Targeted Electrification Discount to support firms with the upfront costs of electrification, and switching to more efficient electric heating.

Deliver longer-term reforms to the energy system:

8. Develop options to expand the capacity for energy storage, enabling surplus renewable energy to be stored in cases of abundant supply.
9. Deliver on grid connections reforms for strategic demand as an urgent priority to support electrification and new demands, such as with data centres. Publish a roadmap showing how rising demand on the grid will be met. Ensure there is sufficient investment in the grid to provide swift connection for renewable energy projects.
10. Ensure the needs of businesses are factored into the Strategic Spatial Energy Plan and Regional Energy Spatial Plan to enable timely and cost effective access to the grid.

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