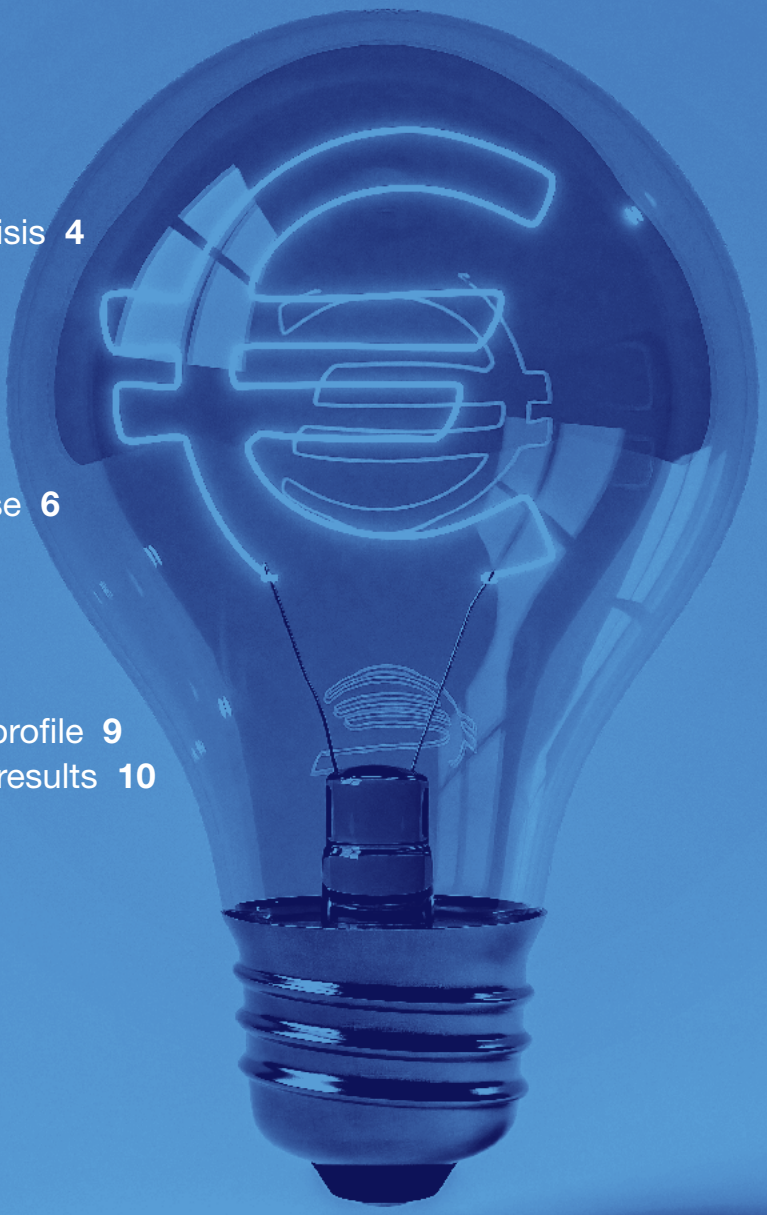
Ibec
For Irish Business

Energy Costs Survey

Expenditure and the impact of rising costs on Irish business

December 2022



Overview

The European energy crisis is threatening the viability and competitiveness of thousands of Irish firms. This has been well understood for some time. However, reliable data on business exposure and impacts has been limited to date. This is because business energy price data is not captured in the same way it is for residential customers.

To address this gap, Ibec surveyed its members in October 2022, seeking information on past and planned energy expenditure, hedging arrangements, and the impact rising costs are having on profitability and operations. With 384 participants across all core sectors, the survey data provides a critical insight into the scale of the affordability challenge facing Irish businesses.

The data also demonstrates the critical need for enhanced supports to help vulnerable firms manage these costs and reduce their exposure through new renewable and energy efficiency investments. While the Temporary Business Energy Support Scheme (TBESS) and Ukraine Enterprise Crisis Scheme (UECS) announced in Budget 2023 are providing welcome support to many businesses, the eligibility criteria and support levels remain too restrictive. Of the 39% of companies reporting at least a doubling of their electricity or gas costs in 2021, only one quarter could qualify for the UECS scheme in its current design. Meanwhile, support schemes across Europe are more accessible and impactful, creating clear competitiveness challenges for Irish businesses. It is now time to extend the TBESS to the end of 2023 and strengthen the UECS scheme by bringing it closer to the EU guidelines and the schemes in other EU Member States.

Survey key findings

Average business expenditure on gas increased by 90% on 2021 levels

Average business expenditure on electricity increased by 60% on 2021 levels

Energy expenditure increased in 2022 despite 57% of respondents reducing energy use

Firms are forecasting gas costs to be three times higher in 2023 than last year

Firms are forecasting electricity costs to be 2.5 times higher in 2023 than last year

Most remaining pre-war hedging arrangements will come to an end in January 2023

70% of respondents are forecasting reduced profitability for 2022 because of energy costs

49% of respondents plan to invest in renewables in 2023 to reduce energy costs

Of the 39% of companies who reported a doubling of their energy costs, only one-quarter would qualify for the UECS scheme

Recommendations

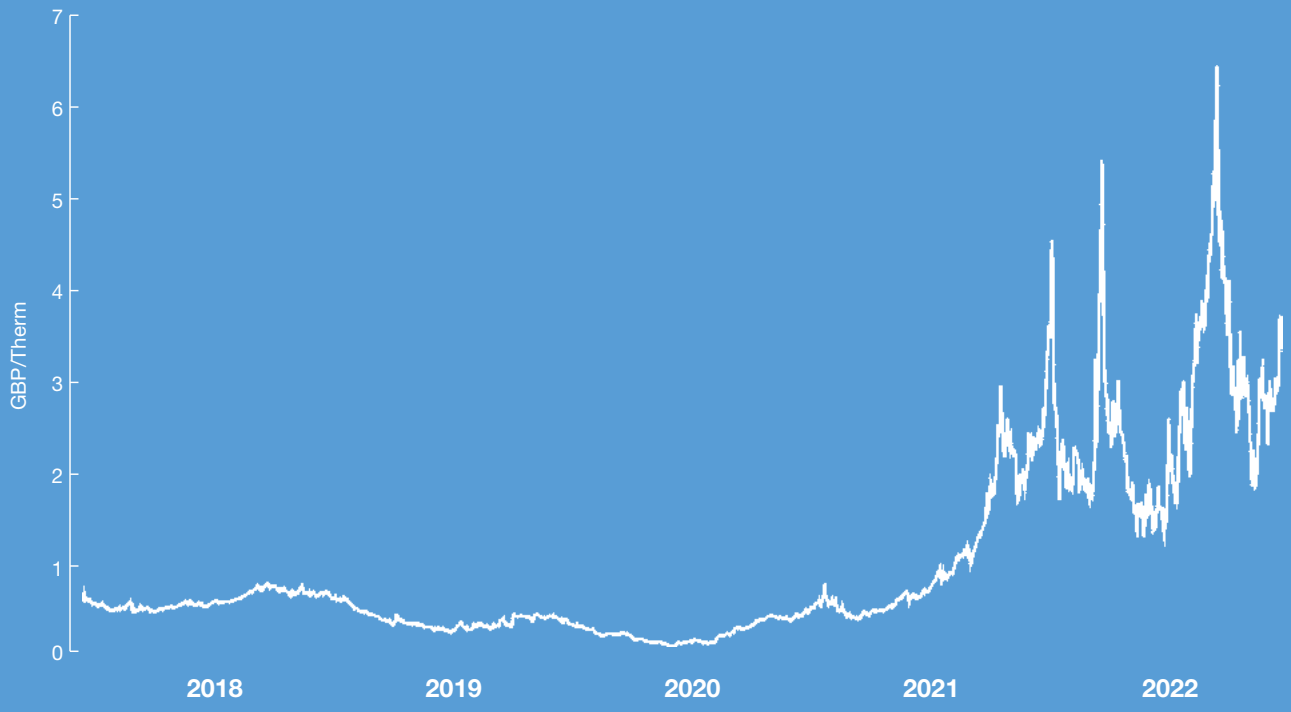
+ **Extend the TBESS to the end of 2023**
+ **Redesign the UECS so it aligns with the new EU State Aid guidelines and provides effective support to more businesses.**
+ **Enhance state supports for renewable energy adoption and energy efficiency projects**
+ **Address planning and installation barriers to the roll out of Solar PV in industry**
+ **Work with industry to develop new incentives for participation in the Demand Side Unit Capacity scheme**

Context: Europe's energy crisis

In Autumn 2021 energy prices across Europe increased significantly as economies began to re-emerge from Covid-era lockdowns and gas supplies struggled to meet surging demand. The Russian invasion of Ukraine in February 2022 turned this upward trend into a Europe-wide energy crisis.

Wholesale gas prices reached record levels in August 2022 hitting 640 pence per Therm, a 450% increase on the previous year. Because natural gas sets the marginal price in European electricity markets, wholesale electricity prices also surged during this period. At the beginning of the crisis, most end users were insulated from these exceptionally high wholesale prices because of energy supplier and company hedging arrangements. But most end users began to feel the impact of these prices in the second half of 2022 as the crisis deepened and high prices were sustained.

Figure 1: Natural Gas GBP Futures – 5 years to December 2022



Major survey findings

1. Business exposure

Irish businesses across all sectors reported significant energy cost increases in 2022. Average electricity and natural gas costs increased by 60% and 90% respectively on last year. This is despite 57% of respondents reporting reduced energy use in the same period. The share of firms insulated from these high costs because of energy hedging is getting smaller as the crisis continues. By January 2023, only 16% of respondents will retain their pre-war electricity hedge, and only 17% of gas user respondents will retain their pre-war gas hedge. Large energy users are also reporting reduced opportunities to hedge as energy suppliers seek to manage their own exposure to volatile wholesale markets.

Table 1: Energy cost multiples, versus 2021

	Natural Gas			Electricity		
	Manufacturing	Services and others	All sectors	Manufacturing	Services and others	All sectors
2022	1.9	1.7	1.9	1.6	1.6	1.6
2023	3.5	2.1	3.3	2.8	2.0	2.5

Sample size: 325[1]

2. Market outlook

Respondents in all sectors are forecasting continued energy cost increases in 2023. Firms are forecasting gas costs to be 3.3 times higher in 2023 than last year and electricity to be 2.5 times higher. At the time of the survey, wholesale gas prices had already started to fall due to increased gas storage in Europe and lower demand. However, wholesale gas prices remain 6-7 times higher than pre-covid levels and gas markets remain very volatile. It will take a longer period of sustained low gas prices before these reductions are reflected in the retail price of gas and electricity.

3. Business impacts

High energy costs are impacting businesses' profitability with 70% of respondents forecasting a reduction in profitability[2] for 2022 because of increased energy costs. The financial impact is strongest in manufacturing firms with 30% of respondents in this category forecasting an EBITDA decline above 10%. This reflects the higher energy intensity of manufacturing operations. 66% of manufacturing businesses identified as being energy intensive, with total energy costs accounting for more than 3% of company turnover. More firms will enter this energy intensity category in 2023 if energy costs continue to increase as expected. Outside of manufacturing, the most impacted sectors were hospitality, retail, and transport and logistics.

1. Only the responses providing data for all three years 2021-2023 were counted. This accounts for the smaller sample size.
2. Measured as a projected fall in EBITDA (Earnings before interest, taxes, depreciation, and amortization) for 2022 compared with 2021.

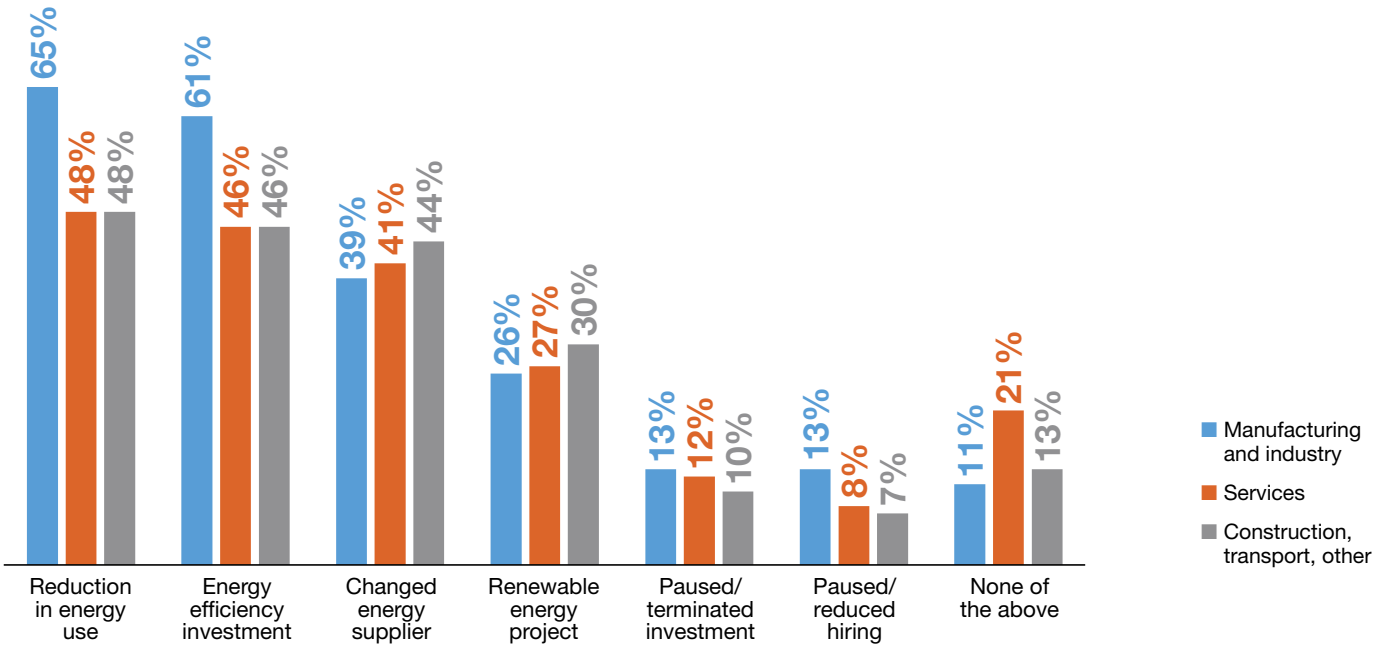
Table 2: Impact on projected 2022 EBITDA

	Manufacturing	Services	Other	TOTAL
No adverse impact	3%	14%	7%	**7%**
Up to 5% decline	36%	33%	31%	**34%**
5%-10% decline	14%	13%	15%	**14%**
10%-15% decline	6%	3%	5%	**5%**
15%-30% decline	13%	5%	8%	**9%**
More than 30% decline	11%	3%	8%	**8%**
Not sure	18%	29%	26%	**23%**

4. The business response

Most businesses have taken proactive steps to reduce exposure to rising energy costs. 57% of respondents reported a reduction in energy use. The share of firms reducing energy use was highest in education institutions (81%), food and drink manufacturers (69%), other manufacturers (64%) and hospitality (62%). A significant share (56%) of businesses invested in their energy efficiency while 40% of respondents switched energy supplier. A minority of firms decided to pause or terminate a planned investment. This was most pronounced in food and drink manufacturing (28%).

Figure 2: Measures undertaken in the past two years



5. Opportunities

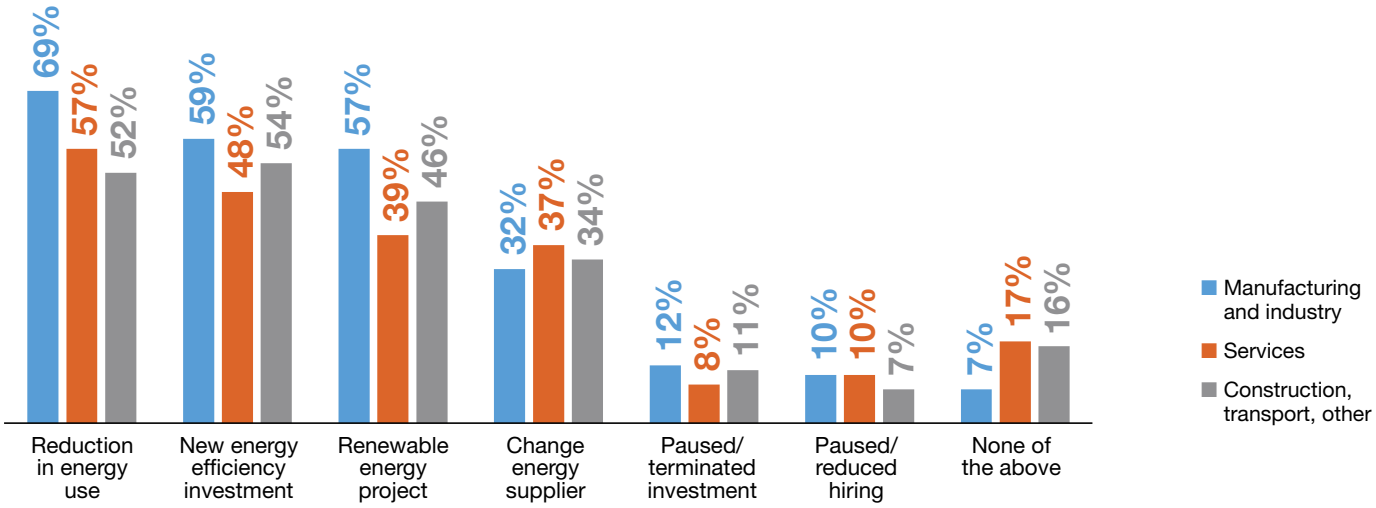
Throughout this crisis, businesses have not lost sight of the long-term imperative to transition away from fossil fuels and reduce greenhouse gas (GHG) emissions. Rising energy costs can be a driver for firms to invest in their energy efficiency and switch to renewables. Projects that were once financially unviable may now make sense. The survey finds that 55% of respondents are planning an energy efficiency upgrade in 2023, while 49% plan to invest in renewables. Interest in these projects is greatest among manufacturing and medium to large businesses. However, there are strong barriers to project delivery. 62% of manufacturing firms reported that the payback period on these projects remains unattractive despite the increased costs.

Table 3: Energy savings opportunities

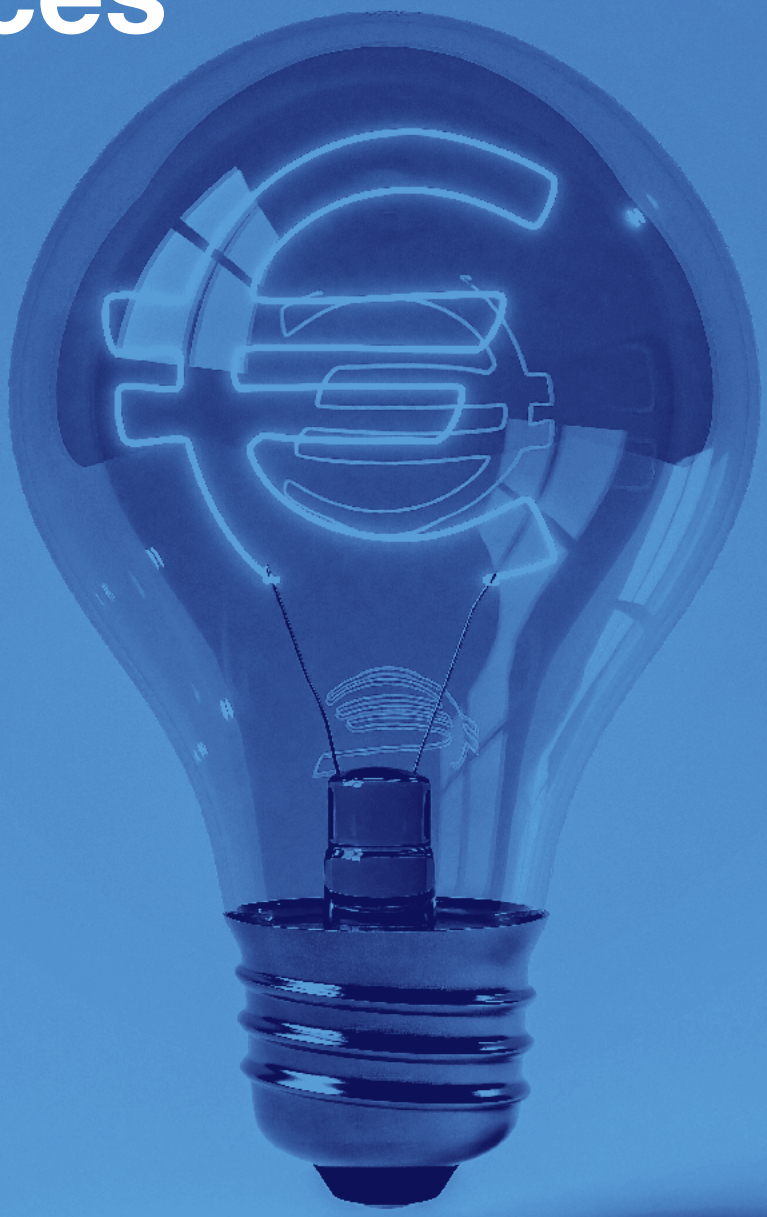
	Manufacturing	Services	Other	TOTAL
Number of respondents	197	126	61	**384**
Operating at maximum efficiency	24%	26%	23%	**25%**
Not at maximum efficiency	68%	60%	69%	**65%**
Don't know	8%	16%	8%	**10%**

The survey data also suggests significant opportunities for energy savings and better demand-side management of energy, with 65% of all businesses and 75% of medium-sized firms believing they are not yet operating at maximum efficiency. Meanwhile, only 11% of respondents reported participation in the Demand Side Unit (DSU) Capacity Scheme which provides critical electricity capacity to the grid during times of constraint. Given the erosion of buffer generation capacity forecast in our electricity system over the coming years, these opportunities for greater DSU participation merit urgent research and analysis.

Figure 3: Measures planned for 2023



Appendices



Appendix I Participant profile

Respondents	**384**

Manufacturing	
Food and Drink Manufacturing	**14%**
Other manufacturing and engineering	**37%**

Services	
Technology services and data storage	**6%**
Financial/professional/commercial services	**11%**
Retail or wholesale	**5%**
Hospitality and accommodation	**7%**
Education	**4%**
Transport logistics distribution	**6%**
Construction	**2%**
Other	**8%**

Characteristics	
Energy intensive	**47%**
Small	**23%**
Medium	**56%**
Large	**21%**
Gas users	**52%**

Appendix II
Full survey results

Question	Manufacturing	Services	Other	TOTAL
Number of respondents	197	126	61	**384**
Less than 50 staff	19%	25%	31%	**23%**
50-249 staff	40%	35%	43%	**39%**
250-500 staff	21%	13%	11%	**17%**
Over 500 staff	20%	27%	15%	**21%**
Operating at maximum efficiency	24%	26%	23%	**25%**
Not at maximum efficiency	68%	60%	69%	**65%**
Don't know	8%	16%	8%	**10%**
Routinely change supplier	58%	55%	54%	**57%**
Don't change supplier	40%	41%	46%	**41%**
Don't know	2%	4%	0%	**2%**
Undertaken in the past two years:				
Reduction in energy use	65%	48%	48%	**57%**
Energy efficiency investment	61%	46%	46%	**54%**
Changed energy supplier	39%	41%	44%	**40%**
Renewable energy project	26%	27%	30%	**27%**
Paused/terminated investment	13%	12%	10%	**12%**
Paused/reduced hiring	13%	8%	7%	**10%**
None of the above	11%	21%	13%	**15%**
Planned activities:				
A reduction in energy use	69%	57%	52%	**60%**
New energy efficiency investment	59%	48%	54%	**55%**

Question	Manufacturing	Services	Other	TOTAL
Renewable energy project	57%	39%	46%	**49%**
Change of energy supplier	32%	37%	34%	**34%**
Pause/termination of investment	12%	8%	11%	**11%**
A pause or reduction in hiring	10%	10%	7%	**10%**
None of the above	7%	17%	16%	**12%**
Challenges encountered in projects:				
The payback period is too long	62%	34%	31%	**48%**
Inadequate/cumbersome supports	51%	29%	34%	**41%**
Difficulty finding contractors	22%	24%	20%	**22%**
Regulatory or planning barriers	20%	16%	23%	**19%**
Access to finance issues	11%	10%	15%	**11%**
None of the above	19%	44%	28%	**29%**
Demand Side Scheme participant	17%	5%	8%	**11%**
Not a DSU participant	55%	65%	69%	**60%**
Not sure	28%	30%	23%	**28%**
Projected for calendar 2022:				
Energy costs below 3% of turnover	37%	48%	43%	**41%**
Energy costs 3%-10% of turnover	44%	30%	26%	**36%**
Energy costs above 10% of turnover	20%	7%	23%	**13%**
Not sure	6%	15%	8%	**9%**
Impact on projected 2022 EBITDA:				
No adverse impact	3%	14%	7%	**7%**
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Question	Manufacturing	Services	Other	TOTAL
Hedges still in place (end Q3 2022):				
Electricity	38%	21%	20%	**29%**
Gas	33%	34%	20%	**32%**

Energy cost multiples, versus 2021

	Natural Gas			Electricity		
	Manufacturing	**Services and others**	**All sectors**	**Manufacturing**	**Services and others**	**All sectors**
2022	1.9	1.7	1.9	1.6	1.6	1.6
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Sample size: 325[3]

3. Only the responses providing data for all three years 2021-2023 were counted. This accounts for the smaller sample size.

To find out more visit
www.ibec.ie

Ibec Head Offices
84/86 Lower Baggot Street,
Dublin 2.
T: + 353 1 605 1500
E: membership@Ibec.ie
www.ibec.ie/membership

Galway Offices
Ross House,
Victoria Place,
Galway.
T: + 353 91 561109
E: galway@ibec.ie
www.ibec.ie/west

Cork Offices
2nd Floor, Penrose One
Penrose Dock
Cork T23 KW81
T: +353 21 4295511
E: cork@ibec.ie
www.ibec.ie/cork

Limerick Offices
Gardner House,
Bank Place,
Charlotte Quay,
Limerick.
T: + 353 61 410411
E: midwest@ibec.ie
www.ibec.ie/midwest

Donegal Offices
3rd Floor,
Pier One,
Quay Street,
Donegal Town,
Donegal.
T: + 353 74 9722474
E: northwest@ibec.ie
www.ibec.ie/northwest

Waterford Offices
Waterford Business Park
Cork Road
Waterford
T: + 353 51 331260
E: southeast@ibec.ie
www.ibec.ie/southeast

Ibec Europe
Avenue de Cortenberg, 100
1000 Brussels
Belgium
T: +32 (0)2 740 14 30
E: europe@ibec.ie
www.ibec.ie/europe

@ibec_irl