Department for Business, Energy & Industrial Strategy

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Darren Jones MP
Chair, Business, Energy and Industrial Strategy Committee
House of Commons
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Dear Darren,

Bulb Energy Limited: Energy Supply Company Special Administration Regime (SAR); commencement of Energy Transfer Scheme (ETS)

I am writing to update you on the latest financial situation for Bulb Energy in special administration as per my commitment at our hearing on Tuesday 13 December 2022. I would also like to notify the committee that following approval by the Secretary of State and appointment of an effective date by the court, the Energy Transfer Scheme (ETS) commenced yesterday (Tuesday 20 December 2022). The Energy Transfer Scheme is a statutory process, being utilised here for the first time, to protect Bulb's 1.5 million customers and implement the transfer of certain Bulb business assets, rights, and liabilities, including the full customer book, to a wholly owned subsidiary of the Octopus Energy Group Limited.

Bulb was taken into special administration by an order of the court on 24 November 2021. Since this time the Energy Administrators have continued to trade the business whilst delivering a competitive sales process which resulted in yesterday's ETS commencement. Customers will automatically transfer and Octopus's subsidiary will become responsible for the supply licence obligations and day to day running of processes to support Bulb's 1.5 million customers. Customers' credit balances will be protected and direct debit mandates will be transferred as part of the process.

I note the existence of the three judicial reviews against the Secretary of State's approval decisions – which we are expecting to be heard jointly by the High Court in February 2023. The judicial reviews do not impact yesterday's commencement of the ETS and we will obviously comply with directions made during the proceedings.

I would also like to provide an update on the financial costs incurred so far as part of the SAR. At the point at which Bulb entered into special administration, under Ofgem's price cap methodology it should have forward-hedged its energy purchases in whole or in part until the end of September 2022. However, as Bulb was not sufficiently hedged prior to its failure, Bulb's Energy Administrators have had to procure energy for Bulb's 1.5 million customers from that point. We estimate that this has incurred c.

£1.1 billion additional costs than if Bulb had been hedged in line with Ofgem's price cap methodology prior to its failure.

As you are aware, once Bulb entered into the SAR, a power purchasing strategy was developed by the Energy Administrators and jointly agreed between BEIS and HMT not to hedge for Bulb's customers once in special administration. It is consistent with Managing Public Money (MPM) guidance. Our analysis is that, if HMG and the Energy Administrators had decided to catch up on the periods for which Bulb was under-hedged for to September 2022, this would have added a further £58 million in costs for this period. Our analysis therefore suggests that, for the period to September 2022, the taxpayer has saved money as a result of the decision not to hedge for Bulb's customers once in special administration.

In terms of the quantum of taxpayer funding which has been made available to enable the continued purchase and sale of energy on behalf of Bulb's 1.5 million customers, the funding arrangements for the administrators were initially calibrated with an upper limit at £1.7 billion. This was based on their forecasted working capital requirement for a five-month SAR until the end of April 2022, when a sale of Bulb was assumed to have taken place, and calculated using wholesale energy prices in mid-November 2021. I note that to the end of September 2022, £1.143 billion has been provided to the administrators in cash.

In October 2022, the Secretary of State agreed to increase the upper limit of the facility of the funding agreement to £3.9 billion in order to allow the administrators to enable the discharge of their statutory duties of keeping Bulb's 1.5 million customers supplied with energy at the lowest reasonable practicable cost. This uplift was based on estimated costs through to 31 December 2022 to provide contingency headroom in the funding limit should the sales process not complete as planned.

With the ETS commencement date having occurred, the current facility limit has now decreased to £2.2 billion for the purpose of settling outstanding pre-appointment costs and liabilities, administration and operating expenses and to discharge any wind down costs. A new post-completion funding facility has also been made available to the Energy Administrators for the limited purposes of discharging Bulb's contractual obligations from the sales process, with a declared estimated gross figure of £4.5 billion. This new post completion facility will primarily cover the gross wholesale energy costs until March 2023 for the 1.5 million Bulb customers taken into the new ringfenced entity – with such costs being difficult to predict due to unprecedented volatility in global gas prices. The extent of government funding provided under the post-completion facility may be much lower than £4.5 billion, depending on energy prices this winter.

As to the provenance of the Office of Budget Responsibility's £6.5 billion scoring for Bulb's special administration, I note the Chancellor wrote to the Treasury Select Committee on 12 December with further details. I would like to reiterate that the OBR's figures, including the aforementioned £4.5 billion, are only a snapshot of HMG's potential gross financial exposure at any given moment in time – in this case as per modelling undertaken in mid-September 2022. They do not include the new Octopus entity's repayments of wholesale costs at the price cap, which may be more or less than the gross wholesale energy costs, and are not an estimate of the likely net costs to the taxpayer from Bulb SAR, with actual costs being unknown until Spring 2023 at the earliest.

I am copying this letter to Meg Hillier as Chair of the Public Accounts Committee, Harriett Baldwin as Chair of the Treasury Committee, Gareth Davies, Comptroller and Auditor General and the Treasury Officer of Accounts.

Sarah Munby
Permanent Secretary, Department for Business, Energy & Industrial Strategy