# Seventy-fourth report of Session 2022-23

## Department for Energy Security and Net Zero, HM Treasury

### Bulb Energy

**Introduction from the Committee**

Average annual household bills for gas and electricity have increased from £1,200 in winter 2021–22 to £3,300 in the spring of 2023. Partly because of the increase, between July 2021 and May 2022, 29 energy suppliers failed, affecting nearly four million households in the UK. This includes Bulb Energy Limited (Bulb), which announced that it could no longer continue trading in November 2021. With around 1.5 million customers, Bulb was the largest energy supplier to fail and was considered too large for a Supplier of Last Resort (SoLR). To protect customers, on 24 November 2021, Ofgem and the Department for Energy Security and Net Zero (the Department) placed Bulb in a Special Administration Regime (SAR). Three individuals from Teneo were appointed by the High Court to be the joint energy administrators (also known as special administrators) for Bulb.

The Department was responsible for funding and overseeing both the SAR and the sale process. Its aim was to sell Bulb and exit the SAR as quickly as possible. HM Treasury advised the Department on the SAR and provided budgetary cover. Ofgem was responsible for selecting the special administrator, monitoring Bulb during the SAR and assessing the sale transaction and the potential impact on customers. A sale process was launched in February 2022 and took 10 months to complete. On 20 December, Octopus Energy Limited (Octopus) paid £113 million to the government to purchase Bulb. The sale of Bulb to Octopus was completed via the Energy Transfer Scheme (ETS), which allowed Bulb's supply licence and certain business assets, rights, liabilities, and full customer book, to be transferred to Octopus without the usual contractual forms and permissions. As part of the sale deal with Octopus, government agreed to financially support Bulb by paying for Bulb's wholesale energy costs up to 31 March 2023, thereby allowing Bulb to accumulate sufficient capital necessary to pay for its wholesale energy costs from 1 April 2023. As a result of this support, the total estimated cost to the taxpayer for funding Bulb was £3.02 billion as of the end of January 2023.

The SAR will continue until Octopus has repaid the taxpayer funding and Bulb's outstanding costs and liabilities have been settled. On 25 May 2023, Teneo reported that the estimated amount Octopus would be due to repay to government was £2.8 billion. This is currently expected to be repaid by September 2024, but government and Octopus have agreed some conditions under which the repayment could be deferred to September 2025. Government does not expect to recover the full amount of taxpayer funding committed to Bulb and has indicated that it intends to recover the shortfall from energy consumers. The Department will calculate the final cost to the taxpayer when the SAR ends.

Based on a report by the National Audit Office, the Committee took evidence on 25 May 2023 from Ofgem; Octopus Energy; Teneo; the Department for Energy Security and Net Zero and HM Treasury. The Committee published its report on1 November 2023. This is the government's response to the Committee's report.

**Relevant reports**

- NAO report: Investigation into Bulb Energy – Session 2022-23 (1202)
- PAC report: Seventy-Fourth Report - Bulb Energy – Session 2022-23 (HC 1232)
- PAC report: Fifty-eighth Report - Energy Bills Support – Session 2022-23 (HC 1074)

**Government response to the Committee**

***1. Pac conclusion: We commend HM Treasury, the Department and Ofgem for taking action to help protect customers after energy suppliers failed but remain concerned that not all of those who need support are yet accessing it.***

***1a. PAC recommendation: Within six months, the Department should provide a review of the effectiveness of the range of support mechanisms that it has introduced and their impact on the energy market and customers and specifically look at the impact of the way energy companies supply businesses.***

1.1 The government agrees with the Committee's recommendation**.**

**Target implementation date: December 2025**

1.2 The government stepped in last year in to protect households and businesses in response to the unprecedented wholesale energy price spike caused by the illegal invasion of Ukraine by Russia. Whilst some of the temporary energy bills support schemes that government introduced to deal with the extraordinary pressures have since concluded, this coincides with the substantial falls in energy prices. Comprehensive impact process and value-for-money evaluations are underway for the winter 2022-23 energy bills support schemes for UK households and organisations. The evaluations are expected to run until summer 2025 and the findings will be shared with the Committee when available and will be published.

***1b. PAC recommendation: As we recommended in November 2022, the Department should continue to update the Committee on how it is ensuring that government interventions to support people and businesses with their energy bills are accessible by those most in need, including: vulnerable people; the remaining household customers who have yet to claim their energy vouchers; and businesses not included in the Energy and Trade Intensive Industries scheme.***

1.3 The government agrees with the Committee's recommendation.

**Recommendation implemented**

1.4 Energy prices have fallen significantly throughout 2023. In the near term, the Energy Price Guarantee (EPG) is still in place should prices exceed £3,000 and will remain so until the end of March 2024. Additional cost-of-living payments, worth up to £900, are also in place supporting the most vulnerable households.

1.5 The Energy Bill Discount Scheme (EBDS) will continue to provide support to non-domestic customers who have a contract with a licensed energy supplier until 31 March 2024 and who are not receiving additional support via the Energy and Trade Intensive Industries scheme. The EBDS also provides a higher level of support for heat networks with domestic end consumers. This aims to ensure that customers on heat networks do not face disproportionately higher bills.

1.6 The department expects over three million households to receive a Warm Home Discount (WHD) rebate during the winter of 2023-24 and the government continues to explore options to make the WHD more flexible. Households who meet the eligibility criteria then receive a rebate. The official statistics for the 2022-23 scheme show that in the winter of 2022-23, 95% of recipient households received their rebates this way, with the remaining 5% receiving their rebate following a claim to the associated helpline.

***2. PAC conclusion: Ofgem's failure to ensure that energy suppliers were financially resilient resulted in costs to energy consumers and taxpayers when these energy companies failed.***

***2. PAC recommendation: By the end of the year, Ofgem and the Department should write to the Committee, setting out the steps they are taking to promote healthy competition in the energy market while only granting licences to suppliers with the necessary financial resilience to survive challenging market conditions. It should also consider the market for business customers.***

2.1 The government agrees with the Committee's recommendation.

**Recommendation implemented**

2.2 As set out in the Energy Security Plan 2023, the government will deliver an energy retail market that works better for consumers, is more resilient and investable, and supports wider energy system transformation. This includes creating a market that is better prepared for future wholesale price volatility and better able to shield consumers from the costs of supplier failure. At the same time, a return to competition and profitability for well-run suppliers that offer value for consumers.

2.3 Since 2021 Ofgem has implemented a package of measures to strengthen the financial resilience of retail energy companies. These reforms will benefit consumers by ensuring a better balance of risks between supply licensees and consumers and, in doing so, reduce the likelihood and cost of widespread failures. A resilient, profitable, investable market is also essential for sustainable competition, where energy retailers have incentives to innovate in the pursuit of net zero and receive a reasonable profit as they drive up consumer service standards.

2.4 Ofgem has introduced:

- Enhanced licence application process and milestone assessments
- Rules to require licensees to have sufficient control of their assets to reduce costs for consumers in the event of insolvency.
- Enhanced monitoring of supplier finances including stress testing, a proactive reporting framework of Trigger Points, and Annual Adequacy Self-Assessments.
- Renewable Obligation receipts ringfencing
- Licence modifications to direct Customer Credit Balance ringfencing in certain circumstances
- Capital adequacy requirements, including a common minimum capital requirement, due to take effect from Q1 2025, with the Capital Floor, Target, and associated compliance framework.

2.5 Ofgem and the Department will continue to work closely to monitor the impact of these changes and identify the need for any further measures to improve the financial resilience of suppliers.

2.6 Ofgem is currently undertaking a *Non-Domestic Market Review* which includes the market conditions faced by business customers. Ofgem published their statutory consultation on 7 December in alignment with government's own consultation on expanding business access to redress. Both consultations will close at the end of January 2024 and Ofgem and DESNZ are in constant communication to ensure results are shared and acted upon in a timely manner

2.7 The department and Ofgem have provided the Committee with regular updates on this work, including via Treasury minutes.

***3. PAC conclusion: We are concerned that substantive risks and uncertainties remain to the recovery of the £3.02 billion of taxpayer funds currently committed to the funding of Bulb Energy.***

***3a. PAC recommendation: Within 12 months, the Department should write to the Committee with details of what lessons it has learnt from the SAR and how it is using these to monitor and ensure the successful recovery of temporary taxpayer funding.***

3.1 The government agrees with the Committee's recommendation.

**Target implementation date: October 2024**

3.2 A lesson learned activity on Bulb Special Administration Regime's (SAR's) initiation and operation was undertaken in early 2022, followed by one before summer recess 2023. This has helped shape ongoing preparations for any future SAR and enhanced the generic SAR planning products, the routine staff training and the DESNZ-Ofgem SAR Handbook (a tool which sets out how to establish a SAR and explains how an administration would operate). Lessons learned exercises will continue to take place throughout the lifecycle of the SAR, from initiation, operation and ultimately exit. Lessons from these exercises will be consolidated into the department's SAR contingency planning activity to ensure it can continue to respond effectively as market conditions evolve. This will obviously be dependent on the timings surrounding the completion and exit of the SAR.

3.3 The department will be completing a benefits analysis towards the conclusion of the SAR, to review how the objectives have been achieved and whether value has been achieved for customers and taxpayers alike.

3.4 The department continues to engage with the administrators of Bulb who provide regular reporting and progress updates as per the requirements of the Administration Funding Agreement. HM Government monitors and provides the appropriate level of scrutiny and oversight in ensuring the objectives of the SAR remain on track to be achieved such as delivery at the lowest possible cost and the successful full recovery of the Wholesale Adjustment Mechanism Agreement (WAMA) (a framework entered between the administrators and Octopus as part of the transaction) funding provided. However, the responsibility ultimately falls on the administrators as officers of the court, in ensuring the relevant parties fulfil their contractual repayment obligations as stated under the WAMA.

***3b. PAC recommendation: At the conclusion of the Bulb SAR, the Department should write to the Committee with details of the final cost to the taxpayer, including how much has been repaid by Octopus and any shortfall that it plans to recover from consumers.***

3.5 The government agrees with the Committee's recommendation.

**Target implementation date: December 2025**

3.6 Bulb will remain in SAR until such time as the administrators have fully discharged their statutory duties, have submitted their final progress report and a court application to end the SAR, with Secretary of State' consent, has been made and duly ordered by the court.

3.7 Full repayment is not expected until September 2024 (or 2025 if Octopus exercise their right to defer if certain market conditions are met). Following this, a further 12-month wind-down period is expected for the administrators to close any remaining matters. As such the conclusion of the SAR will not occur until sometime in autumn of 2025 or autumn of 2026 at which point, we will have details of the final costs to the taxpayer and how much has been repaid.

3.8 The recovery of any shortfall is dependent on final amounts calculated by the administrators which is still progressing. The department will inform the Committee once it has the final confirmed amounts and expects to provide a written update as to estimated outturns and timelines by end of December 2025. However, in the meantime it will keep the Committee updated of estimated outturns over the remaining SAR period.

***4. PAC conclusion: HM Treasury, the Department and Ofgem's preparedness for the failure of a major energy supplier like Bulb, did not include the full range of activities needed to oversee a Special Administration Regime (SAR).***

***4. PAC recommendation: By the end of 2023, the Department and Ofgem should update their procedures for handling a supplier failure to ensure that they cover the entirety of the SAR process. This should clearly outline the key decision points during the SAR, the energy purchasing strategy, the sale process and exiting the SAR.***

4.1 The government agrees with the Committee's recommendation.

**Recommendation implemented**

4.2 DESNZ, Ofgem and other stakeholders have worked closely to develop comprehensive governance arrangements and planning materials to ensure the government remains well-prepared to manage the failure of a large energy supplier. These have been thoroughly tested, including through their successful use in the Bulb Special Administration Regime (SAR). They include:

- A contingency plan and a joint DESNZ-Ofgem ESC SAR handbook, including key roles and organisational accountabilities.
- A Memorandum of Understanding establishing a coordination framework between DESNZ, HM Treasury and Ofgem.
- A call-off panel to provide independent scrutiny of any requests for financial support by the Energy Administrator.
- Ofgem's appointment of a preferred Energy Administrator including two reserves.
- Contract in place until the end of 2024 to provide external legal support.
- A 'break glass pack' covering actions to be taken in the first 96 hours of managing a large supplier failure; and
- Regular wargaming exercises, the most recent in September 2023.

4.3 This planning takes account of the entire lifecycle of a SAR, the ultimate exit of the failed supplier from administration. While we have sought to prepare as thoroughly as possible, however, how the exit from a SAR is managed in practice will depend in large part on factors outside the control of government, including legal proceedings, prevailing market conditions and the appetite of potential buyers. In the event of any future SAR, the government will work with the administrator to ensure the best possible outcome for customers. If the supplier cannot be rescued or sold, customers will be moved to another supplier in a managed, gradual process.

***5. PAC conclusion: The complex nature of the Special Administration Regime and sale process has required specialist skills and advice that are in limited supply within government.***

***5. PAC recommendation: Within 12 months, HM Treasury, working with UKGI, should update the Government Corporate Finance Profession's vision and strategy to ensure that departments have access to the right skills and experience from within the civil service to handle future supplier failures and similar transactions related to corporate finance.***

5.1 The government agrees with the Committee's recommendation.

**Target implementation date: Autumn 2024**

5.2 UKGI and HM Treasury will work together to review the Government Corporate Finance Profession's ('GCFP' or 'the Profession') forward plan to include raising awareness of the specialist skills that are available across HMG in a supplier failure scenario and similar situations, including drawing on the recent NAO Lessons Learned paper – 'Monitoring and responding to companies in distress.

5.3 UK Government Investments leads the Government Corporate Finance Profession and the UKGI's Chief Executive is the Head of the Profession. The GCFP's purpose is to promote skills development, knowledge sharing, networking, collaboration, and career development in corporate finance across Whitehall. The Profession focuses on technical skills development targeting civil and public servants undertaking corporate finance work across government, to help them develop an understanding of the wider external market and to provide an opportunity to support profile raising for corporate finance practitioners. The Profession continuously evaluates its purpose and vision, interacting with its membership base and utilising a series of surveys to understand the existing level of skills and knowledge of the membership across its published competencies, and its future needs.

5.4 The Profession will continue to monitor and update its knowledge sharing tools for its members. It regularly arranges sharing excellence seminars for members, with contributions from both the private and public sector, drawing on recent case studies to promote best practice and share learnings.

***6. PAC conclusion: Government's approach to managing financial risks posed by fluctuations in energy prices does not adequately take into account recommended practice for privately financed energy suppliers operating in the sector.***

***6. PAC recommendation: In the next 12 months, HM Treasury should set out what information Accounting Officers should consider in making commercial decisions about companies that have been taken into the public sector from a sector where the accepted market practice involves the use of hedging or forward purchasing agreements.***

6.1 The government agrees with the Committee's recommendation.

**Target implementation date: November 2024**

6.2 When companies are reclassified to the public sector from the private sector, and if classified to central government, they will be bound by existing guidance as set out in Managing Public Money including guidance on the use of hedging. Where bodies are classified as public corporations the use of hedging or forward purchasing agreements will be considered by Accounting Officers on a case-by-case basis.

6.3 The guidance will continue to suggest that the use of such instruments by government as a way of minimising future risk does not usually represent the best value for money for the public purse. In the private sector, companies typically hedge by insuring the financial risk of potential price fluctuations via a financing agreement with a private sector counterparty. This comes at a cost via a premium charged on the insurance at rates available to private companies. Where that private company has been transferred to the public sector, the government becomes responsible for that entity's balance sheet. Although the government could continue the practice of hedging by paying a third party to take on this risk, in aggregate it is more likely to cost the public purse less to finance materialised risk with funds raised via the (more advantageous) state-level borrowing rates.