Department for
Business, Energy
& Industrial Strategy

The Rt Hon Greg Hands MP
Minister of State for Energy, Clean Growth
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Darren Jones MP
Chair, Business, Energy and Industrial Strategy Committee
House of Commons
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25th November 2021

Dear Darren,

Energy Supply Company Special Administration Regime – Bulb Energy Limited ('Bulb')

As the Secretary of State set out in the House yesterday, as a result of the wholesale global gas price increase over recent months we have seen 22 energy suppliers leaving the retail market.

To date Ofgem's established Supplier of Last Resort (SoLR) process has ensured that these have been orderly, customers are protected and costs are minimised. In the case of Bulb, it was not considered possible by the Gas and Electricity Markets Authority (GEMA) to manage their exit from the market through the SoLR process because of their large size compared to other recent supplier insolvencies, with around 1.6 million customers.

Therefore, in order to protect Bulb's customers, and to limit wider industry contagion, the Secretary of State agreed with GEMA's recommendation that initiation of the Energy Supply Company Special Administration Regime (SAR) was the most appropriate course of action. As such, the Secretary of State consented to GEMA making an application under the provisions of the Energy Act 2011 for an Energy Supply Company Administration Order, which was duly made by the court on 24 November 2021. The Energy Supply Company SAR is a long-standing regime which has been tested, but this is the first time it has had to be used. Yesterday Energy Administrators were appointed by the court.

Government financial support has been agreed with the company and Energy Administrators for the sole purpose of securing the statutory objective of Energy Supply Company SAR, which is the continuation of energy supplies to Bulb's customers at the lowest reasonable, practicable cost until such time as the SAR becomes unnecessary.

The Secretary of State has agreed with HM Treasury to enter into a funding agreement with the Energy Administrators to provide financing facilities to the Energy Administrators in the form of a working capital loan, which includes Contingent Liabilities in the form of letters of credit to reduce upfront cash requirements, and a guarantee facility in respect of borrowings incurred by the company during the SAR. The facilities are available to be drawn, to a maximum aggregate amount of £1,689m, by the Energy Administrators who act as agents of the Company. The Secretary of State has also provided an indemnity to the Energy

Administrators in relation to personal liabilities arising from the performance of their statutory duties as Energy Administrators.

We will be notifying Parliament with Written Ministerial Statements and Departmental Minutes for the Contingent Liabilities.

Should there be a shortfall in the value of Bulb's estate at the end of special administration to make repayments to meet government's financing costs, the Secretary of State has discretion, under gas transporter and electricity transmission licence conditions (as modified under section 99 Energy Act 2011), about the manner of recovering the residual costs of the special administration from energy suppliers over a period of time at a later date.

Appropriate governance arrangements are in place to ensure value for money and that any financial support provided is the minimum necessary for the Energy Administrators to discharge their statutory objective. The funding agreement with the Energy Administrators specifies the utilisation mechanism for drawing down the financial support, with appropriate clearances, along with detailed weekly statements, actual and forecast reconciliations and the mechanism for updating funding forecasts. The Energy Administrators are also subject to statutory duties as administrators and as officers of the court.

These arrangements have been necessary due to the current exceptional circumstances and have met the accounting officer tests. I want to be clear that we do not want this company to be in this temporary state longer than is absolutely necessary and I have asked officials to work with Ofgem and the industry to that end.

I am writing in equivalent terms to Meg Hillier as Chair of the Public Accounts Committee and Mel Stride as Chair of the Treasury Committee. A copy of this letter goes to Gareth Davies, Comptroller and Auditor General and to the Treasury Officer of Accounts.

Yours ever,

THE RT HON GREG HANDS MP
Minister of State for Energy, Clean Growth and Climate Change