



Department for
Business, Energy
& Industrial Strategy

The Rt Hon Greg Hands MP
Minister of State for Energy, Clean Growth
and Climate Change

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Dear Darren,

**Energy Supply Company Special Administration Regime – Bulb Energy Limited
(‘Bulb’)**

I wrote to you on 25 November about the special administration of Bulb Energy. In order to protect Bulb’s customers, and to limit wider industry contagion, the Secretary of State agreed to initiate the Energy Supply Company Special Administration Regime (SAR) in respect of Bulb. This is a temporary situation and Government is working with the Energy Administrators to ensure value for money for consumers and taxpayers, and a swift exit from SAR.

As you know, Government financial support has been agreed with the company and Energy Administrators. This takes 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. This is 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. 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 25 November letter set out, in a confidential annex, the initial draw-down of funds to the Energy Administrators and a letter of credit issued to the wholesale energy provider. Attached at Annex A to this letter are details of a further letter of credit which has been issued. Parliament will be informed after recess via a Written Ministerial Statement and Departmental Minutes for the Contingent Liabilities.

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

Summary of proposed facility to Bulb Energy Limited (the “Company”) when in Special Administration

The detail of the funding arrangements with the Energy Administrator, particularly the quantum of any letters of credit, has commercial sensitivities associated with the initial period of the special administration; such sensitivities could potentially prejudice the Energy Administrators’ commercial dealings with key suppliers, most notably the contractual relationship for purchasing wholesale energy – with commensurate interactions with their financial support requirements. As such the details of the funding agreement are contained in this In Confidence annex.

Under the terms of a funding agreement with the Energy Administrators, the Secretary of State has made available a working capital facility to the Company (in administration) under powers contained in section 165 Energy Act 2004 (as applied and modified by section 96 Energy Act 2011) and with the consent of the Treasury. The funding agreement with the Energy Administrators also comprises of a guarantee facility, whereby, with the Secretary of State’s consent, guarantees are available in respect of borrowing incurred by the company.

The limit of the facility corresponds to the maximum working capital requirement of the Company during the SAR as detailed in a forecast provided to BEIS; this requirement could increase during the course of the Administration and the Secretary of State could be invited, with H.M. Treasury consent, to approve an increase to the facility limit. The drawings are in cash (or letters of credit with third party beneficiaries), made available against a Utilisation Request from the Energy Administrators to which is attached the forecast. Cash drawdowns are paid into a Working Capital Account opened by the Energy Administrators and held in trust until used and to the extent not used are returned to HMT.

The working capital facility also provides that the Secretary of State may make available, with HMT consent, letters of credit to the Energy Administrators to support delivery of their statutory objective. Whilst Government’s backing of the Energy Administrators should mitigate the need for collateral to be lodged, the provision of the letters of credit as credit support instruments should enable smaller cash collateral provision, reducing required claims on cash loans – thereby delivering better value for money. The Energy Administrators may request that the Secretary of State provide a letter of credit within the limit of the working capital facility, with the maximum aggregated amount of such letters of credit reducing the amount available under the working capital facility by that amount.

A letter of credit has been issued last week to National Grid Electricity System Operator for a total of £15.5m.

The margin on cash drawings and drawn amounts under the letters of credit and guarantees will be a fixed rate of 4.22% pa for the first 6 months and 4.72% thereafter. Issued but undrawn letters of credit and guarantees will incur a commission fee of 4% of the face value upon activation, rising to 4.5 % six months after the start of special administration, for the duration of their validity.

We, with the agreement of HMT, consider the risk of the letter of credit being used to be low, given the governance arrangements and wider support being provided to the Energy Administrators through their funding agreement and working capital facility.