



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

17 October 2022

Andrew Bailey
Governor
Bank of England
Threadneedle Street
London
EC2R 8AH

Dear Andrew

Launch of the Energy Markets Financing Scheme (EMFS)

Our officials have been in close contact over recent weeks to coordinate our response to the extraordinary liquidity requirements faced by energy firms operating in UK wholesale energy markets. The Prime Minister announced an Energy Markets Financing Scheme (EMFS) on 8th September. It was announced in The Growth Plan that the opening date for applications to the scheme will be 17th October 2022. Since this announcement, my officials have continued working with your officials at the Bank of England to prepare for the scheme's launch.

The aim of the EMFS is to provide a backstop for significant and otherwise solvent UK energy firms facing large margin calls, for which they are unable to secure other sources of credit. This recognises the need to address the extraordinary liquidity requirements faced by energy firms as a result of price volatility in UK wholesale physical gas and/or electricity markets. It is designed to be used as a last resort and is structured and priced accordingly, including by charging a penal rate on drawdowns. The credit drawn from the guaranteed tranches of these credit facilities may only be used to meet margin calls.

The EMFS will address the extraordinary liquidity requirements resulting from margin requirements and faced by energy firms operating in UK wholesale gas and/or electricity markets. This will provide resilience to both energy and financial markets and could help to reduce the cost for businesses and consumers. It is broadly similar to the approach taken by other European countries such as Germany, Sweden and Finland to provide resilience and confidence to energy and financial markets.

HM Treasury, supported by UK Government Investments, will be responsible for the management and monitoring of the scheme once launched, including with respect to credit risk. HM Treasury and the Bank will undertake and share regular reporting relating to the elements of the scheme for which they are responsible.

The high-level criteria for the scheme are as follows:

- I. Firms must be able to prove that they are otherwise in sound financial health (firms will need to undergo solvency checks);
- II. They (or one of their subsidiaries) must be Ofgem-licensed and have a pre-existing relationship with an approved commercial bank or banks;
- III. They play a significant role in UK electricity or gas markets, including demonstrating that they are likely exposed to large margin calls;

I am asking the Bank of England to operate this facility in conjunction with HM Treasury, by acting as the operational contact point for energy firms wishing to apply to the scheme and their lenders, and in the case of successful applications, issuing a 100% guarantee to the commercial bank(s) extending credit to applicant firms.

Applications for the scheme will be submitted to the Bank at **EMFS-Applications@bankofengland.co.uk**. The Bank's role in the application process will be to process these applications and perform an initial screening against published eligibility criteria. Firms that pass the initial screening will move on to the detailed due diligence phase, which will be led by HM Treasury. To support this process, HM Treasury has appointed and will convene an Advisory Committee which will consider the credit risks associated with the potential guarantee. The maximum size of the guaranteed facility which may be offered to each energy firm in the EMFS will be determined by HM Treasury on a case-by-case basis, informed by the conclusions of the Advisory Committee. HM Treasury will engage the Bank and will share information, where appropriate and proportionate, in advance of taking a decision. HM Treasury ministers will make a decision on whether to approve or reject an application. Consistent with the Bank's agency role under the EMFS, the Bank will issue the guarantee in accordance with HM Treasury's final decision, subject to due consideration of non-financial risks relevant to the Bank as guarantor.

In the case of successful applications, the Bank will issue the 100% guarantee to the commercial bank(s) that are extending credit to the applicant firm (the energy company). The guarantee will be provided on an additional/accordion tranche of an existing credit facility, to be drawn after the existing commercial lines have been exhausted.

As this is HM Treasury's facility, with the Bank providing agency services to HM Treasury, HM Treasury will fully indemnify the Bank from any losses, liabilities and expenses arising from it.

In the event of a default, the lender will call upon the guarantee provided by the Bank. Once a claim is confirmed, HMT will transfer the required funds to the Bank in advance of it settling the claim. The Bank will then transfer default ownership to HMG.

Any funds, such as interest payments, remaining from the scheme after its closure should be paid back to HM Treasury in a timely fashion. Earlier payment should be made if the funds become substantial. Deductions of an agreed amount will be made on these funds to cover the operating costs of all government entities involved in the delivery of the scheme, including the costs incurred by the Bank. Appropriate fees will be charged to borrowers for the arrangement of these facilities.

I look forward to officials at HM Treasury and the Bank continuing to work closely together on the implementation of the EMFS.

I am copying this letter to the Prime Minister, the Chair of the Treasury Committee and the Chair of the Public Accounts Committee. I am depositing it immediately in the libraries of both Houses of Parliament and on the Treasury website.

Best wishes,

A handwritten signature in blue ink that reads "Jeremy Hunt". The signature is written in a cursive, slightly stylized font.

RT HON JEREMY HUNT MP
Chancellor of the Exchequer