



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

Dame Meg Hillier MP
Public Accounts Committee
House of Commons
SW1A 0AA

17 October 2022

Dear Meg,

Energy Markets Financing Scheme

Further to my letter of 23rd September 2022, I am writing to confirm that the Energy Markets Finance Scheme (EMFS) will open for applications today.

My predecessor confirmed the launch of this scheme as part of the Growth Plan as it will help address the extraordinary liquidity requirements firms in UK energy markets are facing due to large variation margin calls. This scheme, delivered with the Bank of England, provides a 100% guarantee to commercial banks providing additional lending to energy firms. As such, this will constitute a contingent liability on the public finances.

The total liability will be determined by the uptake of the scheme, as well as the individual credit limits HMT approves for energy firms. Margin calls can be extremely large with reports of them reaching multiple billions of pounds in some extreme cases. Crucially, this facility will only provide additional lending beyond what is commercially available to meet margin calls. HM Treasury will only incur losses if lending is not repaid.

To reduce the risk of this happening, a rigorous application process has been set up. There is a minimum credit rating threshold. Applications will be assessed initially by the Bank of England and then by an Advisory Committee, who will make a recommendation for the Chancellor to decide whether to approve or reject an application. This committee consists of private and public sector individuals to ensure a range of expertise is considered. The scheme will therefore have a robust assessment of default risk, with due diligence provided by external and expert advisors. When using the scheme, firms will have to comply with a set of policy conditions, such as restrictions on the use of funds, executive pay, and capital distributions.

It is our intention that the EMFS is a scheme of last resort, to be used after existing commercial financing options are exhausted. This is reflected in the interest rate of the

facilities, which will be above market rate and adjusted in line with the credit rating of the firm.

Total losses incurred under this scheme will be reflected on HMT's scorecard. In effect, this means that HMT will have an equal claim on any security in an insolvency.

HM Treasury, assisted by UK Government Investments, will continue to monitor the scheme and the Bank of England will update on the usage of the scheme.

If you would like further information on the development of the scheme, and the nature of the liabilities that may be incurred, my senior officials are happy to meet with you and provide an oral briefing.

I am copying this letter to the Chair of the Treasury Committee and the Comptroller and Auditor General.

Best wishes,

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

RT HON JEREMY HUNT MP
Chancellor of the Exchequer