



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

22 November 2022

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

Dear Meg,

### Energy Markets Finance Scheme – Contingent Liability

Thank you for your letter of 15 November regarding the Energy Markets Finance Scheme (EMFS) contingent liability. I will address each of your questions on the EMFS in turn.

Firstly, you requested clarification on the value of the estimated liability. As set out in the Written Ministerial Statement, there is no overall cap on the facilities provided to firms due to the varying requirements of each firm, but the size of each guarantee will be set when a firm applies. The EMFS is designed to incentivise firms to seek alternative finance first. Any costs to the taxpayer will not be realised unless a firm is unable to repay the loan secured through their commercial lenders.

The total liability will therefore depend on the take up of the scheme and the specific circumstances of each applicant. It is not possible to provide an accurate estimate at this point as there is considerable variability both in the number of firms which may take up the scheme and their individual exposure to margin calls.

You have also asked what we expect take up levels to be. As you will understand, we intend to consider carefully what information we release publicly as doing so may impact a firm's ability to raise finance commercially or disincentivise firms from applying to the EMFS.

However, we can say that we have not seen significant demand to date, due to recent improvements in energy markets conditions and reported improvements in firms' abilities to raise finance. But we should not be complacent about the risk of future volatility in prices and associated hedging requirements, particularly as we head into the winter period, and therefore the continuing importance of the scheme.

As set out in more detail in the market notice, we intend to publish information on participation in the scheme at appropriate points going forwards which your committee



will no doubt be interested in. My officials will notify your committee when the first publication takes place.

Secondly, you asked what consideration was given to providing a guarantee of less than 100%. Prior to launching the scheme, HMT and the Bank of England engaged commercial banks to consult on the policy design of the scheme and assess the appropriate level of guarantee that best delivers the objectives of the scheme. From this engagement, we jointly concluded that a guarantee of less than 100% would not sufficiently support the additional lending needed to ensure firms can respond promptly to extraordinary margin calls.

Finally, you asked about the roles of the Bank of England and HMT, particularly in managing the risk incurred by the guarantees. The EMFS is a complex scheme so I will only briefly outline the roles here but can provide more information.

As you will know the Bank are providing the guarantees to commercial banks which HM Treasury will then indemnify. To manage the resultant risks, we have drawn on lessons from other schemes, such as the Covid Corporate Finance Facility and the Coronavirus Large Business Interruption Loan Scheme.

Upon receiving an application, the Bank of England will perform an initial screening against the scheme eligibility criteria. HMT will oversee a due diligence phase, supported by UK Government Investments (UKGI) and an external consultancy. HMT has appointed and will convene an Advisory Committee to review the outputs of the due diligence and advise HMT on the credit risks and appropriateness of the size of the requested facility associated with each application. HMT ministers will then decide whether to approve or reject an application. The Bank will issue a guarantee in accordance with HMT's decision, subject to due consideration of non-financial risks relevant to the Bank as guarantor. HMT, supported by UKGI, will monitor and manage exposures throughout the scheme, drawing upon regular reporting provided by the commercial lenders. This will ensure we are proactively monitoring and responding to any emerging risks for HM Treasury and the taxpayer.

I hope my response has been helpful and provided you with assurance. If you would like any further information on the development of the scheme, my senior officials are happy to meet with you and provide an oral briefing.

Best wishes,



RT HON JEREMY HUNT MP  
Chancellor of the Exchequer