National Audit Office

REPORT

Investigation into Bulb Energy

Department for Energy Security & Net Zero

SESSION 2022-23
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HC 1202

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Investigation into Bulb Energy

Department for Energy Security & Net Zero

Report by the Comptroller and Auditor General

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Gareth Davies
Comptroller and Auditor General
National Audit Office

27 March 2023

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Key facts

£3.02bn	£0.24bn	£Nil
gross taxpayer funding for Bulb Energy Limited (Bulb) since November 2021 as of 31 January 2023[1,2]	estimated net taxpayer funding following repayments by Octopus Energy (Octopus)	expected final net cost to taxpayer because government anticipates recovering residual taxpayer funding from energy bill payers

third-largest energy supplier in Great Britain	based on Ofgem's retail market indicators, the new combined Octopus Energy Group will be the third-largest energy supplier
£2.96 billion	estimated amount to be repaid by Octopus (through HiveCo, the new energy supplier) for taxpayer funding for Bulb customers' energy costs for winter 2022 to March 2023
£1.06 billion	amount paid by the Department for Business, Energy & Industrial Strategy (BEIS) in December 2022 to assist HiveCo to build up collateral necessary for it to purchase energy supplies. The balance is expected to be generated from HiveCo's net trading income[2]
£0.40 billion	estimated accrued interest on loans from government to Bulb in Special Administration Regime (SAR)
£0.16 billion	taxpayer cash injected by BEIS to offset Bulb's remaining liabilities to leave HiveCo with net assets of £1 after Octopus paid £113 million for Bulb's customer book
£1	the net asset value of HiveCo at the date of the Energy Transfer Scheme (ETS)

Notes

1 All figures are as of 31 January and are subject to change. The final numbers will vary as government funding is dependent on wholesale energy price movements until 31 March 2023 when government will cease to fund energy costs for Bulb customers.

2 The expected final net cost of £nil to the taxpayer is because the Special Administration legislation enables the government to recover any shortfall to the exchequer via the shortfall mechanism placed on energy suppliers – see footnote 6 at page 6.

3 The estimated gross taxpayer funding at £3.02 billion is made up of: £1.09 billion for operating the SAR since November 2021; £1.22 billion paid by BEIS on 20 December 2022 when the ETS was implemented; and £0.71 billion for wholesale energy from 21 December 2022 to 31 March 2023.

What this investigation is about

1 In November 2021, Bulb Energy Limited (Bulb) announced that it could no longer continue trading and to protect consumers and ensure continued energy supply, Bulb was taken into Special Administration Regime (SAR) on 24 November 2021. Bulb's customers have now been transferred to a new provider (HiveCo) owned by the Octopus Energy Group (Octopus).[1] The SAR process is expected to cost the taxpayer an estimated £3.02 billion gross as of 31 January 2023, and the government expects to recover all the taxpayer funding. This report sets out the facts about this process.

2 The volatility in the energy market since 2021 led to a wave of retail energy supplier insolvencies, as described in our report on the energy supplier market published in June 2022.[2] Between July 2021 and May 2022, 29 suppliers (domestic and non-domestic) failed. Most of these failures were managed using the Supplier of Last Resort (SoLR) process whereby the customers of a failed supplier are moved to another supplier. However, the largest supplier to fail, Bulb, was taken into a SAR following a High Court order.[3] Ofgem applied to the High Court, with the consent of the Secretary of State for the Department for Business, Energy & Industrial Strategy (BEIS), to use the SAR based on its conclusion that SAR was the most appropriate route for protecting Bulb's 1.5 million customers.

3 BEIS identified five objectives in relation to Bulb: to ensure Bulb customers continue to be protected, minimise cost to the consumer, prevent or minimise negative impacts on the wider energy market, deliver the Mergers and Acquisition process and exit from the SAR as quickly as possible and ensure that all costs are recovered (that is, to avoid any permanent Exchequer funding).[4] BEIS assembled a cross-government team that included HM Treasury and Ofgem (as an observer) to monitor the Bulb process and approve relevant decisions and recommendations. On 7 February 2023, BEIS was abolished as part of wider machinery of government changes. The new Department for Energy Security & Net Zero (DESNZ) assumed responsibility for BEIS's energy portfolio, including the matters discussed in this report. This report considers BEIS's and subsequently DESNZ's progress in achieving these objectives.

1 The legal name of HiveCo is Octopus Energy Operations Limited (company registration 14415312); it was registered on 12 October 2022 as Bulb UK Energy Limited and changed its name on 17 March 2023.

2 Comptroller and Auditor General, *The energy supplier market,* Session 2022-23, HC 68, National Audit Office, June 2022.

3 A SAR as defined by the Energy Act 2011 is a mechanism used by government when it is unfeasible to use its SoLR powers, such as when it has doubts about the possibility of a viable SoLR, or there are practical problems with appointing one. A temporary special administrator continues running the failed company until it can be sold as a going concern, or the customers can be transferred to other suppliers.

4 In the rest of this report, we use sale process rather than Mergers and Acquisition.

4 The High Court appointed three individuals from Teneo UK Limited ('Teneo') as the joint energy administrators and, following an application by the administrators, directed they enter into a funding agreement with BEIS in November 2021.[5] This funding agreement was required to support the achievement of the joint energy administrators' statutory objective of ensuring continuity of supply to Bulb's customers at the lowest practicable cost until such a time as the company may be rescued, or the business transferred to another company. Bulb's parent company, Simple Energy (Simple), was taken into administration on the same date by its secured creditor.

5 In February 2022, Lazard (financial advisers appointed jointly by Bulb and Simple's administrators) launched a sale process for Bulb and Simple to identify a potential exit for Bulb from SAR. This sale process concluded with Teneo's recommendation to BEIS to progress the only final bid received for Bulb, from Octopus Energy Group Limited (Octopus), through to transaction completion.

6 In October 2022, Ofgem provided BEIS with its assessment of regulatory compliance regarding the proposed acquisition of Bulb by Octopus. The Secretary of State approved the Energy Transfer Scheme (ETS), a statutory process, utilised for the first time to protect Bulb's customers. The ETS transferred Bulb's supply licence and certain of its business assets, rights and liabilities, including the full customer book, to HiveCo, which was subsequently purchased by a wholly owned subsidiary of Octopus. Ofgem has an advisory or consultee role under statute and will be formally consulted on the plan to recover taxpayer funding for Bulb through a shortfall direction, which may see some of the funding recoverable from bill payers.[6] At the time of reporting, the consultation had yet to take place, but Ofgem has confirmed that it will provide responses when consulted.

7 Following approval of the ETS by the Secretary of State, the High Court ordered that the effective date for the ETS (the formal mechanism for transferring Bulb to HiveCo) to commence was 20 December 2022.

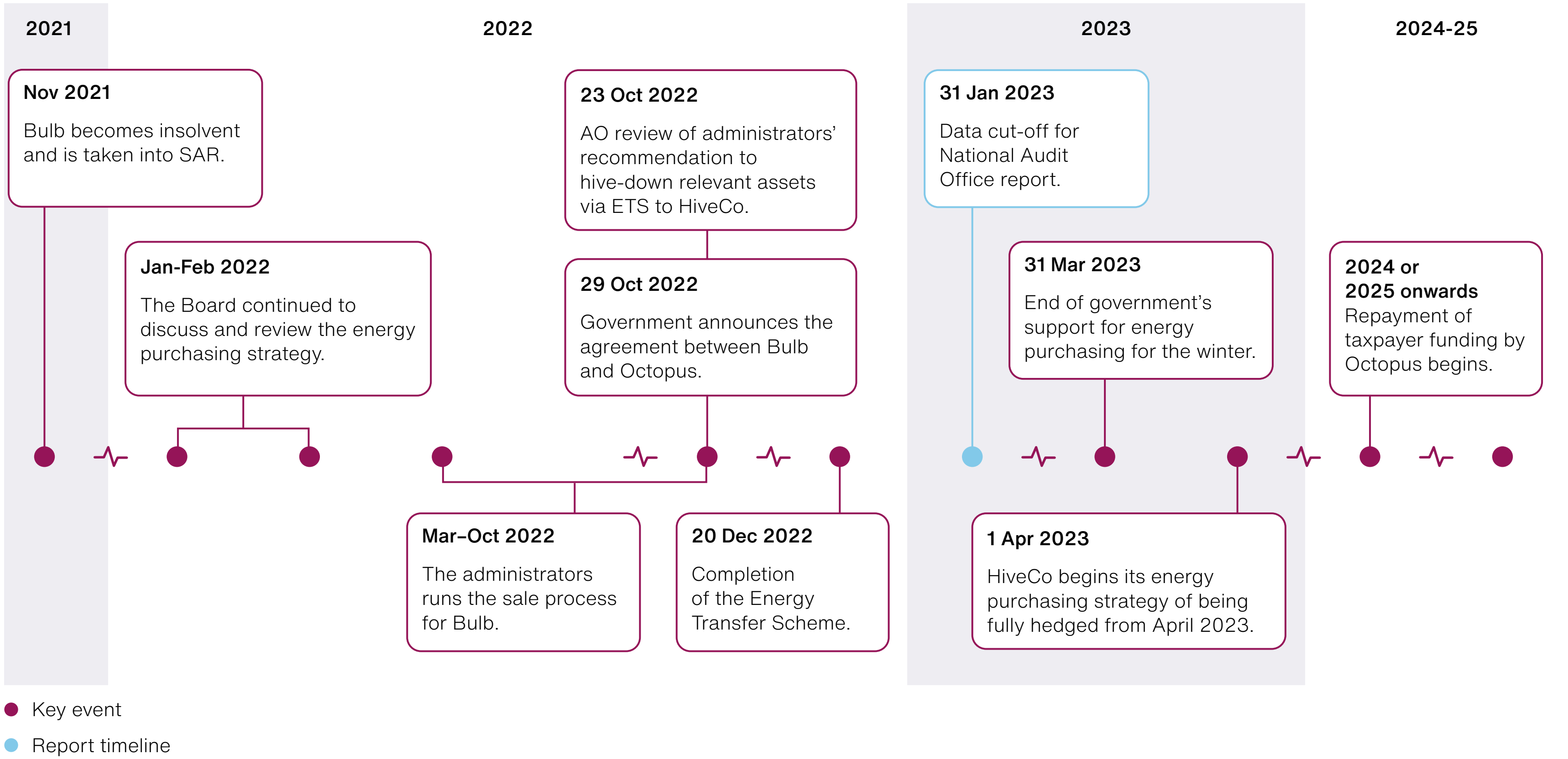
8 This report, while setting out the facts of the process, does not evaluate the decision to take Bulb into SAR or consider whether other approaches might have provided better value for money (**Figure 1**).

5 Teneo Financial Advisory Limited (company registration 13192958) is a financial advisory and insolvency company.
6 On 3 October 2022, BEIS wrote to the Business, Energy and Industrial Strategy Committee as follows: "The Special Administration legislation enables the Government to recover any shortfall to the exchequer via the shortfall mechanism placed on suppliers. It is the Government's intention that any shortfall will be recovered in this way, but the timing of when that recovery begins, and the period over which the shortfall is recovered, are decisions that will be taken in due course, and in light of all relevant factors at that time." Business, Energy and Industrial Strategy Committee, *Energy pricing and the future of the energy market: Responses to the Committee's Third Report of Session 2022-23*, Second Special Report of Session 2022-23, HC 761, October 2022.

Figure 1

Timeline of key events relating to the administration of Bulb Energy (Bulb) and its sale, 2021–2025

Bulb spent 13 months under special administration before its customers, certain business assets and liabilities were transferred to HiveCo in December 2022



Notes

1 The following abbreviations have been used: AO = accounting officer; the Board = Bulb Operations Board; BEIS = Department for Business, Energy & Industrial Strategy; HiveCo = new energy provider (HiveCo) owned by the Octopus Energy Group (Octopus); SAR = Special Administration Regime; ETS = Energy Transfer Scheme: a legal instrument that transfers property, rights, and liabilities from one body to another.

2 Repayment of taxpayer funding by Octopus may be deferred from 2024 to 2025 in some circumstances.

3 The SAR began in November 2021 and will continue until taxpayer funding for the transfer of Bulb to Octopus is repaid in full by Octopus from 2024 or 2025 onwards.

4 Teneo UK Limited ('Teneo') is Teneo Financial Services Limited.

5 The administrators refers to the three individuals from Teneo who were appointed by the High Court as the joint energy administrators.

Source: National Audit Office analysis of events surrounding Bulb

Summary

Key findings

Special Administration Regime (SAR)

9 **Government achieved its first objective of maintaining energy supplies to Bulb's customers throughout the SAR process**. The joint energy administrators from Teneo (Teneo) oversaw all operational decisions of Bulb. Data presented in Teneo's regular reports to the Department for Business, Energy & Industrial Strategy (BEIS) about Bulb's performance showed that Bulb maintained normal levels of operation during the SAR and Citizens Advice told us that no significant changes to services had been reported to it. The cumulative cost of fees for Teneo (for managing the administration of Bulb) and that of the sale and legal advisers it appointed were £52.7 million as of 31 January 2023. Teneo is expected to remain in place until the SAR is concluded (paragraphs 1.17, 1.20, 1.21, 2.3 and 2.4 and Figure 3).

10 **BEIS, supported by HM Treasury (HMT), instructed Teneo not to purchase energy in forward markets and instead buy energy from the day-ahead market. This exposed taxpayers to price volatility, although in the event this decision reduced the cost to the taxpayer by £240.7 million**. In November 2021, BEIS instructed Teneo to adopt an energy purchasing strategy, which required it to buy gas and electricity at the day-ahead wholesale price and expressly discouraged Teneo from entering into hedges or forward purchasing agreements, unless operational issues arose from this. DESNZ told us that it worked closely with HMT to ensure that all hedging decisions adhered to and complied with *Managing Public Money* (MPM) guidance and principles. DESNZ told us that it considered that using private sector financial instruments to manage risk was not good value for money under MPM guidance, as HMT would provide budgetary cover. This decision by BEIS, supported by HMT, was reached prior to the appointment of Teneo and exposed the taxpayer to the greater volatility in day-ahead wholesale energy prices. The policy was maintained despite Ofgem advising that BEIS and Teneo should adopt at least a partial hedging position to manage risk both on price and volume, in extraordinary market conditions. DESNZ has since told us that the risks were weighed and Ofgem's advice considered in the decision-making. Ofgem also observed that the volume of Bulb's purchasing could affect prices in day-ahead markets. BEIS did allow Teneo some hedging, where buying on the day-ahead markets would cause market movements. In January 2023, Teneo reported that the decision not to hedge between 1 December 2021 and 20 December 2022 saved an estimated £240.7 million (paragraphs 2.10 to 2.20, and Appendix Three).

11 **From November 2021 to December 2022, the cost to the taxpayer of running Bulb was £1.14 billion**. In November 2021, Teneo submitted an initial estimate of Bulb's cash requirements and the Secretary of State entered into an Administration Funding Agreement (AFA) with a limit of £1.7 billion**.** Teneo used the AFA to draw down cash of £1.14 billion for Bulb and to provide a £0.5 billion letter of credit (non-cash) to Macquarie to help it manage the credit risk from supplying Bulb. As at the date of the analysis used within this report, £0.92 billion of the funding had been used to offset Bulb's operating cash outflow, with the balance of £0.30 billion held in cash to cover future liabilities (paragraphs 2.5 to 2.9, and Figure 5).

Sale process and the agreement with Octopus

12 **BEIS supported Teneo's recommendation for the sale of Bulb over alternative options for ending the SAR, but there was limited interest from buyers, and it took 10 months to complete.** One of BEIS's objectives was to exit the SAR as quickly as possible. Lazard, appointed by Teneo to run the sale, communicated with 77 trade parties and financial investors in February 2022 to generate interest. Lazard then ran a two-phase sale process with final bids submitted by the end of June. Two parties submitted expressions of interest during the first phase, but neither ultimately made a final bid. The main reasons cited by other parties for their lack of interest during phase one were wholesale price volatility; difficulty accessing long-term hedging products; regulatory uncertainty; and that strategically it was the wrong time to invest in an energy retailer. In April 2022, Teneo and Lazard sought to re-engage with four parties, including Octopus, to gauge whether there was any further interest in the sale. By June, Octopus was the only bidder for Bulb and it offered to acquire specific assets, including Bulb's customer book. For the deal with Octopus to go ahead, Octopus sought support from Shell Energy (Shell), its wholesale provider, to supply Bulb's customer book. To achieve this, BEIS agreed a new funding arrangement with Bulb, which enabled Octopus to use net trading receipts to help build up working capital and cash collateral. The collateral allowed Octopus to secure a letter of credit from a mainstream lender to secure its credit exposure while it developed a hedged position for Bulb customers' energy requirements from 1 April 2023. Government announced the deal in October 2022, Teneo having advised that there were no other viable sale options at that time. The deal was completed on 20 December 2022 (paragraphs 3.2 to 3.19).

13 BEIS injected £1.22 billion into HiveCo and BidCo to facilitate the transfer of Bulb customers to HiveCo on 20 December 2022. The transfer of Bulb's customers and certain business assets and liabilities by a court-approved Energy Transfer Scheme (ETS) involved the creation of a new supplier (HiveCo) to receive the transferred assets and liabilities. HiveCo was a subsidiary of Bulb but was immediately bought by a newly created, wholly owned subsidiary of Octopus (BidCo). On 20 December 2022, Octopus paid £113 million for the Bulb customer book and in accordance with the ETS:

- BEIS injected £160 million cash into Bulb to offset its remaining liabilities transferred to HiveCo, including customer credit balances and renewables obligations, to value HiveCo's shares at £1; and
- as the completion of the deal was delayed, BEIS also made a one-off loan of £1.06 billion to BidCo to help HiveCo build the collateral needed to provide the letter of credit required by Shell. HiveCo is expected to generate the remaining collateral from net trading receipts.

Following the ETS, Octopus provided £108 million equity to increase HiveCo's net assets. HiveCo and BidCo formed a ringfenced entity within the Octopus Group. Teneo agreed several measures with Octopus to protect the taxpayer from potential loss of value and prevent leakage to other parts of the Octopus Group: Octopus will not pay management fees, issue inter-company loans, or make dividend payments from the ringfenced entity to the wider Octopus Group until it has repaid Bulb. Bulb will then pay this to BEIS (since 7 February 2023, the Department for Energy Security & Net Zero (DESNZ)) for the taxpayer funding (paragraphs 3.12 and 3.17 to 3.19).

14 BEIS agreed to pay for HiveCo's energy costs following the ETS until 31 March 2023. HiveCo has used net trading receipts to build working capital and fully hedge the cost of energy from 1 April 2023, thereby managing its exposure to future wholesale price volatility. BEIS agreed that it would pay for HiveCo's energy between 21 December 2022 and 31 March 2023, while HiveCo was building the working capital and hedge. As of 31 January 2023, Teneo estimated that the cost to BEIS for this energy would be £0.71 billion. However, the cost might change because of movements in the day-ahead price for wholesale energy in February and March 2023 (paragraphs 3.13, 3.19 and 4.7).

Taxpayer funding and recovery plans

15 **Reductions in the wholesale costs of energy since October 2022 mean that the estimated taxpayer funding for Bulb at the time of writing, is lower than originally forecast**. As of 31 January 2023, Teneo forecast that the total gross cost to taxpayers of funding Bulb from November 2021 to 31 March 2023 would be £3.02 billion:

- £1.09 billion for operating the SAR (paragraph 11);
- £1.22 billion paid by BEIS on 20 December 2022 when the ETS was implemented (paragraph 13); and
- £0.71 billion for wholesale energy for HiveCo from December 2022 to 31 March 2023 (paragraph 14).

This latest estimated gross cost is substantially lower than the £6.49 billion forecast by the Office for Budget Responsibility (OBR) in November 2022. The reduction in the estimate was mainly due to the reduction in wholesale energy prices, which the OBR forecast would be £4.14 billion for winter 2022 to 31 March 2023, compared with the latest forecast of £0.71 billion. BEIS's decision not to hedge exposed it to the risk of greater volatility of day-ahead market prices, but this meant that it benefited from wholesale price reductions during the SAR (paragraphs 2.13, 3.18, 3.19, 4.5 and 4.6).

16 **DESNZ must manage risks and uncertainties to recover taxpayer funding from Octopus**. As of 31 January 2023, Teneo estimated that Octopus (through HiveCo) would be due to pay £2.96 billion based on the wholesale cost allowance in Ofgem's price cap methodology.[7] This includes Octopus reimbursing the one-off payment of £1.06 billion made by BEIS on 20 December, and the £0.71 billion estimated wholesale costs of energy bought by BEIS and DESNZ between December 2022 and March 2023. DESNZ expects that HiveCo will pay this from 2024, but this may be delayed by a year in some circumstances. DESNZ is dependent on the continued commercial success of Octopus for the repayment of these funds. Ofgem reviewed the regulatory aspects and impacts on consumers of the proposed deal and noted that Octopus's rapid growth had resulted in Octopus having a weaker financial position than other large suppliers. Ofgem also identified risks around Octopus's low levels of investor support and its over-reliance on customer credit balances for working capital. Overall, Ofgem concluded that Octopus could manage the operational risks, but that the financial risks were more difficult to assess. However, Teneo assessed that the repayment risk could be partially mitigated by HiveCo and BidCo being set up as a ringfenced entity; HiveCo building a hedge for its wholesale energy purchased from 1 April 2023; and Octopus's desire to avoid reputational damage. Teneo also concluded that if HiveCo failed and a second SAR was imposed, the government should be in no worse position compared with a continuation of the current SAR (paragraphs 3.15, 4.3, 4.4 and 4.8).

7 The energy price cap level indicates how much consumers on their energy supplier's basic tariff would pay if the government's Energy Price Guarantee was not in place.

17 **If Octopus's repayment is insufficient to cover the total taxpayer support provided since the SAR commenced in November 2021, DESNZ expects to recover any shortfall directly from energy bill payers.** On 31 January 2023, Teneo estimated that the shortfall would be £246 million. The current estimated shortfall only arises because Teneo's forecast includes a non-cash interest charge of £404 million for the taxpayer support BEIS provided for the Bulb process since November 2021. The shortfall amount is likely to change, as it depends on three factors, all of which are uncertain: how much BEIS/DESNZ pays for wholesale energy until 31 March 2023; the cost of the remainder of the SAR; and the amount repaid by Octopus. DESNZ expects to use a shortfall direction to recover any difference. The Secretary of State is responsible for deciding whether to issue this direction and its terms. As of 31 January 2023, no final decision had been made (paragraphs 4.8 and 4.9).

Concluding remarks

18 Bulb's 1.5 million customers continue to be protected and the sale process, which lasted for 10 months, was concluded on 20 December 2022. The government has achieved its objectives to maintain supplies to Bulb customers and to complete the sale process.

19 It is too early to conclude on the achievement of the remaining objectives: to minimise cost to the consumer, prevent or minimise negative impacts on the wider energy market, deliver exit from the SAR quickly and ensure all costs are recovered. The government decided to take on the risks of rising and falling wholesale energy prices. This decision resulted in an unplanned taxpayer benefit from the reduction in wholesale energy prices from the peak in August 2022 to the prices in January 2023. Several risks remain to the recovery of taxpayer funding, which may ultimately be absorbed by household customers.

Part One

Introduction

The energy sector

1.1 Most households and commercial premises in Great Britain are supplied with gas and electricity through the energy system. Some retail energy suppliers trade through buying energy on the wholesale market or via supply agreements, and then sell to households and business customers on the retail market. Prior to the opening of the market to competition, British Gas and the 14 regional public electricity suppliers had a monopoly to supply all domestic gas and electricity consumers in Great Britain.

1.2 In 2016, the Competition and Markets Authority reported on the energy market and noted that despite efforts to open the energy market, six large companies supplied 90% of the gas and 70% of the electricity to UK customers. Ofgem had taken a 'low bar' approach to licensing new retail energy suppliers in order to encourage more suppliers into the market, in the hope that they would compete on price and bring about innovation. Between 2010 and May 2022, there were at least 73 new entrants into the domestic market and at least 65 exits. During 2021, energy suppliers began exiting the market at a much faster rate than had ever occurred previously. Between July 2021 and May 2022, 29 suppliers (domestic and non-domestic) failed. We reported on the energy supplier market in 2022 and examined these failures.[8]

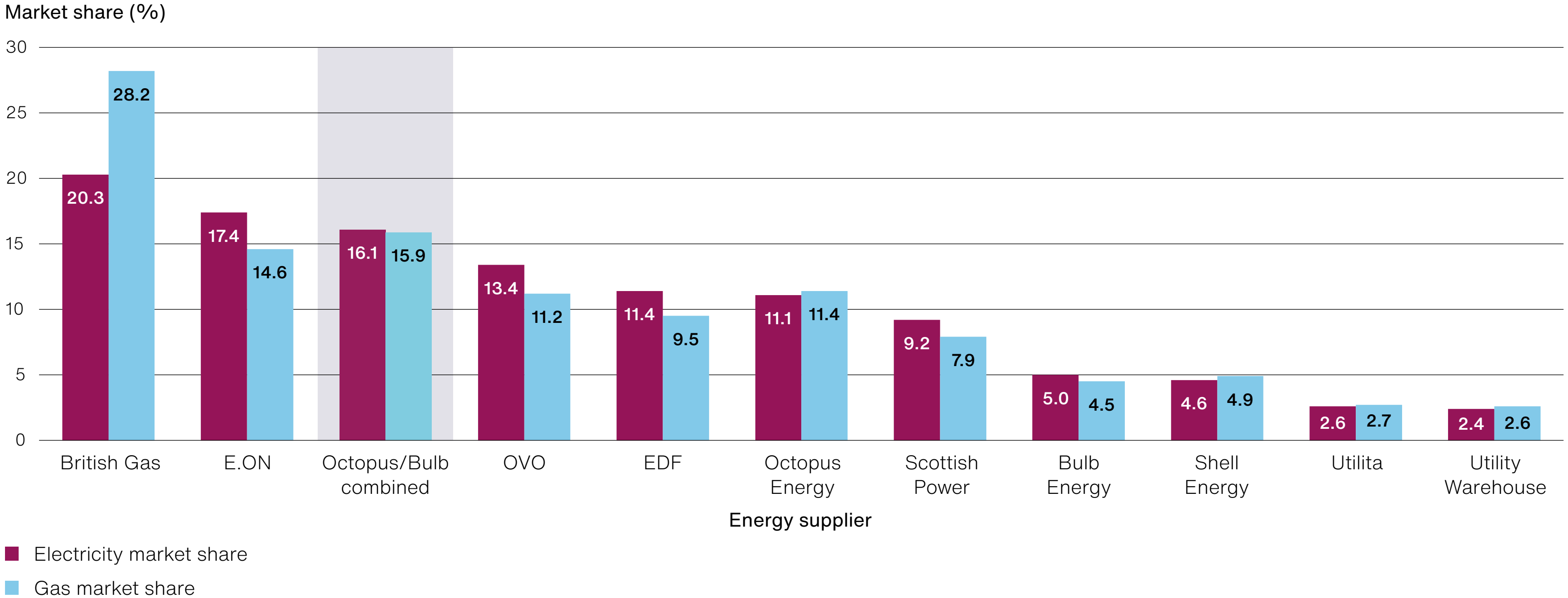
1.3 Prior to the December 2022 implementation of the Energy Transfer Scheme (ETS), in Q3 2022 Octopus was the fifth-largest electricity supplier (11.1%), and third-largest gas supplier (11.4%), with Bulb the seventh- and eighth-largest supplier respectively in each market (5.0% of the electricity market and 4.5% of gas in Q3 2022). The combination of Octopus and Bulb has further concentrated the market: the six largest suppliers' share of the domestic gas and electricity markets increased to 87.3% and 87.8% respectively, up from the 82.8% share of both markets they had prior to the transaction (**Figure 2** overleaf).

8 Comptroller and Auditor General, *The energy supplier market*, Session 2022-23, HC 68, National Audit Office, June 2022.

Figure 2

Domestic market share of energy suppliers in Great Britain, July–September 2022

The combined market share of Octopus Energy (Octopus) and Bulb Energy (Bulb) makes it the second-largest gas supplier and third-largest electricity supplier



Notes

1 The columns highlighted by the grey box show the market shares of Bulb/Octopus combined, based on July–September 2022 data.

2 Prior to the merger of Octopus and Bulb, the six largest suppliers accounted for 82.8% of the domestic gas and electricity markets.

3 Following the merging of Bulb's and Octopus's customer bases, the six largest suppliers accounted for 87.8% of the domestic electricity market and 87.3% of the domestic gas market. A legal ringfence prevents the customer bases of Bulb and Octopus being combined until taxpayer support has been repaid in 2024 or 2025. Octopus has started migrating customers to its Kraken billing platform.

4 The graph does not include suppliers with less than 2% of the domestic market share.

Source: National Audit Office analysis of Ofgem retail market indicators, accessed 28 January 2023

The development of the Special Administration Regime (SAR)

1.4 In a competitive market, it is normal for suppliers to exit the market occasionally. In that scenario, government's preferred means of ensuring continuity of supply to customers is the sale of a failing energy supplier to another supplier. In the event of an urgent or unplanned exit and to ensure the continuity of supply to customers, the supplier of last resort (SoLR) process protects the customers of an insolvent energy supplier by quickly moving them to a new supplier. However, if for example a large supplier becomes insolvent, or two mid-tier suppliers fail concurrently, the Department for Business, Energy & Industrial Strategy (BEIS) believes that the market would not have the capacity to run the standard SoLR process and absorb more than one million domestic customers at once. BEIS told us it considered a range of options for a situation where a SoLR was not feasible, including: do nothing and allow an ordinary administration to take place; mandate a SoLR outside of the competitive process; run multiple SoLR processes; or activate a Special Administration Regime (SAR). BEIS was superseded by the Department for Energy Security & Net Zero (DESNZ) on 7 February 2023. This report refers to BEIS for events before that date, and DESNZ for events on or after 7 February 2023.

1.5 The SAR for energy supply companies was introduced in the Energy Act 2011.[9] A SAR is a modified insolvency regime that provides an administrator with special objectives, such as the continuity of critical services, which takes priority over the court objectives in a normal administration. Absent such a regime, if an energy supplier were to become insolvent, an administrator working under the standard objectives, which include achieving a better result for creditors than a winding-up, would not necessarily have cause (apart from under that objective) to keep critical services running. The government's objectives for a SAR are to minimise any impacts on the industry and market while ensuring that energy supply is continued for customers at the lowest reasonably practicable cost while the supplier is rescued, sold, or its customers transferred to another supplier. During the SAR period company operations would be supported by government funding where necessary.

9 Special administration was introduced for energy network operators in the Energy Act 2004; the Energy Act 2011 applied it specifically to energy supply companies.

The preparations for a SAR and the decision to use it for Bulb

1.6 In 2017, Ofgem published a memorandum of understanding setting out the detail of how BEIS, Ofgem and HM Treasury (HMT) would work together in the event of an energy supplier administration to set up a SAR. Between 2018 and 2020, BEIS, HMT and Ofgem tested various scenarios for the failure of a large energy supplier to identify how a SAR might work in practice and developed an operational handbook for carrying out a SAR. This handbook focused on starting a SAR, by providing guidance and templates for the documents needed to support a SAR, such as court applications and a funding agreement. It did not establish policy or provide guidance for some areas of running a SAR, such as the energy purchasing strategy an administrator should follow during a SAR. An independent critical friend review of the preparations to deliver a SAR by BEIS and others (including Ofgem and HMT) carried out in 2021 gave an amber-green rating.

1.7 BEIS has to approve the recommendation to use a SAR and agree the funding support, which is then approved by HMT. After approval is given by all parties, Ofgem selects an administrator to run the distressed energy company and Ofgem applies to the High Court to appoint the administrator. The administrator takes over the company's operations, running them in line with the SAR objective of delivering continuity of supply at the lowest reasonably practicable cost. During the SAR, the administrator makes the day-to-day decisions, including which wholesale supplier(s) to use, staffing and the appointment and remuneration of advisers.

1.8 The largest supplier to fail so far was Bulb and it was deemed too large to go through a SoLR. In October 2021, ministers reviewed various different options of the SoLR process as alternatives to the SAR. BEIS officials estimated that the SAR option had the highest initial upfront cost to the taxpayer due to the need to provide financial support to the special administrator. However, BEIS officials predicted that despite the extra upfront cost, a SAR would still present the smallest net cost to consumers and taxpayers. This is because Bulb would be able to utilise its existing hedges to save money and would have more options to recover more of the costs later on than under a SoLR. BEIS concluded that the net costs to the taxpayer of a SAR would be £1.0 billion, as against a maximum of £1.3 billion for the other options it considered. BEIS officials saw SAR as the best option in terms of ease of delivery (due to not having to split Bulb's customer base and a lower risk of legal challenge); the protection of consumers (maintaining continuity of supply); and maintaining market stability.

1.9 In 2019, Ofgem carried out a procurement exercise to appoint a firm of licensed insolvency practitioners, with knowledge and experience of the energy sector, as advisers to support its preparations for making an administration application in the event of the failure of an energy supply company. Deloitte LLP was appointed the primary adviser by Ofgem, but its responsibilities were subsequently transferred to Teneo after Teneo acquired Deloitte LLP's restructuring business, without a new competition being run. Teneo was paid £30,000 for duties performed up to 22 October 2021. Under the call-off contract Teneo was responsible for:

- providing the support required for making an application for an energy supply company administration;
- estimating the costs of running the company in the administration; and
- identifying licensed insolvency practitioners to accept a personal appointment by the High Court to run the company during administration.

Organisations involved

Government and regulators

1.10 BEIS was the government department responsible for business, industrial strategy, energy and climate change. Regarding Bulb being placed in SAR and subsequently transferred to HiveCo on 20 December 2022 via an ETS, BEIS's role was to fund and oversee both the SAR and any subsequent sale process. It also led a consultation on the ETS. BEIS was superseded by DESNZ on 7 February 2023. Following the ETS, DESNZ continues to oversee the elements of Bulb that remain in the SAR.

1.11 HMT is the government's central economic and financial department with control over public spending. HMT's role during the SAR and sale process was to advise BEIS on the Bulb SAR and to provide funds and confirmation of future budgetary cover of costs.

1.12 Ofgem is the energy regulator for Great Britain. Ofgem monitors the performance of energy suppliers and if a company looks to be in distress, Ofgem makes the decision on whether to proceed with a SoLR or seek consent from the Secretary of State to apply for a SAR. If a SAR is required, Ofgem will select an administrator to run the failing company and apply to the High Court to appoint them. During the Bulb SAR, Ofgem continued to regulate Bulb along with all other energy suppliers. When the sale of Bulb was proposed, Ofgem reviewed the transaction and completed an assessment of regulatory compliance assessing the potential impact on customers. Following the ETS, Ofgem continues to regulate Octopus and HiveCo, the new company initially created as a subsidiary of Bulb which was then purchased by Octopus.

1.13 UK Government Investments (UKGI) began operating on 1 April 2016 as a government company, wholly owned by HMT, and brings together the functions of the Shareholder Executive and UK Financial Investments Limited under a single holding company. UKGI is the centre of government excellence for corporate governance and corporate finance. According to the SAR handbook, UKGI's role during a SAR is to advise BEIS (now DESNZ) and HMT about administration and the administrator's performance. During the sale of Bulb, UKGI advised BEIS on Teneo's strategy and the restructuring of Bulb.

Energy companies

1.14 Simple Energy Limited operate as the holding company for Bulb Energy Limited and its other international subsidiaries. Sequoia Investment Management Company Limited, a secured creditor to Simple Energy, placed it into administration in November 2021, appointing Interpath Limited as its administrator.

1.15 Bulb Energy Limited (Bulb) is an energy supplier that was placed in SAR in November 2021 with a special administrator appointed to manage Bulb in the SAR. During the sales process that followed, parts of Bulb were transferred via an ETS into HiveCo, a ringfenced energy supplier within the Octopus Energy Group. The remaining elements of Bulb continued in the SAR.

1.16 Octopus Energy Group Limited (Octopus) is an energy supplier. In October 2022 it agreed to purchase parts of Bulb (HiveCo – registered as 'Bulb UK Operations Limited') via a wholly owned subsidiary called BidCo (registered as 'Octopus Energy Retail 2022 Limited') from Bulb in SAR.[10] Following an ETS in December 2022, Bulb's customers and some of its assets and liabilities were transferred to Octopus. Once the transaction was completed, Octopus started to migrate all Bulb customer accounts to its billing system (Kraken), but Octopus will continue to run HiveCo as a ringfenced entity within its group until government funding has been repaid. All customers will then be legally transferred into Octopus.

Private sector advisers

1.17 Three individuals from Teneo Financial Advisory Limited (Teneo) were appointed as the joint energy administrators for Bulb. They are entitled to receive remuneration for their services. This remuneration is fixed by the High Court, and the administrators must make an application to the High Court accordingly. BEIS estimated that the cost of administrator services would be between £5 million and £6 million a month. During the operation of the SAR and sale process for Bulb, both government and private sector organisations appointed advisers. The costs of these advisers were £53 million as of 31 January 2023 (**Figure 3**).

10 HiveCo, though registered as 'Bulb UK Operations Limited' in October 2022, changed its name to Octopus Energy Operations Limited on 17 March 2023.

Figure 3

Private sector advisers contracted to advise the Department for Business, Energy & Industrial Strategy (BEIS) and the administrators of Bulb Energy (Bulb)

BEIS and the administrators have contracted various private sector organisations to provide advice during the Special Administration Regime (SAR) and sale process for Bulb

Adviser	Role	Appointment period and fees (excluding VAT)
Administrators		
Teneo Financial Advisory Limited (Teneo)	Financial advisory and insolvency company of the three individuals appointed in November 2021 as joint energy administrators for Bulb during the SAR process. These three individuals from Teneo will continue as the special administrators of parts of Bulb remaining in SAR until all assets have been realised, and distributions made to creditors (estimated Autumn 2025).	24 November 2021 to 31 January 2023 – £35.4 million
Advisers appointed by Teneo		
Lazard & Co., Limited (Lazard)	Financial advisory and asset management firm appointed by the administrators of Bulb and Simple Energy in February 2022 to arrange the sale of all or part of Bulb Energy.	Fees capped at £2.5 million
Linklaters	International law firm that provided Teneo with legal advice on the appointment and operation of the SAR and the sale of Bulb.	1 December 2021 to 31 January 2023 – £12.0 million
Total administrators' expenses[1]		**£49.9 million**
Advisers appointed by BEIS		
EY LLP	Professional services firm appointed to provide financial advice on Bulb's operations during the SAR and on the sales process.	30 November 2021 to 16 January 2023 – £440,000
Hogan Lovells International LLP	Law firm appointed to provide BEIS with legal advice on the drafting of the Administration Funding Agreement (AFA), oversight of the SAR and on the sale of Bulb.	26 October 2021 to 5 January 2023 – £2.4 million
Total BEIS expenses[2]		**£2.8 million**
Total fees		**£52.7 million**

Notes

1 Total administrators' expenses reflect the amounts accrued during the SAR. These fees have not yet been approved by the High Court.

2 Half of Lazard's fees will be paid by Teneo (and reclaimed through the AFA) and half will be paid directly by Simple Energy.

3 EY LLP and Hogan Lovells International LLP were paid from BEIS's operational budget and not as part of the special administration process.

Source: National Audit Office analysis of documents provided by the Department for Business, Energy & Industrial Strategy and Teneo

Departmental decision-making and governance arrangements

1.18 BEIS's objectives for placing Bulb in SAR were to:

- ensure Bulb's customers were protected (including through continuation of energy supply, customer service standards and protection of credit balances);
- minimise cost to the consumer (including any costs of the SAR initially funded by the exchequer but ultimately recovered from Octopus and domestic energy bill payers);
- prevent or minimise negative impacts on the wider market or consumer confidence;
- carry out a future sale process to allow an exit from the SAR as quickly as possible; and
- ensure that all costs are recoverable.

1.19 We have previously reviewed cases where the government has sold assets it has acquired, for example Northern Rock and Lloyds Banking Group.[11] Typically, government has the authority to make decisions during the sale process. In the case of Bulb, government's decision-making authority was more constrained because special administration is a quasi-judicial insolvency process and some decisions are reserved for the courts or administrators. The split of roles and responsibilities for the creation and operation of a SAR are consequently complex, with the administrator responsible for overseeing Bulb's day-to-day activity and BEIS (now DESNZ) and HMT responsible for certain key decisions. **Figure 4** summarises who was responsible for decisions and advice.

1.20 The administrators from Teneo (Teneo) were accountable to the courts, rather than to BEIS, for the delivery of the statutory objectives of the SAR. BEIS, however, still retained overall responsibility for delivering the SAR effectively and it established a Bulb Operations Board (the Board) to provide oversight of Teneo's funding requests and exit strategy; and to assess the performance of Teneo (while recognising its independence as officer of the court). The Board was chaired by BEIS and was attended by representatives from BEIS, HMT, UKGI and the Insolvency Service. Ofgem also attended these meetings as an observer and to provide its expertise as needed. The Board also considered matters relating to the shortfall direction.

11 National Audit Office, *Guide to corporate finance in the public sector*, September 2022. Available at: www.nao.org.uk/wp-content/uploads/2022/09/Guide-to-corporate-finance-in-the-public-sector.pdf

Figure 4

Responsibility for decisions and advice during the Special Administration Regime (SAR) of Bulb Energy (Bulb), November 2021–January 2023

The Department for Business, Energy & Industrial Strategy (BEIS) and HM Treasury (HMT) have been responsible for key decisions since Bulb entered administration in November 2021

	BEIS	HMT	Ofgem	Teneo	Lazard	High Court
SAR						
Use SAR	●		○			●
Appoint special administrator			○			●
Agree special administrator fees	●		○			●
Administration Funding Agreement	●	●		●		●
Power purchasing strategy	●	○	○	○		
Day-to-day management of Bulb				●		
Select energy wholesaler				●		
Sale						
Devise exit strategy	○			●	○	
Appoint sale adviser				●		
Run sales process				●	○	
Develop Energy Transfer Scheme	●			○		
Approve Energy Transfer Scheme	●					–[3]
Approve transaction	●		○	●		
Financial support package	●	●		○		
Recovery						
Shortfall direction	●	○	○			

● Decision-maker

○ Adviser

Notes

1 The following abbreviations have been used: Teneo = Teneo Financial Advisory Limited; Lazard = Lazard & Co., Limited.

2 High Court approval was needed to bring the Energy Supply Company Administration rules into force.

3 High Court ordered the start of the Energy Transfer Scheme.

Source: National Audit Office analysis of data from Department for Business, Energy & Industrial Strategy

1.21 Bulb's performance was monitored by the Board using weekly and monthly performance reports provided to BEIS by Teneo. These reports set out the details of payments to Bulb, its energy purchasing costs, as well as performance against operational key performance indicators (KPIs) for customer numbers, direct debit cancellations, call centre activity, customer emails and complaints. Meanwhile, Bulb remained a licensed supplier required to adhere to the rules and standards expected of all suppliers and the energy sector regulator (Ofgem) was responsible for monitoring Bulb's regulatory compliance. Under an energy supply company SAR, the special administrator is required to comply with all the licence conditions and policy obligations that apply to other licensed suppliers.

The scope of this report

1.22 This report has three further parts:

- Part Two of this report examines how Bulb operated during special administration.
- Part Three examines the process for selling Bulb and the final transaction agreement.
- Part Four examines the cost to the taxpayer of the administration of Bulb and how government will recover this.

Part Two

The Special Administration Regime (SAR)

2.1 This part examines the SAR and the decisions on Bulb Energy Limited's (Bulb's) purchasing strategy and covers:

- why Bulb was placed in the SAR;
- Bulb's performance and costs during the SAR; and
- Bulb's energy purchasing strategy.

Placing Bulb Energy in SAR

2.2 Bulb's financial difficulties became apparent to regulators during 2021, and by the end of the year it was in a SAR:

- Ofgem first became aware that Bulb was in serious financial difficulty in **late summer 2021**.
- By **September 2021**, Ofgem was in discussion with Bulb, the Department for Business, Energy & Industrial Strategy (BEIS) and HM Treasury (HMT) regarding options for handling Bulb's possible failure.
- On **20 November 2021** Bulb notified BEIS that its financial difficulties meant that it would be unable to pay its debts. This notification provided the 14-day notice of an intended insolvency procedure required by law to put an energy supplier into a SAR.
- Bulb was consequently placed in SAR on **24 November 2021**. Ofgem applied to the High Court to appoint three insolvency practitioners from Teneo as joint energy administrators (also referred to as Teneo) to operate the SAR. Bulb's parent company, Simple Energy, was taken into administration on the same date by its secured creditors Sequoia.

Bulb Energy operations during the SAR period

2.3 Upon Teneo's appointment, most of Bulb's staff remained to carry out operations during the SAR period. BEIS established the Bulb Operations Board (the Board) to review and approve Teneo's funding requests and exit strategy; and to assess the performance of Teneo (while recognising the administrators' independence as officers of the court). Later during the SAR, the Board highlighted concerns that staff resignations might affect Bulb's operations, including its ability to supply energy to customers and provide them with support.

2.4 Citizens Advice told us that the degree and type of complaints customers were making about Bulb did not change significantly during SAR and that the levels of contact it had with Bulb customers regarding billing and debt collection were comparable with industry norms. Citizens Advice told us that the transfer to SAR seemed to have been managed well and it had not heard of any customer disconnections. Ofgem found that no customers had been disconnected due to error in 2022. Our review of Bulb's operational reports identified no instances of disconnections and therefore, BEIS's objective of maintaining continuity of service for all customers was achieved. Regarding Bulb's regulatory compliance, between November 2021 and December 2022, Bulb self-reported a number of issues (including those involving redress payments to impacted customers). Ofgem monitored the resolution of these issues and reported that since Bulb entered the SAR, it had published four formal compliance engagements with Bulb.[12] Ofgem also told us that its compliance reviews across the energy market were ongoing.

The government's financial support for Bulb during the SAR

2.5 After entering SAR, Bulb required financial support to continue purchasing and supplying energy to its customers. This financial support was provided via an Administration Funding Agreement (AFA), agreed between the Secretary of State, Bulb and the administrators. Financial support could be provided directly in cash or take the form of letters of credit or guarantees. Under the AFA government would be required to approve funding requests from Teneo as long as they did not breach any of the conditions specified or the overall funding cap. The details of the AFA are set out in **Figure 5**.

12 Compliance and enforcement - Improving energy supplier performance for consumers | Ofgem. Available at: www.ofgem.gov.uk/energy-policy-and-regulation/compliance-and-enforcement/compliance-and-enforcement-improving-energy-supplier-performance-consumers

Figure 5

Facilities under the Administration Funding Agreement (AFA) for Bulb Energy (Bulb)

Since the AFA started on 24 November 2021, the Department for Business, Energy & Industrial Strategy (BEIS) updated the lending facilities several times

Terms	Details
AFA facility size (pre-sale process completion)	BEIS set the initial facility size on 24 November 2021 to £1.7 billion. 3 October 2022: increased to £3.9 billion. 8 December 2022: reduced to £2.2 billion.
AFA facility size (post-sale process completion)	20 December 2022 – 31 March 2023: with no specified facility size but the administrators had estimated an upper limit of £4.5 billion.
Letters of credit issued and facilities drawn down under the AFA	24 November 2021: £510 million initial letter of credit for Macquarie, Bulb's wholesale energy supplier. Bulb draws down £1.14 billion under the existing facility between 24 November 2021 and 20 December 2022, when the sale process completed.
Interest rates, fees and commissions	Government provides cash advances to Bulb with an interest fee of 4.22% per annum for the first six months, 4.72% per annum thereafter. Credit support instruments provided by government to Bulb: commission of 4% per annum plus a fee of 4.22% per annum for the first six months; commission of 4.5% per annum plus a fee 4.72% per annum thereafter. All interest, fees and commissions were accrued, not paid in cash during the special administration regime.

Note

1 The AFA is the funding agreement between the administrators and BEIS to support the administrators in their statutory objective of ensuring continuity of supply to Bulb's customers at the lowest practicable cost until such a time as the company may be rescued, or the business transferred to another company.

Source: National Audit Office analysis of the Administration Funding Agreement

2.6 In October 2021, Teneo had initially forecast a funding requirement of £1.3 billion in the period up to October 2022. BEIS's financial adviser, EY, evaluated Teneo's estimate and said that based on the information currently available and the underlying assumptions made, it appeared reasonable. EY noted that the estimate could decrease or increase. In November 2021, Teneo increased its funding requirement forecast to £1.7 billion, based on updated financial data from the company and changes to some of the underlying assumptions, in particular those regarding wholesale energy prices. BEIS set the initial facility size at £1.7 billion in the funding agreement.

2.7 To ensure compliance with HMT guidance and subsidy control rules, the loans under the AFA were subject to an interest rate, which will accrue on any outstanding balances and be settled on conclusion of the SAR.

2.8 During the approval process, BEIS officials were told by Teneo that the funding requirement could increase, particularly if wholesale energy prices differed from forecasts, or if Bulb was not sold as planned by April 2022. The original AFA was extended when the sale of Bulb was not achieved by April 2022, and in October 2022, the AFA was amended to uplift the facility limit to £3.9 billion. The increase was required to cover the estimated cost of energy purchased for Bulb customers until the end of December 2022, or when the sale of Bulb was completed, whichever was sooner.

2.9 Between 1 December 2021 and 1 December 2022, Bulb received £2.9 billion in income from its customers and had expenses of £3.8 billion. There was a £906 million cash outflow from operations and a £1.14 billion draw-down on the AFA.

Bulb's energy purchasing strategy during SAR

2.10 Energy suppliers have a range of contract options to buy energy from wholesalers, from more than a year ahead to as short as one day ahead. This helps them manage any risks from increasing wholesale prices or decreased availability of energy. Most energy suppliers buy a significant proportion of their energy in advance, or hedge, based on their forecasts of the number of customers they will have and seasonal demand. This provides greater certainty of how much the energy supplier will be paying. Any energy supplier who buys on the day will be exposed to movements in price, as shorter-term contracts tend to be more volatile.

Bulb's existing hedging agreements

2.11 Bulb had historically run a three- to six-month hedging strategy for around 90% of its wholesale power requirements. Due to this, before entering SAR Bulb retained hedging agreements with its wholesale supplier, Macquarie, which if honoured would provide for 90% of November 2021 and 50% of December 2021 forecast requirements. In October 2021 Teneo, as part of its engagement to estimate the future running costs of the company, forecast that these hedges would reduce Bulb's energy costs in November and December 2021 by £230 million, but the company would still require £1.3 billion in extra support funding protection up to October 2022. Teneo also produced a sensitivity analysis examining what would happen to this requirement if wholesale prices increased by 50%, concluding that the funding requirement increased to £1.8 billion if the hedges were retained, and to £2.4 billion if there was no access to the existing hedges.

2.12 On 18 November 2021 Macquarie told Bulb that the hedges would need to be liquidated if it entered administration – as it would cease to be a creditworthy business – and Macquarie would be unable to continue to extend credit terms. Macquarie initially recommended that Bulb should switch to daily purchasing of energy on the day-ahead markets, subject to providing £10 million in further collateral. Over the following weekend, Macquarie informed BEIS that it would be willing to allow the hedges to remain in place into and through the SAR, subject to receiving acceptable letter of credit support from BEIS. This letter of credit would allow Macquarie to manage the credit risk and keep providing services to Bulb. The AFA signed on 24 November 2021 consequently provided a £510 million letter of credit to Macquarie to maintain the hedges and continue to supply Bulb. On 26 November 2021 BEIS notified Parliament of a contingent liability with respect to a letter of credit to Bulb.

Purchasing energy outside the hedges

2.13 Regarding Bulb's strategy to purchase energy outside its existing hedges, BEIS and Teneo were faced with a choice of continuing to buy energy forward or to buy in the day-ahead market. Paying a risk premium and purchasing energy in the forward markets would provide budgetary certainty and protect against future price rises, but this had to be weighed against *Managing Public Money* guidance that government could bear any risks at a lower cost than the financial markets, as well as the fact that if wholesale prices fell the government would not benefit (see Appendix Three). In September 2021 BEIS developed a business case setting out the government's proposed approach. This did not rule out an administrator of a failed energy supplier pursuing a hedging policy in line with Ofgem recommendations for energy suppliers. However, in November 2021 Teneo had meetings with government officials, who confirmed that government's preference was that Bulb should not enter into any new hedge positions, and should instead buy energy in the day-ahead markets as long as no operational issues arose from this.

2.14 After these meetings in November 2021, Teneo developed a day-ahead energy purchasing strategy for approval by BEIS (later updated in December). BEIS told us that this strategy was approved by the Chief Secretary to the Treasury and this approval took priority over other factors. HMT confirmed that the Chief Secretary to the Treasury agreed with the recommendation to mandate a strategy based on minimal hedging and forward buying, but not to the extent that this creates operational challenges for Teneo. BEIS told us that it worked closely with HMT to ensure that all hedging decisions adhered and complied to *Managing Public Money* guidance and principals.

Advice from Ofgem and HMT on Bulb's purchasing strategy

2.15 In November 2021, Ofgem advised BEIS that Bulb should adopt at least a partial hedging strategy. This was based on Ofgem's concerns regarding volume risk – where low pipeline flows, very low gas storage and intense competition for Liquified Natural Gas (LNG) had created a scenario where there were risks around securing capacity to purchase on the day-ahead markets. Ofgem was also concerned that Bulb's purchasing strategy would be considerably different from other energy firms, who would have bought forward the majority of their energy and would only need to buy extra energy on the day-ahead market to respond to changing conditions. Ofgem predicted that purchasing energy for Bulb's 1.5 million customers could form as much as 15% of the entire gas day-ahead market in January and February 2022. Ofgem assessed that this level of purchasing would be a material part of the day-ahead market and in order to purchase this level of energy successfully, Bulb would require the physical volume of gas to exist in the right geographical location at the right point in time.

2.16 Subsequently, the Bulb Operations Board (the Board) discussed future energy purchasing at its January 2022 and February 2022 meetings. The main factors considered are set out in Appendix Three. The Board noted that if it started hedging, this would lock in costs below £1.7 billion and warned that not taking such a decision could be hard to defend. However, they also noted that HMT had provided a clear steer, based on the *Managing Public Money* guidance, that a minimal forward purchasing strategy should be continued and that HMT would provide budgetary cover to Bulb for the duration of the SAR. The Board concluded that the policy of minimising forward purchasing of energy for the operational phase of the SAR should be continued where possible, as this remained the best value for money "given HMT's risk preferences and confirmation of budget cover". The Department for Energy Security & Net Zero has since told us that the risks were weighed and Ofgem's advice considered in the decision making.

Energy price volatility

2.17 In November 2021, at the time Bulb was entering SAR, day-ahead wholesale prices for electricity and gas were considerably higher than indicated by previous forward prices (and therefore higher than assumed in Ofgem's default tariff price cap covering the period). This significant discrepancy contributed to a number of suppliers facing serious financial difficulty where they had not adequately hedged their demand at the lower forward prices seen previously, and instead took the risk of paying a substantially different (and in this instance, much higher) price in the day-ahead market. Crucially, due to the price cap, they were not able to pass these higher purchase costs on to customers. Throughout 2022, however, the day-ahead wholesale prices for gas and electricity were typically lower than forward prices had previously indicated, which meant that by not buying energy forward, Bulb was typically able to buy energy cheaper on the day during that period.

2.18 The risk of carrying out a day-ahead purchasing strategy is the greater volatility of day-ahead prices and the potential risk of not being able to source all the energy needed on a particular day. There is added risk in that the default tariff price cap is set using forward wholesale prices as the basis rather than day-ahead prices. Electricity and gas forward prices are typically more stable and less volatile than day-ahead or shorter-term contract prices (see **Figure 6** overleaf and **Figure 7** on page 31), and in 2022, there were several instances where the day-ahead prices increased significantly. Ofgem told us that the electricity day-ahead contract price is inherently volatile due to the influence of weather, primarily wind, which can vary dramatically from day to day. Ofgem told us that gas is less weather-dependant, but there has been unprecedented volatility across all gas contracts in the past 18 months due to global tight gas supply margins, geopolitical events, and volatility in day-ahead and near-term contracts increased further in the UK due to its limited gas storage capacity.

Figure 6

Forward vs day-ahead prices for gas, November 2021–January 2023

This figure demonstrates the volatility of gas prices in the period and the broad relationship with Ofgem's default tariff price cap

Notes

1 p/therm = pence per therm is the unit used to measure the price of gas. One therm is approximately 29 kilowatt hours (kWh). The average household will use 12,000kWh of gas in a year. More information on www.ofgem.gov.uk.

2 Forward price (purple line) is the index used to assess year-ahead prices for the price cap.

3 The implied wholesale price (dotted lines) is used to determine the future price cap level for the next period. It is calculated by Ofgem using historical data from the reference periods stated on the graph.

4 Prices for wholesale gas are from ICIS Energy who provide energy market intelligence. For details of how these data are assessed, see European Spot Gas Market on www.icis.com.

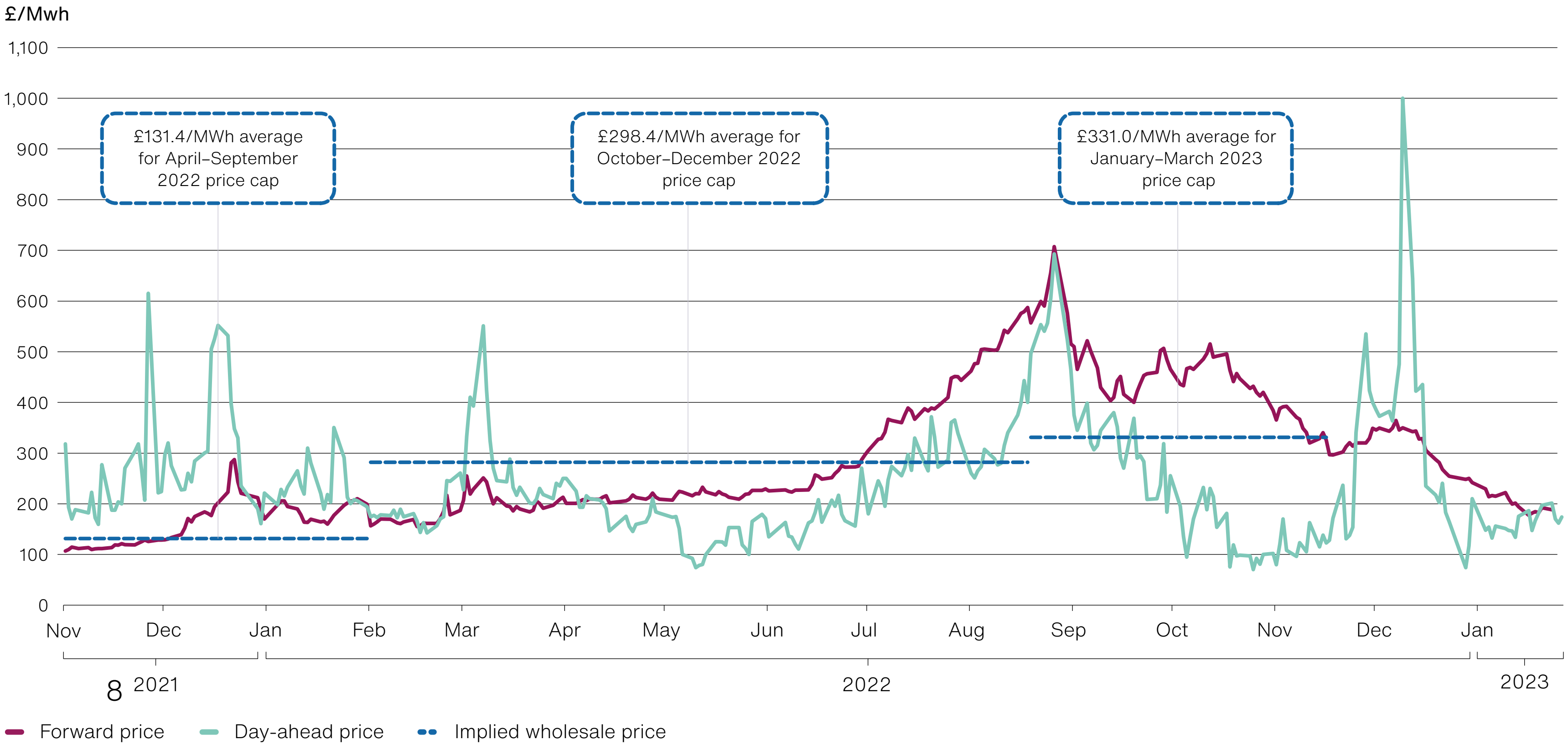
5 Data are up to 26 January 2023.

Source: ICIS Energy and Ofgem

Figure 7

Forward vs day-ahead prices for electricity, November 2021–January 2023

This figure demonstrates the volatility of electricity prices in the period and the broad relationship with Ofgem's default tariff price cap



Notes

1 £/MWh = price per megawatt hour is the unit used to measure the price of electricity. One MWh is equal to 1,000 kilowatt hours (kWh). The average household will use 2,900kWh (2.9 MWh) of electricity in a year. More information on www.ofgem.gov.uk.

2 Forward price (purple line) is the index used to assess year-ahead prices for the price cap.

3 The implied wholesale price (dotted lines) is used to determine the future price cap level for the next period. It is calculated by Ofgem using historical data from the reference periods stated on the graph.

4 Prices for wholesale electricity are from ICIS Energy who provide energy market intelligence. For details of how these data are assessed, see European Daily Electricity Markets on www.icis.com.

5 Data are up to 26 January 2023.

Source: ICIS Energy and Ofgem

Bulb's hedging during the SAR

2.19 The government directed Teneo to make minimal forward purchasing, except when operational and market conditions required it and Teneo did hedge energy prices for Bulb customers when market conditions warranted it. During the SAR, Teneo aimed to buy 50% of the electricity needed on the week-ahead markets. Teneo did not have a similar aim for Bulb's gas purchases, but it still purchased some gas on the forward markets. For example, in January 2022, Teneo had hedged 70% of Bulb's gas purchasing until the end of February 2022.

2.20 In December 2022, BEIS told the Business, Energy and Industrial Strategy Committee that Bulb's failure to hedge sufficiently before going into administration cost an extra £1.1 billion from the start of the SAR to September 2022. BEIS also said that building hedges after Bulb went into administration, instead of saving money, would have actually cost an extra £58 million for this period. This estimate was based on analysis by Teneo, which Teneo subsequently updated in January 2023 to show that the decision not to hedge between 1 December 2021 and 20 December 2022, after Bulb had gone into administration, saved £240.7 million. Teneo noted that significantly greater upfront funding would have been required to build up and maintain hedges in December 2021 and January 2022.

Part Three

The sale process and transaction agreement

3.1 This part examines the approach taken by the Department for Business, Energy & Industrial Strategy (BEIS) for exiting the Special Administration Regime (SAR) during 2022 and includes the:

- sales process from February to October, including the joint energy administrators from Teneo (Teneo)'s negotiations with Octopus from July;
- options appraisal and consultation with Ofgem in October;
- approval of the Energy Transfer Scheme (ETS) in November; and
- completion of the transaction in December, and provision of government funding to support this.

Sales process

3.2 One of BEIS's objectives was to sell Bulb and exit the SAR as quickly as possible. The Bulb Operations Board (the Board) discussed options for the exit of Bulb from the SAR in early February 2022. Teneo had recommended a joint sale process which marketed the assets of both Bulb and its parent company, Simple Energy Limited, and in February 2022 it appointed Lazard as its financial adviser for the sale, with government consent.[13] Lazard launched the sale process on 21 February 2022 and it communicated with 40 trade parties and 37 financial investors. It then ran a two-phase process to find a bidder. The sale process took 10 months to December 2022 (**Figure 8** on pages 34 and 35), against a challenging market backdrop of volatile prices and regulatory uncertainty.

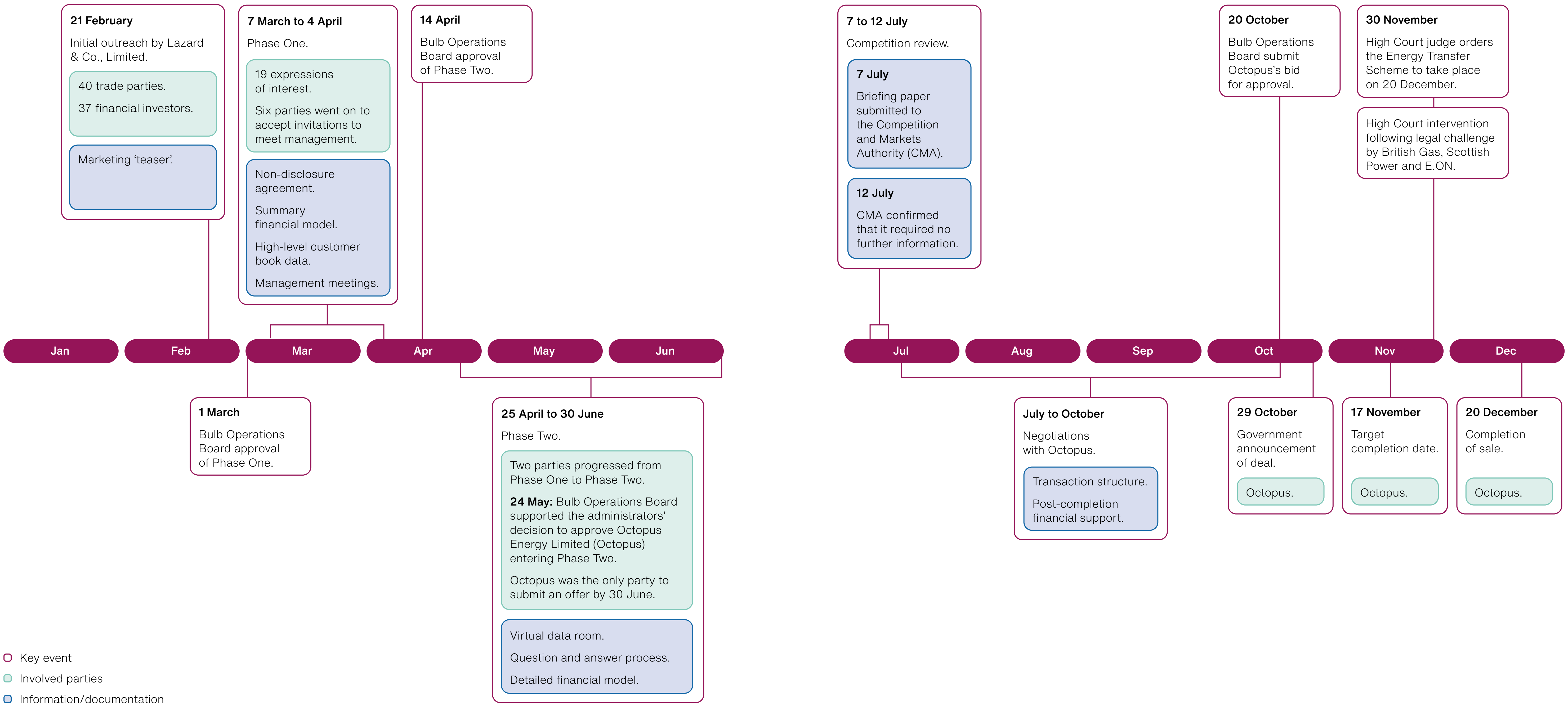
3.3 On 1 March 2022, the Board considered a range of options that Teneo identified for Bulb to exit the SAR. BEIS thought that there was no 'do nothing' option, as the terms of the SAR required that Bulb was rescued, sold or its customers transferred to another supplier. The approach was to get a good sale price, which would minimise how much BEIS would need to recover from the wider energy sector. This resulted in BEIS not specifying what type of bid or investor was preferable.

13 Lazard was one of six sale advisers that Teneo and the administrator of Simple had invited in December 2021 to pitch for the work. BEIS consent for the appointment of Lazard was an Administration Funding Agreement (AFA) requirement.

Figure 8

Key events in the sale process of Bulb Energy (Bulb), February–December 2022

The sale process for Bulb took 10 months and resulted in only one final bid



Source: National Audit Office analysis of Bulb Operations Board papers

Phase One

3.4 Phase One ran from 7 March to 4 April 2022. Nineteen interested parties received further financial and high-level customer book data, six of which met with Teneo and/or Lazard. Despite the uncertainty in the energy market following Russia's invasion of Ukraine, the Board concluded that the cost of pausing the process was broadly similar to proceeding with the sale. Due to the high and volatile wholesale prices following the invasion, Teneo identified that bidders may require financial support for any transaction, and it outlined five possible financial structures to the Board. BEIS decided that Lazard should not proactively advertise any potential financial structures to avoid bidders shaping their proposals accordingly. However, Teneo and Lazard told BEIS that during the sale process several parties asked about the availability of government support.[14]

3.5 BEIS did not put the decision to proceed from Phase One to Phase Two of the sale process to ministers. BEIS assumed that the decision would be relatively straightforward, with three or four substantive submissions that could be taken forward into Phase Two. BEIS also identified that the decision would be less straightforward if there were only one or two submissions, which it was concerned might result in insufficient competitive tension in Phase Two. BEIS did not set out what the process should be in those circumstances but assumed that it would delay the decision. By 8 April 2022, Lazard had received only two submissions: neither had met the 4 April submission deadline, and both were qualitative expressions of interest which omitted quantitative information and the bid value.

3.6 Lazard sought feedback from parties who had expressed an interest but did not submit a bid. Responses are summarised in **Figure 9**. Teneo recommended that:

- the two bidders should progress to Phase Two;
- an extension to 18 April should be given to a third party who had shown interest but had not made a bid;[15]
- Teneo should engage with other key parties who had initially shown an interest during Phase One; and
- Teneo should begin contingency planning for an extended SAR period.

14 This included both parties that made submissions during Phase One.
15 Octopus was not one of the three parties that had made a submission or was offered an extension.

Figure 9

Reasons why potential bidders did not enter the sale process for Bulb Energy (Bulb), April 2022

The joint energy administrators from Teneo Financial Advisory Limited (Teneo) and Lazard & Co., Limited gathered feedback from six parties that had shown initial interest in the process during Phase One but decided not to make a submission

Reason for decision	Explanation
Volatile prices	All participants cited Russia's invasion of Ukraine had exacerbated existing volatility in wholesale markets.
Poor liquidity	Some participants, as well as pointing to wholesale price volatility, highlighted experiencing difficulties in accessing appropriate long-term products to develop a full hedge for Bulb.
Regulatory uncertainty	Most participants highlighted those outstanding decisions to be taken by Ofgem or the Department for Business, Energy & Industrial Strategy that increased the risk associated with proceeding in the process. Examples include backwardation, protection of credit balances and the frequency of Renewable Obligation Certificate payments.
Strategically not the right time	Some participants pointed to the low attractiveness of low-margin retail relative to other investment opportunities.

Notes

1 Phase One ran from 7 March to 4 April 2022, during which 19 interested parties received further financial and high-level customer book data, six of which met with Teneo.

2 Phase Two ran from 25 April to 30 June, the deadline for final bids.

3 Backwardation is when the current price of an underlying asset is higher than prices trading in the futures market.

4 Renewable Obligation Certificate is issued to operators of accredited renewable generating stations for the eligible renewable electricity they generate.

Source: National Audit Office analysis of Bulb Operations Board papers

Phase Two

3.7 On 14 April, the Board agreed that the focus should be on working with Teneo to continue the sale process and other work to exit the SAR, but that work should continue to develop contingency plans in case the sale failed. Contingency options included multiple book sales, in which customers would be split into several lots, an extended SAR period, and single or multiple supplier of last resort (SoLR) appointments.[16] Phase Two ran from 25 April to 30 June 2022.[17]

16 Although Ofgem had advised BEIS that a SoLR was not appropriate for Bulb when it first entered administration in November 2021, having entered SAR, some barriers to using the SoLR mechanism had been removed, and BEIS considered that moving to SoLR from SAR was legally feasible, but not operationally possible and would require further work with Ofgem.

17 The initial deadline for final submissions of interests was 1 June, which Teneo and Lazard extended to 30 June, primarily to reduce the risk that bidders would withdraw from the competition.

3.8 By the end of April, Teneo and Lazard sought to re-engage with four parties, including Octopus, to gauge whether there was any further interest in the sale. On 10 May, Octopus submitted a letter expressing interest in entering the process, and followed up on 15 May with a formal offer letter, including a bid value of £108 million. Octopus had originally decided not to bid because of a lack of clarity from Ofgem on backwardation and the ringfencing of credit balances.[18] In its view, these issues had made the energy sector "very risky". It also expected others to pay a premium for Bulb's brand and technology. Teneo believed that factors that influenced Octopus to change its decision included: awareness of the interest from two other parties and the implications for the future market landscape; the impact of recent Ofgem regulatory changes; and improvements in wholesale markets over the preceding month. Another party also expressed an interest in entering the process but did not make a bid.

3.9 BEIS agreed with Teneo's assessment that allowing Octopus to enter the sale process alongside the two bidders who had progressed from Phase One would increase competitive tension, and the Board supported this on 24 May 2022. The Board also agreed to prioritise three options: to support the sale process, and in case the sale fails, to both: develop options for multiple book sales; and retain the option to continue the SAR.

3.10 Octopus was the only party that submitted a bid by the 30 June deadline. On 5 July, the Board agreed that Teneo should continue preparatory work on other options, including a multiple customer book sale, in case Octopus withdrew, or the Board rejected its bid. Octopus submitted a briefing paper to the Competition and Markets Authority (CMA) on 7 July 2022 regarding the proposed agreement, and on 12 July CMA confirmed it required no further information about the transaction.

Negotiations and approval of the Energy Transfer Scheme

3.11 Negotiations with Octopus about the commercial terms or legal structure of the agreement were led by Teneo, with some support from Lazard, from July to October 2022, with limited involvement by BEIS. Octopus bid for specific Bulb assets rather than the whole company. This included the complete domestic and business customer book, all customer debt and credit balances, certain regulatory assets (such as Renewable Energy Guarantees of Origin and Renewable Energy Certificates), and energy licences.[19]

18 Backwardation is when the current price of an underlying asset is higher than prices trading in the futures market.
19 Please see glossary in Appendix Two for definitions of technical terms.

3.12 Negotiations focused on developing an acceptable working capital funding structure for the first year after the sale. BEIS's involvement during the negotiations related principally to considering the proposals for financial support included in Octopus's offer. The resultant agreement was facilitated by an ETS. This involved Teneo creating a new supplier (HiveCo) as a subsidiary of Bulb and transferring relevant assets and liabilities to HiveCo, including Bulb's customers. HiveCo was then immediately bought by a newly created, wholly owned subsidiary of Octopus (BidCo).[20] These formed a ringfenced entity within the Octopus Group, which received payments from HiveCo's customers (**Figure 10** overleaf). To protect the taxpayer from potential loss of value and prevent leakage to other parts of the Octopus Group, Octopus will not pay management fees, issue inter-company loans, or make dividend payments from the ringfenced entity to the wider Octopus Group until it has repaid taxpayer funding. The deal also included a profit share adjustment on any post-tax net profit made by HiveCo up to April 2025 or April 2026 if payments are deferred.

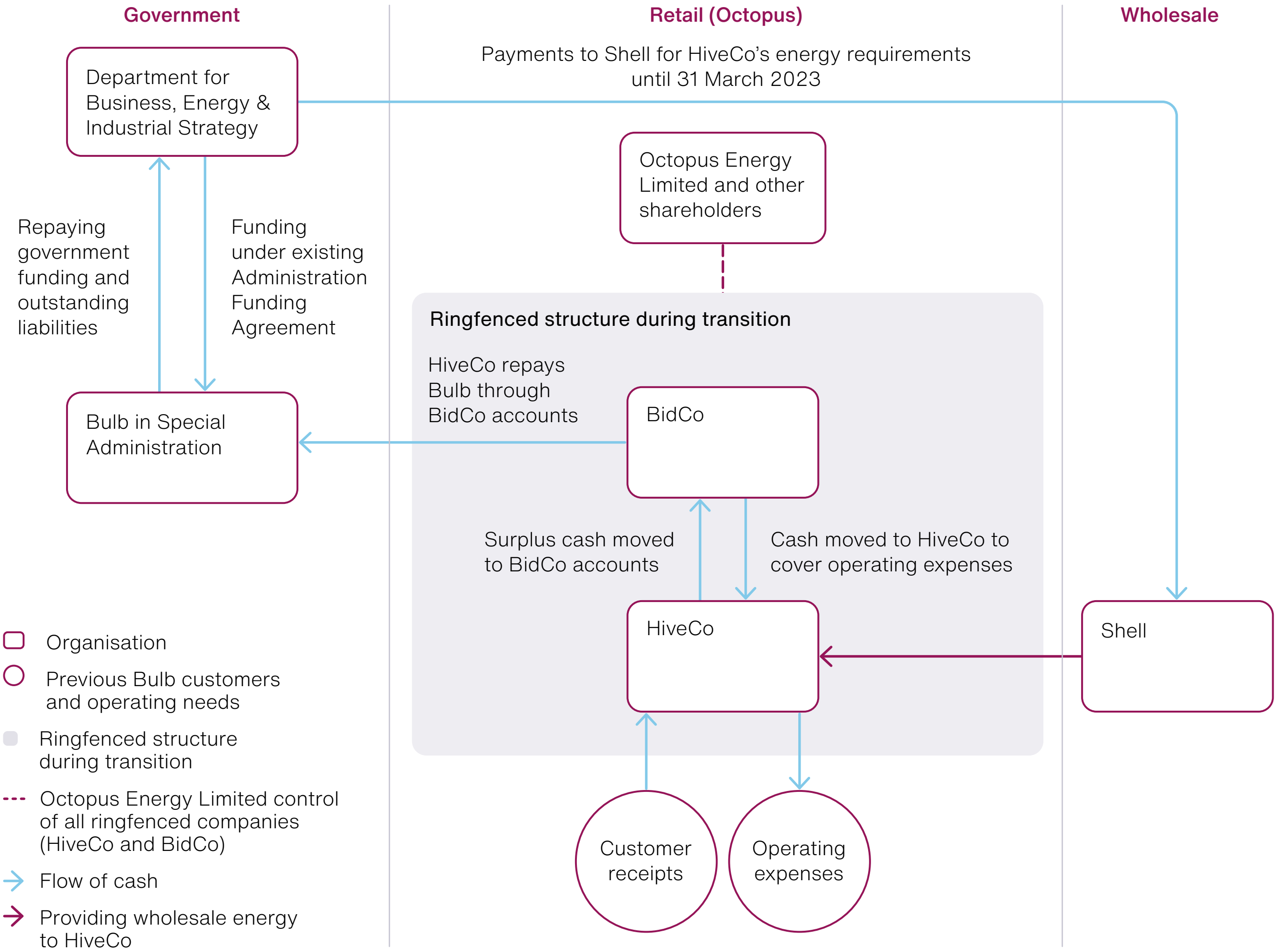
3.13 For Octopus to proceed with the transaction, it sought the support of its wholesale energy provider, Shell. However, Shell was unable to extend its current wholesale arrangements to HiveCo, as it was a new supplier, and initially was unwilling to agree a separate arrangement with HiveCo due to market volatility during negotiations. To address Shell's concerns, BEIS agreed a new funding agreement for Bulb, which enabled HiveCo to use net trading receipts from Bulb customers to help build up cash collateral and working capital. This was to allow HiveCo to build a fully hedged position from April 2023 onwards. The parties agreed to secure HiveCo's market exposure and credit risk with a letter of credit from a mainstream lender, secured against the cash collateral held in a ringfenced bank account within BidCo. Shell provided Octopus with a non-binding letter of support for the proposed deal on 26 September 2022.

20 The legal name of HiveCo is Octopus Energy Operations Limited (company registration 14415312); it was registered on 12 October 2022 as Bulb UK Energy Limited and changed its name on 17 March 2023. The legal name of BidCo is Octopus Energy Retail 2022 Limited (company registration 14396192), registered 4 October 2022.

Figure 10

Structure of the combination of Bulb Energy (Bulb) and Octopus Energy Limited (Octopus) following the implementation of the Energy Transfer Scheme on 20 December 2022

To protect the taxpayer from potential loss of value and prevent leakage to other parts of Octopus, HiveCo and BidCo will form a ringfenced group until financial support provided to Octopus has been repaid to the government



Notes

1. The legal name of HiveCo is Octopus Energy Operations Limited (company registration 14415312). It was registered as Bulb UK Operations Limited on 12 October 2022, and changed its name on 17 March 2023.
2. The legal name of BidCo is Octopus Energy Retail 2022 Limited (company registration 14396192), registered 4 October 2022.
3. Shell refers to Shell Energy Europe Limited trading through its agent Shell International Trading and Shipping Company Limited.
4. HiveCo receives payments from customers in an operating account which it uses to pay operating expenses. When the minimum balance in this account exceeds a set threshold, the surplus is transferred to BidCo.
5. The Department for Business, Energy & Industrial Strategy will end its payments to Shell for HiveCo's energy requirements on 31 March 2023. From then on, HiveCo will pay for its energy requirements directly to Shell.

Source: National Audit Office analysis of Teneo Financial Advisory Limited data

Options appraisal and consultation with Ofgem

3.14 On 4 October 2022, Teneo recommended to the Board that BEIS should proceed with the sale based on the negotiated working capital structure. Teneo stated that there had been no offers for Bulb as a trading entity, and that there were no other viable sale options at that time. It told BEIS that:

- other exit options, including counterfactuals such as multiple customer book sales, maintaining the SAR, investing in the business and a managed wind-down, would result in Bulb incurring higher future costs than the Octopus proposal and were unrealistic;
- most involved longer exposure to market volatility, with no certainty as to whether they would result in more (or any) future potential buyers; and
- Octopus's proposal offered a lower overall cost than the alternatives, and greater certainty of outcome.

BEIS reviewed Teneo's recommendation and its independent adviser, EY, concluded that Teneo's approach to select an option that would provide most certainty and immediacy was reasonable, despite potential uncertainties about Octopus's ability to repay government.

3.15 On 14 October 2022, Ofgem completed its review of the proposed sale deal to assess whether Octopus had suitable financial and operational capabilities in place to ensure consumers' interests were protected.[21] Ofgem concluded that:

- operationally, there was a risk that Octopus's systems and processes were not robust enough for the scale of new customers;
- financially, Octopus needed sufficient capital and reserves to buy energy for Bulb customers, as well as financing its existing entities, but that its rapid growth had resulted in a weaker financial position compared with other large suppliers. Ofgem also identified risks around Octopus's low levels of investor support, and its over-reliance on customer credit balances for working capital; and
- overall, Octopus could manage the operational risks, but that the financial risks were more difficult to assess.

Ofgem said it would continue to closely monitor Octopus through its financial monitoring tools. For any future use of a SAR, Ofgem urged government to revisit its approach to hedging and managing risk, and to consider multiple book sales earlier in the process to strengthen counterfactual options.

21 Ofgem used its trade sales review method introduced from 1 April 2022.

3.16 On 20 October 2022, the Board submitted the sale proposal for government's approval. On 23 October, an Accounting Officer assessment concluded that the overall risk was low-medium, with risks including the need to secure budget cover from HM Treasury (HMT) and the short timeline. The proposal was examined at a joint meeting of BEIS's Project Investment Committee and HMT Approval Point on 25 October, which BEIS and HMT considered provided a suitable senior-level forum to assess Teneo's recommendation. Following the joint meeting, the Permanent Secretary approved Teneo's recommendation on 26 October. The Secretary of State approved the transaction in principle on 27 October and signed the updated Administration Funding Agreement the following day. Government announced it had approved the deal on 29 October, when it estimated the cost to taxpayers would be £2.64 billion.

Initial financing for the new arrangements

3.17 HiveCo took on responsibility for supplying energy to Bulb's customers through the ETS in December 2022. On 7 November, the Secretary of State approved the ETS with advice from Teneo.[22] The parties initially planned to complete the ETS on 17 November, but this was delayed because Centrica (British Gas trading), Scottish Power and E.ON commenced legal action against the Secretary of State's ETS decision.[23] On 30 November 2022, a High Court judge issued an order for the ETS to take place on 20 December, marking the completion of the deal.

3.18 On 20 December 2022 Octopus paid £113 million for the Bulb customer book, based on £93 for every actively paying dual fuel customer and £46.50 for every single fuel customer. BEIS injected £160 million cash into Bulb to offset its remaining liabilities transferred to HiveCo, including customer credit balances and renewables obligations, to leave HiveCo with net assets of £1 (**Figure 11**). BEIS did this to meet its objective to prevent or minimise the SAR's negative impacts on the wider energy market. Following completion, Octopus made an equity injection of £108 million to increase HiveCo's net assets.

22 In deciding whether to approve the ETS, the Secretary of State was required by the Energy Act 2004, as applied by the Energy Act 2011, to have regard to the 'public interest' and the effects of the scheme on third party interests, and as part of the approval process, engage in a formal consultation with Ofgem's Board (GEMA).

23 All three were among the 77 parties approached by Lazard at the start of the sales process (paragraph 3.2).

Figure 11

Cost of offsetting the liabilities of Bulb Energy (Bulb), 20 December 2022

Through the Energy Transfer Scheme (ETS), the Department for Business, Energy & Industrial Strategy (BEIS) paid £160 million to Bulb to value the assets and liabilities transferred to HiveCo at £1

Adjustment	Cost (£mn)	Description
Value of Bulb customer book	113	Based on Octopus paying £93.00 for every actively paying dual fuel customer, and £46.50 for every single fuel customer.
Other assets and liabilities	-274	Opening balance sheet adjustment.
Net value of assets transferred to Octopus	**-160**	
Cash injection from BEIS	160	To value HiveCo's net assets at £1, BEIS paid £160 million into Bulb on the ETS completion.

Note

1 Numbers may not total due to rounding.

Source: National Audit Office analysis of Teneo Financial Advisory Limited data

3.19 The arrangements for HiveCo to build up its collateral and working capital positions (paragraph 3.13) were based on the deal being completed on 30 September 2022. BEIS made two types of payment to help HiveCo move from being unhedged under the SAR to fully hedged from April 2023.

- A one-off loan of £1.06 billion to assist HiveCo to build up collateral. This was to cover the surplus that HiveCo would have built up by December, had the deal been completed at the end of September.
- From 21 December 2022 to 31 March 2023, each month BEIS paid Shell directly in advance for HiveCo's energy requirements, based on forecast volumes from Octopus and estimated market prices from Shell. By 31 January 2023, BEIS had paid Shell £995 million to cover wholesale energy to 28 February 2023.

These transactions enabled HiveCo to use the net trading receipts to build the remainder of the collateral and a hedged position from 1 April 2023.

3.20 HiveCo's customers continued to receive supplies and bills as normal following the ETS. Octopus started migrating HiveCo customers to its billing system and this will take several months to complete.[24] During the transition period, Octopus will continue to use Bulb's current billing system, provided by Simple Energy, for customers not yet transferred. Octopus has deferred payments from HiveCo for using its own billing platform until it has repaid government support. HiveCo customers will only be transferred into the wider Octopus Group once the money owed to government has been repaid. Most of Bulb's employees were transferred to HiveCo to ensure the new supplier had sufficient capacity to service customers.[25]

3.21 The assets and liabilities of Bulb not transferred to HiveCo under the ETS will remain in SAR, but Bulb in SAR will no longer be a licensed energy supplier.[26] The SAR will continue until Octopus has repaid government's funding, Bulb's outstanding costs and liabilities have been settled, and its assets realised. This could be in 2024 or 2025. During this period, Teneo's role will be focused on ensuring the accuracy of payments to, and recovery of monies from, Octopus, reporting to government, and discharging its statutory duties in respect of the residual Bulb SAR liabilities. As of 31 January 2023, Teneo estimated that the remainder of the SAR period and winding up of Bulb will leave a cash surplus of £49 million.

24 As of 8 February 2023, 86,000 customers had migrated to Octopus's billing system.
25 This occurred using a Transfer of Undertakings (Protection of Employees) process. These employees were actually contracted with Bulb's parent company, Simple Energy Limited.
26 Under the Energy Act, Bulb must remain in SAR for taxpayer support to be legal.

Part Four

Taxpayer funding and its recovery

4.1 This Part examines the cost to the taxpayer of the administration of Bulb, and how government will recover taxpayer funding, including:

- the risks the Department for Energy Security & Net Zero (DESNZ) must manage until the end of the Special Administration Regime (SAR); and
- how DESNZ intends to recover taxpayer support.

DESNZ superseded the Department for Business, Energy & Industrial Strategy (BEIS) on 7 February 2023 and is now responsible for what was BEIS's energy portfolio. We therefore refer to BEIS when discussing the period before 7 February 2023, and DESNZ after that.

Ongoing risks that BEIS must manage

4.2 There are several risks to the recovery of taxpayer financial support. These include:

- volatility in wholesale energy prices during the period to 31 March 2023, when DESNZ is paying for HiveCo's energy on the day-ahead market;
- a potential 12-month delay to Octopus reimbursing the financial support it has received; and
- future financial difficulties of HiveCo, which could trigger a second SAR, or wider financial difficulties for Octopus.

4.3 When assessing Octopus's bid for Bulb Energy (Bulb), the joint energy administrators from Teneo (Teneo) assessed that repayment risk relating to taxpayer funding would be managed by:

- HiveCo and BidCo being set up as a ringfenced entity, which would prevent leakage to other parts of the Octopus Group (paragraph 3.12);
- HiveCo reducing the risks from rising wholesale energy prices by it building up a fully hedged position for April 2023 onwards (paragraph 3.19); and
- Octopus's desire to avoid reputational damage.

4.4 Teneo considered the possibility of a second SAR in the event of HiveCo failing. It found that government support for any wholesale energy costs above the price cap up to the end of March 2023, and the hedging arrangements due to be put in place from April 2023 onwards, largely mitigated the risk from rising wholesale prices. Some other risks remained, such as an increase in non-wholesale costs or a rise in customer bad debt. Teneo concluded that if HiveCo failed and a second SAR was imposed, the government should be in no worse position than if the current SAR continued.

Recovery of taxpayer support for Bulb

4.5 DESNZ will calculate the final cost to the taxpayer when the SAR ends. However, on 31 January 2023 Teneo estimated that the total gross cost would be £3.02 billion (**Figure 12** on pages 47 and 48).

4.6 The latest estimate of the gross cost to the taxpayer is less than half the £6.49 billion reported by the Office for Budget Responsibility (OBR) when the Autumn Statement was published in November 2022.[27] The largest movement was in the estimated wholesale energy cost. In mid-October 2022, BEIS estimated that the energy costs to 31 March 2023 would be around £4.14 billion, and the 2022 Autumn Statement increased funding for the SAR by £4.58 billion to provide this.[28] However, the most recent forecast of wholesale energy costs to 31 March 2023 have fallen to £0.71 billion, £3.43 billion less than estimated in the Autumn Statement.

4.7 DESNZ will not know the final energy wholesale cost until after 31 March 2023. This cost depends on energy prices in the day-ahead market, and customer demand, both of which will change. For example, on 20 December 2022, the estimated cost to 31 March 2023 was £1.75 billion, but on 31 January 2023 the estimate had reduced to £0.71 billion (Figure 12). Similarly, by the end of January 2023, BEIS had paid Shell £995 million for wholesale energy from 21 December 2022 to the end of February 2023 (paragraph 3.19), but on 31 January it estimated that the cost for that period would be just £509 million.[29]

27 Office for Budget Responsibility, *Economic and fiscal outlook*, CP 749, November 2022. The OBR reported that: "The total cost of the Bulb Energy bailout had reached £6.5 billion, with the 2022-23 element of £4.6 billion included in the Autumn Statement."
28 HM Treasury, *Autumn Statement 2022*, CP 751, November 2022, p. 61.
29 After the end of each month, Teneo compares the actual wholesale energy cost with the prepayment made, and the next payment is adjusted to address any difference.

Figure 12
Estimated cost of the Special Administration Regime (SAR) of Bulb Energy (Bulb), January 2023

In January 2023, the estimate of the net cost to the Department for Business, Energy & Industrial Strategy (BEIS) of the SAR, was £0.24 billion

Cost type	Autumn Statement – November 2022	Transaction completion – 20 December 2022	Latest estimate – 31 January 2023	Comments
	(£bn)	(£bn)	(£bn)	
Payments through Administration Funding Agreement	1.14	1.14	1.14	Payments drawn down by Bulb since November 2021.
Forecast future net cost of SAR	0.41	0.19	-0.05	Net cost of receipts and payments for winding up Bulb from January 2023 to September 2025.
Forecast cost of SAR to September 2025	**1.55**	**1.33**	**1.09**	
BEIS payment towards HiveCo collateral	0.31	1.06	1.06	Payment by BEIS for the cost of energy from 1 October to 20 December 2022 at the Ofgem price cap.
BEIS completion costs	0.34	0.16	0.16	Cash injection from BEIS on 20 December 2022.
Wholesale cost of energy winter 2022	4.14	1.75	0.71	Cost to BEIS of buying energy supplies for Bulb customers to 31 March 2023.
Barnett formula	0.15	–	–	Estimated cost of Barnett formula payments to devolved administrations.
Gross taxpayer cost	**6.49**	**4.30**	**3.02**	
Interest received from HiveCo	-	–	-0.13	HiveCo is liable to pay to government all interest received on credit balances in BidCo accounts.
Future realisations	–	-0.12	-0.09	Includes release of ringfenced funds.
Net taxpayer cost before interest	**Not stated**	**4.18**	**2.80**	
Interest cost	–	0.57	0.40	Non-cash interest charge by DESNZ for the support it has provided to Bulb since November 2021.
Net taxpayer cost after interest	**Not stated**	**4.75**	**3.20**	
Amount to be repaid by HiveCo	–	-3.01	-2.96	Octopus is liable to repay to government, through HiveCo, the wholesale costs at the price cap from completion to 31 March 2023, and the delayed completion cost.
Final cost to taxpayer	**Not stated**	**-1.74**	**-0.24**	To achieve fiscal neutrality, DESNZ may decide to use a shortfall direction to recover the final cost through consumers' energy bills.

Figure 12 *continued*

Estimated cost of the Special Administration Regime (SAR) of Bulb Energy (Bulb), January 2023

Notes

1 Fiscal neutrality is the requirement that any shortfall between the amount of taxpayer support provided to Bulb and the payments received from Octopus is fully recovered using a shortfall direction. This was a condition of HM Treasury's approval of the SAR. A shortfall direction is a cost recovery mechanism that is issued to the National Grid to raise monies through network charges equal in value to the shortfall to be recovered. The Department for Energy Security & Net Zero (DESNZ) Secretary of State may decide to pass these costs onto consumers, resulting in an increase in energy bills.

2 The November 2022 Autumn Statement reported the estimated gross cost to the taxpayer of support for Bulb but did not include any estimated payments from Octopus or other future realisations that would offset the gross cost. All net cost totals are shown as 'Not stated' in the Autumn Statement column above.

3 The BEIS completion costs decreased from the initial estimate in the Autumn Statement because completion of the transaction was delayed from 17 November 2022 to 20 December 2022 after Centrica (British Gas trading), Scottish Power and E.ON commenced legal action against the Secretary of State's approval decisions.

4 Numbers may not total due to rounding.

Source: National Audit Office analysis of Department for Business, Energy & Industrial Strategy data

4.8 The OBR only reported the estimated gross cost of funding Bulb, but to achieve fiscal neutrality DESNZ intends to recover the taxpayer funding as follows:

- Octopus is liable to repay DESNZ, through HiveCo, an amount equal to the wholesale energy costs had prices matched Ofgem's price cap over the period from the Energy Transfer Scheme completion to 31 March 2023. On 31 January 2023, Teneo estimated that the repayment would be £2.96 billion. The repayment will be made from 2024.[30] However, Octopus could seek to defer these payments until 2025 in some circumstances.

- If repayments from Octopus do not reimburse the taxpayer fully, DESNZ could use a shortfall direction to claim back costs from the wider energy sector through consumers' energy bills. The Bulb Operations Board regularly considered the various options for shortfall recovery from February 2022. However, the Secretary of State is responsible for deciding whether to issue a shortfall direction, and its terms. As of 31 January 2023, no decision had been made.

4.9 Teneo's latest forecast is that there will be a shortfall of £246 million. This amount is likely to change, as it depends on how much BEIS pays for wholesale energy until 31 March 2023, the cost of the remainder of the SAR, and the amount repaid by Octopus, all of which are uncertain. However, the recent drop in wholesale energy prices means that in the current estimate, Octopus is due to repay £158 million more than the net taxpayer cost of supporting Bulb before interest. The estimated £246 million shortfall is because Teneo's forecast includes a non-cash interest charge of £404 million for the taxpayer support for Bulb since November 2021, which DESNZ is contractually entitled to charge (**Figure 13** on pages 49 and 50).

30 This does not include any interest generated on credit balances in BidCo accounts, which HiveCo is liable to pay to government.

Figure 13

Estimated cost and recovery of taxpayer funding during the Bulb Energy (Bulb) Special Administration Regime (SAR), 2021–2025

According to the latest estimate, the shortfall between taxpayer funding and amounts recoverable from Octopus Energy (Octopus) is due to a non-cash loan interest charge of £0.4 billion on taxpayer funding

Figure 13 *continued*

Estimated cost and recovery of taxpayer funding during the Bulb Energy (Bulb) Special Administration Regime (SAR), 2021 to 2025

Notes

1 The Department for Energy Security & Net Zero (DESNZ) superseded the Department for Business, Energy & Industrial Strategy (BEIS) on 7 February 2023 and is now responsible for what was BEIS's energy portfolio. We therefore refer to BEIS when discussing the period before 7 February 2023, and DESNZ after that.

2 **Cash drawn down by Bulb – November 2021 to December 2022.** Cash drawn down through the Administration Funding Agreement (AFA) to fund Bulb from the start of the SAR on 24 November 2021 to the completion of the transfer of Bulb customers and other assets and liabilities to HiveCo, then Octopus on 20 December 2022 through the Energy Transfer Scheme (ETS).

3 **Cash contribution from BEIS at date of ETS December 2022.** Cash injection by BEIS into HiveCo on 20 December 2022 to achieve a net value of £1 for HiveCo when transferred to Octopus through the ETS.

4 **Cash funding towards HiveCo collateral December 2022.** Payment by BEIS on 20 December 2022 to help HiveCo build up its collateral and working capital positions.

5 **Estimated cost of energy 21 December 2022 to 31 March 2023.** Estimated cost to BEIS/DESNZ of buying energy for HiveCo between 21 December 2022 and 31 March 2023.

6 **Estimated cash surplus when SAR ends.** Estimated net assets when the Bulb SAR is wound up, by when Octopus will have reimbursed BEIS for taxpayer support of Bulb.

7 **Estimated future realisations.** Realisation of other assets including guarantees with third parties.

8 **Estimated amount to be repaid by Octopus.** Octopus is liable to repay an amount equal to the wholesale energy costs had prices matched Ofgem's price cap over the period from 1 October 2022 to 31 March 2023.

9 **Estimated interest from BidCo accounts.** Interest generated on credit balances in BidCo accounts, which HiveCo is liable to pay to DESNZ.

10 **Estimated interest charge by DESNZ for the support it has provided to Bulb since November 2021 (non-cash).** Non-cash charge for interest payable to DESNZ under the AFA, calculated to September 2025.

11 **Estimated final cost to taxpayer, which DESNZ may decide to recover from consumers' energy bills.** If repayments from Octopus do not reimburse the taxpayer fully, the DESNZ Secretary of State may decide to pass these costs onto consumers, resulting in an increase in energy bills.

Source: National Audit Office analysis of Teneo Financial Advisory Limited data

Appendix One

Our investigative approach

Scope

1 This investigation examines how Bulb Energy (Bulb) operated during the special administration regime (SAR) it entered into in November 2021; the decision by the Department for Business, Energy & Industrial Strategy (BEIS) to approve the transfer of Bulb customers and certain Bulb business assets and liabilities to Octopus Energy (Octopus) in December 2022; and the cost to the taxpayer of the administration of Bulb and how government will recover this. The investigation was conducted between November 2022 and March 2023.

2 We undertook this investigation because questions had been raised in Parliament and the media about: how much taxpayer funding had been needed to maintain energy supplies to customers following Bulb's failure; what continuing government support might be required to rescue Bulb; and whether the sale deal for Bulb was value for taxpayers' funding.

3 The investigation covered BEIS's:

- objectives for Bulb during the period it was put in special administration;
- oversight of the joint energy administrators from Teneo Financial Advisory Limited (Teneo) who were appointed in November 2021 to oversee the SAR for Bulb;
- oversight of the sale process conducted by Teneo and Lazard. This included the selection and evaluation of the successful bidder, Octopus; and
- arrangements for the restructuring of Bulb. This included the commercial terms of the sale process, the administration funding agreement approved by the Secretary of State, and the mechanisms for recovering taxpayer funding of the SAR process as part of the transaction that transferred parts of Bulb's operations to Octopus.

On 7 February 2023 BEIS was succeeded by the Department for Energy Security & Net Zero (DESNZ). We therefore refer to BEIS before 7 February and DESNZ afterwards.

4 The cut-off date for the data we used in the report was 31 January 2023.

Methods

5 In examining the in-scope issues, we drew on a variety of evidence sources.

6 We interviewed key individuals involved in the special administration of Bulb since November 2021, and the transfer of Bulb's operations to Octopus. Our objective was to understand their roles, responsibilities and the rationale for their decisions, to enable us to set these out in our report. Interviewees included staff at:

- the Energy Security, Networks and Markets Directorate at BEIS/DESNZ (since February 2023 Energy Markets and Analysis), which is the section that has overseen the administration and transfer of Bulb;
- the Retail Directorate at Ofgem, which is responsible for regulating the retail market and for modifying the regulatory framework to support the future market;
- HM Treasury (HMT), which approved various key funding decisions during the special administration of Bulb, including the administration funding facility;
- UK Government Investments, which advised BEIS/DESNZ and HMT about administration and the administrators' performance;
- Teneo, from where the three joint energy administrators of Bulb were appointed in November 2021;
- Lazard & Co., Limited, the financial adviser appointed by Teneo and the administrators of Simple Energy (Bulb's parent), with government consent, in January 2022 to run the sales process;
- Octopus Energy Limited, which was the successful bidder to take over Bulb; and
- Citizens Advice.

7 We conducted a review of documents relating to the transfer of Bulb to Octopus and the wider energy market.

8 We reviewed internal documents from BEIS/DESNZ, Teneo and Ofgem to understand the timing and rationale for the key decisions made during the SAR and the sales process. These included ministerial submissions, board minutes and papers, meeting minutes, business cases, option appraisals, internal guidance, recommendation papers, weekly and monthly performance reports and correspondence.

9 We reviewed the arrangements and implementation of the Energy Transfer Scheme (ETS), to understand the commercial terms of the transaction and mechanisms for recovering taxpayer funding from Octopus. The ETS is the method by which the transfer of Bulb's customers and certain Bulb assets and liabilities to Octopus was made effective.

10 We reviewed proposals to achieve fiscal neutrality by recovering any shortfall between taxpayer support and the amount recovered from Octopus using a DESNZ Secretary of State authorised shortfall direction.

Appendix Two

Glossary

Term	Definition
Administration Funding Agreement	The funding agreement between the administrator and the Department for Business, Energy & Industrial Strategy (BEIS) to support the administrator in its statutory objective of ensuring continuity of supply to Bulb Energy (Bulb)'s customers at the lowest practicable cost until such a time as the company may be rescued, or the business transferred to another company.
Backwardation	When the current price of an underlying asset is higher than prices trading in the futures market.
Energy Transfer Scheme (ETS)	A legal instrument that transfers property, rights, and liabilities from one body to another without the need to use the normal forms of contractual transfer (for example, novating a contract) or obtain any consents or permissions (for example, a customer's consent to transfer a contract).
Fiscal neutrality	The requirement of full recovery of any shortfall from the energy supply sector (rather than taxpayers), which was a condition of HM Treasury's approval of the SAR.
Forward price	The predetermined delivery price for an underlying commodity, currency, or financial asset as decided by the buyer and the seller of the forward contract, to be paid at a predetermined date in the future.
Hedging	A procurement strategy whereby energy suppliers contract to buy gas or electricity from the wholesale energy market for an agreed price on an agreed future date. Suppliers buy energy in advance to match the expected demand of their customers.
Joint energy administrator	Under the Special Administration Regime, a court appoints a joint energy administrator to run a company until it is either: rescued (for example, through a restructuring); sold; or has its customers transferred to other suppliers.
Renewable Energy Guarantees of Origin (REGO)	REGO provides transparency to consumers about the proportion of electricity that suppliers source from renewable generation.
Renewable Obligation Certificates (ROC)	Certificate issued to operators of accredited renewable generating stations for the eligible renewable electricity they generate.
Shortfall direction	A cost recovery mechanism that imposes direct costs on electricity supply companies and gas shippers – equal in value to the shortfall to be recovered. The Department for Energy Security & Net Zero Secretary of State may decide to pass these costs on to consumers, resulting in an increase in energy bills.
Special Administration Regime (SAR)	A mechanism used by Ofgem when it is unfeasible to use its Supplier of Last Resort (SoLR) powers, such as when it has doubts about the possibility of a viable SoLR, or there are practical problems with appointing one. A temporary special administrator continues running the failed company until it can be sold as a going concern, or the customers can be transferred to other suppliers.
Supplier of Last Resort (SoLR)	Mechanism by which Ofgem transfers customers from a failed supplier to an existing supplier to maintain their continuity of energy supply.
Wholesale differential	The difference between actual wholesale costs, and the wholesale cost allowance within Ofgem's price cap methodology.

Appendix Three

Bulb Energy's purchasing strategy

1 As set out in paragraph 2.16, the government has issued a range of guidance to departments that sets out where government organisations can use financial instruments to manage risks (**Figure 14**).

Figure 14
Government guidance on forward purchasing

The government has published advice to departments about the extent to which they can use commercial financial instruments to manage financial risk

Document	Guidance excerpt
Managing Public Money, Article 5.6.18	Sometimes public sector organisations face financial risks which they find uncomfortable. In these circumstances they may consider hedging using commercial financial instruments. Speculation is never acceptable.
Managing Public Money, Article 5.6.21	Any decision to use financial instruments is automatically novel and contentious and should be cleared with HM Treasury (HMT) accordingly. HMT will normally be sceptical because, like insurance, financial hedging incurs costs in circumstances where the government may in principle be able to bear the risks and could usually do so more cheaply. It is also important to bear in mind that there are some risks that only the government can bear, and that these may be impossible to hedge at tolerable cost.
Managing Public Money, Article 5.6.22	If an organisation considers using financial instruments to hedge, its accounting officer will need to be satisfied that the cost and management effort of operating the hedging policy offers value for money. The organisation should clear its strategy with HMT and draw up a bespoke section of its banking policy for the purpose.
Managing Public Money, Article 5.12.1	Depending on its circumstances, purposes and risk profile, a public sector organisation may consider using financial instruments provided by the commercial markets. Among these techniques are foreign currency transactions and various hedging instruments designed to control or limit business risks, for example those arising out of known requirements for specific future purchases of market-priced commodities. Mundane possibilities are use of credit or debit cards, in order to secure faster settlements.

Source: HM Treasury, *Managing Public Money*, September 2022. Available at: www.gov.uk/government/publications/managing-public-money

2 As set out in Part Two, between November 2021 and February 2022 government determined that Bulb should carry out minimal forward purchasing while in a Special Administration Regime (SAR), as long as no operational issues arose from this. Factors behind this decision are set out in **Figure 15**.

Figure 15

Factors considered in determining the use of forward-purchasing for Bulb Energy (Bulb)

Between November 2021 and February 2022, the Department for Business, Energy & Industrial Strategy (BEIS), HM Treasury (HMT) and Ofgem discussed the appropriate energy purchasing strategy for Bulb and concluded that minimal forward purchasing should be carried out, except when market conditions required it

Factor considered	Observations	Conclusion
Government policy. The government has issued various pieces of guidance to public sector organisations on forward purchasing.	In February 2022, the Bulb Operations Board (the Board) noted that if it started hedging, this would lock in costs below £1.7 billion and protect against any future price rises. It said, "In this scenario, a decision not to hedge could be difficult to defend publicly, particularly in the context of recent media scrutiny of Bulb management for not hedging and of Ofgem's recent publications adding additional controls around financial resilience." However, the Board stated that *Managing Public Money* guidance is clear that creating a hedge position to transfer this risk to the private sector is generally not considered value for money, as HM Government can manage risk at a lower cost than private institutions. It also noted that "the Crown Commercial Services does allow public organisations to forward purchase their energy supplies on the rationale of providing budget certainty. This argument would not apply to Bulb in Special Administration Regime (SAR), due to HMT providing budget cover to BEIS for the duration of the Bulb SAR."	The Board concluded that while public organisations are allowed to forward purchase energy supplies to provide budget certainty, this would not be needed given HMT would provide budgetary cover for the duration of the Bulb SAR, reducing the need for budgetary certainty, and therefore recommended continuing the policy of minimal forward purchasing.
Risk premiums and the amount of collateral required. Building hedges would require upfront funding to create, while purchasing energy in the day-ahead market would require less upfront funding.	In November 2021, Teneo Financial Advisory Limited (Teneo) warned that carrying out a forward purchasing strategy would require extra HMT funding, although this would be minimised by its ability to borrow more cheaply than the market. Macquarie was issued £510 million of credit support in November 2021 to help it manage the credit risk from supplying Bulb, as well as credit support provided to Shell Energy as part of the sale to Octopus Energy.	The Board concluded that while trade-offs did exist between minimising premiums for energy purchases while maintaining cost-control, the strategy of minimal forward purchasing should be continued.
Market conditions and impact. Sourcing enough energy for large amounts of customers on the day-ahead markets may be challenging if there is not enough liquidity in the market.	In November 2021, Ofgem raised concerns about the market impacts caused by sourcing enough energy for all Bulb's 1.5 million customers in the day-ahead market. These effects were monitored going into January 2022 as existing hedges expired, but no negative impacts on market price were observed.	The Board asked EY LLP to monitor whether Teneo's energy purchasing was disrupting the market and stated that forward purchasing could be carried out if required.
The potential impact on any future sale process. Teneo indicated that potential buyers of Bulb might be more interested if the company had a significant hedge profile.	The April 2022 business case for the future sale of Bulb noted it would be challenging but not impossible to transfer hedging contracts to a new buyer. The Board noted that a hedging strategy could be developed in a sale process that would make Bulb more attractive to new buyers, but it was not an argument to hedge during the operation of the SAR.	The Board concluded that any forward purchasing arrangements made during the SAR period would have specific arrangements that could not be simply passed on to any new buyer.

Source: National Audit Office analysis of Department for Business, Energy & Industrial Strategy, HM Treasury, Ofgem and Teneo documents

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