



Department for
Business, Energy
& Industrial Strategy

Kirsty Blackman MP
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The Rt Hon Greg Hands MP
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Dear Kirsty,

During the Public Bill Committee debate on the afternoon of Tuesday 23rd November, you requested further information on how electricity suppliers, and potentially their consumers by extension, would be protected from having to provide too much collateral under the nuclear RAB revenue model.

The provision of collateral against payment obligations is an established concept that electricity suppliers are familiar with. As mentioned during the Committee debate, the requirement for suppliers to provide collateral has been administered successfully in the Contracts for Difference (CFD) regime and has functioned effectively to bring private investment into new energy projects.

Collateral requirements on electricity suppliers offer a form of security which the counterparty can use if the supplier is unable to make a payment. This gives investors' confidence that there are mechanisms built into the revenue stream to protect against disruptions to revenue flow. This can also offer benefits to suppliers, should an instance arise where a supplier defaults. The collateral held by the counterparty can be used to cover any payment default, including interim rate, reserve and reconciliation payments.

Under the nuclear RAB, we expect that the Authority would determine the amount of collateral to be collected from suppliers, based on a company's forecast allowed revenue and, in operations, its forecast market revenues. Once confirmed, the counterparty will collect the collateral from suppliers, based on their market share.

We expect that collateral requirements would be determined at the outset of the period in which supplier payments are due. This is because the counterparty will need to make sure that for the amount determined by the Authority, each supplier's share has the appropriate level of collateral. This approach offers greater protection from payment volatility.

By using the CFD as precedent, we do not foresee onerous burdens would be placed on suppliers as a result of collateral requirements. As with CFDs, Suppliers' collateral requirements would be proportionate and based on their market share. These collateral requirements are small in the context of wider drivers of energy costs. Suppliers may choose to provide collateral as cash or as appropriate letters of credit of which the latter could work to ease some of the financial obligations on suppliers.

There is a mechanism under CFDs that gives suppliers the ability to request a return on collateral for amounts that exceed what they should have paid at the time. This would safeguard the finances of suppliers and further reduce any unfair collateral burdens on

suppliers, which they could in principle, pass onto consumers. We are exploring a similar mechanism for the RAB.

As mentioned in the Committee debate, we committed in the Heat and Building Strategy to publish the fairness and affordability call for evidence which will set out the options for energy levies and obligations to help rebalance electricity and gas prices and to support green choices, with a view to make a decision in 2022.

I would like to thank you for requesting further information on how suppliers and subsequently consumers will be protected from unduly excessive collateral requirements. As discussed in our debate, we will set out further detail of how the payment obligation on suppliers – including collateral requirements - in regulations. Draft regulations will be consulted on with named parties including energy suppliers and any necessary amendments will be made based on this. The regulations will then be subject to affirmative procedure whereby further scrutiny is available to the Honourable Members.

I will place a copy of this letter in the House of Commons library, and I am copying the letter to other members of the committee.

I hope this is helpful.

Yours ever,

A handwritten signature in blue ink, appearing to be 'G Hands', with a long horizontal flourish extending to the right.

THE RT HON GREG HANDS MP
Minister of State for Energy, Clean Growth and Climate Change