Civil society response to the proposed Energy Markets Financing Scheme (EMFS)

Friday 14th October 2022

The Bank of England and HM Treasury are set to launch next Monday a £40 billion emergency scheme to 'address extraordinary liquidity requirements faced by energy firms from high and volatile energy prices'. The scheme, which will open to applications on 17th October, is yet another sticking plaster on our broken fossil-reliant energy system, with the public sector again being made to provide a financial backstop to an unaddressed market failure.

The Treasury and the Bank promise that 'the EMFS will only be available to firms who are able to meet eligibility requirements, for example that they are otherwise in sound financial health and make a material contribution to the liquidity of UK energy markets'. But despite this crisis being driven by the UK's continued reliance on volatile fossil fuels, the suggested criteria fail to mention anything to encourage reductions in demand for fossil gas.

Given the short term and emergency nature of the scheme, and the goal to keep energy firms operating, stringent criteria based on backward-looking decarbonisation performance could be counterproductive for the purposes of this intervention. However, it is crucial that the scheme does not give a free pass to firms who are struggling because of excessive reliance on fossil energy, or engage in harmful behaviours and misuse the public support they receive. Further, to protect UK energy security over this coming winter, it is crucial that overall demand for gas is reduced to avoid shortages, and the scheme design should be reflective of that.

The conditionality of participation should require forward-looking steps by the firms aimed at increasing their longer term resilience:

a) Participating firms should be prevented from conducting share buybacks and dividend payouts and from laying off workers whilst in receipt of funds. This is to avoid repeating mistakes the government and the Bank made previously under the Covid Corporate Financing Facility which provided over £38 billion of cheap funds to 100 companies, without any conditions on protecting jobs or the environment.
b) Firms willing to participate should commit to providing all their customers with comprehensive information on how to reduce their energy usage, including through energy efficiency measures. The pricing of the scheme, in addition to rightly reflecting its 'last resort' nature, should also reward firms with lower fees if they achieve demand reduction in their period of participation, and conversely, should apply substantially higher fees to firms which fail to achieve demand reductions.
c) The participating firms should commit to further reductions in their reliance on fossil fuels, either in energy they generate, or in energy they purchase to resell. The firms should be given an appropriate deadline to present their improved plans. Firms that fail to do so, or subsequently (at relevant multi-year horizon set by the Treasury) fail to evidence reductions in their

fossil energy reliance as committed, should face additional fees for the scheme participation.

The above conditions would still enable broad eligibility for the scheme, meeting its objective of an emergency market intervention. But they would incentivise participating firms to take stronger action on reducing their reliance on fossil energy, and thus decreasing the need for similar support by the public balance sheet in the future.

More significantly, the Treasury and the Bank, having just committed £40bn to potentially bailing out the failing fossil-dependent energy market, must equally commit to establishing a financing facility to drive the UK's transition away from fossil fuels. Upon the end of the emergency liquidity support phase, the Treasury should repurpose the EMFS. It should be repurposed as a Clean Energy Financing Scheme (CEFS), providing financing on advantageous terms for energy firms to speed up their transition to clean energy, including investments in energy storage and grid capacity as relevant.

Signed,

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