



Department for
Energy Security
& Net Zero

Dame Meg Hillier
Chair of the Committee of Public Account
House of Commons
London
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[by email]

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Dear Dame Meg

RE: Recommendation 1: Investment Strategy of the Nuclear Liabilities Fund Limited (NLF)

Following the publication of the Committee's report into the future of the Advanced Gas-cooled Reactor (AGR) fleet on 20 May 2022, we are writing to provide an update on the report's outstanding recommendation - #1. This follows the letter the Department for Energy Security and Net Zero sent to you on 27 July 2023 updating on the other recommendations of the report.

The Committee recommended that HM Treasury and the Department, working with NLF, write to the Committee setting out the fund's investment strategy and the extent to which this will avoid future taxpayer support. Officials have considered the appropriateness of the current investment strategy including the impact of changes in interest rates.

The Nuclear Liabilities Fund (NLF) is a segregated fund dedicated to meet the decommissioning liabilities of eight EDF-owned nuclear power stations (five still operating and three closed) up to 2125. As reported in the NLF's 2022 annual report (the 2023 annual report is still under development), the fund currently has c.£20.6 billion of investments and £24.7bn of estimated liabilities.

The approach for decommissioning the AGR stations is split into three phases. First, the fuel is removed, and the reactor is secured. Secondly, lightly contaminated structures are demolished and removed, effectively leaving just the reactor. This stage may also involve placing the station into a state of safe storage to allow for a period of 'care and maintenance' which could last several decades, before the third stage involving removal of the reactor core and final site remediation.

That £24.7bn estimate of liabilities is made up of c.£5.2bn for the cost of defueling the AGR stations, c.£12.6bn relating to the cost of the subsequent decommissioning of the AGR stations (deconstruction of the buildings post-defueling), with the residual c.£6.9bn covering liabilities that will continue to be managed by EDF in relation to the Sizewell B station.

With respect to the £20.6 bn of investments, as of 31 March 2022, 83% of these assets were held in the lower risk National Loans Fund and 17% in the higher returning Mixed Asset Portfolio (MAP). Cash in the National Loans Fund can be accessed at short notice. It is used to meet the current and shorter-term payments.

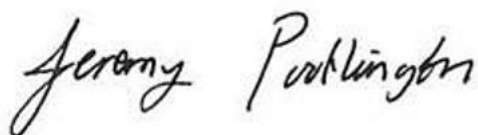
The NLF investment strategy reflects when payments are needed for this approach to decommissioning. Specifically, the strategy reflects the need to have certainty of short to medium term funding to pay EDF Energy for defueling and early decommissioning costs. Having these paid from the liquid National Loans Fund allows the Mixed Asset Portfolio to utilise the “illiquidity premium” of investing for the long-term. The current 80/20 split of the fund is forecast to be 50/50 by the mid-2030s. The current forecast growth of the MAP is targeted toward ensuring the fund being sufficient to fully meet the tail of costs associated with the third stage of decommissioning the AGR stations, which as noted above may be several decades after the initial stages.

The fund is performing well. The MAP has been outperforming its benchmark on a three yearly basis mainly due to strong performance from the illiquid assets in the portfolio. It should be acknowledged that these are relatively early days, and we should not expect smooth returns throughout the MAP’s hundred-year life. The increase in short term interest rates is proving to greatly improve returns from the National Loans Fund, counter-balancing the effects of the recent sharp rise in inflation. Investments in the illiquid portion of the MAP, such as infrastructure investments also offer some degree of protection against inflation. NLF works with its’ advisors to review the investment strategy regularly, balancing risk and return.

NLF reviews sufficiency of the fund on an annual basis. The fund is not expected to require a further top up in 2023 from HMT. There are several factors which impact this including, but not limited to, investment performance, inflation, liability assumptions and any changes to tax rates.

HMT continues to consider the appropriateness of the NLF as a mechanism to fund nuclear liabilities given the government’s overall principles for balance sheet management, and its general approach to not pre-fund liabilities that fall entirely to taxpayers. Any proposal to modify the structure of the NLF would require the agreement of the trustees, who legally control the investments in the Fund. There would be value for money issues to consider, including the timing and cost of liquidating any more illiquid assets.

Yours sincerely,



Jeremy Pocklington



James Bowler CB