Department for Business, Energy & Industrial Strategy

The Rt Hon Greg Hands MP
Minister of State for Energy, Clean Growth and Climate Change

Department for Business, Energy & Industrial Strategy
1 Victoria Street
London
SW1H 0ET

T +44 (0) 20 7215 5000
E enquiries@beis.gov.uk
W www.gov.uk

Darren Jones MP
Business, Energy and Industrial Strategy Committee
House of Commons
London
SW1A 0AA

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Dear Darren,

I am writing today regarding the introduction of the Nuclear Energy (Financing) Bill.

The UK has set world-leading targets for decarbonisation. To achieve these, it will be vital to secure the transition to a clean, reliable and affordable electricity system. This will require a substantial deployment of renewables, bolstered by other low-carbon technologies. We have made tremendous progress since 2010 with the amount of renewables quadrupling and this year we have the biggest ever auction for new renewables bolstering British industry and creating thousands of good jobs.

Large scale nuclear power is currently the only technology we have to provide continuous, low carbon electricity. Nuclear also has a key role to play as we reduce our reliance on fossil fuels and exposure to volatile global gas prices. New nuclear projects are also important sources of prosperity for the whole country, as demonstrated by the impact of Hinkley Point C which has already created well over 10,000 jobs opportunities.

However, 12 of the UK's 13 current nuclear reactors are scheduled to close by 2030. New capacity is therefore urgently needed. This is why we have introduced legislation to establish a Regulated Asset Base (RAB) model as a funding option for new nuclear projects, as well as tackling other obstacles to private investment.

Under the existing mechanism to support new nuclear projects – the Contracts for Difference scheme – developers have to finance the construction of a nuclear project and only begin receiving revenue when the station starts generating electricity. This led to the cancellation of recent potential projects, such as Hitachi's project at Wylfa Newydd in Wales and Toshiba's at Moorside in Cumbria.

The RAB model will ensure that new nuclear can be financed by British pension funds and institutional investors. This will reduce our reliance on overseas developers for financing new nuclear projects, by substantially increasing the pool of private investors to include British pension funds, insurers and other institutional investors. This is a tried and tested method that successfully financed other infrastructure projects.

The legislation is generic and could be applied to projects across Great Britain. We are currently in negotiation with EDF over the Sizewell C project in Suffolk, but the RAB could also open up opportunities for British companies and our closest partners to develop new projects and technologies, including the Wylfa site and Small Modular Reactors.

The Bill contains three key elements:

RAB model
Under the RAB model we intend to introduce, a nuclear company will receive payments funded by electricity suppliers (and ultimately consumers) in relation to the construction and operation of a new nuclear power station.

The legislation will enable the Secretary of State to designate a company to benefit from a RAB model with respect to its proposed nuclear project, provided that it satisfies certain criteria. This will empower the Secretary of State to insert new conditions into the company's electricity generation licence (and make modifications to the licence terms). Among other things, these will permit the company to receive a regulated revenue in respect of the design, construction, commissioning, and operation of the nuclear project. The legislation will ensure that Ofgem, as the economic regulator, has the information and powers that it needs to regulate a nuclear project benefitting from the RAB model. The regulatory regime will be designed to incentivise investors to manage costs and project delivery.

Special Administration Regime
The RAB model requires consumers to fund any RAB-designated infrastructure project from the start of construction, thus reducing the project's cost of capital. To protect the interests of consumers, the legislation will introduce a Special Administration Regime to apply to nuclear RAB projects.

This will mean that, in the very unlikely event of a company's insolvency, the Secretary of State, or the Gas and Electricity Markets Authority with the Secretary of State's permission, would be able to apply to the courts for the appointment of a nuclear RAB administrator whose objective would be to complete construction and/or keep the plant running.

Implementing a SAR is intended to reduce the risk of consumers being deprived of the benefits from financing the building of a nuclear power plant using a RAB model. It also reduces the risk of insolvency requiring a replacement source of electricity generation, which would further increase the cost of electricity to consumers.

Funded Decommissioning Programme
Prospective operators of nuclear power stations are obliged to submit a funded decommissioning programme (FDP) setting out the site operator's costed plans for dealing with its future liabilities in relation to decommissioning, waste management and waste disposal, and how the operator will make financial provision to meet those liabilities.

Currently, through the Energy Act 2008, the Secretary of State has the power to make modifications to an FDP to impose obligations on bodies corporate which are "associated" with the site operator.

We believe that the original intention of this was to provide the Secretary of State with flexibility to impose FDP obligations on entities who would be expected to have a substantial degree of influence over the operator's normal activities. Given that secured creditors and security trustees would not be expected to hold this relationship with respect to an operator, the Bill makes clear that their activities connected to the holding and enforcement of certain security rights should not be caught by the definition of being 'associated' with a site operator. Making this change would help to bring senior debt investors into a RAB project.

Lowering consumer bills
The RAB model will require consumers to pay a small amount on their bills during the construction of a nuclear project. These payments will avoid the build-up of interest on loans that would ultimately lead to higher costs to consumers once the plant is in operation. The government aims to reach a Final Investment Decision on one large scale plant this Parliament. A project starting construction in 2023 will at most add a few pounds to typical consumer bills during this Parliament and on average less than £1 per month during the full construction phase of the project.

However, ultimately having nuclear power will deliver an electricity system that is lower cost for consumers than if we relied on intermittent power sources alone. The RAB model will also make new nuclear projects cheaper. Our analysis has shown that using the RAB model could produce a cost saving for consumers of between £30bn and £80bn compared to funding it through a Contracts for Difference scheme. This equates to saving of more than £10 per year for an average domestic dual fuel bill throughout the life of the nuclear power station, which can operate for 60 years.

I hope you will support this important Bill. I would be pleased to meet with you to discuss this legislation and the future of the industry more broadly.

Yours sincerely,

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