



Department for Business, Energy & Industrial Strategy

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

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Dear Dame Meg,

Following the publication of the Committee's report into the future of the Advanced Gas-cooled Reactor (AGR) fleet, I am pleased to enclose further information below with respect to Recommendations 5 and 7 of the report, regarding the effectiveness of both the incentivisation arrangements under the revised funding agreement, as well as BEIS oversight function in respect of this programme. I also enclose further details regarding discussion on the inclusion of the programme on the Government Major Projects Portfolio (GMPP).

Incentivisation Arrangements and their effectiveness

The revised Advanced Gas-Cooled Reactor (AGR) decommissioning arrangements agreed with EDF in 2021 aim to provide cost savings for the taxpayer (via the Nuclear Liabilities Fund (NLF) a segregated fund established to meet the decommissioning liabilities of the AGRs and Sizewell B, underwritten by the taxpayer), and stability for EDF in terms of its planning horizon for the stations. The incentive structures, which include the potential of up to £100m of upside reward payments or alternatively £100m of contra charges based on performance, better align EDF's interests with those of the NLF. Alongside EDF incentivisation mechanisms within the contract, BEIS has other contractual levers, including early "acceleration" of transfer of the stations to Magnox in a worst-case scenario. NDA/Magnox are also incentivised reputationally to work collaboratively and effectively together to deliver successful transfer and decommissioning.

The incentivisation mechanisms, though critical in terms of aligning delivery partner interests, are one part of the changes made by the revised arrangements last year. The revisions also removed some of the impediments to EDF's investment in defueling, mitigating the risk of dispute, providing certainty over roles and responsibilities, enhancing exiting strong cooperation between EDF and NDA and providing that deconstruction post-defueling will be managed by Magnox to maximise synergies. The revisions also included new EDF quarterly performance reporting against agreed indicators and annual appraisal at CEO and BEIS Permanent Secretary level (further details below).

Schedules within the revised AGR funding agreements themselves contain agreed station cost targets and delivery milestones, and mandatory key performance indicators for EDF.

These are subject to regular review to ensure they are fit for purpose. BEIS's scrutiny and approval of EDF's cost claims is undertaken by the NLA (Non-NDA Liabilities Assurance) team, a segregated team within the NDA which acts as BEIS's agent in challenging and reviewing EDF's decommissioning strategies, plans and associated costs in accordance with the contract, and monitors EDF's performance against the KPIs set for defueling and transfer.

The NLA has been performing its role as BEIS's agent under the funding agreement since before EDF purchased British Energy in 2009. They are a highly experienced, qualified, and capable team and draw on wider NDA expertise as required whilst maintaining appropriate ethical walls.

In terms of incentivisation arrangements and performance monitoring, the contract requires a quarterly assessment of EDF's performance (the Quarterly Performance Assessment) which obligates EDF to report against anticipated defueling outcomes as agreed during restatement of the funding arrangement.

This contractual meeting is chaired by NLA, and BEIS attends these quarterly performance reviews of EDF's progress towards the successful transfer using performance dashboards, including performance fleetwide and by station. These include discussions on the funding agreement, integrated plan and incentivisation, including consideration of the set targets for individual stations.

In the case of systemic underperformance in defueling by EDF, BEIS will have the right (but not the obligation) to accelerate the transfer of station or stations in certain prescribed circumstances. The circumstances are; EDF defueling underperformance which is systemic, insolvency or revocation of the relevant site licence. If an Acceleration Event has been triggered, BEIS will have the unilateral right (but not the obligation) to accelerate the transfer of one or more stations, or the remaining fleet, to the NDA to complete the defueling.

It is expected that acceleration would have a significant impact on both EDF and the NDA and could increase risks associated with the decommissioning programme. As such, the parties acknowledge that acceleration rights will only be triggered in exceptional situations and following consultation with the NDA.

To ensure that all parties are working effectively and collaboratively, senior strategic challenge is also provided by BEIS through other forums and reviews which monitor the impact of the incentive on delivery. BEIS chairs three senior forums under the cooperation MoU, focussed on defueling; strategic alignment; and preparation for seamless transfer:

- Most of the incentive for EDF relates to defueling performance on both a fleet-wide and station-by-station basis. A regular Advanced Gas-Cooled Reactor Operating Plan (AGROP) Defueling Steering Panel (DSP) forum chaired by BEIS discusses risks, threats and opportunities to the defueling mission, and reviews defueling performance metrics with input from EDF and NDA, alongside critical partners in the NDA orbit (Magnox as future station purchaser, Sellafield as the recipient of AGR spent fuel, and Nuclear Transport Solutions (NTS) as the entity responsible for flask

shipments to and from stations.) The National Audit Office (NAO) noted the effectiveness of these existing arrangements

- A Senior Alignment Panel (SAP), also chaired by BEIS, forms a similar function with regard to preparation for EDF/NDA's strategic alignment leading up to the point of transfer, as well as preparation for seamless transfer of the stations.
- The Permanent Secretary also chairs an annual review of cooperation between parties and on wider performance across the programme between EDF and NDA, with attendance from EDF, NDA, Magnox, and the Nuclear Liabilities Fund (NLF) at CEO level.

Effectiveness of BEIS oversight, including assurance measures and future plans

As noted above, monitoring, reporting, and assurance processes and structures were put into place following the agreement of the revised AGR defueling and decommissioning arrangements with EDF and the NDA, alongside other delivery partners. This governance structure is in addition to the reporting mechanisms internally and at working level that exist within EDF, NDA, Magnox, Sellafield, and NTS, as well as cross-cutting assurance processes, involving multiple parties.

BEIS recently coordinated a review, led by an external major project expert, regarding the effectiveness of cooperation between parties (particularly EDF and NDA) under the revised arrangements and approaching station transfer, to better understand the effectiveness of the cooperation framework document and also to understand the effectiveness of BEIS oversight within the programme.

The effectiveness of cooperation under the framework document has been noted as "Green-Amber" and that relationships are strong and effective. The review also noted that the scale of the challenge leading up to the transfer of the stations is significant, and that effectiveness of cooperation should be evaluated again in 12 months (as opposed to within three years as previously planned). The review noted that although currently there appears to be strong relationships at the senior level which allow BEIS to make sufficient impact, it is likely that the scale of the challenge leading up to transfer and into delivery will require BEIS to change the depth and breadth of their oversight role. BEIS accepted these recommendations and will be reviewing the effectiveness of ongoing cooperation within 12 months.

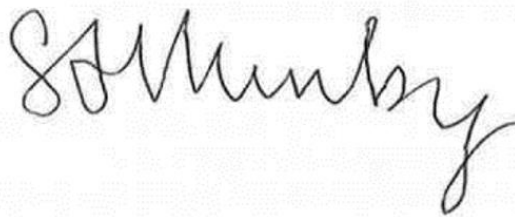
Inclusion of AGR defueling on Government Major Projects Portfolio (GMPP)

BEIS is considering the inclusion of AGR decommissioning on the GMPP and will be working with NDA/Magnox regarding how this can be brought forward under a broader Magnox Programme. These considerations include how to manage the accountability that would be required from a 'senior responsible owner' (SRO) for this programme of work and the usual requirements from this role of a need to have clear control over budget and programme governance. As part of this we are considering how to best adapt the

performance management mechanisms set out above to the role of a programme SRO, specifically whilst the stations are being defueled, during which period EDF remains the station owner and commercial operations. We will want to ensure that any change in the programme oversight processes continues to drive the same oversight tensions and benefits that would be expected in a public sector delivered model and maintains the level of scrutiny that the existing processes provide. BEIS has had initial discussions and input from the Infrastructure and Projects Authority (IPA) on this issue and in line with the commitment to review the management arrangements within 12 months of the recent review, we will look to conclude the consideration of the inclusion on the GMPP. In the interim we will report key transition risks and mitigations to Cabinet Office. This will include transfer metrics agreed for each station.

I hope the information provided above is helpful.

Kind regards,

A handwritten signature in black ink, reading "Sarah Munby". The signature is written in a cursive, flowing style. The first name "Sarah" is written in a larger, more prominent script, and "Munby" follows in a similar but slightly smaller script. The signature is positioned in the center of the page, below the "Kind regards," text.

Sarah Munby