



Department for Business, Energy & Industrial Strategy

Dame Meg Hillier
Chair of the Committee of Public Accounts
House of Commons
London
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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 Recommendation 3 of the report, regarding learning lessons from the approach on the AGRs when considering how the decommissioning of new nuclear stations will be funded, namely Hinkley Point C, as well as current proposals with regard to Small Modular Reactors.

Funding decommissioning liabilities in new nuclear

As discussed in the department's initial response, the approach to both the construction and decommissioning of nuclear reactors has progressed substantially since the development of the first and second generation, Magnox and AGR, nuclear power stations in the UK. We have learned lessons both in needing to construct stations with decommissioning in mind and the need adequately to fund that decommissioning.

Government policy is that new nuclear power stations' operators must have adequate financing arrangements in place to meet the full costs of decommissioning, waste management and disposal.

The Energy Act 2008 requires prospective operators of new nuclear power stations to prepare and submit to the Secretary of State a Funded Decommissioning Programme (FDP) which must be approved by the Secretary of State before nuclear related construction can begin.

The FDP must make prudent provision for the full costs of decommissioning of the installation and their full share of the costs of safely and securely managing and disposing of the associated waste.

The specific design of the FDP arrangement is flexible and up to the operator, but it must meet the requirements of the Energy Act 2008, in addition to BEIS guidance (published in 2011) and methodology for determining the cost of nuclear waste management.

In terms of projecting and meeting the costs of decommissioning, the FDP documentation structure consists of a Decommissioning and Waste Management Plan (DWMP) which estimates the costs likely to be incurred in connection with the designated technical matters and a Funding Arrangements Plan (FAP), which sets out how the financing of the designated matters will be achieved.

There is a robust framework of requirements in place to ensure the operator complies with the approved FDP. Statutory guidance sets out how the prospective operator of a new nuclear power plant must make adequate financial provision within their FDP.

To monitor compliance, the operator is required to report on the performance of the FDP on an annual and quinquennial basis. The operator's cost estimates must be independently verified on a recurrent basis.

These plans and cost estimates will be regularly reviewed and updated as necessary over the lifetime of the power station. If the estimated cost increases, the operator would be expected to pay more into their fund to ensure that prudent provision is made to meet their liabilities.

The Regulated Asset Base (RAB) model contained within the Nuclear Energy Financing Act 2022 will operate alongside Funded Decommissioning Plan (FDP) arrangements. Under the proposed RAB model, decommissioning financing costs would be a building block within the regulated Allowed Revenue to which operators will be entitled during commissioning and operation.

Hinkley Point C

For the Hinkley Point C development, the FDP was conditionally approved in October 2015. The cost was estimated to be £7.1bn (in 2012 values) and accounted for approximately £2 per MWh (~2%) of the strike price (£92.50).

The Nuclear New Build Generation Company submitted an FDP in respect of the new nuclear power station Hinkley Point C in 2012. The FDP will ensure that the developer will meet the plant's decommissioning costs and the costs of managing and disposing of its waste to make sure that the taxpayer does not have to bear the burden of these costs in future. Waste and decommissioning costs for Hinkley Point C have been accounted for in the Strike Price and the operator will pay a higher proportion of the Strike Price into their FDP fund if costs go up. The funding arrangements plan can be found on the Gov website (<https://www.gov.uk/government/publications/hinkley-point-c-funded-decommissioning-programme>).

The NDA were asked by HMG to assess the Decommissioning and Waste Management Plan (DWMP) component of the FDP produced by EDF in 2014. The NDA assessment concluded that the decommissioning cost estimates produced were robust.

The next version of the DWMP is expected to be produced in 2024 before any fuel is loaded into the new station. It is anticipated that the NDA will also be asked to review this version of the document.

Small Modular Reactors

Advanced Nuclear Technologies will form a critical piece of the UK energy mix going forward. Small Modular Reactors (SMRs) are potentially less expensive to build, and quicker to deploy, than traditional nuclear power plants because of their smaller size, factory based modular build and more flexible deployment options. Any prospective operators of SMRs will also be required to prepare and submit a Funded Decommissioning Programme (FDP) for approval by the Secretary of State before nuclear related construction can begin.

As announced in the British Energy and Security Strategy (BESS), the Government's ambition is to have deployed up to 24GW of civil nuclear power by 2050, meeting around 25% of our projected 2050 electricity demand. BESS sets our intention to take one project to Final Investment Decision (FID) this Parliament and two projects to FID in the next Parliament, including SMRs. As with any Government decision, this will be subject to value for money, relevant approvals, and technology readiness/maturity.

The Ten Point Plan for a Green Industrial Revolution set a target milestone to deploy SMRs in the UK by the early 2030s. In November 2021, we awarded up to £210 million to Rolls-Royce SMR Ltd to develop further their design for one of the world's first Small Modular Reactors. Funding for this project is being matched by private investment.

I hope the information provided above is helpful.

Kind regards,

A handwritten signature in black ink, reading 'Sarah Munby'.

Sarah Munby