

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Third Delegated Legislation Committee

DRAFT NUCLEAR REGULATED ASSET
BASE MODEL (REVENUE COLLECTION)
REGULATIONS 2023

Monday 6 February 2023

No proofs can be supplied. Corrections that Members suggest for the final version of the report should be clearly marked in a copy of the report—not telephoned—and must be received in the Editor’s Room, House of Commons,

not later than

Friday 10 February 2023

© Parliamentary Copyright House of Commons 2023

This publication may be reproduced under the terms of the Open Parliament licence, which is published at www.parliament.uk/site-information/copyright/.

The Committee consisted of the following Members:

Chair: DAME CAROLINE DINENAGE

Allan, Lucy (*Telford*) (Con)

† Brown, Alan (*Kilmarnock and Loudoun*) (SNP)

Byrne, Ian (*Liverpool, West Derby*) (Lab)

† Duddridge, Sir James (*Rochford and Southend East*) (Con)

† Evans, Dr Luke (*Bosworth*) (Con)

Hollern, Kate (*Blackburn*) (Lab)

† Maclean, Rachel (*Redditch*) (Con)

† Moore, Robbie (*Keighley*) (Con)

† Morden, Jessica (*Newport East*) (Lab)

† Morrissey, Joy (*Beaconsfield*) (Con)

† Nici, Lia (*Great Grimsby*) (Con)

Sheerman, Mr Barry (*Huddersfield*) (Lab/Co-op)

† Smith, Cat (*Lancaster and Fleetwood*) (Lab)

† Smith, Henry (*Crawley*) (Con)

† Stuart, Graham (*Minister for Energy and Climate*)

† Thomas, Derek (*St Ives*) (Con)

† Whitehead, Dr Alan (*Southampton, Test*) (Lab)

Dominic Stockbridge, *Committee Clerk*

† **attended the Committee**

Third Delegated Legislation Committee

Monday 6 February 2023

[DAME CAROLINE DINENAGE *in the Chair*]

Draft Nuclear Regulated Asset Base Model (Revenue Collection) Regulations 2023

6 pm

The Minister for Energy and Climate (Graham Stuart): I beg to move,

That the Committee has considered the draft Nuclear Regulated Asset Base Model (Revenue Collection) Regulations 2023.

It is a great privilege to speak under your chairmanship, Dame Caroline. The regulations were laid before the House on 15 December 2022. On 31 March last year, following constructive debates and wide support in the House, the Nuclear Energy (Financing) Act 2022 received Royal Assent. The Act provides the legislative framework to implement a regulated asset base—or RAB—funding model to support the financing of new nuclear technologies.

Since the passage of that legislation, the Government have taken the historic step of investing in Sizewell C—our first investment in a nuclear project for 35 years—and designated it as the first project to use the RAB funding model. The regulations implement the legislative framework behind the RAB revenue stream. Although they are not specific to Sizewell C, approving the draft instrument is a further step towards establishing a model that could support the development of the Sizewell C project and multiple nuclear projects in the future. That will ultimately contribute to a resilient, affordable and low-carbon electricity system, helping us to achieve our net zero ambitions and providing energy security for the British people.

Let me set out the legislative framework for how the RAB revenue stream will operate. Once a nuclear company has been designated for the purposes of the 2022 Act by the Secretary of State, the Secretary of State is empowered to modify the company's electricity generation licence to incorporate RAB terms and conditions, permitting it to receive regulated revenue overseen by Ofgem, the regulatory authority. That revenue will cover activities in respect of the design, construction, commissioning and operation of the project, and activities pursuant to an approved funded decommissioning programme.

The company's revenues will be funded in part by levies on all licensed electricity suppliers in Great Britain, which may choose to pass those costs to their consumers. As we discussed during the passage of the 2022 Act, the use of a RAB funding model can help to drive down the overall cost of new nuclear projects for consumers. In accordance with section 18 of the Act and subject to relevant Government approvals, including in respect of value for money, the Secretary of State will direct the revenue collection counterparty to offer to contract with a nuclear company. The revenue collection contract terms will be negotiated with the Government for each project.

Alan Brown (Kilmarnock and Loudoun) (SNP): The Minister said that the RAB model could be cheaper for delivering nuclear compared with a strike-rate model. Paragraph 18 of the impact assessment says it is estimated that it could save

“between £30bn and £80bn in present value terms compared with a CFD.”

Does that mean that, by default, the Government are saying that Hinkley has wasted between £30 and £80 billion—money that could have been saved on our bills?

Graham Stuart: As the hon. Gentleman will know, Hinkley was done on a different basis, with a strike price that was agreed with EDF Energy, CGN Europe Energy and others. It is completely different. I would have thought the hon. Gentleman knew that, with the close interest that he takes in knocking nuclear at every effort without ever reading the science or seeing the importance of nuclear to delivering the net zero future that we all hope for.

Alan Brown: Will the Minister give way?

Graham Stuart: I will make a little more progress, if I may.

Once the nuclear company accepts the offer and the revenue collection contract is entered into, the draft regulations will establish the mechanism for electricity suppliers to make payments to the revenue collection counterparty, so that it can pay amounts owed to the nuclear company. The revenue collection counterparty can also return money to suppliers, hold sums in reserve and cover its losses through requiring suppliers to post collateral and undergo a payment mutualisation process in the event of supplier default.

The regulations also set out arrangements for the collection of a levy from suppliers to pay for the counterparty's operating costs. In developing the regulations, we sought to replicate the revenue mechanics under the legislative framework for contracts for difference, with differences to account for the specific features of the RAB model. This is because the revenue stream for CfDs was designed with similar considerations in mind to the nuclear RAB revenue stream—that is, incentivising private sector investment in low-carbon electricity, which I hope we all devoutly wish for. More significantly, the regulations will put in place a recognised and reliable revenue model that investors and electricity suppliers are familiar with, which we anticipate will minimise the impacts of introducing such measures on suppliers and their consumers.

Alan Brown: Will the Minister give an example of where a RAB model has worked successfully for the delivery of a new nuclear power station?

Graham Stuart: I will wait for historic refreshment, if such there is, although I am sure the hon. Gentleman recognises that the RAB model is designed to ensure that, given the capital requirements and intensity, it lowers the cost of capital, thereby making the investment more desirable, which it does by sharing some of the risks. Our calculation is that it therefore leads to a lower cost to the public purse in the long term.

The draft regulations have been informed by a full public consultation—undertaken last year between 14 June and 9 August—which sought views on the proposals to replicated the CfD framework and the various differences needed for the RAB model. We received 40 responses from organisations and members of the public, who were, for the most part, supportive of the proposals.

During the passage of the Act, Members of this House and the other place raised some concerns in respect of which I hope I can offer suitable reassurance. Perhaps most important were the concerns about the potential impacts of RAB levies on consumers. Through our consultation, we sought views on the inclusion of measures to prevent suppliers from passing on the costs to vulnerable consumers. Having considered the responses, we remain of the view that it would be better to mitigate potential impacts on vulnerable consumers through holistic measures that deal with people's overall energy bills, rather than tying actions to these regulations specifically. We do not believe this is the appropriate point in the process to bring in measures to protect vulnerable consumers.

Dr Alan Whitehead (Southampton, Test) (Lab): By mentioning “holistic” arrangements, the Minister gives me the opportunity to ask one of my questions now rather than later. What on earth does that mean? What are the Government proposing to do with their holistic examination of measures across the board, rather than going through the regulations? If they are going to do a holistic examination, will that have any impact on anyone in particular, and will it be publicised?

Graham Stuart: Like the hon. Gentleman, when I hear the word holistic it tends to get my nose twitching. To use other language, the point is that this is not the appropriate moment to address that. However, as the hon. Gentleman well knows, we are consulting and will come forward with a new system to protect vulnerable consumers from April 2024 onwards. We feel that it is elsewhere in the overall energy system that we are best able to intervene to protect vulnerable customers from such costs, or indeed other costs in the system, whereas to come in specifically at each structure we set up to encourage generation would create a system that is over-complex and might, through that complexity, not deliver in the way that both he and I would wish to protect the most vulnerable.

Relevant measures include those recently announced in the November autumn statement—this is where I fill out the hon. Gentleman's holistic insight—such as the cost of living payments to households on means-tested benefits and for pensioners, not to mention the £37 billion of Government support for the cost of living previously announced in 2022. I hope this is getting more and more holistic for the hon. Gentleman.

Members should be reassured that the likely impact on household bills because of the nuclear RAB would be low. We have estimated that for a generic project approved in this Parliament, it would cost each typical household dual-fuel bill approximately £1 a month on average during the construction phase. I believe, given the scale of this project, that that is proportionate, given the benefits nuclear offers for our electricity mix. Ultimately, by having nuclear power we will deliver a lower-cost system for consumers than if we relied on intermittent, low-carbon power sources alone.

To touch briefly on scope, the regulations will not apply to suppliers in Northern Ireland.

Alan Brown *rose*—

Graham Stuart: I will give the hon. Gentleman one more opportunity to justify his clearly unreasonable opposition to nuclear, even when it offers a clean, net zero-compliant future and lower bills for people up and down the country, including in Scotland.

Alan Brown: I thank the Minister for giving way. If he bides his time, I will give him plenty more about my opposition to nuclear. He was talking about estimating the impact on bills of the RAB construction period, and he obviously estimated that that would not cost billpayers much. Is it not the case that the Government do not even know how much a new nuclear power station will cost? In the documents accompanying the regulations, it says they have commissioned a consultant to provide up-to-date estimates of the true cost of nuclear.

Graham Stuart: I thank the hon. Gentleman for his question. As I have shared with the Committee, we expect that the cost would be around that level of £1. That should provide reassurance. For those who have an ideological opposition to nuclear, there are no numbers that would provide reassurance. We have those who are on the side of science on the one side and those on the side of ideology on the other, and it is quite clear where the hon. Gentleman sits.

The regulations provide the Government with a unique opportunity to deliver a number of benefits, helping us to create a resilient, low-carbon energy system, delivering value for money for consumers and creating thousands of well-paid jobs across the country. I commend the regulations to the Committee.

6.11 pm

Dr Whitehead: It is a pleasure to serve under the chairmanship of my near constituency neighbour and central south co-ordinator, Dame Caroline.

We are not talking about the principle of RAB this evening, because we discussed that at some length in our deliberations on the Nuclear Energy (Financing) Bill—or the 2022 Act, as it now is. Some Members will recall that at the time I had considerable reservations about not necessarily RAB in its entirety, but how it would actually operate in the context of a really large, complex, long-lived project in a way that had not been tried before. Even when programmes have been tried before, such as the Thames Tideway project, they were about raising money for a project that is finished and done and that is the end of it. In this instance, we are committing ourselves to provide support over not just the construction phase but the operational phase and most of the life of the project. In addition, we are putting in a mechanism that will be funded—sort of—through the RAB mechanism for the low-carbon contracts company administering the project. Perhaps I shall say more on that in a moment.

The big issue in all this is with the complicated, long-term and expensive scheme. As the Minister said, the RAB method essentially does not exactly share the risk of the project but puts most of it on the customer.

[Dr Whitehead]

Effectively, the customer underwrites a lot, and not just the cost. Indeed, the theory goes that if the customer underwriting is well spent, well sorted out and known to be reliable, it can reduce the cost of capital and the outcome of the project in the price that customers eventually pay for energy, if all goes really well. If things do not go so well—this is one of the things discussed in the deliberations on the 2022 Act—the customer can pay a huge amount of money to deal with cost overruns, the possible cancellation of the project and all those sorts of things.

Some of the issues were addressed at the time in amendments to the Bill, but others remain a considerable risk for the customer over a long period of time. This statutory instrument is about putting the scheme in place so that it runs for the whole course of the project and runs, we hope, as well as it possibly can in terms of making all those things work. It does not actually add anything to the customer protections that a number of us asked about at the time of the 2022 Act and continue to question now.

The issue that is related to that and that the Minister has mentioned this afternoon is that the RAB proposal as we discussed it—so I understood—in the deliberations on the Bill was about, shall we say, getting a way of supporting one particular nuclear power station, namely Sizewell C. It was pretty much designed for that particular purpose. Indeed, most of the material relating to impact assessments and so on related to the RAB scheme as it applied to Sizewell C, and that has been carried through in, among other things, the impact assessment relating to this SI, which says, among other things:

“The illustrative modelling assessing the opportunity cost of the reserve fund and collateral is based on the potential impacts of one new large-scale nuclear power plant built using the RAB model.”

However, the Minister has characterised this model as one that can be applied to the new generation of nuclear power stations, a fleet that the Government have already said—for example, in the energy security policy paper—is their ambition for the future. But we have nothing in the impact assessment, which has ducked the issue, and we have had no further discussion on the impact that a number of new nuclear power stations—perhaps having a long-run RAB behind them—all at the same time would have on customer bills overall.

The Minister said that he thinks the cost of the RAB would be about £1 on customer bills. I do not in any way want to suggest that the Minister has not put the entire picture to us, but as I understand it the cost of £1 is at the beginning of the curve of the RAB process as it goes through the entire construction and operational life of that particular power plant. The £1 cost is only the cost at the very beginning of that process, when we are just beginning to get the construction phase under way. A cost of at least £10 and probably much higher than that—indeed, £10 was a figure put forward by the promoters of Sizewell C—would be the more likely level on bills as the construction phase came to an end and the operational phase began. Then, over a long period of time, that might degrade.

It is at least £10 and perhaps more like £20, so it is important that we put the record straight on what the customer cost is likely to be from this project alone, let

alone from other projects that may come up in future. Of course, that £10 per annum is based on the project going well and there being no overruns, no possible cancellations and so on; it could be a lot higher, so it is very important that we keep a very close eye on what the customer cost will be over the period as far as the RAB is concerned. Will the Minister comment on that when he responds?

I note that, as the Minister has also said, the mechanism of the RAB's operation is akin in many ways to, but not quite the same as, contracts for difference. Of course contracts for difference are managed, in terms of the levy that is collected to pay the people who are constructing and running facilities—mainly wind—by the Low Carbon Contracts Company, which is the company in the middle of the whole process, as it were; it collects the money and disburses it.

At the moment, the LCCC has rather an issue with the fact that the inversion between strike price and reference price means that it finds itself sitting on a huge pile of money. By the way, that is a good thing; it is a good way of CfDs working if money comes back to the LCCC when the relationship between the strike and reference prices is inverted. However, does that money sit in LCCC's reserves, or does it go back to customers? In this instance, there is a suggestion that the extra money should go back to customers, but there is no mechanism to allow that to happen. There is a suggestion that the money goes back to the supply companies that have been levied to raise the money for the CfDs in the first place, but there is no requirement for those supply companies to pass the money on to customers.

The reason I raise that is because it is more than possible that a similar situation could arise with the Low Carbon Contracts Company in the event that the cost of projects at various stages is less than has been budgeted for. Under those circumstances, the LCCC, being the agent for the collection of the levy for RAB and the dispersal to the Sizewell C company, in this instance, could find itself sitting on large surpluses. There is no mechanism in regulations to cover how those surpluses should be judged, such as if they should be considered as something on account. If the surpluses are deemed not to be on account, what happens to them? Does the Low Carbon Contracts Company just sit on customers' money, rather than handing it back to them, even though there is a surplus, or does it have an obligation to hand it back? I would be grateful for the Minister's comment on that potential problem; I am not saying that that will necessarily occur, but it is a distinctly possible.

Graham Stuart: It is highly unlikely.

Dr Whitehead: Well, just two years ago we thought it was highly unlikely that the LCCC would be giving away £1.4 billion with CfDs, so there we are.

On the subject of the LCCC, we have observed something that the Minister did not really give prominence to: we are actually talking about two levies. There is a support levy and an operational cost levy, both of which are separate—they are calculated as separate—but collected by the LCCC.

The interesting thing about the operational levy is that it is effectively collected by the LCCC to pay itself. The pay under the operational levy is by no means minimal; indeed, the impact assessment puts it as rising

to about £700 million a year by 2024-25. That is an LCCC estimate, but it is the cost that the LCCC will recover through the operational levy, which the company itself sets.

There appears to be a bit of solipsism at work. The LCCC seems to be responsible for deciding what it will collect, for collecting it, and then for deciding on the next levy and so on. What regulation will be in place to ensure that the operational levy is collected in a reasonable manner, providing for reasonable operational costs, rather than being a subjective levy on the basis of what the LCCC thinks it is going to do?

Alan Brown: The shadow Minister is right to highlight the strange position that has been established. Was he as surprised as I was that the estimated payroll costs for this financial year—2022-23—are £400,000, with a total spend of £560,000, as we debate these regulations today in February 2023?

Dr Whitehead: I thank the hon. Gentleman for that intervention; he is quite right to be a little surprised about that. This might be what is called anticipatory investment—the LCCC giving itself a lot of expenditure and, indeed, collecting it back, in advance of determining what its work will actually consist of. I understand that, of course, it has to gear itself up, staff itself and so on. It is interesting to see the figures for the considerable staff cost for the LCCC, which is what most of the levy will go towards. I, too, am a little surprised that it starts from quite a high point and runs up to a rather higher point, rather than starts from nothing much and then goes up from there.

I asked in an intervention what the Minister means by a holistic appraisal, which is a particularly unfortunate way to describe what the Department proposes to do in terms of appraisal, particularly regarding vulnerable people. I hope that the Government will better spell out, in the not-too-distant future, what that holistic appraisal will consist of and how it is going to work.

Finally, paragraph 14.5 of the explanatory memorandum talks about the monitoring and evaluation of the system. It is suggested that this will be a matter for review in 2025. For the Committee's convenience, let me read out the statement from the Secretary of State about the fact that this instrument does not include a statutory review clause. He says:

“It is not considered appropriate to include a statutory review clause for policy reasons—in order to retain confidence in the stability of the revenue stream.”

I see what he means: if there was a statutory review clause, the investors who are going to pour in to support Sizewell C might think that the rug could be pulled from under them, so there should not be one.

However, the Secretary of State also says in his statement:

“There are existing review plans for the operational costs levy rates to be next reviewed in 2025, and internal plans to monitor and evaluate the effectiveness of the RAB policy as necessary or appropriate.”

There will, then, be a review, even though there is no review under the instrument as it stands. Is it the Minister's intention that that non-review review, which will apparently take place in 2025, should be public, on the record and published in some form, so that we are all party to how the RAB performs and to whether anything needs to be done to it as it goes through its life?

6.28 pm

Alan Brown: It is a pleasure to serve under you as Chair, Dame Caroline.

As the Minister hinted at, very slightly, my party is opposed to new nuclear power stations. From our point of view, the reality is that there is no longer any need for large-scale nuclear, especially given that more renewable technologies are emerging and improving over time. Renewable energy, harvested with storage, is the obvious future. Tidal stream is developing and tidal range is emerging, and both those technologies can assist with baseload or predicted generation. Battery technology is also moving at pace.

The thing is that the fabled baseload from nuclear cannot be guaranteed in any event, given that there are outages every year, often unplanned. Over a 10-year period, each nuclear reactor has been offline for nearly a quarter of the year on average, so even nuclear cannot be guaranteed to be operational if the wind is not blowing. That is why storage and green hydrogen represent better bets and complement each other much better, because they remove the ludicrous prospect of constraining wind generation and paying companies not to generate.

I opposed the Nuclear Energy (Financing) Act 2022 mainly on principle, but also I raised real concerns about the lack of detail and the powers given to the Secretary of State to sign up for new nuclear using an untested model of finance, or at least untested in the UK, as the RAB model for new nuclear had been shown to fail in the United States. My concerns about the powers lying with the Secretary of State and the continued lack of transparency continue with the regulations.

Following my intervention on the Minister, does he now have an example of a RAB model operating successfully elsewhere for the delivery of a new nuclear power station? That is what the regulations are all about. We keep being told that a nuclear power station will be an attractive investment, but what lessons has the Minister learned from the failure of plants such as the South Carolina plant in the United States, which was supposed to be delivered under a RAB model, but was left abandoned at a cost of \$9 billion to US taxpayers? How do we know that such a thing will not happen under this legislation? UK taxpayers could be exposed to such risk but not get the project delivered. It is fine for the Minister to talk about adding only £10 a year to bills but, as the shadow Minister highlighted, that is over the initial period, and a long-term liability will be added to our bills.

It is often said that the devil is in the detail, but in this case, the devil is in the lack of detail in the regulations, or the lack of good information. It beggars belief that the primary legislation, the Nuclear Energy (Financing) Bill, was 58 pages, yet the regulations we are considering represent 50 pages. It requires 50 pages just to provide a methodology for collecting money from electricity suppliers to pay a counterparty to hand over money to a nuclear licensee during the construction phase. We are always told it is for the construction phase, at least, but is it purely for the construction phase, or can moneys be collected to pay for the initial design period? Paragraph 7.2 of the explanatory notes mentions that a revenue stream can be provided during the design period, so is it

[Alan Brown]

possible that the RAB model, once instigated, will start paying for the upfront design of Sizewell C before we even get to a final investment decision?

The regulations require 50 pages to ensure that electricity suppliers are paying their dues for a new nuclear power station. They make sure that electricity suppliers create a reserve so that the nuclear power station is funded in a cash-positive manner. Electricity suppliers will be liable to pay interest on any debts accrued by not paying upfront. The documents explain that there is a review mechanism regarding the performance of the revenue collection model, but there is nothing in the documentation about properly reviewing the actual success of the physical project. There is nothing about measuring the financial performance of the RAB model with regard to successful project delivery. There is nothing about construction delivery, and nothing about reviewing whether the revenue model attracts investors or not, or brings down the financing costs of delivering a nuclear power station.

On top of that, there is an outrageous lack of detail about costing. There is contradictory information on costings for a new power station. More likely, it is smoke and mirrors as the UK Government desperately try to justify their nuclear obsession. That obsession might be delaying other projects and taking investment away from those such as pumped storage hydro. It should be obvious to us all how powerful the nuclear lobby is. It is no small irony that these regulations are being considered just after Nuclear Week was held in Parliament.

I still cannot understand why—the Minister has not made this clear—if nuclear is so good and delivers cost-efficient electricity generation, and if it is the answer for the future, we need these new regulations to facilitate a RAB model to deliver it? If nuclear was so good, the private finance market would be all over it. Does the Minister not have any concerns that the market is no longer able to facilitate new nuclear, although it is somehow still deemed so important that bill payers should take on the financial risk?

We know that Hitachi and Toshiba have already walked away from the private market so, again, there is no competition going forward. The Government have put all their eggs in one basket. Paragraph 7.34 of the explanatory notes state:

“these Regulations establish the RAB model as an investible option for funding future projects by enabling investors to share some of a project’s construction and operating risks with consumers and taxpayers.”

We still do not know what those risks are. Will the Minister explain what risks he envisages the taxpayer or bill payer taking on board to make the project more attractive to investors? That is the key aspect of the attractiveness of a RAB model, but the detail is not yet forthcoming. Will there be any parliamentary scrutiny of the risk assessment, or will it and the final costings be backroom deals? I do not see how parliamentarians will get to understand that under the regulations.

If the purpose of the regulations is to make the project an investible option, why are there media reports that the BT pension scheme and NatWest have now told campaign group Stop Sizewell C and the *Daily Mail* that they do not plan to support Sizewell C? According to the *Daily Mail*, an industry source said Sizewell C is not an appropriate investment for

“typical big-name UK pension schemes”

due to the risk of cost overruns and delays. It is also reported that Nest and Legal & General have said they do not plan to provide funding. Can the Minister therefore confirm that these regulations to make the RAB model an investible option for the delivery of a new nuclear station will do what he thinks they will do? What does he say about the apparent lack of attraction for major pension funds? Have the Government had any discussions with investors, or has that been left to EDF?

On costings, annex 3 in the impact assessment gives a range of hurdle rates modelled, which equate to potential returns for investors. It is stated that the hurdle range assumed and modelled is 4% to 6%—on a par with

“a number of allowed returns in other regulated industries within GB”.

I agree with the Government that unreasonably high returns are to be avoided, especially when the taxpayer or bill payer is taking on project risk to reduce the risk to the investors. But if returns from a project type—a new nuclear power station—notorious for overspend and construction overruns, as demonstrated by Hinkley C, will be capped at the same hurdle rate or return rate as other infrastructure projects with less risk and more certainty, why on earth would pension funds and other investors want to get involved in this RAB nuclear model, when there are better options elsewhere without that risk? Those better options are in the global market, not just the UK. For example, in the US, the Inflation Reduction Act is making investment in infrastructure and renewables there much more attractive than the UK market in general, notwithstanding the fact that the Government are trying to chase investment in nuclear.

We still have no clarity about the stakeholder arrangements. What happens if EDF cannot get enough private investment? Are the Government so desperate that they will sign taxpayers up to a shareholding of the capital cost?

I have already hinted at this, but I have real concerns about the cost and construction periods laid out in these documents, and I want to look at them in more detail. It is clear from the detail in them that the Government have no idea what the true cost of a new nuclear power station will be, yet they have committed £700 million of taxpayers’ money to the design and development of Sizewell C. That money would pay for half the cost of the new hydro pumped storage scheme proposed at Coire Glas, yet for nuclear that is for design and development, up to final investment stage.

Footnote 29 on page 18, in annex 3 to the impact assessment, states that, in their analysis, the Government have used an initial estimate of £18 billion, converted to 2021 prices. That means they have taken the initial 2016 estimate for Hinkley, which was £18 billion back then, and uprated for inflation, but Hinkley has already overrun so much that the current estimate is £26 billion. That should be the starting point, not £18 billion.

Interest rates for borrowing are now much higher and construction inflation is rampant, so it seems to me that the Government’s starting point in this model and analysis should be an initial capital estimate of the order of £30 billion—£12 billion more than they have stated in these documents. On the other cost assumptions in the documents, page 19 tells us that the modelling is

based only on the construction of a new station. It does not allow for its running or decommissioning. Not allowing for the decommissioning costs is, frankly, utter folly. It paints a completely false picture of the true cost of the delivery of a nuclear power station, and I would argue it is negligent. Why does the Minister think that is an acceptable approach?

According to paragraph 7.37 of the explanatory notes, it is a legal requirement

“to have a Secretary of State approved Funded Decommissioning Programme (‘FDP’) in place. The purpose of the FDP is to ensure that the nuclear site licensee meets their full costs of decommissioning and waste management and that the recourse to public funds is remote”.

That is sensible and says that there is a legal requirement to try to protect the taxpayer from being left to foot the bill for future decommissioning costs. But if there is that legal requirement, why are the Government not including that cost in their modelling and estimates of the total cost of a nuclear power station? Why do they not use the data that should be available from Hinkley Point C? Given that legal requirement, that project should have a fully-funded FDP in place.

There is another anomaly with Hinkley, which is the most recent project that has been delivered. On costs and construction period, annex 3 states:

“There is no publicly available data on the level of risk contingency which was applied to Hinkley Point C at FID.”

When it comes to construction period, it states:

“Therefore, everything else being equal, the 13 and 17 year construction period figures are expected to be overestimates.”

How can a Government have signed off a contract through which bill payers are signed up to an extortionate strike rate for 35 years, but not have the data available on the risks and contingencies allowed for in that project, which could be fed into the modelling and the information that is before the Committee now? It makes no sense that the Government signed a contract for 35 years. It is the most expensive power station in the world, and yet we do not know what risk and contingencies were included in that price, and the Government have not brought that forward that information to put in front of us.

Why do the Government state that the 13 to 17-year construction period is an overestimate, when the facts before us about Hinkley demonstrate otherwise? Hinkley started in 2016 and was supposed to be operational in 2025; obviously, that is a nine-year construction programme. Now, Hinkley’s reactor 1 is estimated to come online in autumn 2027 at the earliest, with a possible 15-month delay, so it will more likely be 2029, and reactor 2 falls a year later.

At the moment, even with the information available from the Government, that is a 14-year construction programme, except the Government agreed that the backstop contractual dates for Hinkley C could be put back six years. That means contract termination for non-completion of Hinkley has moved back from 2032 to 2039, which allows a possible maximum 23-year construction programme. How can the Government state that a 13 to 17-year estimate is over-cautious? It is clear from the information we know about what is happening with construction at Hinkley Point C, the information we have in annex 3 is completely wrong and

the Government’s modelling for costs and the construction programme is completely wrong. What is the Minister doing to resolve that?

Paragraphs 49 and 50 confirm that the UK Government have no up-to-date cost analysis. As I alluded to earlier, Frazer-Nash Consultancy has been asked to provide updates on cost estimates. But that is happening right now, so why have these regulations come before this Committee before the Government’s consultant has reported back on what it believes the true cost of our new nuclear power station will be?

While we are looking at understanding costs, after throwing £700 million at Sizewell C, this is really like throwing good money after bad. Yet, somehow, the Government tell us in these documents that the RAB model could save between £30 billion and £80 billion compared with a strike-rate model. If they do not know what it will cost at the moment and there are no up-to-date costings, how can they tell us how much money the RAB model will save? The Minister said I did not know what I was talking about, but I actually do. If the Government are arguing that a RAB model will deliver savings of between £30 billion and £80 billion compared with the strike-rate model that was delivered for Hinkley, then by default they are saying the bill payers are paying way more for Hinkley than they otherwise should have done, and that Hinkley was delivered under the wrong model.

In terms of cost, the previous impact assessment for the Nuclear Energy (Financing) Act 2022—which is cross-referenced in these documents accompanying these regulations—estimated the upper cost of a new nuclear power station under post-1990 optimism bias assumptions could be £63 billion. Again, that is a previous estimate that needs to be updated. In today’s money, uprated for inflation and construction inflation, that £63 billion is well over £70 billion. Will the Government look at that as part of the work that the Frazer-Nash Consultancy is carrying out?

The reality is that there has not been a successful EPR nuclear power station anywhere in the world, and the RAB model will not change that. The Government tell us that it will make new nuclear more investable, but the evidence is that pension funds are running a mile. It is a pig in a poke, and that is why I oppose the regulations. The Government do not have the information or the understanding of what the true cost will be, and they are going to tie taxpayers in, long term, for a white elephant.

6.46 pm

Graham Stuart: I thank the hon. Members for Southampton, Test and for Kilmarnock and Loudoun for their contributions.

It is clear that our electricity system must be resilient and affordable as well as low-carbon, and that means that we need nuclear power. The regulations are required fully to establish the RAB model and enable sufficiently advanced nuclear projects to benefit from this new funding model, which can support our ambition to reach final investment decision on new projects, subject to relevant approvals, and to secure a low-carbon, low-cost and resilient electricity system to ensure our energy security and prosperity.

[Graham Stuart]

Let me reply to some of the numerous questions that have been asked. On the issue of investment in Sizewell C, we know from conversations with multiple investors that there is a strong interest in supporting infrastructure that delivers energy security and net zero. The importance of nuclear has been made even clearer by Russia's invasion of Ukraine, and we are not exactly alone in holding that view. Among others, the Climate Change Committee, the International Energy Agency and the UN Economic Commission for Europe have all highlighted the role for new nuclear electricity-generating capacity. The UN Economic Commission was particularly clear—perhaps the hon. Member for Kilmarnock and Loudoun will take it up with them—that

“the world's climate objectives will not be met if nuclear technologies are excluded”

from decarbonisation policy solutions. His ideological opposition to nuclear flies in the face of the science, global opinion and the UN, among others.

The hon. Member for Southampton, Test raised the issue of the LCCC's running costs. A robust internal governance and approvals process was completed before finalising the operational cost levy rates that are included in the draft revenue regulations, which are intended to meet their operating costs. We consulted on the levy, and the total annual impact of the levy on household electricity bills over financial year 2022-23 to 2023-24 was estimated to be negligible. If LCCC expenditure is less than income from the levy, any surplus would be refunded to suppliers and then on to consumers, which is how that system works.

The hon. Member for Kilmarnock and Loudoun asked about the impact assessment. Hinkley Point C was the right deal, struck at the right time, to support the UK's first nuclear power station in a generation, using a new reactor technology, as he rightly said. The National Audit Office has identified that risk-sharing models such as RAB could deliver better value than contracts for difference, and Hinkley Point C is delivering multiple benefits, including 15,000 job opportunities and £4 billion spent with companies in the south-west alone. Many Scottish consumers will wish that the ideology of the Scottish nationalists did not get in the way of them also having such opportunities.

Alan Brown: Will the Minister give way?

Graham Stuart: With respect to the hon. Gentleman and the Committee, I will move on.

Future new nuclear projects will be negotiated on a case-by-case basis and be subject to value-for-money tests. The hon. Member for Kilmarnock and Loudoun—I hope I am doing him justice; I am trying to anyway, as I always would—asked whether RAB had already been tried and had failed in the US. There are multiple

important differences between the projects in the US, which used early cost recovery models, and our proposals for RAB in the UK. We assessed those US projects, to ensure that we learned the lessons, along with other international approaches to nuclear project financing when developing our policy for the RAB model for nuclear.

The hon. Member for Southampton, Test asked about the holistic approach. Notwithstanding his dislike of the nomenclature, I set out how we are supporting constituents in various ways going forward.

On decommissioning, details of the costs for Sizewell C are subject to ongoing development and are commercially sensitive. Both the FDP and the full value-for-money assessment will—or would—be published at the point of a final investment decision, if indeed that is reached, as we hope that it will be.

A further question was asked about design costs and whether the charge could come then. On average, for the entire construction period, it will be about £1 per week for a dual-fuel household, as I set out earlier. That is not when operational, when producing energy, but in those early stages.

Alan Brown: Will the Minister give way?

Graham Stuart: Design costs will be agreed with developers in negotiations. Published non-statutory guidance on how Government will assess day one RAB costs, including design costs, will be developed—[*Interruption.*] I should have said £1 per month, not £1 per week—I have been corrected and suitably refreshed. On that basis, I am delighted to commend the draft regulations to the Committee.

Question put.

The Committee divided: Ayes 9, Noes 1.

Division No. 1]

AYES

Duddridge, Sir James	Nici, Lia
Evans, Dr Luke	Smith, Henry
Macleane, Rachel	Stuart, rh Graham
Moore, Robbie	Thomas, Derek
Morrissey, Joy	

NOES

Brown, Alan

Question accordingly agreed to.

Resolved,

That the Committee has considered the draft Nuclear Regulated Asset Base Model (Revenue Collection) Regulations 2023.

6.53 pm

Committee rose.

