PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

NUCLEAR ENERGY (FINANCING) BILL

First Sitting

Tuesday 16 November 2021

(Morning)

CONTENTS

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not later than

Saturday 20 November 2021

The Committee consisted of the following Members:

Chairs: Yvonne Fovargue, † James Gray

Baker, Duncan *(North Norfolk)* (Con)
Blackman, Kirsty *(Aberdeen North)* (SNP)
† Brown, Alan *(Kilmarnock and Loudoun)* (SNP)
† Browne, Anthony *(South Cambridgeshire)* (Con)
† Cairns, Alun *(Vale of Glamorgan)* (Con)
† Crosbie, Virginia *(Ynys Môn)* (Con)
† Doyle-Price, Jackie *(Thurrock)* (Con)
† Duffield, Rosie *(Canterbury)* (Lab)
† Fletcher, Mark *(Bolsover)* (Con)
† Hands, Greg *(Minister of State, Department for Business, Energy and Industrial Strategy)*
† Jenkinson, Mark *(Workington)* (Con)
† Owen, Sarah *(Luton North)* (Lab)
† Pennycook, Matthew *(Greenwich and Woolwich)* (Lab)
† Wallis, Dr Jamie *(Bridgend)* (Con)
† Whitehead, Dr Alan *(Southampton, Test)* (Lab)
Whitley, Mick *(Birkenhead)* (Lab)
† Whittaker, Craig *(Lord Commissioner of Her Majesty's Treasury)*

Sarah Ioannou, Rob Page, *Committee Clerks*

† attended the Committee

Witnesses

Julia Pyke, Director of Financing, Sizewell C Company

David Powell, VP Nuclear Power Plant Sales/Head of UK Business Development, GE Hitachi Nuclear Energy

Michael Waite, Director New Plant Market Development, Westinghouse Electric Company

Sue Ferns, Deputy General Secretary, Prospect Trade Union

Charlotte Childs, GMB National Officer, GMB Trade Union

Simon Coop, Acting National Officer for Energy and Utilities, Unite the Union

Public Bill Committee

Tuesday 16 November 2021

(Morning)

[James Gray *in the Chair*]

Nuclear Energy (Financing) Bill

9.25 am

The Chair: Before we begin, I will start with a few parish notices. You all know the points about social distancing and the wearing of masks, which Mr Speaker has asked us to do when we can. We will consider the Bill point by point and the rules of behaviour in this Committee are really identical to the rules of behaviour in the main Chamber.

We first agree the programme motion in private. This is a rather strange piece of procedure, which allows the Chair to ask the witnesses to leave and then to ask them back in again. I overrule that. As a member of the Procedure Committee, I keep meaning to tell us to change that properly. We now come to the programme motion, about which we met yesterday to agree. I call the Minister to move the motion formally.

Ordered,

That—

(1) the Committee shall (in addition to its first meeting at 9.25 am on Tuesday 16 November) meet—

(a) at 2.00 pm on Tuesday 16 November;

(b) at 11.30 am and 2.00 pm on Thursday 18 November;

(c) at 2.00 pm on Tuesday 23 November;

(d) at 11.30 am and 2.00 pm on Thursday 25 November;

(e) at 9.25 am on Tuesday 30 November;

(2) the Committee shall hear oral evidence in accordance with the following Table:

Date	Time	Witness
Tuesday 16 November	Until no later than 10.25 am	Sizewell C Company; Westinghouse Electric Company; GE Hitachi Nuclear Energy
Tuesday 16 November	Until no later than 11.25 am	Prospect; Unite The Union; GMB
Tuesday 16 November	Until no later than 2.30 pm	Citizens Advice
Tuesday 16 November	Until no later than 3.30 pm	Atkins Global; Doosan Babcock Ltd; Jacobs Engineering Group Inc.; Rolls-Royce Holdings plc
Tuesday 16 November	Until no later than 4.15 pm	The Confederation of British Industry; The Nuclear Industry Association; Energy Industries Council
Tuesday 16 November	Until no later than 5.00 pm	Mycle Schneider, Convening Lead Author, The World Nuclear Industry Status Report; Professor Stephen Thomas, Professor of Energy Policy, University of Greenwich; Greenpeace UK

(3) proceedings on consideration of the Bill in Committee shall be taken in the following order: Clauses 1 to 42, the Schedule, Clauses 43 to 45, new Clauses, new Schedules, remaining proceedings on the Bill;

(4) the proceedings shall (so far as not previously concluded) be brought to a conclusion at 11.25am on Tuesday 30 November.—*(Greg Hands.)*

Resolved,

That, subject to the discretion of the Chair, any written evidence received by the Committee shall be reported to the House for publication. —*(Greg Hands.)*

The Chair: Copies of written evidence which the Committee receives will be circulated to Members by email and also made available in the Committee room on each day that we meet.

Resolved,

That, at this and any subsequent meeting at which oral evidence is to be heard, the Committee shall sit in private until the witnesses are admitted. —*(Greg Hands.)*

9.26 am

The Committee deliberated in private.

Examination of Witnesses

Julia Pyke, David Powell and Michael Waite gave evidence.

9.30 am

The Chair: Welcome to our three witnesses. Before I call on them to give evidence, I remind all members of the Committee that the questions that we ask today and, indeed, the contributions that we make during the detailed discussion of the Bill from Thursday onwards must be strictly on what is written down in the Bill and may not be on anything else. They may not be about things that you wish were in the Bill but are not; they must be simply about those things that are in the Bill, and nothing beyond that. The other thing is that we must stick to the timings given in the programme motion, which the Committee has agreed. That means that when we get to 10.25 am, no matter who may be speaking, I will require you to stop speaking and the first witnesses to leave. That may seem harsh, but we stick firmly to the timings agreed in the programme motion. No discourtesy is meant to any of you.

Will any member of the Committee who has an interest to declare please do so?

Mark Jenkinson (Workington) (Con): I would like to draw attention to my entry in the Register of Members' Financial Interests. It is a matter of public record that I was employed in the nuclear sector prior to my election.

The Chair: Thank you. I will now call the first panel of witnesses, all of whom are appearing here in person, I am glad to say. We have Julia Pyke, director of financing at the Sizewell C company; David Powell, vice-president of nuclear power plant sales and head of UK business development at GE Hitachi Nuclear Energy; and Michael Waite, director of new plant market development at Westinghouse Electric Company. I thank all three of you very much for taking the time and trouble to be here. Could you briefly introduce yourselves?

Julia Pyke: Hello. I am Julia Pyke, the financing director for Sizewell C.

David Powell: Good morning. I am David Powell, vice-president for GE Hitachi's nuclear power plant business in the UK.

Michael Waite: Good morning. I am Mike Waite, director of new plant market development for Westinghouse Electric Company.

The Chair: Before I ask the Committee for relevant questions, are there things that the witnesses would particularly like to say about the Bill? Have you particular views about the Bill that you would like to get across, or are you content simply to answer questions that may be put to you?

Julia Pyke: I am very happy to answer questions.

The Chair: Shall we stick with the Q and A?

Michael Waite: Absolutely.

David Powell: Yes.

The Chair: In that case, let us start with Her Majesty's official Opposition, represented by Alan Whitehead.

Q1 Dr Alan Whitehead (Southampton, Test) (Lab): Good morning. Could I start with the Sizewell C company, and could you let me know, from the point of view of the company that has been set up for the purpose of developing Sizewell C, how you view the emergence of the RAB—regulated asset base—model as a way of funding the project at Sizewell C in particular?

Julia Pyke: I think the emergence of the RAB model is very welcome. We obviously believe that the country very much needs nuclear, to support the growth of renewables and to produce electricity when the wind is not blowing and the sun is not shining. It is very important that we deliver nuclear in a way that reduces the cost to consumers to the greatest extent it can, and we believe that the RAB model is a way of doing that and enabling private finance.

A point that is not always made about the introduction of private finance is that if we want a nuclear fleet, which, you will not be surprised to hear, I believe would be a good thing, then always relying on taxpayer funding for that fleet is not necessarily going to promote the growth of a fleet, whereas getting nuclear on to a financeable footing means that the country can size the fleet to need rather than to the availability of taxpayer funding from time to time.

Q2 Dr Whitehead: Mr Powell, Hitachi was very much involved with the Horizon consortium that pulled out of other nuclear plants a little while ago, which I believe was on the grounds that they could not sort out the financing of those projects. If the consortium had been offered in effect a RAB model to develop those projects, would you have had a different view?

David Powell: Just to make things clear, I represent GE Hitachi, which was helping with the technology supply for the project that Horizon and Hitachi was taking forward. Hitachi was one of the main participants in trying to push forward the project at Wylfa, and I think that one of the big issues was the project's financing aspects. It takes considerable time and a lot of effort to build two large-scale reactors, and I think that the RAB model could have helped. Obviously that is history now, and we would have to go back and look at that, but I think it would have helped at least in being able to move forward with the project.

Q3 Dr Whitehead: Mr Waite, Westinghouse is the owner of Springfields Fuels.

Michael Waite: That is correct.

Q4 Dr Whitehead: I think Springfields has a series of difficulties in the continuation of its nuclear fuel and nuclear rods business. What difference would the construction of Sizewell C make to its viability as a future supplier of nuclear fuel rods and associated activities for the UK market and, indeed, the international market?

Michael Waite: As you say, Springfields has been fuelling the majority of the UK's nuclear fleet for almost 75 years. It is the exclusive supplier to the advanced gas-cooled reactor fleet, which will all have retired by the end of this decade. Whether Sizewell C moving forwards under a RAB would mean a supply of fuel from Springfields has yet to be determined. From a Westinghouse perspective, we see RAB as part of the solution for enabling further nuclear projects after Sizewell C. Certainly, the 2035 zero-carbon targets for the electricity generation sector require there to be further projects., If we could start a project at Wylfa and deliver our AP1000 technology under RAB, that would absolutely take its fuel from Springfields for the life of the facility and secure the life of the plant.

Q5 Anthony Browne (South Cambridgeshire) (Con): I am interested in the allocation of risk between companies and consumers. Obviously, one of the problems with the contracts for difference model is that you bear the construction risk, the political risk and so on, whereas with the RAB model you do not. If there are cost overruns, is there a risk that the consumer ends up paying for it rather than you and that you do not have the right incentives to control costs?

Julia Pyke: The first thing I would say is that, of course, it is very important that the developer remains incentivised to minimise construction spend consistent with building safely and to time. The introduction of the RAB model will enable Sizewell to move ahead, so, primarily for consumers, not only will they need the electricity that Sizewell can produce but electricity bills will reduce when it comes on, because the alternatives to nuclear as the producer of electricity when the wind is not blowing and so on will cost more. Overall it will reduce consumer bills. It is, as you say, very important that we get the incentive regime right so that, although risk is shared with consumers, developers are always incentivised.

Q6 Anthony Browne: To press home that point, how do you make sure that the right incentive for the companies for Sizewell C also ensures the costs remain under control, rather than simply being passed on to consumers?

Julia Pyke: Because the cost overruns will be shared, so the developers will take a significant proportion of cost overruns.

Q7 Anthony Browne: David, do you think the balance is right, in terms of shared risks between consumers and the companies?

David Powell: Yes. I think it needs to be fair. Clearly, what we are trying to do from a GE Hitachi perspective is really focused on driving down the cost of capital of our plants. The capital cost is a key part of that, of course, and clearly that part of the development that we are working on at the moment is to develop small modular reactors, with a key focus on reducing those costs by making the construction as simple as we can through modular build and using as much of the factory environment as we can. That obviously helps to reduce the costs of construction, as well as the risks of construction and the schedule of those. Like all technology developers, we have a reputation that we want to uphold, so our focus is trying to minimise the cost of that electricity for consumers by managing the projects very well.

Q8 Anthony Browne: Obviously you want to manage the projects well and guard your reputation, but big infrastructure projects such as nuclear power stations have in the past been subject to cost overruns. How do you manage that risk? Julia said it is shared between consumers and the companies, but in what way would it be shared? Is it 50:50? If you have a project that risks running out of control, how do you manage the risk to make sure there is as much benefit to the consumer as possible, or at least as little disbenefit, and what is the process for that?

Julia Pyke: One of the reasons that we are so keen to go ahead with Sizewell is that it is a copy of Hinkley, and it is in copies—fleet builds—that you get down construction risks. Hinkley has two units, and you can see how much easier it is to build unit 2. Common sense tells you it is because you are doing it again. We are very much hoping that Sizewell will be treated as units 3 and 4, and we believe—consistent with ideas about fleets of SMRs—that it is in repeat build where you get down costs. Nuclear in the UK has suffered from a considerable series of ones of a kind, followed by an extremely lengthy gap in construction. Nothing has been built since Sizewell B was turned on in 1995. It is by copying, the fleet effect, making sure that we learn all the lessons and using the same experienced team.

In terms of the proportion of risk sharing, it is not fixed yet, but around 50:50 is not an improbable outcome.

Q9 Anthony Browne: You will be applying for a licence to have the RAB model, and I am interested in your thoughts on the designation regime and whether the Secretary of State should have the power, or the regulator. It will obviously be a long process to apply for it and get the rights. In your business plans, that will be a huge part of the whole process.

Michael Waite: I missed out on the last question so I am happy to answer this one. On the designation process, there is not a huge amount of detail in the Bill about what the requirements are for a company project to be designated. In the 2019 RAB consultation process, we entered some fairly detailed feedback which suggested that RAB, as well as being a very positive way forward for construction and operation financing of nuclear power, could also be very effectively utilised for the development phase of a nuclear power plant project. That development phase for a technology that was mature, preferably generic design assessment-licensed, could enable the de-risking of a project under the watchful eye of the regulator, where they are learning about the project, such that when it enters the construction phase, there is a significantly lower risk profile. From a Westinghouse perspective, I would say that that designation process could take place prior to the construction phase and benefit both the project company, of course, and also ultimately the ratepayer and Government through lowering the risk profile of the overall project.

Q10 Anthony Browne: On the question about who should do the designation, Julia made the point earlier that—

The Chair: I am sorry. Maybe I am just getting old, but I cannot hear what you are saying. Could you speak up a bit?

Anthony Browne: Sorry. I am also interested in the point about who should actually do the designation. Julia, you made the point earlier that you would have a system that responds to need, as it were. Could you see this becoming just an ordinary function of the regulator, or should it always be the Secretary of State who does it?

Julia Pyke: I think that is very much a question for the Government, and it will partly depend on which organisation has invested the time and money in doing due diligence on the readiness and maturity of the project.

Q11 Anthony Browne: David, do you have any thoughts on the designation?

David Powell: I agree with Julia: clearly, that is a decision for the Government. As Mike said before, it is quite important that we look at where the designation actually starts from as well, because there is a huge part of developing nuclear projects prior to getting to construction. With the Horizon project, we saw the amount of money that Hitachi had spent—over £2 billion—and it did not get to that final investment decision, so that is an important consideration as well.

Michael Waite: If I could address the same point, I absolutely think it should be the Secretary of State who has that final authority, predominantly because there are such a large number of moving parts of the project. It is not just about maturity: it is about value for money, and is that value for money just in terms of pence per kilowatt-hour, or is it UK content? There are a very large number of very broad aspects that can be assessed.

Q12 Anthony Browne: My last question is this: obviously, one of the purposes of the regulated asset base is to open up investment opportunities for UK pension funds and so on to invest in nuclear, and they obviously want reasonably reliable long-term returns. What criteria are needed from the RAB model to make it an investable proposition for UK funds? If you draw the criteria far

too tightly, it would not be very attractive, but if you made it too generous it would not be good value for the consumer, so I am just wondering what you, as people out to encourage investment, are actually looking for. What do you think is needed? I do not know who is in the best position to answer that one.

Michael Waite: None of us is in the investment community.

Anthony Browne: I know, but you have relations with the investors and you know what they are looking for.

Michael Waite: Indeed.

Julia Pyke: And it is my job to raise the money.

Michael Waite: Absolutely, the pension funds historically are great supporters of operating nuclear power plants, because those are some of the most consistent returns on investment possible. The construction phase and development phase are something different, so it is all about the risk profile for them. As I said, the more you can de-risk a project, the more it can become investable by those institutions.

Q13 Anthony Browne: But are you looking for particular things about the RAB model that will help your conversations with investors while providing value for consumers?

Julia Pyke: A consumer prices index-linked investment stream is likely to be very attractive to people with CPI-linked liabilities, such as British pension funds. Increasingly, the financial investment community is very much interested in environmental, social and governance issues, and whether or not their investment is making a difference. I think that nuclear has a fantastic track record of making a positive difference: not only does it produce low-carbon electricity, but it is a great leveller-up. It has got a great track record of offering well-paid, highly skilled, unionised jobs. It also has a very good track record with the environment itself, and the land outside the power stations. Those three things coming together will make it an investment that can fit very well into the portfolio of companies that want to make a difference with their money.

Q14 Anthony Browne: I agree with the levelling-up point, although that is more a political thing rather than—

The Chair: I am sorry, Anthony, I can't hear what you are saying; you are mumbling.

Anthony Browne: I do not know whether the microphone is working. I agree with the levelling-up point, although that is more a political thing rather than, presumably, one of the criteria that the investors would use.

David Powell: Just one operational point. Julia has spoken of the confidence that the Government will bring to the investment community, and we have seen that there are companies that want to invest in projects, but we would very much like that to be operational. Getting the investment early on is quite hard to do, so the confidence from the Government's approach on the RAB model would help to provide that confidence to the investment community.

Anthony Browne: That is the whole purpose of the RAB model. That is all my questions. Thank you.

Q15 Alan Brown (Kilmarnock and Loudoun) (SNP): Good morning. I will direct my initial questions to Julia.

Ideally, the Bill is supposed to facilitate Sizewell C going ahead. Julia, you said that you view Sizewell C as units 3 and 4 of Hinkley Point C. Given that we are consistently told that the learning from the design of Hinkley Point C went on to Sizewell, why has the taxpayer committed £1.7 billion in the Budget to take Sizewell C to a final investment decision?

Julia Pyke: The £1.7 billion and its use is not published and not available to us. I think there is an assumption that it is for a Government investment in Sizewell C. Whether or not that money is for spending before you reach a final investment decision, or is a Government investment, is the type of investment decision for the Government and not for us.

Q16 Alan Brown: The Chancellor has put that in the Red Book, so can I just check that there has been no discussions with the Sizewell C company about the front money needed to get to the final investment decision, even though that £1.7 billion was explicitly referenced in the Budget?

Julia Pyke: There has been no express discussion about the use of the £1.7 billion in the Budget as pre-development funding for Sizewell C, no. The Government do discuss how it is that we may get from where we are now to a final investment decision, but there is no explicit linking of the £1.7 billion and that discussion.

Q17 Alan Brown: Okay. So if the Bill goes through and we have the right regulated asset base model, would you still be expecting up-front money from the taxpayers to get that final investment decision, even though the design has already been undertaken?

Julia Pyke: We believe that the regulated asset base model—David and Michael will want to comment—is designed to come into place at financial close. The question of how nuclear projects get from where they are now—in the case of Sizewell the project is very mature, with a design and a team, and we have applied for consents; projects that are further behind obviously have a lot further to go and need a lot more money—is its own question. The regulated asset base model is designed to give the private investment community sufficient confidence in investing in nuclear that nuclear can go ahead and take its place in the electricity mix, which benefits consumers. The model is not necessarily designed to be a solution to the period from conception to financial close.

Q18 Alan Brown: This is probably something that I am just not clear on myself, but in terms of the regulated asset base model that the Bill facilitates, what kind of contractual period are you looking for in terms of payback? What would you expect the Government to enter into in terms of the length of contract for revenue payments?

Julia Pyke: If you look at the roughly £200 billion of regulated assets in the UK across the national grid transmission lines, distribution lines, water companies and airports, the regulated asset base model will track the lifetime of the asset. In the case of a UK European pressurised reactor, the operational lifetime is around 60 years.

Q19 Alan Brown: What about decommissioning and the disposal of radioactive waste after that? Would that be at your company's risk or would there be some sort of revenue payment for that as well beyond the 60-year lifespan?

Julia Pyke: I think nuclear is unique among electricity-generating technologies in pricing in the cost of decommissioning and waste disposal up front. In the gas price, you do not see the cost of dealing with climate change. In the price for other forms of electricity generation, you do not see waste disposal priced in, but in the case of nuclear, the cost of decommissioning and waste management and disposal is priced in to the electricity price.

Q20 Alan Brown: It is priced into a 60-year contract?

Julia Pyke: It is priced into the CfD for Hinkley, and it will be priced into the contractual arrangements for Sizewell.

Q21 Alan Brown: The regulated asset base model is clearly separate from contracts for difference, but in terms of the 60-year payback, you are looking for a lifetime asset. Would you also expect to agree a strike rate for the sale of electricity, what with the electricity generation price aspect? Would that be a risk that goes with the company?

Julia Pyke: A regulated asset base model will tend to pay for the asset to be available. We expect the electricity to be sold at market price and for the regulated asset base model to either provide a top-up, in the way the CfD does, if the costs under the RAB are above the then electricity price, or to pay back in if we see spiking electricity prices, in the way we have done recently, during low wind speeds and the gas price spike. It is two-way.

Q22 Alan Brown: But would the price fluctuation on wholesale electricity prices sit with yourselves, or would you expect that minimum floor price to minimise risk?

Julia Pyke: You would expect the regulated asset base to work in the way the existing £200 billion of regulated assets work, which is essentially to pay for availability.

Q23 Alan Brown: Okay. The Government estimate that using the regulated asset base model will save consumers between £30 billion and £80 billion. How realistic are those projected savings?

Julia Pyke: I believe that the Government have done its calculations very carefully and cautiously, so I believe they are very realistic. They are comparing the cost of money under a contract for difference with the cost of money under a regulated asset base model. It is important to remember that the cost of money is by far the dominant cost to consumers. We need nuclear, and we need to get the cost of nuclear down. The dominant cost of nuclear to consumers is the cost of money, so it is entirely plausible that the Government's figures have been carefully calculated and are right.

Q24 Alan Brown: Have yourselves or GE Hitachi had discussions with the Government about this—"Here is what the cost of borrowing is, so we predict that these are the savings that will accrue if we go to a regulated asset base model"? Thirty billion pounds is a huge saving—£80 billion even more so.

Julia Pyke: We have, of course, looked at the savings. The most important saving to consumers is that, in building nuclear, consumer bills will go down. Models without nuclear are more expensive—I think the Secretary of State himself has said that in Parliament. That is a major reason to go ahead with nuclear, and it is a major reason to introduce the most cost-effective way of financing nuclear, which the Government has concluded is the RAB.

David Powell: If I can help with that question, from the perspective of GE Hitachi, we are focused on small modular reactors in the UK. While the cost of those is considerably less than the cost of the Hinkley plants, the output is of course a lot less, at 300 MW or so. If you are going to build a fleet of those, which is where we would like to go in the UK—using that repeatability model and a standard licence design, so that once it is designed and licensed it can go through being built repeatedly, which is very much a factory output-type of approach—you very quickly get to the capital cost of something similar to a Thames Tideway project, which was £4 billion. I know that the RAB model is focused around large-scale nuclear projects, but we would also like to see that applied to small reactors or at least be considered. As yet, we have not done any analysis—all our focus has been on looking at costs, and the models have been on the contract for difference approach—but we would like to look at how that RAB model would apply, from the Government's perspective as well.

Julia Pyke: If you look at the Tideway savings, when Tideway was first conceived of, before it was decided to do a RAB, I believe it was estimated that consumers would have to pay around £80 a year on their bills, and the RAB reduced that to around £25.

Q25 Alan Brown: But, of course, that was by implementing a 60-year payback contract.

Julia Pyke: I cannot recall the length of the Tideway contract, but it is quite long.

Q26 Alan Brown: Sorry, but we are talking about looking forward for yourselves.

You are hoping that RAB will facilitate the small modular reactors as well. Would that be a 60-year operational contract you would be looking for?

David Powell: That is a matter for discussion with the Government and BEIS, but our plant design life will be 60 years, in a similar way to the Hinkley and Sizewell reactors. So, yes, potentially. That really depends on what the developers and investors would like to see.

Q27 Alan Brown: Going back to you, Julia, the Secretary of State determines value for money, as per the Bill, in terms of entering into a contract and signing off. How does someone like me, in Opposition, get to understand the figures, particularly the in-built cost of disposal of radioactive waste? How do I understand what is built into the figures that the Secretary of State can sign off under the Bill?

Julia Pyke: I do not know what plans the Government has to explain the arrangements, but I imagine it will be in line with the principles of transparency. There is a lot information available about Hinkley. Michael made the great point earlier that value for money is around many things; it is the electricity price including the price of decommissioning, but it is also around UK content and

around jobs. We will have 70% UK content; we will give rise to around 70,000 jobs. We give work to over 3,000 British businesses. So value for money is a wider metric than just the cost. There is a lot of information available on our supply chain plans and UK content, and I think there will be a lot of information available around the calculation of the RAB price.

Q28 Alan Brown: How many permanent jobs would Sizewell C create?

Julia Pyke: Jobs in construction, using the National Audit Office metric, are around 70,000. Permanent jobs to operate the plant would probably be around 900 in ordinary state, plus several thousand more when there are maintenance outages, which are approximately every 18 months.

Alan Brown: Thanks.

Q29 Virginia Crosbie (Ynys Môn) (Con): Welcome. My first question is to Michael. Is the consumer more exposed to overruns and construction delays under CfD or the RAB financing model?

Michael Waite: In the Bill, there is not currently a clear apportionment of risk between the constructor, the developer, the investors and the consumers. It is clear that if we are developing and constructing a project, there are two approaches to ensuring there are no overruns and minimising the chances of cost and schedule difficulties. You can either take a carrot or a stick approach. If the stick is applied to the developer and the constructor, there is necessarily a larger contingency applied from day one. If I remember correctly, in the Hinkley point original negotiations there was a £2 billion contingency for potential problems and cost overruns for a first-of-a-kind project in the UK. That sort of contingency allocation can be minimised by taking more of a carrot approach, where fees and profits can be at risk but a developer and constructor is not risking losing money on the job. There are many mechanisms in place that can incentivise on-time and on-budget operation without apportioning too much risk to the construction community.

Q30 Virginia Crosbie: Thank you. David, what is the impact on the consumer of a RAB model versus a CfD financing model?

David Powell: Clearly, based on the information that the Government have put out on the RAB model, it is designed to help lower the overall cost of nuclear by lowering the cost of capital and the cost of financing. From the information I have read and discussions before, there is potentially a significant saving on large-scale projects such as Sizewell. We would hope that from building a fleet of SMRs you would be able to gain the same benefits for consumers. As I said, we have focused on trying to reduce the capital cost of the plant through simplifying the design. Add that to the benefits of the RAB model, which can help to reduce the cost of that capital through the reduction in financing, as well as increasing the incentive to deliver on schedule, there is an ideal way to try to reduce the overall costs of nuclear for consumers. We need more nuclear in the UK in order to meet the decarbonisation targets by 2035.

Q31 Virginia Crosbie: Thank you. Julia, is there a yes/no answer to this question?

Julia Pyke: Yes. I think it a brilliant question, and the answer is that in the contract for difference the construction cost overrun risk is priced in up front, so consumers pay regardless of whether you incur a construction cost overrun. That makes the capital expensive and, because it does not pay until the station turns on, you run up interest for the long construction period of nuclear. In the RAB model, the construction cost overrun risk is not priced in up front, which reduces the cost of capital. The consumer, in paying £92.50 for Hinkley, is prepaying for the risk of construction cost overrun; in the RAB model there is a possibility, which we will do everything we can to minimise, of a construction cost overrun.

An example of how the RAB model will give people more certainty to get on with repeat build is that they have put in 46% more steel at unit 2 than at unit 1 in the same timeframe. It is a combination of not pricing in the construction cost overrun risk up front, and introducing more predictability into nuclear new builds, so we stop having huge gaps between construction in which the workforce has to relearn every time you start again.

Q32 Virginia Crosbie: You mentioned the fleet effect. All but one of our nuclear reactors are coming offline over the next decade, and we are going headlong towards 2050. The Government have a net zero carbon ambition. Can we achieve that fleet effect without the RAB model?

Julia Pyke: No, I do not believe that we can. We have to make nuclear financeable, like offshore wind, and look for that fleet-build, cost-minimisation approach. The offshore wind industry has done a great job through being able to predict the opportunities to build more wind farms. We want that same fleet approach, and we want predictability so that people can have careers, and the workforce can learn and keep getting down the costs.

Q33 Virginia Crosbie: Michael?

Michael Waite: With AP1000, we can benefit from a global fleet effect. We have four operational reactors, which are breaking national and industry records. Two are approaching completion of construction, commissioning and fuel load in the US, and will bring a tremendous number of lessons learned and fleet benefits to the UK. Certainly, a potential AP1000 construction project at Wylfa and other sites can be enabled only by RAB being part of the financing solution.

Q34 Virginia Crosbie: Thank you for mentioning Wylfa. David?

David Powell: It is pretty much the same, but we are clearly developing our BWRX-300 to be a global SMR technology. We are already working with several countries, looking at the first deployment of that. We also see the UK very high in that priority list—again, bringing that fleet-build mentality and 60 years of designing these types of reactors. We are able to bring a lot of experience and know-how to that. Part of that is to try to reduce the costs of nuclear overall. We are very encouraged by seeing the RAB model, and hope that it can be applied to fleets of SMRs in the UK.

Q35 Virginia Crosbie: We had some great news regarding SMRs last week, in terms of Government support and attracting private capital. What do you think the RAB model will do in terms of reducing our reliance on overseas investment?

David Powell: I think it provides more opportunity for UK investors to come forward. We have spent a lot of time and money developing our reactor design, so we are quite well ahead now in developing projects, which is really the next stage. I think the Government funding that was announced will help the development of UK SMRs, and one of the big things that RAB does is help the development of projects. You need investors for those projects.

Q36 Virginia Crosbie: Thank you. Julia, on the impact of RAB on our dependence on overseas investment, you know the Chinese very well through China General Nuclear.

Julia Pyke: I think that having a stable CPI-linked project will make it possible for UK financial investors. That is a great thing; you can create a virtuous circle with the money of British pension funds investing in apprenticeships, skills and jobs for younger people in Britain, as well as in the production of electricity of course. I am confident that the RAB model will bring forward a lot more British investment and, exactly as you say, reduce our reliance on overseas investors.

Virginia Crosbie: I have a last question if I may.

The Chair: Quickly. I am keen to move on swiftly because we have quite a lot to cover.

Q37 Virginia Crosbie: Michael, what have you learned from your experiences of other countries' financing, and how can you relate that to the RAB model?

Michael Waite: We are currently very active in the Czech Republic, Poland, Ukraine and so on. Those nations predominantly have either majority Government-owned utilities developing nuclear projects or Government financing for up to 100% of the project. They are reducing the cost of capital by fully leveraging Government financing, which is the cheapest financing. Those are absolutely all regulated approaches. No projects that we are doing currently rely just on market forces to develop nuclear; it is too much of a long-term project, with massive long-term benefits, to leave it up to the market.

Matthew Pennycook (Greenwich and Woolwich) (Lab): I have a series of questions relating to—

The Chair: Before you start, Mr Pennycook, I should say that we have five people asking questions and 12 or 13 minutes left, so can everyone be swift in their questions and answers?

Q38 Matthew Pennycook: I will try and rattle through this. I have a series of questions relating to clause 1. Forgive me, Ms Pyke, but I think they will be directed mainly at you. It is quite clear in my mind that Sizewell C is the last project that can conceivably begin to generate by the end of this decade, so the Bill is very much about its effect on Sizewell C. Consumers in particular, but also Members of the House, will want to know whether the Bill is sufficiently discerning about which kinds of companies are designated, and who the RAB will ultimately go to. Could you detail precisely the interest in Sizewell C of China General Nuclear, or its subsidiaries or shell companies?

Julia Pyke: CGN currently has a 20% shareholding in Sizewell C. No material supply chain contracts are in place or intended to be in place with the Chinese supply chain or CGN. Whether CGN chooses to invest at financial close, and the extent to which it chooses to invest, is a matter for CGN itself and the UK Government. As Virginia's question elicited, the RAB model is designed to bring in a lot more British financing and reduce reliance on overseas investors.

Q39 Matthew Pennycook: I do not want to get into the £1.7 billion—if I heard you correctly, you said that there were no express discussions, but that is really a question for the Minister rather than for you. Leaving the £1.7 billion aside, is it the company's understanding that the Government's intention is, as has been widely reported in the media, to divest themselves of that minority CGN stake? What options do you think are being considered in that regard?

Julia Pyke: That is absolutely a question for the Government.

Q40 Matthew Pennycook: Just to be very clear, because I think this has implications for the funding model, do you not think that that minority stake, and the potential force-out divestment by the Government, has any implications for the RAB funding model for Sizewell C?

Julia Pyke: I think that Sizewell C can raise money under the RAB model. How CGN intends to go forward with a financial investment in Sizewell C is a matter for CGN and the Government.

Q41 Alun Cairns (Vale of Glamorgan) (Con): As we have highlighted, the benefits of the RAB model are that it reduces the cost of finance and provides financial certainty for any project—those are two key inhibitors in the development of new nuclear fleet. However, the construction of nuclear power stations is inherently uncertain because of the risk associated with it, and costing that risk is extremely difficult. Are you satisfied that the Bill gives the Minister the opportunity to assess the cost of that risk effectively? The alternative would be the failure of the RAB model, which would undermine the fleet generation that we would like to see.

Julia Pyke: I think that the Bill is a great framework under which there is a lot of detail to be developed, and we would expect more detail to be developed in relation to designation and the conditions of eligibility. While I could hardly deny that the cost of nuclear builds has had some uncertainty in some cases, what is not uncertain is whether nuclear works and the technology works. I think there are no cases worldwide of nuclear projects that have been abandoned for technical reasons. The industry knows how to make nuclear power stations work. So I think that there is a degree of uncertainty about the exact cost, but the whole point of building a replica of Hinkley is to minimise that uncertainty, benefit from all the lessons learned and get nuclear on to a stable, repeat-build footing.

David Powell: We designed our SMR BWRX-300 on the basis of proven technology. So we know very much the cost base for that technology, and it is really in our interest and that of investors to ensure that we can deliver to time and to budget on that. With respect to the build, we would obviously want to try to minimise

any impact and risk of cost and schedule overruns, because we see this as building a fleet of smaller reactors out of a more modular-type approach.

Q42 Alun Cairns: Mr Waite, in asking you the same question, may I add a supplementary to gain greater context? Is the RAB model's success dependent on an in-principle Government commitment to a fleet of nuclear power stations rather than just one or two?

Michael Waite: I do not think it is implicit, actually. We have heard about fleet benefits. What I think RAB does do, though, is ensure accessibility to the UK market for non-foreign-sovereign-owned entities. Under a CfD approach, frankly only large foreign Government-owned entities can stand that up-front cost. Then you are potentially delivering electrons, but you are delivering a foreign Government's objectives and strategies rather than benefiting from the UK Government's objectives.

Alun Cairns: Thank you.

Q43 Dr Whitehead: Ms Pyke, you mentioned that you are basically responsible for getting the money in for Sizewell C. What hurdle rate do you anticipate that the investments will come in at as a result of RAB?

Julia Pyke: RAB is designed to attract low-cost capital, and the cost of capital will be set competitively. We anticipate a competition, which should drive down the cost of capital, between equity investors. We also anticipate that the cost of debt, which will actually be the majority cost of the project, will be set competitively. We do not have a hurdle rate, and deciding that hurdle rate will obviously be in part a matter for Government in terms of what will offer value for money. The Government's impact assessment talks about example hurdle rates and we anticipate that the return will be somewhere in the region of the Thames Tideway tunnel rate, plus possibly some premium for it being nuclear, which is a novel asset class for private sector money in the UK.

Q44 Dr Whitehead: You have absolutely correctly drawn attention to the impact assessment, which as you know projects a number of hurdle rates that could transpire below the 9% that is effectively the implied rate for Hinkley C. The calculations for the difference between what would have happened with a CfD as opposed to RAB depend on what hurdle rate comes out as a result of that. I wonder if you are able to give us any better indication of the area the hurdle rate is likely to fall to as a result of RAB being applied to the investments you are seeking?

Julia Pyke: We think the relevant rates to look at are the rates that are currently determined by Ofgem for investors in the £200 billion of existing UK regulated assets. That is the range that we anticipate will be relevant.

Q45 Dr Whitehead: Which is what?

Julia Pyke: As the Government have put in their impact assessment, you can run this at percentages over inflation that equate to the existing market in investing in RAB. I do not want to suggest a particular number—that would not be appropriate, because we are going to set the cost of capital competitively—but you can see the ranges that the Government have used, which they have based on the evidence of what is invested today in RAB assets.

Q46 Dr Whitehead: Yes, but they have used that with what the impact assessment calls an "optimism bias assumption" behind it. What is your view of the optimism bias assumptions that you might have to make about the hurdle rate you are going to get? I am sorry you are not able to give even a range of percentages this morning.

Julia Pyke: Do you mean whether I think the Government have been overly optimistic in assessing the likely cost of capital to be derived through competition? Is that your question?

Q47 Dr Whitehead: No. I take it from the impact assessment that they are trying to price in, if at all possible, what they regard as the almost inevitable optimism bias in terms of initial figures. I am afraid it is a staple of nuclear calculations that there is usually a pretty optimistic bias in the initial calculations that the project will run exactly on cost calculations and exactly on time.

Julia Pyke: I think we are talking about two things here. There is optimism bias in relation to the outturn capital costs. The Government have taken a cautious approach to applying optimism bias to the capital costs, given that we are replicating the Hinkley design, using the experienced team, and we can see the savings made in unit 2 compared with unit 1. In relation to the cost of capital, it is entirely sensible for the Government to have based their calculations on the existing market of investment in regulated asset base industries in the UK. I do not think there is an optimism bias issue around their evaluation of existing investment rates.

Q48 Dr Whitehead: But you would perhaps conclude that at least you can go to a 6% hurdle rate, if not better?

Julia Pyke: I would conclude no such thing. What investors choose to bid will be a function of how attractive the product is to the equity, what else is available in the market—it will be a whole range of considerations, but essentially it will be in the area of the existing investments in regulated assets in the UK, which are publicly available.

Q49 Dr Whitehead: I think you would appreciate that the whole question of what RAB saves over a period of time depends on that hurdle rate?

Julia Pyke: Indeed, it does depend on the hurdle rate, but—

Dr Whitehead: But you are not able to help us this morning.

Julia Pyke: I do not think anybody is questioning the assumption that, in moving to a RAB from a contract for difference model, the cost of capital will come down, so it will save money compared with a contract for difference model.

Q50 Dr Whitehead: But we do not know how much?

Julia Pyke: We cannot know how much, because it will be set in the future through competition.

The Chair: Unless any other of our colleagues have a one-minute question, we are at 10.24 am and that very neatly brings us to the end of our time. *[Interruption.]* I am afraid we only have one minute, Alan; one yes or no question, perhaps?

Q51 Alan Brown: If Sizewell C gets the go-ahead, how long do you think it will take to get to the commissioning stage and generate electricity in the grid?

Julia Pyke: The construction period is about 10 years, so it will take about 10 years.

The Chair: Thank you very much. I thank all three of our witnesses, who have had a gruelling session. It has been very useful; a lot of information has been gleaned from your evidence and we are most grateful to you for taking the time to come and speak to us. Thank you very much indeed. Would you mind vacating the hot seat? You will be replaced by only one person in the room. Incidentally, you are more than welcome to stay and listen to the subsequent session. I invite the next panel to join us.

Examination of witnesses

Sue Ferns, Charlotte Childs and Simon Coop gave evidence.

10.25 am

The Chair: I welcome all three of our witnesses to this evidence session of the Bill Committee. Rather than me introducing you, it might be more sensible if you introduce yourselves in a moment. We have until 11.25 am for this session, and at 11.25, even if you are speaking, I will close the session at that moment, through no discourtesy but because the rules of the House state that we must stop at precisely 11.25. Starting with Mr Coop, as he is here, will you kindly all introduce yourselves? And if you have any introductory remarks about the Bill, that is always very helpful.

Simon Coop: My name is Simon Coop. I am acting national officer for energy and utilities at Unite the union.

Sue Ferns: My name is Sue Ferns and I am the senior deputy general secretary at the Prospect trade union.

Charlotte Childs: I am Charlotte Childs. I am national officer for the GMB trade union.

The Chair: Thank you all very much for being here. We will start with Her Majesty's loyal Opposition and Dr Whitehead.

Q52 Dr Whitehead: Good morning, everybody. I would like to start with Sue. As you will know, we have had quite a lot of dialogue about Springfields nuclear fuels, the role that Springfields nuclear fuels has played in providing fuel for the UK nuclear industry, and the role that it might play in the future. Could you briefly take us through, first, the problems that Springfields nuclear fuels has at the moment and, secondly, what role you consider it might play should the Sizewell C project go ahead?

Sue Ferns: Certainly. At the moment, Springfields nuclear fuels faces a bit of a crisis, primarily due to the earlier than expected rundown and closure of the AGR—advanced gas-cooled reactor—fleet, which has been its major component of fuel manufacture, not the only but the major one. The effect of that is that from January of next year it will be producing only 55 tonnes of AGR fuel, compared with a normal load of about 200 tonnes. That obviously has implications for the workforce and it means that that plant will be operating in deficit as from January of next year.

There have been protracted discussions over the course of the year. We have seen two rounds of redundancy notices issued to the skilled and specialist staff on the site, and there is a danger, in the face of continued uncertainty, that more of those specialist skills and expertise will be lost.

I should say that fuel manufacturing is the key function of Springfields nuclear fuels but there is also much wider expertise. It provides a range of other services to the nuclear industry and is seen as a key part of the UK's nuclear expertise. We very much fear for the future and are in active discussions with the company and Government about that.

There is both a short-term and a longer-term challenge, and a longer-term opportunity. If more nuclear power stations are constructed in the UK, we can see a good fuel load for Springfields from about 10 years' time onwards, but the problem is that unless we solve the short-term hiatus in fuel orders, those skills and expertise will be lost and will not be easily recovered, if at all. The opportunity is for Springfields, as it was recognised in the nuclear sector deal, to continue as a centre of nuclear excellence and expertise as our unique UK fuel manufacturing capability, able to provide fuel to reactors in the UK of all types, and potentially to plants in other parts of Europe as well.

Q53 Dr Whitehead: Charlotte and Simon, you have been very involved in union representation at Hinkley Point C, and in the discussions on the transfer of skills and labour from Hinkley Point C, as it progresses, to the development of Sizewell C, as it progresses in its earlier stages. What is your view on the soundness of those possible arrangements, and what sort of saving to the project as a whole might arise from that doubling up of the workforce and skills between the two nuclear plants, and indeed the cloning of one nuclear plant with another in the Sizewell C model?

Charlotte Childs: The conversations that we have had with EDF in terms of building a nuclear supply chain, and the skills required to build both of those projects, and further projects, mean that the decision on the RAB funding model, hopefully leading towards a final investment decision in the near future, creates a really great opportunity for the timelines of those projects to line up, and for the skilled workforce who are needed at Hinkley Point to just about finish what they are doing there in time to move over to Sizewell. It creates certainty for the nuclear supply chain and for those who have gone through a training programme with Hinkley.

We have negotiated some industry-leading processes to ensure that people from the local area can go from low to no qualifications into qualified trades and apprenticeships. It creates an ongoing opportunity for those people and job security that we do not generally see in the construction sector. Time is of the essence. To maximise the benefit for the nuclear supply chain and drive down costs, because it is already in place, it is imperative that those decisions are made sooner rather than later.

Simon Coop: I reiterate those points. With regard to Hinkley Point C, it is really a no-brainer to adapt those transferrable skills and move them into Sizewell C in order to ensure that costs do not spiral out of control. There is a clear model already in use that we can learn from to move into Sizewell C. The timing of that

transfer is of the essence in ensuring that we do not lose the skills from one project and that we develop and move them forward into Sizewell C. Urgency is needed to move that project forward as soon as possible in order to maintain the skills from Hinkley Point at Sizewell C. Any kind of developments have to be in line with industry standards, and we also have to make sure that any misgivings or fore learnings that we establish from Hinkley Point C are clearly ironed out as we move forward to Sizewell C. The replica gives us the opportunity not just to learn from what we have done but at Sizewell C to improve and iron out any problems that we have had to maximise value for money for all vested parties.

Q54 Dr Whitehead: Is it your view that the present workforce in Hinkley understand that possible process, and that they have, in principle, a willingness to relocate should that sort of model go ahead in the development of Sizewell C?

Simon Coop: The UK workforce are absolutely flexible and they are highly skilled. In construction, the same key workers with the key skills have moved to projects. I do not see that being a major problem in future construction projects. As a result of talking to the company, there are already plans to transfer the operational skills at Hinkley Point B to Hinkley Point C. Those operational skills are currently transferring and people are keen to move on and use those skills at the Hinkley Point C project. There should be no difference in terms of transfer to future construction projects.

Q55 Alan Brown: My question is to Ms Childs. I got a letter from GMB Scotland asking me as a Scottish Member of Parliament to support new nuclear projects because of the jobs that they create. I certainly understand the value of jobs because I come from a constituency where we welcome new jobs, but does the £20 billion for Sizewell C give a good enough return on the jobs created? I would argue that that money could be used to create a manufacturing process or more jobs around the UK rather than that £20 billion being spent at one location. Have those types of discussions happened within the union?

Charlotte Childs: We are a member of that organisation, so the letter you received and the policy that we have set is based on a wide-ranging discussion with our members. In response to your suggestion about investment in manufacturing, it is not a this or that situation, is it? Scotland in particular has benefited greatly from the current nuclear civil generation, and the zero carbon generated by Torness and Hunterston B have contributed to southern Scotland consistently hitting the 2030 target, working alongside other renewables like wind to provide green energy. Without heavy investment in new nuclear projects we will not reach our net zero targets, and Scotland has set itself an even more ambitious target of 2045 to reach net zero. That simply will not be possible without having a consistent and reliable baseload that is net zero in its production of energy.

Q56 Alan Brown: Could that baseload not be created by tidal streams or other alternates that balance better with intermittent renewables?

Charlotte Childs: Those alternates do not exist yet and will not do so for a long time. The technology is not there in the short term to reach the targets that have been set in the near future. It is also about investing in UK skills and jobs, and the existing nuclear supply chain—Sue spoke of Springfields and the nuclear supply chain in place to deliver Hinkley Point C. As Simon and I have said, we need to ensure that the decisions are taken decisively and quickly to protect those supply chain jobs. The supply chain for wind, for example, which you have suggested in the past is a viable alternative to nuclear, is not within the UK. We have the skills and the capability, but we are currently importing turbine parts and steel from China to create the wind turbine fields that are currently being constructed. The £20 billion is a lot of money, but it will create an inordinate number of skills, prospects and social changes for the local area around Sizewell, as well as for the wider UK workforce and supply chain.

Q57 Alan Brown: Thanks. I agree with you about offshore being a missed opportunity for manufacturing in the UK, but tidal stream actually provides that opportunity. Ms Ferns, did you want to come in on that?

Sue Ferns: If you do not mind, I just want to add to what Charlotte has said. Our analysis shows that investment in nuclear is more jobs-rich than investment in other low-carbon technologies. We have done some work, based on Office for National Statistics data, that shows that each installed megawatt of nuclear capacity supports roughly 4.7 direct and indirect jobs, compared with 1.5 in offshore wind and 1.1 in solar. I would be happy to share that analysis with you if it is of interest.

Alan Brown: I have seen that—I know some of it is up for debate. It is also about operational jobs. I will happily discuss that further.

The Chair: Great. Unless there are any further questions from Members or our witnesses have anything particular to say that they have not said—I see no indication that that is the case—I thank our three witnesses very much indeed for their time before the Committee. Their evidence will be useful in our deliberations over the next couple of weeks, when we will consider the detail of the Bill. I call the Whip to move the motion to adjourn.

The Lord Commissioner of Her Majesty's Treasury (Craig Whittaker): I beg to move—*[Interruption.]*

Q58 The Chair: I am sorry to interrupt—it is a very dangerous thing to interrupt a Whip—but Ms Childs has one more comment to make.

Charlotte Childs: Apologies, but while I have this audience I want to touch quickly on the industrial relations model that we have in place at Hinkley Point. The benefit that it is creating for the workforce there could be transferred to Sizewell C, and amendments could be made to the Bill to entrench that within the process. We have a joint project board set up at Hinkley Point B, and the unions have an influential voice within it. A committee was also set up on site to deliver results for our members in industrial relations and health and safety, and we are putting agreements in place for the terms and conditions of those building the plant, and agreements are under discussion for those who will be operating the plant once it is finished.

It would be prudent for those who make the decisions to make amendments that require the nuclear company, as it were, to recognise established sector trade unions,

and to embed union access—or the requirement for union access—into the Bill, not just for the client and the tier 1 contractors, but for second and third-tier contractors, as we have on the HS2 project. The nuclear company should have regard to the security of its supply chain, and figures on UK content should be published.

The access that we have on Hinkley Point has created an environment where the GMB in particular is able to have really in-depth discussions with the client and tier 1 contractors on things such as equality and diversity and inclusion. We are currently working on projects to encourage women into the construction sector at Hinkley Point and to create an environment that will be welcoming and encouraging to women who want to come into the sector. Given the skills gap the construction sector currently faces and is heading towards, it is important that that work is done with both employer and trade unions to ensure that we get that right for the workforce. While I had the floor, I wanted to suggest that union access was put into the Bill.

Q59 The Chair: Thank you for that; that is very useful, and I am sure it will provide inspiration for those seeking to table amendments to the Bill. Mr Coop?

Simon Coop: On the investment question, which I did not respond to at the time, it does seem significant, but in order to have balanced UK energy security moving forward, that investment has to be put in place. There is no doubt, as we look at the streams of nuclear energy, that a fleet of nuclear energy is needed, and this Bill should not be just in line with Sizewell C; it should be a Bill that moves forward a nuclear fleet. We are in a position where, by 2025 and 2030, there will be clear problems in nuclear generation, as six stations will be coming off stream at that point in time. For a clear, balanced energy policy, nuclear, along with renewables, solar and wind, has to be a part of that—not just as a back-up situation, as some people state, but as an integral part of the UK's energy moving forward. That has to be key.

On collective bargaining and union agreements on sites, there is no doubt that unions build clear relations and the highest health and safety standards, which in turn will definitely mean that any project has more chance of succeeding within budget because of the clear integrity of the health and safety situations through joint agreements.

The Chair: Thank you very much.

Ordered, That further consideration be now adjourned. —*(Craig Whittaker.)*

10.47 am

Adjourned till this day at Two o'clock.

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

NUCLEAR ENERGY (FINANCING) BILL

Second Sitting

Tuesday 16 November 2021

(Afternoon)

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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

Saturday 20 November 2021

The Committee consisted of the following Members:

Chairs: †Yvonne Fovargue, James Gray

Baker, Duncan *(North Norfolk)* (Con)
† Blackman, Kirsty *(Aberdeen North)* (SNP)
† Brown, Alan *(Kilmarnock and Loudoun)* (SNP)
† Browne, Anthony *(South Cambridgeshire)* (Con)
† Cairns, Alun *(Vale of Glamorgan)* (Con)
† Crosbie, Virginia *(Ynys Môn)* (Con)
Doyle-Price, Jackie *(Thurrock)* (Con)
† Duffield, Rosie *(Canterbury)* (Lab)
† Fletcher, Mark *(Bolsover)* (Con)
† Hands, Greg *(Minister of State, Department for Business, Energy and Industrial Strategy)*
† Jenkinson, Mark *(Workington)* (Con)
Owen, Sarah *(Luton North)* (Lab)
† Pennycook, Matthew *(Greenwich and Woolwich)* (Lab)
Wallis, Dr Jamie *(Bridgend)* (Con)
† Whitehead, Dr Alan *(Southampton, Test)* (Lab)
Whitley, Mick *(Birkenhead)* (Lab)
† Whittaker, Craig *(Lord Commissioner of Her Majesty's Treasury)*

Sarah Ioannou, Rob Page, *Committee Clerks*

† attended the Committee

Witnesses

Richard Hall, Chief Energy Economist, Citizens Advice

Chris Ball, Managing Director EMEA Nuclear, SNC Lavalin

Dawn James, Vice President Nuclear, Jacobs

Cameron Gilmour, Vice President Nuclear, Doosan Babcock

Alan Woods, Director for Strategy and Business Development, Rolls Royce

Tom Thackeray, Director for Decarbonisation, Confederation of British Industry

Tom Greatrex, CEO, Nuclear Industry Association

Rebecca Groundwater, Director of External Relations, Energy Industries Council

Mycle Schneider, World Nuclear Industry Status Report

Professor Stephen Thomas, Emeritus Professor of Energy Policy, Greenwich University

Doug Parr, Policy Director and Chief Scientist, Greenpeace UK

Public Bill Committee

Tuesday 16 November 2021

(Afternoon)

[Yvonne Fovargue *in the Chair*]

Nuclear Energy (Financing) Bill

2.1 pm

The Chair: Can I ask if there are any declarations of interest?

Mark Jenkinson (Workington) (Con): Chair, I would like to bring to the Committee's attention my entry in the Register of Members' Financial Interests. It is a matter of public record that I worked in the nuclear industry prior to my election.

The Chair: Thank you.

Examination of witness

Richard Hall gave evidence.

2.2 pm

The Chair: We will now hear from Richard Hall, chief energy economist, Citizens Advice, who is appearing via video link. We have until 2.30 pm for this session. Welcome, Mr Hall. Would you like to introduce yourself?

Richard Hall: Good afternoon. My name is Richard Hall. I am the chief energy economist at Citizens Advice. Citizens Advice has a statutory role to act as a consumer representative in the electricity and gas sectors. That comprises a research and advocacy function in terms of trying to understand the issues consumers face and propose better solutions for them; an advice function in terms of helping consumers to understand their rights and options that is provided through our bureaux, our website and a telephone consumer advice service; and providing advanced support to consumers with difficult complaints or issues through an extra help unit that is shared between ourselves and Citizens Advice Scotland based in Glasgow.

The Chair: Thank you very much. Dr Alan Whitehead would like to ask a question.

Q60 Dr Alan Whitehead (Southampton, Test) (Lab): Good afternoon, Richard. I will start the questioning by asking you to reflect on your consumer protection role at Citizens Advice and how you feel that the regulated asset base arrangement protects, or otherwise, consumers and their bills. For example, I know that you made a submission to the RAB consultation when it was under way, which made a number of points about how the customer might be best protected in a RAB situation of the size of Sizewell C and about the risks that might be run as a result of dealing with a project that has so many uncertainties in cost and timing. Could you expand on that for us?

Richard Hall: Yes, certainly, Alan. There are good reasons to think that a RAB model could reduce the cost of capital associated with bringing forward new nuclear projects, but it is important to be mindful that consumers are not simply exposed to the cost of capital; they are also exposed to the volume of capital. That is relevant in the case of nuclear because nuclear projects have a track record of coming in over budget and behind schedule.

If you look at the impact assessment that the Department for Business, Energy and Industrial Strategy published alongside the Bill, it highlights that, on average, new nuclear projects of the nth of a kind—not the first reactor of a particular model to be built, but an iteration of it—have come in 20% over budget within Europe and 100% over budget worldwide since 1990. It also highlights that nuclear projects within Europe have suffered construction time overruns averaging 40% following the final investment decision. The average is 90% on a worldwide basis since 1990. This matters to consumers because, under a RAB model, unlike a contracts for difference model, they are exposed to the cost overruns and to the time overruns if they occur in a different way.

Perhaps to unpack what we mean by that, I should point out that under the CfD model that was adopted for Hinkley Point C a price is guaranteed to the developer for every megawatt-hour of output it produces, and that is inflation-linked, but consumers do not become liable to start paying those costs until the plant is operational. Those costs are pay on delivery. Consumers are not expected to pay in advance of the plant being there. Under a RAB model, consumers would start paying towards the cost of the plant from the time the construction commenced. Indeed, the Bill as it is drafted allows for that. If there are construction cost overruns, consumers will essentially be paying for a benefit in terms of a production facility that is not actually being delivered yet. That is the point about construction time issues.

On cost overrun issues, while the strike price that was agreed for Hinkley Point C appears to some commentators to be quite high, it has the advantage to consumers of being, in effect, an all-in price. If the cost of the build project escalates over time, those escalating costs will have to be met, but they would be met by the developers; they would not be met by consumers. Essentially that risks sits with investors. Under the RAB model, however, it is likely that any cost escalations would be shared between the consumers and investors. At this stage, we do not know exactly how. The BEIS consultation from the autumn of 2019 suggested that it might look at putting in place mechanical sharing factors between the developer and consumer. That means if the construction were to run under or over budget, a proportion of the benefits or additional costs would be borne by the investors and the developers, but a proportion would also be borne by consumers. On that, it is important to be aware that although the developers have some control over construction because they are in control of the overall project, consumers do not have any control over the risk. Essentially, they are the passive recipient of the risks.

In a nutshell, the concern that we have is that if a project were to come in on budget, RAB looks like a very good model potentially, but there is a strong historical track record that suggests that projects may not come in on budget. Under the RAB model, consumers may be exposed to significant cost overruns as a consequence.

Q61 Dr Whitehead: Thanks very much for that. I am sure you understand, having looked at the Bill, that the mechanism that is in place at the moment for the sort of overruns you mentioned is a revision of the allowable costs. That would be at the Secretary of State's discretion to reformulate as far as RAB was concerned. That would then follow on into additional calculated costs for consumers as the RAB was re-costed according to the overruns. Do you have any thoughts about whether that is a good enough system for the protection of overall consumer interests, or are there ways that you might want to modify that to make sure that the allowable costs ceiling that was initially set out was, indeed, either shared by developers and consumers in future or might be considered for different methods of financing should it be breached?

Richard Hall: There is a lot in that question. I will try to unpack it if I can—there was something about methods of financing, and something about cost caps too. Regarding cost caps, the Bill envisages that there would be a funding cap essentially—a point at which, if costs escalated significantly above the expected spend, the Secretary of State would be prompted to take a decision on what should happen with those additional costs. I do not believe that the face of the Bill actually stipulates what that materiality would be, and I think it also leaves that decision very much at the Secretary of State's discretion, so there is the potential that they could simply acknowledge that there was a problem, but continue to put those costs on to consumer bills. That seems to be fairly vague: it leaves room for ambiguity on what a Secretary of State might do in that type of scenario in future.

A couple of things could be done to try to mitigate consumer costs. The first is that the sharing factors that are set out—they are not set out in the Bill; they are to be agreed between the Department and the developer, as to who bears the costs if there are significant cost overruns—should be slanted towards the developer facing most of those costs. Again, that is because consumers have no ability to control those costs whatsoever, whereas the developer does have the ability to control some of those costs. Effectively, that risk needs to be borne as much as possible by the developer. It should be borne in mind that, obviously, that creates some interactions with the cost of capital: effectively, the more you de-risk the developer, the more you reduce the cost of capital, but given that you are only doing that by pushing those risks on to consumers, we think it is probably better to ensure that the developers are subject to as sharp incentives as possible to build it on time.

Turning to the other areas that I think would be of assistance, the Bill envisages that the developer would have a right to appeal any decisions that Ofgem made on the price control that had been agreed for the developer. Intuitively, those appeals are only going to go in one direction—that is, if the developer feels that a settlement is not generous enough to it. It is hardly going to appeal if it feels a settlement is too generous. I notice that elsewhere, in terms of many aspects of energy governance, where appeals processes exist, they are bidirectional: they allow for someone to appeal that a settlement is too tough, but they also allow for people to appeal that a settlement is too weak. We think that type of approach should be followed here: if the developer has the right of appeal to basically ask for more money, other interested parties should have the right of appeal to argue that there should be less money, so there is bidirectional scrutiny and tension there.

A second area in which I think we could help to bear down on costs is that it is quite important that some form of independent third-party impact assessment is made of the key terms of any deal that is agreed under this Bill, and published before that agreement becomes legally binding. I would also like parliamentarians such as yourselves to have an opportunity to see the headline terms of any agreement and that independent third-party impact assessment, and to be able to scrutinise those costs before the agreement becomes legally binding. If that seems like it might be quite an unusual thing to do, because obviously Parliament does not micromanage individual infrastructure purchases, we would argue that it is justified in this case, because we are talking about building assets that will—even at the most conservative estimate—cost consumers tens of billions of pounds, and those costs will be recovered from consumers for potentially 50 or 60 years.

Dr Whitehead: Thank you.

Q62 Matthew Pennycook (Greenwich and Woolwich) (Lab): Richard, you have spoken with great insight about the balance between the advantages of the RAB model and the risks that come with it for consumers, and also about how those consumers might be better protected. Will you give the Committee your take on what we have learned from those infrastructure projects that have benefited from a RAB funding model, such as Thames Tideway or Heathrow terminal 5? Was the peak of costs on consumers within the estimated range at the start of the project, leaving aside cost and time overruns? How accurately can you predict the peak cost for consumers and ensure that it comes within a set range, if—as may be the case—amendments to protect consumers are not ultimately adopted? How accurate is the forecasting of the total impact on consumer bills?

Richard Hall: On those two specific projects, Heathrow and Thames Tideway, I cannot give any insight. I am not particularly close to those individual cases. It is fair to note that in both cases the cost of capital brought forward by the model seems to have been low, in particular in the case of Thames Tideway. On nuclear, I simply go back to the point that there is a large base of literature looking at historical cost overruns and the extent to which things come in on budget. That tends to display fairly consistently that these types of projects are very likely to be subject to optimism bias at the time that they are procured—a belief that they will be cheaper than they actually will be.

In addition to the costs and dates I mentioned from the BEIS impact assessment suggesting the average levels of cost overruns, look at a couple of other examples from academia: Sovacool et al. looked at a global example of 180 new nuclear plants and found that 97% of them came in over budget and that the average cost overrun was 117%; and Flyvbjerg et al. found that in a sample of 194 nuclear plants, the median cost overrun was 68% and the median schedule or construction-time overrun was 40%. That is a fairly large sample set of projects, and the analysis tends to suggest considerable optimism bias for new nuclear—it tends to come in late and over budget.

Q63 Matthew Pennycook: I have one follow-up question. Leaving aside the particular problem historically in nuclear projects with overruns, will you elaborate on how the order of magnitude with this particular RAB—or a RAB that the Bill would facilitate for something like Sizewell—increases the amount of risk for consumers vis-à-vis those RABs that have been used on other infrastructure problems, which are smaller? Does the order of magnitude of the potential RAB we are talking about—independent of the dynamics around nuclear—inherently increase the risk significantly, just because it is so much bigger?

Richard Hall: I think potentially it could, simply because of the scale of the project. The cheapest cost estimate in the impact assessment is that, for a Hinkley Point C-sized plant put forward on the RAB model, it would cost about £24 billion. That is the cheapest estimate, so we are talking about extremely chunky consumer spend.

Matthew Pennycook: Thank you.

Q64 Alan Brown (Kilmarnock and Loudoun) (SNP): Richard, following on about costs, you said that Hinkley Point C was estimated at £24 billion. Even if we say that Sizewell is £20 billion, we heard that Rolls-Royce is hoping to build five small modular reactors, which will be about £10 billion. If we look at consumer protection, value for money and achieving net zero—particularly heat decarbonisation—if I gave you £30 billion, would you spend it on nuclear, or would you do something different with such levels of capital?

Richard Hall: It is hard to see a case for this being the most cost-effective way to spend money on generation. A lot of the argument for whether we need new nuclear or not comes down to whether it is perceived as being useful to provide a balanced generation mix, so that it is available when other forms of low-carbon generation are not available. On that point, I note that the Government are more confident on the need for new nuclear than some of their advisers are. The Committee on Climate Change's sixth carbon budget work from last December shows a range of pathways to net zero by 2050, some of which involve new nuclear. It talks about it being "possibly" needed, not definitely needed.

The National Infrastructure Commission's 2018 national infrastructure assessment recommended that the Government consider bringing forward one new large-scale nuclear plant in the 2020s—but only one, suggesting that in general terms the cost reductions in renewables were so sharp and likely to continue that a pivot to renewables appeared a better bet than backing nuclear more forcefully.

The case for whether new nuclear is needed is ambiguous at this stage. Could you get better value for money from investing in other things? I think the challenges of making our homes energy-efficient so that we stop spending so much on energy and reduce emissions should be tackled as a priority.

Q65 Alan Brown: We heard this morning from the Sizewell C company that it is looking for a 60-year contract under the regulated asset base model. Do you have concerns about consumers getting locked into a 60-year payback period? Given that the longest operational lifespan of a UK nuclear power station has been 40 years, 60 years is 20 years beyond that maximum. Does the Bill need to address the risk of consumers paying for a nuclear power station that has reached the end of its life and is not generating?

Richard Hall: I certainly think that the risk of it being brought out of service earlier than expected has to be borne by the developers rather than by consumers. There is no way in which consumers can forecast or manage that risk.

On affordability over 60 years, we are talking about a 60-year lifespan, but there may be another 10 years in addition for construction, so we are talking about a payback period that, if we had the decision now, might continue until 2091 or towards the end of the century. It is extremely hard to know what options will be available to consumers 10 or 20 years out, let alone 70 years. It is hard to forecast whether it will offer consumers good value for money over that period.

One can only note that the cost of alternatives—renewables, storage and so on—has fallen rapidly over time. There is some risk of buyer's regret: an option that looks cost-competitive today might look quite cost-uncompetitive quite rapidly.

Q66 Alan Brown: We also heard this morning that disposal of radioactive waste is built into the up-front cost and becomes part of the 60-year payback. Is there any way of ensuring that the risk stays with the developer? Might the risk transfer to the consumer? If a company became insolvent, who would be responsible for decommissioning and disposal of the waste?

Richard Hall: That is a good question. If the special administration regime were to be used, I understand that effectively it would mean that the special administrator would be taking on that risk. That may mean that it became a public liability. I do not know how a special administrator would sell on that risk to others.

In terms of where it would be borne if the special administration regime were never used, I think that would come down to the terms of the contract agreed between the Government and the developer. In its current form, the Bill basically enables the Government to enter into negotiations with a developer to agree a contract based around the RAB model, but the details of that contract are not contained in the Bill. Earlier, I said that I thought it very important that an independent third-party impact assessment be laid before Parliament after a deal is struck but before it becomes contractually binding. That would provide the opportunity to understand where the liabilities would sit in that type of situation.

Q67 Mark Jenkinson: Obviously, I have heard what you just said about nuclear. Since Hinkley, we have taken an annualised payment from operators to deal with waste and decommissioning. It is not something that we have to deal with later in the special administration regime. I gather you have an anti-nuclear stance. Does the CAB have a preferred route to providing consumers with electricity? You have spoken a lot about renewables and the cost of renewables, but when we factor in constraint payments and various other issues, such as back-up, it becomes a very expensive way of delivering energy to the most vulnerable in society. Does the CAB have a view on a preferred electricity generation route, and if we are to build nuclear, do you have an alternative preferred model to RAB?

Richard Hall: We do not have an anti-nuclear stance; we are technology neutral. In terms of the options between bringing forward new nuclear or leaving catastrophic climate change unchecked, there is no question that nuclear is an option that can help us to reduce our emissions and tackle the climate change crisis. We do not have concerns on the technology itself, and whether it can be done safely and so on. Our concerns are simply around cost. It looks like a costly option compared with others.

On whether we have a preferred approach, because we are technology neutral we do not have a preference for any particular technology over others. I would simply highlight such things as the analysis of the Committee on Climate Change, which showed a range of possible pathways to 2050 that it considered to be affordable. Some of them involved nuclear and some of them did not. It appears that there is a choice to be made.

The Chair: I think this will be the last question to the witness.

Q68 Dr Whitehead: Richard, you said earlier that under a CfD model, consumers do not pay anything regardless of overruns other than what they committed to pay through the CfD strike price, whereas in a RAB model, as we have discussed, they are committed to paying throughout the process and may well incur additional costs under a cost ceiling increase. In the impact assessment, it appears that the difference in the cost under a CfD model and under a RAB model was calculated on the basis of consumers paying in full for overruns through a CfD model. Do you agree that that is perhaps not an accurate way of putting it? If so, what sort of difference will that make to the suggestions of the savings between the two models put forward in the impact assessment?

Richard Hall: Yes, certainly. Paragraph 4.2 of the impact assessment sets out a range of tables showing what the estimated construction and financing costs would be for a Hinkley Point C-sized power station in a range of scenarios: under a CfD with 20% cost overruns, or with 100% overruns, or under the RAB model at various different costs of capital—

The Chair: Order. I am afraid that that brings us to the end of the time allotted for the Committee to ask questions. On behalf of the Committee, I thank you very much, Mr Hall.

Examination of Witnesses

Chris Ball, Dawn James, Cameron Gilmour and Alan Woods gave evidence.

2.30 pm

The Chair: We will now hear from Chris Ball, managing director of EMEA nuclear at SNC-Lavalin, and Alan Woods, director for strategy and business development at Rolls-Royce, both of whom are giving evidence in person. We will also hear from Dawn James, vice-president of nuclear at Jacobs Engineering Group, and Cameron Gilmour, vice-president of nuclear at Doosan Babcock, who are both giving evidence via video link.

We have until 3.30 pm for this session. Could the witnesses please introduce themselves for the record?

Chris Ball: I am Chris Ball, managing director of the Europe-middle east business at Atkins SNC-Lavalin.

Alan Woods: I am Alan Woods, director of strategy and business development for Rolls-Royce SMR.

Cameron Gilmour: Good afternoon. I am Cameron Gilmour, and I run the nuclear business at Doosan Babcock.

Dawn James: Good afternoon. I am Dawn James, the vice-president responsible for the nuclear power business at Jacobs.

The Chair: Thank you very much. Are there any questions for these witnesses? I call Virginia Crosbie.

Q69 Virginia Crosbie (Ynys Môn) (Con): I welcome our witnesses. There has been a lot of talk about the impact on consumers of CfD versus the RAB financing model, particularly with respect to large nuclear projects, which often face construction delays and overruns. What is the difference between the impacts of RAB financing and of CfD on consumers?

Chris Ball: We talk about the RAB model, from the numbers that I have heard, probably putting about £1 on to consumer bills on a monthly pay-in. To put that into the context of some of the price increases that we have seen through the energy sector over recent weeks, we are probably talking about an 80% increase from some of the figures that I have seen. I have been looking at this with elderly relatives as well.

When you look at the RAB model in terms of the impact on consumers, there is a cost associated with that—of course there is. It is very limited compared with many other models, and we have to take the long-term view in the energy sector. That is something that the energy sector has been sadly lacking for many, many years. We have to take that 2050 view. It represents very good value for money in the big scheme of things.

Alan Woods: We welcome any model that helps the deployment of new nuclear. From a Rolls-Royce SMR perspective, if we were to deliver our power plant under a RAB, we estimate that it would be capable of getting in the order of £35 a megawatt-hour, whereas a CfD mechanism would be in the order of £60 a megawatt-hour. That is the different that we would forecast.

In terms of one against the other, it comes down to a question of risk. Our whole programme is designed to eliminate risk, particularly construction and build risk, and to move away from what we would call a one-off infrastructure project to a factory-repeatable product that means we can build certainty into the design. We believe that we can use the CfD mechanism for our plants. We believe that we can raise the private capital to fund that, and that is something that we will be exploring in the coming weeks and months.

Dawn James: The way that I look at this, large gigawatt-scale nuclear power stations require a huge up-front investment. Under the CfD model, looking fundamentally at the costs over time, there are a huge number of hidden costs associated with financing these projects, and those costs over time will essentially all be passed on to the consumer.

Under the RAB model, by driving down the uncertainties associated with financing costs because of risk, we are able to actually—

The Chair: Ms James, I am afraid your evidence is not very clear. Could you move nearer the microphone?

Dawn James: I do apologise. I will do that. Is that clearer?

The Chair: Thank you.

Dawn James: The costs associated with the CfD model are passed on to the consumer over a much longer period of time. Because the capital investment is so much greater due to financing, ultimately the cost to the consumer is much greater than it would be under the RAB model.

Cameron Gilmour: I largely echo the points made by all three of my colleagues. When we look at the Hinkley Point C case, the financing cost within the CfD is the largest amount within the rating—over £82.50. The cost of construction at Hinkley is actually a small element—£11—of that CfD price. The more we can introduce a more economical financing model, that is obviously of benefit to the consumer down the line, so we welcome that.

The Chair: Thank you. Anthony Browne or Virginia, did either of you have a follow-up question?

Q70 Anthony Browne (South Cambridgeshire) (Con): Yes, thank you, Chair. I just want to clarify something. Mr Woods, did I hear you correctly when you said you could finance your smaller reactors from contracts for difference as well as a RAB model?

Alan Woods: We believe we can, yes. It is worth noting that our plant is an order of magnitude different to the larger ones in terms of the capital. It is also different in terms of the time it takes to build and in the fact that we have completely changed the risk profile. As I say, this is a factory-built product and it is something we are used to.

Q71 Anthony Browne: Do you not have the construction risk that others have?

Alan Woods: We have removed a lot of the construction risk. We have what is called our fourth factory, so we actually assemble our modules on site in a controlled factory environment. This allows us to remove and reduce that risk profile. It is a completely different ball game.

In that regard, we believe that we can attract private capital. We spent some time at COP26 last week and there is an appetite in the financial markets for investment in projects that can demonstrate an acceptable risk profile, which we believe we can. It is up to us to demonstrate that and to attract that private finance, but we think that is doable.

Q72 Anthony Browne: Is that irrespective of whether you have the CfD model or the RAB model?

Alan Woods: I am referring there to the CfD model. If we have the CfD, which is essentially providing some certainty of returns, then that certainty of returns, coupled with the fact that the risk profile of our product is completely different, represents an attractive financial investment.

Q73 Anthony Browne: From what you are saying, if you had the option between CfD and RAB, it sounds as if you would choose CfD?

Alan Woods: Well, look, if RAB is available then RAB is great. If you have got that high-risk profile, it will provide even better value to the consumer. From our perspective, the pace is also important and RAB is not legislated for yet. CfD is an available mechanism that is tried and tested, and we believe we can make it work. Therefore, to operate at pace, our preferred route at the moment would be to move forward with the CfD approach.

Q74 Anthony Browne: If you moved ahead with the CfD approach, would you be able to switch to the other approach when it is legislated for?

Alan Woods: Yes, sure. There is nothing stopping you.

Anthony Browne: Change horses.

Alan Woods: Yes, it is no secret that SMRs work by building a fleet. How you finance each SMR does not mean they all have to be financed the same way. We are also looking at models for the future, looking at the net zero challenge. The scale of energy or electricity generation that we will need to decarbonise things like heat and transport, or for synthetic aviation fuel, hydrogen and so on—it will take an enormous amount of electricity to make those new fuels. We see a world where you might need to do that on energy campuses that operate in an off-grid manner to maximise that value. In that kind of a regime in the future, we may be able to build these under a separate, more simplified PPA model.

Q75 Anthony Browne: I am interested in similar questions to the others. Chris, do you think the RAB model will be sufficient to encourage enough private capital to build a new generation of nuclear power stations, separate from the Rolls-Royce plant?

Chris Ball: Yes. I would take it back a step, actually, because we cannot let this conversation become either/or; it has to be both. I say that because, if you look at the future net zero world, the general view is that we should electrify as much as possible and then decarbonise the electricity supply industry. The electrification will probably double our demand on the grid and will probably lead to a tripling of our capacity on the grid, because a large amount of it is intermittent renewables.

There are various studies out there and everyone has a different view, but broadly speaking a quarter of the grid should be—will have to be—firm power, for a host of reasons, not least the storage costs escalating almost exponentially with increased of renewables penetration. We are talking around 50 GW of firm power, or 50 large plants; Hinkley is 3.2 GW. You have two main sources for that. The first is gas with carbon capture and sequestration. By the way, that energy sector has risks; there is no large-scale carbon capture and sequestration plant in the UK, but some of the modelling suggests that we would have to capture and sequester in the UK alone four times the current world capacity of carbon capture and sequestration. The other source is nuclear. This should not become an either/or conversation. This should be a conversation about how we make sure that the CCS market starts moving, the SMR market starts moving, and the large-scale nuclear market starts moving.

For context, we need to build something like 9 GW a year across all technologies—firm power and renewable power—between now and 2050. If you go back over the

last 60 years, our peak output is of the order of the construction of 6 GW a year, averaging at 3 GW, so we have to treble the average output every year for the next 30 years, working to the 2050 timescale. This has to be a conversation about all. There is no doubt that, to push large-scale nuclear forward, the RAB model seems to the most appropriate method.

Q76 Anthony Browne: That is very interesting context. To come back to my question, will the RAB model be enough to attract sufficient capital, particularly from UK investors, to fund the building of the capacity you say is needed?

Chris Ball: This is not really my area of expertise; I suggest you are better off asking other people about that. The big piece for me is the risk allocation within that model—where risk sits. There is a balance there. From listening to some of the earlier evidence, clearly the more risk that is transferred to the developer, the more attractive that might become to some investors. The flipside of that is that you are starting to move to a scenario where risk is priced in through the delivery vehicle. That is a trade-off that I would be very careful of. I will limit my comments to that area.

Q77 Anthony Browne: Dawn, do you think the RAB model is sufficient to encourage the investment into the nuclear industry that we need to build the capacity to get to net zero?

Dawn James: I hope you can hear me okay now. I am not an expert in the field of investors, but building on what Chris said, it would certainly bring more developers into the UK. As I think you are all aware, a number of programmes have started then stopped, including at Wylfa and Moorside, and that is largely down to issues around financing. So yes, I believe that the RAB model will definitely attract more investors and developers, which, as you just said, is critical to our meeting our net zero target.

Q78 Anthony Browne: Cameron, the same question. Do you think the RAB model will be sufficient to attract enough capital to build the nuclear power stations we need?

Cameron Gilmour: Looking at some of the detail and how the Bill has been written, it seems to be designed to encourage that investment. Again, I am not a financial expert, but it is encouraging to see that nuclear is recognised as playing a key part in our journey towards net zero. From an investment perspective, it becomes something that the Government want to invest in and commit to, so you would say that has to be an encouraging sign for any potential investors.

Q79 Anthony Browne: Do you have any particular view about the role of Ofgem as set out in this Bill? Does Ofgem have the capability to regulate a RAB model in nuclear power? Obviously it is whole new area of interest and expertise for it.

Alan Woods: I notice I keep getting questions first, so I have less time to think of the answer, but—

Anthony Browne: I can ask Chris first if you want.

Chris Ball: No, that's fine. *[Laughter.]*

Alan Woods: Look, clearly there needs to be a regulator, and a regulator is needed to regulate the way RAB is deployed and managed. From our perspective, Ofgem is as good a point to start as anywhere.

Chris Ball: Clearly this creates a new demand, and there is a need for additional capacity somewhere to oversee the management of the RAB model. I think the question is whether Ofgem is best placed to do that, and the answer is: possibly.

The other piece that I would look at is, ultimately, where our country's energy system architect is now. Who is defining the way in which our energy system should look and operate in 2050? Is there benefit in establishing a new energy system architect who takes decisions on the future power mix, and actually putting into that system architect the capability to oversee investments in all sectors? I think that is one of the reflections that I would have about the controlling mind in how we reach that 2050 net zero energy system.

Q80 Anthony Browne: Would that not be the role of Government—of BEIS?

Chris Ball: It may well be within Government and BEIS, absolutely. But I think we do need that capability firmly established in one place. I am not suggesting it should necessarily sit outside of Government or BEIS, but we should have a clear collection of people under that title as the controlling mind.

Anthony Browne: Okay. That is all my questions, thank you.

Q81 Alun Cairns (Vale of Glamorgan) (Con): This is a question just for Mr Woods—sorry—because of the small modular reactor interest. The benefits of RAB for the industry and for traditional build are quite obvious, but there are still risks. There is a risk in construction, and therefore costing that risk and building it into the RAB financing is a challenge. We were given evidence this morning by those who believe that a fleet will mean that things de-risk as we go along. There is, at least, a concept, and there is a proven record of design that works, but that is not necessarily the case with SMR. I am playing devil's advocate. I can see that RAB would be extremely attractive to SMR going forward, but we are still at the concept stage, rather than having proof that it works in the way that we all hope it will.

Alan Woods: Let me break that down in terms of the proven part. Our design and our plant use proven technology. At the base of the reactor island, there is a pressurised water reactor. It is the same as what Rolls-Royce has designed, built and operated for the past 60 years in the submarine programme. We do not have the same set of requirements as the submarine programme, but it is the same core technology. Is it proven? Yes, it is absolutely proven. We know it works and that we can build it. We are building them today.

The rest of the turbine island plant is designed to use products that are already available in the market today. We are not designing a power plant that requires us to invent a specialist product here or a specialist product there and that has never been made before. It is designed to use products that exist in the market. Even though it is a steam turbine, it is a commodity product we can buy. All the constituent parts at our plant are proven technology. Our civil module approach has been proven

by our partner, Laing O'Rourke, which is making modules of this nature today at Worksop. We will expand that facility to replicate and grow that module manufacturing capacity. The constituent parts are all proven. There is no technology innovation at the plant that is questionable as to whether it will reach the right technology-readiness level.

Then we come to our ability to manufacture and join the modules together. Again, this is not a technology challenge. It becomes more of a logistical challenge and there is plenty of evidence in other industries—in fact, inside Rolls-Royce—where we manage those logistics from the supply chain to the module facilities to the delivery to site and to the installation and commissioning of them.

I do not accept that we are not proven technology; we absolutely are. As I said, we have built into the design, intentionally from the outset, technologies and features that remove the risks associated with traditional construction. It is no longer a very large construction project; it is a factory of products. For example, when we build the power plant, we assembly the modules on site where an average of 500 people are assembling the parts. We do that to move those jobs into the module facilities and the supply chain and into the factory environment where we are manufacturing the same products over and over again in a production line environment.

Alun Cairns: Thank you.

The Chair: Do any of the other witnesses want to answer the question?

Chris Ball: There are two aspects to the question. First is the one about proven technology, which Alan has covered. Secondly, there is taking the lessons learned and leveraging the skills and capability within the UK nuclear industry. If we look at Hinkley Point C from unit 1 to unit 2, we see broadly in the order of a 20% reduction in time scales and costs as we take the lessons from unit 1 on to unit 2. Clearly, if we carry on with that same trajectory at Sizewell C, it will be 40%. I am not suggesting that it would necessarily get to 40% but one would assume it would be in excess of 20%. That is a benefit. Going back to the RAB model, leveraging the experience of Hinkley Point C affords good protection against the risks of cost and schedule overrun. Equally, leveraging those lessons into the SMR programme and from the skills and capability that have been built up on existing nuclear programmes is the benefit from all programmes.

My big fear for us as an organisation, which has several thousand engineers in the UK, is that disruption to workflow means that we lose the lessons learned from the industry. That is not to the benefit of the UK, job creation and the cost of our energy.

The Chair: Dawn, do you wish to comment?

Dawn James: I merely wish to echo Chris's point that intelligence replication will drive down risks and costs significantly. I really wish to impress on everyone the need for pace in getting the Bill through. A huge number of jobs are at risk across the whole UK.

Can you not hear me very well?

The Chair: Not very well at all, I'm afraid. If you'd like to speak up.

Dawn James: I have never been accused of this before. I was echoing Chris's point about the benefit of intelligence replication and how it will reduce risks and therefore drive down costs. I was also pressing the need for pace in moving the Bill through so that we retain the skills and the knowledge as we move from Hinkley to Sizewell. That is where a huge amount of value can be realised.

The Chair: Cameron, do you have anything to add?

Cameron Gilmour: I will be brief. The thing to remember is that the Sizewell C project is global European pressurised reactor Nos. 7 and 8, so the core technologies are proven and operational in a civil nuclear power plant right now. The important thing for the industry is that we generated the continuity and recreated our nuclear expertise in the UK when we started on Hinkley Point C. We have learned a huge number of lessons and we have created a lot of energy in the industry and on the programme. I echo the points made about pace and moving forward. If we give people continuity of employment and the long-term horizon, we will retain the skills and the knowledge. Those skills will be there not just for the gigawatt plants that we can build but for SMRs. For me, this is a crossroads not just for the engineering and construction industry but for the nuclear industry. The skills have been hard earned, and the lessons have been hard learned, so we have to capitalise on that and move forward quickly.

Q82 Alan Brown: Mr Woods, earlier you spoke about possibly delivering SMRs with a contract for difference mechanism. What sort of contractual period would you be looking for? Hinkley, at the moment, is a 35-year CfD.

Alan Woods: That would depend on a number of factors, including the expected rate of return that the investors were looking for and the value of the CfD itself. In the previous session you were talking about having a requirement for 60 years to pay back on. It would not be that long for an SMR because the capital cost is that much lower and the speed we can build them that much quicker, particularly once we have reached that nth unit and we are rolling them off the production line. The payback period will therefore be a lot quicker, and that will reflect what is available on the CfD. It becomes a balancing act.

Q83 Alan Brown: Okay. If I understand the concept of SMRs, it is factory modular production, but the theory seems to be that repetitiveness drives efficiencies as well, so the costs come down. That effectively relies on a multiple order. Would you be looking to get a multiple order or would each contract be negotiated individually, be it RAB or CfD?

Alan Woods: There are two things to say on that. First, it is not just about repetition to get down the costs of SMR; there is a core reduction in the capital cost per megawatt purely driven by that factory approach. Taking jobs off an external site environment and moving them to a factory delivers immediate portable efficiencies anyway in terms of the efficiencies that we get out of the people and the product. The method of manufacture and build reduces the capital cost to start with. What was the second part of the question?

Q84 Alan Brown: I was asking whether you need a multiple order, and would the contracts be individual or part of a multiple order?

Alan Woods: We need to have a pipeline of orders, mainly for us to underpin the investment in the factories, and for the supply chain to underpin the investment that it is looking for in its own facilities and capability capacity. They do not all have to be in the UK. Certainly, we are equally looking at export markets to deliver that order book and line of sight to orders.

The other critical point is that to take advantage of the reduced capital of an SMR, it is beneficial to look, in certain circumstances, at an SMR as a single product. If we start grouping them together in chains of four, five or six as a single project, all of a sudden the capital goes higher and you have a similar position, in some respects, to raising large amounts of capital for single projects. There is a benefit to be had from treating SMRs in smaller multiples, but we need line of sight to orders off the back of the first order or two for us to get the confidence to build the factories, and for the supply chain to invest behind us.

Q85 Alan Brown: On what timescale do you think you could have the first SMR constructed and operating?

Alan Woods: We have a very detailed schedule to get us to the first of the fleet, as we call it, operating by 2031. The first one has a number of activities that are unique to the first unit. For example, we have to go for generic design assessment, which we entered last week. We have to build those factories and the supply chain. That puts more time into building the first unit. Coupled with that, we know that the first unit will take as long, because it is that first one, and that is in our plan.

Q86 The Chair: Do any of the other panel members have a comment? Dawn, do you have a comment?

Dawn James: The only thing that I would add is that, as I think Chris said before, we have an ever-increasing demand for electricity in the UK. Our current suite of nuclear power stations bar Sizewell B will all be off the bars by 2030, so we really need to be investing in those big gigawatts and in SMRs, using whichever models are appropriate.

Q87 The Chair: Cameron, I see you nodding. Is there anything you want to add?

Cameron Gilmour: I am largely in agreement. I will reinforce Alan's point about the need for certainty, where any developer or investor needs a programme. When we create a programme, whether it is gigawatt-sized or SMRs, we create that confidence, the continuity of resources, and then we start to see the efficiencies flow through in the programme as we deliver them, whether it is factory or site construction.

Q88 Dr Whitehead: Mr Woods, you mentioned your timescale for the delivery of the first of their kind of SMRs, which I presume will be the 470 MW Rolls-Royce SMR. That, as a matter of interest, is well above the International Atomic Energy Agency definition of an SMR. Why did you chose that particular size to develop?

Alan Woods: We actually challenged the IAEA on its definition. The response we got was that, at the time it defined an SMR, that was halfway between what it classed as a medium reactor and a small reactor. There was no set rationale for why it classified, and it was many years ago, that 300 MW. The simple reason that ours is 470 MW is that we set a requirement on the design to be road transportable. Each module has to be transportable to site by road. That gives us maximum site flexibility. It also removes the need for expensive additional infrastructure, such as new port facilities or new roads, to get the parts in.

Having set the size for the biggest module to be road transportable, the biggest limitation across Europe is about a diameter of 4.5 metres for the biggest module. If we set that as the maximum size for our reactor pressure vessel, that gives us an internal diameter and an internal volume for that pressure vessel. Using conventional available fuel that is made today in the UK and elsewhere, that sets the power that we can get out of that pressure vessel, so we need to design around that power.

The objective that we had, which was set by the utility partners we have worked and continue to work with, was that they want the maximum power for the least capital cost. We are therefore delivering that within the constraint of road transportability.

Q89 Dr Whitehead: Does the new reactor that that would involve have to go through the generic testing and approval process?

Alan Woods: Yes; all new plants that come to the UK have to go through the generic design assessment process. We put in our application to enter that process last week.

Q90 Dr Whitehead: How long do you estimate that process will take?

Alan Woods: Our next phase of the programme is for the next three and a half to four years, which will get us to the end of GDA step 2. That is the point at which we have completely de-risked it—not that we see any risk to going through the regulation, because as I said, this is proven technology power plant. We have already been working with the regulator for some time. At that point, we move to the final step, which is step 3, and that will take about another 18 months.

Q91 Dr Whitehead: That means your actual construction period at the end of that will be about four years.

Alan Woods: We would actually start building ahead of that, because the GDA process allows us to prioritise the longer-lead items, the critical items, up front. We validate those with the Office for Nuclear Regulation early, on the basis that we can then get a release to order to accelerate the manufacturing process. We can do some of that activity in parallel by the way that we sequence the assessment through the GDA activity.

Q92 Dr Whitehead: So it is just about possible by the early 2030s if all these things work together.

Alan Woods: No, it is eminently possible by the 2030s; it is very doable.

Q93 Dr Whitehead: Mr Ball, you mentioned the availability of engineers and the possibility of transferring skills and expertise between sites to save costs and time. What timetable is likely to be best for that transition to

take place in the best way between Hinkley C and Sizewell C? We have heard talk already about a window in which that needs to be done, so that you have the maximum engineering skills and capacity coming in at certain stages in the Sizewell C plant, and coming off the Hinkley C plant as it develops its own stages. What risk does that entail along the way if there is a delay in getting the latter stages of Hinkley C together? What overall window would that represent?

Chris Ball: If we work on the basis that Hinkley C is on line in let's call it five years from now, we would have an issue if we held back over that time and thought that we then just move across. Naturally, within any project there is a phasing—there is a phasing of skills which means that we need to maintain a continuity almost at a lower level in terms of the breakdown of those skills. In my own organisation we currently have of the order of 600 people mobilised on Hinkley Point C. At this point in time, that is largely connected with civil engineering, civil design, design of structures, and that positions us quite clearly in a good position for future export markets. Those skills start to demobilise 12 months from now. Naturally in any major project such as this, civil engineering design is one of the earlier phases of the project. We will start to demobilise those skills 12 months from now, if not sooner, and you would probably say that we would demobilise three quarters of that skills base over the course of the subsequent 18 months. We are talking of a one year to two and a half year period over which we would be demobilising three quarters of our workforce, and taking skills out of the industry.

We would look at other neighbouring industries that have a demand on common skills bases to ensure that we maintain employment where possible, but it still represents a loss of capability from the industry that we may or may not be able to bring back in at some future point. That 12-month period from now is what is high on our mind.

Dr Whitehead: So that is the window, essentially?

Chris Ball: Yes.

Q94 Virginia Crosbie: If there was no RAB nuclear financing model, what would that mean for our energy security, delivering net zero by 2050 and our dependence on overseas investment?

Alan Woods: Chris made the point earlier that net zero is such an enormous challenge. We often think about decarbonisation in the context of the grid, but the grid in the UK in particular represents about 20% of the total energy we use. The rest of it is heat and transport. As we look to decarbonise heat and transport, there are not that many routes available, certainly in some of them. Hydrogen is one, synthetic fuels is one and of course more electrification, but the common denominator among all of those is that you need more clean electricity. The scale is enormous. We therefore welcome any financing mechanism that will help any industry, not just the nuclear industry, bring forward those clean technologies, because the reality is that we have to have them if we are going to meet net zero.

The implications if we are not innovative with how we approach financing both in nuclear but also in other industries mean that we become dependent on other sources of technologies—imported technologies financed from overseas, which bring with them the whole dependency on other nations for our critical energy infrastructure. Increasing that dependency puts our ability to meet net zero at more and more risk.

Chris Ball: I will take a step back here. Earlier, I mentioned that there is a need for about 9 GW a year of construction to take place each year for the next 30 years. We need to find a way of building everything we possibly can in a way that is most cost-effective for the consumer. In every single area, there will be challenges for us to overcome.

People talk about offshore wind at £40 per megawatt-hour strike price. Actually, when it comes to the last two offshore wind farms—one up in East Anglia and one in Hornsea—one was at about £120 and one at £140 a megawatt-hour initial strike price. I recognise that offshore wind prices have been coming down; that is because of consistent underpinning Government policy. We have to replicate that in each and every one of these areas.

Just because offshore wind prices have come down, does not mean that they will continue to do that; they will reach a plateau and companies will start to go to deeper waters and floating offshore wind prices will pick up. We are also judging things on an old-fashioned measure of the levelised cost of electricity, but for renewables we need to start building in the cost of energy storage as well. That does not come cheap. There is a lot of talk about hydrogen, but that requires a lot of power. For every electron that goes into generating hydrogen, we might get 0.3 electrons back out again; it is not a one for one. That is quite often lost in the debate. Actually, I am a supporter of all these technologies; what I am saying is that we need to look at how we manage those risks.

Net zero will not be achieved without nuclear. From an engineering perspective, the system requires firm power on the grid. The RAB model is a good way of driving forward large-scale nuclear for the benefit of the consumer. Look at the levelised cost of electricity at, let us say, £40 per megawatt-hour for wind, noting my earlier comment, and add the storage costs; if you compare that with nuclear and the RAB model, the prices are very similar. Obviously, Alan also knows the SMR nuclear market very well and would say that, yes, it is similar there.

It worries me that if we do not find a way of pushing all these technologies forward, including carbon capture and sequestration and the technical challenges around that, the risk of failure for the 2050 net zero system is very high.

Q95 The Chair: Dawn, did you want to answer next?

Dawn James: Yes, please. There is a risk of not having financing models for UK electricity prices. We have seen some evidence of it this year. Earlier this summer, the wind was not blowing—I know it is a trite phrase, but it is so true—and the sun was not shining very much. We were having to fire up gas plants and to bring coal plants back on to meet the needs that we had then and to use our current fleet of nuclear power stations that, as I said before, had come offline.

Not having the financing model so that we have control of our energy supply here in the UK would mean that we would be held hostage by other nations. We have seen what has happened with gas prices. I am sure that you have heard all these arguments from other

people; maybe it has even been quite emotional. It is a huge risk to every type of taxpayer in this country if we do not take control of our electricity generation, and not just from a net zero point of view. But actually, we will not achieve what we need to from a net zero point of view without nuclear.

Cameron Gilmour: I can reinforce that. Our baseload generation comes to the end of its life in this decade; if we do not replace that and add to it, we will not continue our net zero ambitions with the current technologies on the table.

Dawn made a really good point about security of supply. We have seen what has happened to gas prices over the last few months. Baseload nuclear gives us confidence around pricing and supply. It is very complementary with renewables as well, with a mixed system of gigawatts, SMRs and future technologies being very complementary with all the renewables that we have on the grid and planned.

Q96 Virginia Crosbie: In the 1950s and '60s, the UK used to lead the nuclear sector on the global stage. When people across the world look at us they say that we have all the pieces of the jigsaw: we have the fuel; we have the large reactors; we have decommissioning; we have the supply chain. They are looking at us to put all those pieces of the jigsaw together to make that jigsaw puzzle. Is the RAB nuclear financing model the one piece of the puzzle that is missing so that we in the UK can once again compete on the global nuclear stage?

Chris Ball: I would observe that it is about making sure that companies come together as one, and that there is leadership in the industry. If a RAB model supports and encourages that, fantastic. Looking at nuclear nations around the world, those that have been successful in the decades since—the 2000s and '90s onwards—we tend to find a clear industry lead. Sometimes that is the operator, and sometimes it is a reactor vendor, behind which everyone else is corralled. It is probably that leadership that we used to have in the UK in decades gone by, and behind which everyone corrals, that has aided a successful industry, particularly in overseas exports. That is the piece that is missing at the moment, but that does not mean that industry should not come together and do something about it itself. It probably should, and I include myself in that comment. If RAB encourages that, all the better, but that is an observation that I would make.

Alan Woods: I would say that for us to be seen as a global leader in nuclear again we need to own the technology as a nation. We need to own the intellectual property; we need to export it; we need to be the country that other countries come to when they are thinking about wanting to deploy and exploit nuclear solutions in their home markets. I think that we will get there. With SMR, we will definitely get there. I think that that is what differentiates us.

You only need to read the news—there is an awful lot of noise around SMRs. There are a lot of vendors out there, and there is a lot of confusion about what is near-term and what are future technologies. I can speak at first hand, as I was in the Czech Republic yesterday, and they said that there is one thing that differentiates us. They believe that we can and will do it—and that is not true for everyone they look at. Having our own technology, coupled with the heritage that we have as a nation, we can and will grow back our position of being seen as a global leader in nuclear technologies around the world, without a doubt.

Dawn James: I think your question, Virginia, is about the magic key to unlocking or getting back to that fabulous heritage that we have in the nuclear industry. At this moment in time, yes, it is, and we really welcome the legislation that is moving forward. I cannot begin to tell you how excited I am finally to see my industry moving forward at pace. I started in the nuclear industry when Sizewell B was commissioned—at the back end of the construction of the last power station in the UK—yet we still have a really thriving nuclear industry. This is the key to unlocking and creating an industry that will thrive for many years to come.

Cameron Gilmour: A couple of points. I think that it is probably a question for the developers about gigawatt plants—could they raise the capital required without RAB? Probably the answer is no. There is a bigger issue at stake, which is sustaining the advantages in the '60s and '70s that Virginia talked about, and being able to have a new build programme that is both gigawatt and SMRs—EMRs in due course. That helps us to sustain expertise and knowledge, and help people with the careers that Dawn and I have had, for apprentices and for graduates in modern history. Without that funding we do not have a programme, and without a programme we do not have an industry with a future.

Q97 Anthony Browne: Chris, I want to pick up on something that you said earlier. You talked about needing—my words, not yours—every tool in the tool box, or every weapon in the armoury, to get to net zero. You have mentioned carbon capture and storage a couple of times. That is not within the scope of the Bill, but I wondered whether you thought that the RAB model would be suitable for carbon capture and storage, and whether the Bill could possibly be widened so that it applied to things other than nuclear.

Chris Ball: Again, that is probably not my area of expertise. The way I have looked at this is to look at every technology, and where the challenge is around enabling mass deployment of that technology. With CCS at this point in time, the key issue is not necessarily about the financing but about how the market is going to be structured and the quality of demonstrator projects.

There are different models, of course, but if you believe some of the modelling out there, we would need to capture and sequester within the UK four times the current world capacity. That is not without its challenges. So in answer to your question, I would suspect that, of course, it can be applied to that, but I actually think there are other key focus areas that need some attention to start that market moving—not least the deployment of demonstrator projects in the near term hopefully as well.

Q98 Virginia Crosbie: There has rightly been a lot of talk today about the cost to consumers and the nuclear fleet mentality. Is the reality not that RAB will facilitate a fleet of nuclear, which will in turn be good news for the consumer?

Chris Ball: I think that is absolutely right, if you look at the RAB modelling. You have got to look at this from the concept of managing risk. How do we manage risk

in the best possible way? You manage that risk through commonality and through ensuring that capability remains within the industry. We might deploy that commonality as pressurised water reactors. It might be a fleet of a couple of different designs, for instance, instead of one. From a risk perspective, it starts to consolidate down to a smaller number of different designs, with a level of commonality, where we can really drive risk and take the lessons from more projects to the next as well.

Alan Woods: A fleet clearly drives cost benefits. That is absolutely true of SMRs, despite the fact that they are factory produced anyway. We need that throughput in the factories. I would go back to the point I raised at the start. We welcome RAB. It is a mechanism that helps reduce cost of capital, but from our perspective we see there are alternative mechanisms, such as leaning on the CfD mechanism, and pace is important for us. We need to start thinking about delivering this fleet now, and that is what we are doing. Therefore, we have to look at mechanisms that are available for us now. We believe we can do this from a CfD to start with.

Dawn James: A fleet approach, without a shadow of doubt, drives down costs to the consumer by driving up our ability to replicate and driving in lessons learned from one station to the next. That security of work allows us to develop our workforce and to bring more people in. The more people you bring in at the bottom end, the more you drive down your costs, because you can spread the workforce across a number of different projects. It drives down costs in so many ways that, ultimately, that does get passed on to the consumer.

Cameron Gilmour: Yes, I agree with that. I will just bring a people angle to this as well. When I talk to some of the amazing, talented young apprentices and people in our business and we talk about this exciting future, there is no question that, without RAB, we will not have that opportunity to create that future for them, which would be a huge waste of talent. RAB is the enabler to getting that certainty and continuity for that next generation.

The Chair: Thank you. If there are no further questions from Members, I thank the witnesses for their evidence. I am sorry about some of the technical issues that we have had—that happens. We can move on to the next panel.

Examination of witnesses

Tom Thackeray, Tom Greatrex and Rebecca Groundwater gave evidence.

3.25 pm

The Chair: We will now hear from Tom Thackeray, director for decarbonisation, Confederation of British Industry; Tom Greatrex, chief executive officer, Nuclear Industry Association; and Rebecca Groundwater, director of external relations, Energy Industries Council, all of whom are giving evidence by video link. We have until 4.15 pm for this session. Could the witnesses please introduce themselves for the record?

Tom Thackeray: I am Tom Thackeray, the programme director for decarbonisation at the Confederation of British Industry. We are the UK's largest business representative organisation, representing small, medium and large businesses right across the country. My role is aiding businesses' decarbonisation efforts and pursuit of sustainability. Part of that is influencing Government policy to enable them to invest, and part of it is working with businesses directly to drive down their own carbon footprints.

Tom Greatrex: Good afternoon. I am Tom Greatrex, chief executive of the Nuclear Industry Association, which is the trade association for the UK civil nuclear industry, representing companies throughout the supply chain.

Rebecca Groundwater: I am Rebecca Groundwater, and I am responsible for external affairs at the Energy Industries Council. We are a supply chain energy trade association. We represent all the energy sectors, not only in the UK but internationally, and we have five other offices in Houston, Kuala Lumpur, Dubai, London and one other that always escapes me—apologies.

The Chair: Thank you very much for attending, all of you. Could Members please indicate to me whether they have any questions to the panel? Dr Alan Whitehead.

Q99 Dr Whitehead: Good afternoon, ladies and gentlemen. Good afternoon, Tom—I ought to explain that I have known Tom Greatrex for a very long time, and we go back a long way on a number of these issues. What was your reaction to the proposals that came forward about Chinese involvement in the nuclear programme, particularly in Sizewell C, and what views does the Nuclear Industry Association have about their continued involvement and its effect on Sizewell C funding overall?

Tom Greatrex: Apologies, but I missed part of the question; it cut off partway through, but I think I got the gist in relation to Chinese investment in UK nuclear. I think that is what you were asking about—is that correct?

Dr Whitehead: Yes, basically.

Tom Greatrex: You will recall, I am sure, the original arrangements that were made to facilitate Chinese investment in UK nuclear. China General Nuclear, who are currently the minority financial shareholder in Sizewell C, are also a member of the Nuclear Industry Association and have a potential project at Bradwell. In terms of technology, it is very clear that any reactor technology has to go through the same process to be approved, and that is done independently by the Office for Nuclear Regulation. I do not think there is any difference in the thoroughness of that approach, wherever the technology comes from.

However, making decisions on the larger geopolitical issues is, I am afraid, way above my current—or ever anticipated—pay grade. As far as I am concerned and as far as the industry is concerned, Chinese companies have significant expertise in nuclear capacity and have built quite a lot of nuclear capacity, working with different reactor designs in China. Whether, and to what extent, they should be involved in the UK is not really for me to express a view on.

Q100 Dr Whitehead: I presume the Nuclear Industry Association has been informed of the decisions that were reached in the recent Budget about funding that has been put aside in the Red Book—£1.7 billion for works leading to a financial closure of the Sizewell C plant. Did you have any input into the procurement of that £1.7 billion and what is your understanding of its purpose?

Tom Greatrex: In terms of that funding being available, for a number of years, the Nuclear Industry Association and companies that we represent have made representations to Government about the costs associated with large-scale projects prior to getting to final investment decision. Significant amounts of money were spent on projects that have not happened during that process, and that pre-development funding is something that needed to be considered.

As to what that announcement covers, we have asked Government for further information on that. At the moment the information we have is that that is funding that could be available to a range of different projects and opportunities, but nothing specific. In relation to what I think was your implied question, on whether this is instead of buying out the CGN stake in Sizewell, it has not been made clear to us that that is what it is for.

Q101 Dr Whitehead: Forgive me for being a little surprised, but the Nuclear Industry Association does not know any more than the rest of us about what this funding is supposed to be for. Is that right?

Tom Greatrex: Yes, we have had the announcements and spoken to officials about the announcements, but we do not have any more detail than is currently available.

Q102 Dr Whitehead: Not a happy state of affairs, is it?

Tom Greatrex: Well, I hope that there will be clarity on that and other aspects of what has been announced by the Government in recent announcements as we proceed.

Q103 Anthony Browne: I have a simple, open question for all three of you. You all run trade associations, effectively, and you will have gone through the Bill in detail and looked at what you like and do not like. Are there any gaps in it? Are there any things you think should be in there that are not in there? We heard earlier, for example, about how, if there are overruns, you allocate the risk between consumers and investors and construction companies. That is obviously not covered in this Bill, but what gaps do you think there are?

Tom Greatrex: The Bill sets out a framework for a mechanism that we as the industry welcome. We think it is very important to be able to facilitate development of new projects. There are levels of detail that are not covered in the primary legislation, and I think you have touched on some of those in relation to exactly how aspects of risk sharing will be undertaken and the role of the regulator, which will be Ofgem—the expertise available to that body, and the fact that transitioning into being able to undertake what is effectively a new role is going to be significantly important. I am not sure those would necessarily be in the primary legislation, but there are aspects of this where there will need to be further information and development before a regulated desktop-based model can be used for nuclear development.

Q104 Anthony Browne: Tom Thackeray, are there any gaps or things you would want changed?

Tom Thackeray: From the CBI's perspective, we do not have any significant concerns around what is included in the Bill, but as has been noted previously, there is a framework for the establishment of a regulated asset base model, and the details around designation and the risk-sharing profile are things that will be worked out on an individual project basis further down the line, which should be the case when legislating in this way.

Q105 Anthony Browne: You do not think it needs to be in primary legislation. It is better to be secondary legislation.

Tom Thackeray: Yes, from our members' perspectives, they are comfortable with that way of operating.

Q106 Anthony Browne: Rebecca, does the Energy Industries Council have any particular concerns? Are there any gaps in the legislation? Are there any things that are not there that you would like to see included?

Rebecca Groundwater: I would echo what previous panellists have said. We have engaged with our members on this and, although the Bill is a framework and there will be more detail going forward, they are happy with how things are at the moment. There are no big gaps for them as the Bill currently stands.

Q107 Anthony Browne: That is reassuring to hear from the three trade associations. I have one other question. This is obviously about the nuclear industry, but there are other forms of energy out there. Wind power famously gets contracts for difference, but things like tidal power are also coming on. Carbon capture and storage is not a form of energy, but it is part of the battle to net zero that we were talking about earlier. Are you concerned that having this regime just for nuclear will favour one form of energy versus another and disadvantage other sectors, and that we will end up without the optimum different types of energy supply? Do you think that we might choose something different if we had a controlling mind of the energy supply, as it were? Are you concerned that this will end up distorting the sources of energy that we have? It is difficult for Tom Greatrex to answer that because he represents just one sector, but the others represent all the different sectors.

Tom Thackeray: I think that the Bill recognises the particularities of the nuclear sector and the state that we are in, in terms of having built the first of a kind at Hinkley and the next stage of that process, with the RAB being the apt model for this technology at this time. The RAB has potential in other parts of the energy mix. Carbon capture and storage is one of those areas where we might look to expand it, although we are probably not at that stage of development just at the moment. Across the energy mix, others have tried-and-tested routes to market through the contracts for difference regime. So this adds another piece to the puzzle in providing the diverse energy mix that businesses want to see. The Bill provides a useful framework that could be replicated if we wanted to use the RAB model in other forms of energy generation in the future.

Rebecca Groundwater: I think the funding model here works for nuclear because of the investment required. At the moment, the other energy sectors are working in their own areas and they have the strategies, the legislation and the sector deals that are working for them and helping them to get to the point where they need to be. The Bill is very sector-specific, and it works for nuclear. I agree with Tom that, if and when it gets to that stage,

it can be rolled out further. If you look at this in terms of the nuclear energy system, it works, and it is okay to look at each one in silo while having a holistic view of how all energy systems work together to get us to net zero.

Q108 Anthony Browne: My last question is one that we touched on in a previous evidence session, which you probably did not hear. In the 1950s and 1960s the UK led the world on nuclear power. Then we hesitated, shall we say, and we have ended up with an industry in which most of our power stations are on their way out. The Government is now pro nuclear power, as I am, and I assume you all are. Do you think the RAB model is enough to get us back on the front foot with nuclear power and build the capacity and industry that we need, or is something else also needed?

Tom Greatrex: This is a really important part of it. We have had policy under successive Governments for a while now for new nuclear capacity. It should not be a surprise to anyone that our current fleet is coming towards the end of its generating life, even after life extensions. The barrier that has existed to a number of different projects that were cited in the Second Reading debate, for example, has been about the financing regime, given the long lead time to develop an asset that then lasts for a very long time. So this is the biggest single thing.

I think that what needs to go alongside it—to be fair to the Government, we have seen this in recent times—is a commitment in words of the need for nuclear to be part of that future mix. All those things help to give investors, potential investors and developers confidence that this decision will not be changed on a whim. That clarity of purpose is important. The financing framework has been the thing that has scuppered various projects, and I think it will be vital in getting our capacity levels back up again.

Q109 Anthony Browne: Rebecca, do you think this is enough to get the UK back on the front foot in nuclear power, or do you think other things are needed?

Rebecca Groundwater: This model provides certainty, and I know that the supply chain needs that certainty. We have been speaking to our members, and we engage with them. We know that they are diversifying out of energy. They are just not sure, despite what is needed, where the actual pipeline of projects coming down is from. They are not entirely sure what to go into. A lot of work has been done around the nuclear sector and with the supply chain. It is there and it is viable, and this commitment towards investment, and showcasing that it is seen as part of reaching net zero and part of that commitment to getting there, provides the stability for the industry to commit properly to it and to drive not just the local capability but the export capability, which UK businesses are very good at doing. I think this is a very welcome piece that we can move forward with.

Q110 Anthony Browne: Tom Thackeray, from the CBI's point of view, is this what is needed to get the nuclear industry going again, or are there other parts of the jigsaw that we need to put in place?

Tom Thackeray: I think this is a really important step for the nuclear industry and could establish our credentials as world leaders once again. From the business customer side of this, obviously, the bulk of the CBI's membership are people who are concerned about energy from an energy bill perspective, and they are all setting net zero targets for their own operations. That is not going to be achieved unless we decarbonise the energy supply, and that cannot be achieved unless we have the roll-out of nuclear over the years ahead, and in quick time. From the point of view of UK credibility towards net zero and business leading the way generally, outside and inside the nuclear industry, it is a really important step.

Anthony Browne: Those are all my questions. Thank you.

The Chair: Are there any other questions from Members?

Q111 Matthew Pennycook: I have two open questions for the panel. The first is on clause 1 of the Bill, which I hope you have had a chance to look at, on designating a nuclear company. In previous evidence sessions, some of the witnesses who attended suggested there might be a lack of detail. What are your thoughts on whether there is sufficient detail in the Bill, both on who designates a company and how you designate an appropriate company?

Tom Greatrex: I am sorry, but you cut out slightly. I think you were referring to clause 1 and designated companies, but I missed the question.

Matthew Pennycook: Sorry, Tom. From what you have seen, is there enough detail and clarity in the Bill about who designates a nuclear company and whether that is appropriate, and is there enough in there to be clear about whether we are designating the appropriate type of company?

Tom Greatrex: Thank you; I understand the question now. The detail of the designation process is set out in subsection (3) of clause 1, on procedure. I am not absolutely sure that it necessarily gives the full, detailed approach to the designation and who the designation will be of. As this is a framework Bill, we work on the assumption that the detail of that will be set out in regulations subsequently. We are quite comfortable with that being the approach. The broad principle is set out in the Bill, and I think that gives us enough to go on for now.

Rebecca Groundwater: The transparency piece and the openness of the process was mentioned by our members, but the assumption is that the detail will follow.

Tom Thackeray: I don't think we have picked up strong views from our membership worrying about the level of detail in the Bill at present. I note from the previous comments that political statements and backing are really important in this industry, and making sure there is no ambiguity around the backing that the Government provide. Perhaps that leads us to a decision on who should do the designating, with Secretary of State-level backing for it. We can take further soundings from members on that.

Q112 Matthew Pennycook: My second question is on the total amount of nuclear capacity we require going forward. I am quite clear in my own mind that the Bill is primarily about Sizewell C, but we have had talk of nuclear fleets, SMRs and what might come forward in

years and decades to come. Do any of you challenge the Climate Change Committee's central scenario of its balance pathway, which is that we need 10 GW total nuclear capacity by 2035, and 8 GW of new build. If you take Sizewell B and C and Hinkley, we are talking about a remaining gap of 1.6 GW to 2.5 GW. Do you work on that assumption? Do you think it should be higher or lower? I am trying to get the sense, beyond Sizewell C, of what this funding model might be used for.

Tom Thackeray: I think we are comfortable that the Climate Change Committee's analysis in the balance pathway is a reasonable assumption. We think nuclear will be a strong part of the energy mix in the years ahead. Obviously, we will need a much bigger electricity capacity up to 2050. As we learn more about the process and the cost of technology starts to drop, there might be slight adjusting of those assumptions in years ahead, but at the moment we do not diverge markedly from what the CCC has said.

Rebecca Groundwater: We are aligned with the CCC report. I have nothing further to add.

Tom Greatrex: It is important to underline that the CCC scenario is for 2035 and towards the sixth carbon budget. I think it is broadly in the right area. The 2050 net zero modelling that was published alongside the energy White Paper has a broader range to 2050. We have to bear in mind, looking beyond 2035 towards 2050 and net zero overall, that the overall proportion of our energy that will come from electricity will be high. It is reasonable to assume that we will be beyond 10 GW by 2050, although 10 GW by 2035 is probably the right ballpark figure.

Q113 Virginia Crosbie: What more do you need to see from the UK Government to get us back into leading in this critical sector on the global stage? We have had the energy White Paper, the Prime Minister's 10-point plan and the net zero strategy announced by the energy Secretary a few years ago. We have the RAB nuclear financing model and we had a good presence from nuclear at COP26 in Glasgow. What more do we need?

Rebecca Groundwater: I would go back to that stability and the pipeline of opportunities that are viable. The supply chain is ready and equipped with the people, skills and capability. It is world class. We have a brilliant energy sector here in the UK. In the market forces piece, it is unclear which one will take the lead out of all the technologies. It has caused uncertainty, and that is not what the supply chain needs. When we talk about the supply chain, we are talking about the breadth of it. Each organisation has different needs, but they need that investment piece; they need to know where to upskill and when; they need to know the timescales.

That is why this legislation going through quite quickly is helpful, because it showcases that decisions can be made now to drive forward investment in what is needed. That ongoing dialogue and conversation—the message, "This is serious, and we're taking it forward,"—will give that stability and the ability to the financial markets to come in. We know they are talking about the sustainability goals and we know that parts of the supply chain are struggling with how to implement them and what that will mean for them, depending on their size. That wider conversation now needs to start to break down a little, so that we are looking at how that impacts each of the different sectors. That way, we can drive it forward and bring it all together.

Tom Greatrex: All the things you mentioned have been important, significant and welcome for the sector over the last period. This legislation is key, as I mentioned previously. As for what else we need, we know that development of the taxonomy is ongoing—the Treasury has an expert group leading on that. It is important that the taxonomy is objective and avoids some of the mess the Europe-level taxonomy has managed to get into, in terms of setting a framework for investment in infrastructure that will contribute to a low-carbon future and to net zero. The requirement will be to pace delivery of agreements, to enable projects to go forward—for example, negotiations are ongoing between EDF and Government on Sizewell C, although that goes beyond the scope of the Bill, and with others on the SMR programme; last week's announcement was very welcome. A number of things are in the purview of Government to deliver—siting, for example. We need all those things to happen. If I were to characterise what is needed in one phrase, it would be: an appropriate sense of urgency, given the urgent situation of our current and future power mix requirements.

Tom Thackeray: I would echo many of the points the others made: detailing objective, sustainable finance taxonomy for the UK including nuclear will be really important over the next few years. More holistically, there is the extent to which the Government can build out their export and skills strategy, taking advantage of the technology developments we are making in a lot of the clean areas. I have a slight concern, not in the nuclear sector but potentially in other green economy areas, that there will be a squeeze on the labour market, with multiple industries going after the same labour pools, which will probably put a brake on our capacity. We need to think really strategically about some of that stuff.

You invited general comments about the 10-point plan. In some areas, there is a need to detail the routes to market for things like the hydrogen economy. That goes back the points the other Tom made about pace of delivery and urgency. However, having just come back from Glasgow, I think it really hit home how far advanced the UK is in some of these plans compared with others. We can always ask for more, but I think we are genuinely world leading in a lot of these areas.

Q114 Virginia Crosbie: There has been a lot of talk today about our domestic energy market, but Tom Thackeray and Rebecca both mentioned export. What does the RAB model mean for our ability to export our technology? What would that mean for the steel sector in the UK, for example?

Tom Thackeray: I think it will be a huge opportunity, particularly if we generate those fleet opportunities in the year ahead. One of the great risks of not moving ahead with the RAB model straightaway is that you lose supply chain capacity, you lose innovation, and you lose the skills you have in the supply chain. There is a fantastic opportunity to build out an industrial strategy approach around the supply chain that we built up through Hinkley and will continue through Sizewell C, and to look at how we can use that in international markets as well. In addition to that, we have the exciting

developments around small modular reactors, where UK-developed technology is exciting clients around the world. That will obviously be a huge part of the UK's potential in the years ahead.

Rebecca Groundwater: I agree. I think this helps to anchor the UK as a model on which the expert piece really comes into play. We have been mapping where the proposed capacity is coming from, looking at new build projects from 2021 to 2080. With the RAB model, if this goes ahead and everything falls into place, we will be one of the top investors in nuclear. That allows us to then export that to the other countries that are coming up behind us. If you want, I can pass on the data that we have from our members on the international market piece.

Tom Greatrex: I underline the point that this mechanism will enable projects to happen. When projects happen, you have a supply chain that is engaged. Just think about some of the announcements made in the run-up to and in Glasgow over the last couple of weeks from other places—France, Canada, the USA and Japan—in terms of restarting. There is a whole load of potential opportunities there. If the UK is ahead on developing and delivering through its supply chain, those export opportunities become real. I echo the point that the other Tom made: if we leave it and do not do it, the danger is that those opportunities will be lost.

Q115 Virginia Crosbie: May I ask one more question? In terms of the RAB model, what does this mean for our dependence on overseas investment? We are dependent on EDF and the French, and on CGN and China. What does RAB mean in terms of us being much more financially independent here in the UK?

Tom Greatrex: There is a distinction to be made between the technology. Sizewell C is obviously effectively a Franco-German technology by origin, and the amount of UK content in the supply chain at Hinkley is about 65%. That is likely to increase if Sizewell goes ahead. One of the opportunities that a RAB model opens up is interest from a greater pool of investors because of the way in which the returns will accrue. People will have mentioned, I am sure, long-term infrastructure investors, pension funds and various others, who use and have used RAB models in other infrastructure that they have been investors in, and have made it clear that they are interested in potentially doing that with nuclear. It broadens the scope of investment, which may then have some impact in terms of where some of the other financial stakeholders that you alluded to in your question are.

Rebecca Groundwater: Some of our members feel that the RAB model provides more opportunity for the UK supply chain content to increase. With investment coming in, there may be greater options for the supply chain.

Tom Thackeray: I echo the points already made, and note that we have a great history of private investment in infrastructure. Deployment of the RAB in other infrastructure assets has been hugely successful, and the examples are well known. That means that we have a mature investor base here in the UK, who are looking at other opportunities to spend their money. The opportunity to invest in environmental, social and governance is growing. Providing that opportunity in nuclear through the RAB model is a welcome next step.

The Chair: If there are no further questions from Members, I thank the witnesses for their evidence.

Examination of Witnesses

Mycle Schneider, Professor Stephen Thomas and Doug Parr gave evidence.

3.59 pm

Q116 The Chair: We will now hear from Mycle Schneider from the World Nuclear Industry Status Report; Professor Stephen Thomas, emeritus professor of energy policy at Greenwich University; and Doug Parr, policy director and chief scientist, Greenpeace UK. They will all give evidence via the video link. We have until 5 o'clock for this session. Can the witnesses who are available introduce themselves for the record, please?

Mycle Schneider: Hi there. This is Mycle Schneider. I am an independent analyst and consultant on energy and nuclear policy based in Paris. I am the co-ordinator and publisher of the annual World Nuclear Industry Status Report, and it is in that capacity that Members have invited me. Thank you very much for the opportunity.

For people who are not familiar with the World Nuclear Industry Status Report, it is a multi-indicator analysis that is elaborated annually by an international team of interdisciplinary experts that I have co-ordinated since 2007. The 2021 edition had a dozen researchers from a number of quite outstanding think-tanks and research institutions, including the Harvard Kennedy School of Government, Chatham House, the Technical University of Berlin, the University of British Columbia, Nagasaki University and so on—just to give a quick overview.

The Chair: Thank you very much. We can also hear from Professor Stephen Thomas. Doug Parr will join us when he can. Professor Thomas, would you like to introduce yourself?

Professor Thomas: My name is Stephen Thomas. I am emeritus professor of energy policy at the University of Greenwich in London. For the past 40-plus years, I have been an independent energy policy analyst, first at Sussex University and more recently at Greenwich University.

Q117 Alan Brown: We have heard arguments for new nuclear, including that nuclear power is required to provide baseload; that the UK cannot possibly meet net zero without further new nuclear; and that new nuclear will provide certainty and value for money for consumers. Are there any contrary opinions to such agreed views? I will start with Mycle.

Mycle Schneider: Thank you for the question. I believe that if we are talking about the climate change emergency, it implies two things: to be able to reduce greenhouse gas emissions as quickly as possible and at the largest rate—that is the combination of effectiveness in terms of quantity and time. If we spend, whether it is a pound, a euro or a dollar, we have to see which options give us results that are large and fast.

If we are looking to nuclear power as an option for reducing greenhouse gas emissions, it is pretty much clear today that the options that are available, whether it is efficiency or non-hydro renewables, are more climate

efficient than nuclear. That is not only because, if you look at the cost estimates from institutions such as Lazard bank, about a quarter of the cost is needed to generate electricity by solar and wind, for example, compared with nuclear. It is also about five times slower to implement than other options. Again, I am referring essentially to efficiency and newer renewables. Actually, what we hear about possible investment over the longer term will, if ever, provide these services only in the longer term. That means beyond 2030, and far beyond that for some of the options we are talking about. In my opinion, that is much too slow.

The Chair: Stephen, do you have any comments on that?

Professor Thomas: Yes, I would like to pick up on the point about the need for reliable baseload plant. I can see the intuitive logic of that, but the National Grid's scenarios—I trust the National Grid more than others on what it takes to run a reliable grid—say nothing about reliable baseload plant being needed. It has three scenarios to reach net zero by 2050, and in only one is Sizewell C required; the others do not require it. It seems entirely comfortable with the availability and cost of batteries. If National Grid does not see the need, I am not sure why I would. It is a non-sequitur that you need baseload plants.

Clearly, there is a baseload—in other words, a level of demand that we never go below—but I do not see the reason why we would need a dedicated set of plants to meet that baseload. It is like saying, if you have a factory that operates 24 hours a day, seven days a week, you need a set of workers that will work seven days a week, 24 hours a day. It is simply a non-sequitur.

Q118 Alan Brown: You say that the baseload argument does not stack up, but another argument is that nuclear is needed to compensate for the intermittency of renewables. How robust is that argument? Is there an argument that nuclear is not the right technology to complement the intermittency of renewables?

Professor Thomas: It is not the right technology. Both renewables and nuclear power are not flexible options. Nuclear power only makes any sense—if it makes any sense at all—if it is operated round the clock, with baseload at the maximum level it can work at. If the wind is not blowing, there is nothing you can do with a nuclear power plant to fill in the gap. Clearly, whichever way you go, nuclear or renewables, you will need flexible plants, which will probably be batteries and perhaps some demand-side response, to fill in those gaps. The worst thing of all would be to mix two inflexible sources, because you will get a time when nuclear is not available and renewables are not available, and then you will be in much worse trouble.

Mycle Schneider: There is this myth about nuclear power providing electricity 24/7. We have done a very detailed analysis of the French nuclear fleet for 2019—the year before covid—and it turned out that, basically, when the operator, EDF, starts an outage for maintenance and refuelling, it entirely loses control over the date and time it restarts. There are cases where there are 40 versions for the restart date and time. That does not really indicate that this is a 24/7 electricity-generating source. On the contrary, it means that even if we stick to the example of 40 revised dates and times, five of those were in the last 24 hours of that period. So not even 24 hours ahead was it possible for EDF to predict when 1,300 MW would be available to the grid or not. On the other hand, I think the whole concept of baseload is flying out of the window. As Stephen has said, what we need is flexibility. If we build up solar and wind massively, it means that a lot of that so-called baseload is already covered by those sources. It therefore becomes a competitive environment for certain times during the year and for certain times during the day. We need to fill in the gaps.

As the court of accounts has shown in its sensitivity analysis of the costs of nuclear power, the highest sensitivity is the productivity of the nuclear power plants. If the production levels go down, you increase costs significantly. We have seen over the past few years in France, but also obviously in the UK, lower production rates and therefore increased costs. That means that these reactors have become much less reliable. We have calculated that the average increase in 2019 over the expected outage time was 44%. It can be a planned outage of a week, and it turns out to be six months. That is not an exaggeration, we have cases like that.

Chair: We have been joined now by Doug Parr. Please introduce yourself.

Doug Parr: My name Dr Douglas Parr, and I am the policy director for Greenpeace UK. Apologies, I did not see the email that said that this session was starting early.

Q119 Alan Brown: In terms of alternate technologies, the Royal Society prepared a report that suggests that 11 GW of electricity generation could be provided by tidal stream technologies by 2050. We know that those streams already generate and connect into the grid up in Orkney. How realistic do we think that is, and is that the type of alternate technologies that the Government should be pursuing? I will start with Mycle, followed by Doug Parr and then Professor Thomas, please.

Mycle Schneider: I think I will pass that one on to my English-based colleagues who are better suited to answer.

Doug Parr: There are certainly opportunities in tidal energy, and, at a minimum, I would hope that the Government would seek to pursue them in the next renewable auction round. I think there are a variety of technologies, certainly including tidal and geothermal. In terms of the subject of the Bill, nuclear energy is seen to be always on, but the overall competition for the grid is going to be between dispatchable and available power, which ideally should be flexible as well, and the provision of storage from cheap renewable power. In that sense, we are talking about green hydrogen, alongside these other renewable sources; but in terms of my personal preference, yes, I would certainly want to see tidal as part of the mix.

Professor Thomas: We cannot prejudge whether tidal would be a useful technology until we have tried it out. We can look at nuclear and see that costs have gone up rather than down, and on the other hand we can look at offshore wind, and see that five years ago the cost was £140 a megawatt-hour and now we are down to £40 a megawatt-hour. I think it is an option that we need to test. Whether it will be a success, I do not know; we cannot judge that in advance. If it was a guaranteed certainty, I guess we would have done it, but we must try out all these options.

Q120 Dr Whitehead: Mr Schneider, are you able to tell us anything about the experience in the United States of using RAB arrangements for nuclear plant development? I am thinking in particular of the two plants in South Carolina that were abandoned a little while ago but which I understand were funded partly through the RAB process, by consumers in South Carolina. Would you advocate measures to ensure that nuclear plants actually get finished and do not dump on the customer, who has already put in their money, a load of the cost that is never realised because there is no output?

Mycle Schneider: Yes, I can briefly comment. I think you are referring to the V.C. Summer plant in South Carolina. It had a similar scheme to RAB, which basically allowed it to pass on cost overruns to electricity customers. Construction started in 2013. Westinghouse was the technology provider. The plants were supposed to come online in 2017. By 2017, the cost estimate had increased by 75%, and I believe that there were nine rate increases for ratepayers up to that point. Finally, in July 2017 the construction was abandoned. Obviously, this was one of the consequences of the fact that Westinghouse filed for bankruptcy, and one of the main reasons for that was the V.C. Summer AP1000 project.

It might be interesting for the Committee to spend some time studying this case because it also involved some very problematic criminal activity. The federal grand jury has charged the former senior vice-president of Westinghouse Electric Company, Jeffrey A. Benjamin, for his role in failing to report accurately the status of the construction of these nuclear sites. It is worth noting that he served as senior vice-president for new plans and major projects, and was therefore directly responsible for all new projects worldwide for Westinghouse during the period of the V.C. Summer project. He has been charged in a federal indictment with 16 felony counts,

"including conspiracy, wire fraud, securities fraud, and causing a publicly-traded company to keep a false record."

That is a quote from the Justice Department. He is only one of four top managers who had criminal charges filed against them in this affair. The former chief executive officer of SCANA, the utility that was building the plant, pleaded guilty to federal felony charges and was sentenced to two years in jail, which will start in December. The case had major implications.

Obviously, the ratepayer is left with the ruins of concrete and steel, and with no kilowatt-hours. Apparently, reportedly this affair is not over. It has cost the ratepayers billions, and reportedly it will cost more over the 20 years to come.

The Chair: A number of Members want to ask questions, so could we keep them as short as possible?

Professor Thomas: I wanted to add that what marked out the Summer project and a similar project in Georgia from those in all other states of the United States was that they were allowed to recover money from consumers before completion of the plant. That is a central feature of the RAB proposal. The Summer experience shows clearly the folly of making consumers pay for a plant before it is complete.

We have to be careful with the idea that we need to take measures to prevent unfinished plants from being abandoned. We have a very good example in Britain in the Dungeness B plant: it took 24 years to get from start of construction to commercial operation, and over its 32 years of operating life, its availability was well below 50%. It is very clear that the plant should have been abandoned before it was completed.

The Chair: Doug, do you have any comments?

Doug Parr: I am not sure that I have much to add. I read that the Summer plant added 18% to bill payers' bills in South Carolina at one point, which is obviously a very considerable amount. I am not saying that those numbers are translatable to the UK context. It chose to expose the consumer to those considerable risks.

The Government really need some kind of independent evidence base for their judgments if they are going to enter bilateral negotiations with a plant builder who, on the basis of the plant builder's word, can expose consumers to very considerable risks; Dr Schneider alluded to that. We see that with the RAB mechanism, the Government have a bilateral negotiation mechanism, and those do not have a happy history in almost any sector, including for the various networks. I am not quite sure how you establish that.

One thing that has been missing from nuclear policy as it applies to renewables and other mechanisms, such as the capacity mechanism, is the element of competition. The information asymmetry is potentially very strong. It gives a lot of cards to the nuclear seller—the nuclear provider—without giving the Government any backstop with regard to understanding what is going on. When there is competition via a reverse auction of the kind that we find in renewables, you factor those risks out, but consistently over the years—decades, in fact—this kind of discipline has not been applied to nuclear policy. With the RAB-type mechanism, those risks potentially land on the bill payer, not the provider of nuclear stations.

Q121 Dr Whitehead: This question is for Stephen and Doug. In the Bill, there is a mechanism to put a special administration regime in place if the constructor of the project defaults or is unable to complete it at any stage. Is that mechanism sufficient to enable us to overcome the sort of issues that we have heard about with the American nuclear plants, or are there other things that need to be done, particularly in the light of what Doug said about the lack of independent assessment, at particular stages, of what ought to be done next, and how progress ought to be made?

Doug Parr: I am not sure that I am across the detail enough to give a good answer to that one, I'm afraid. I would need to come back to the Committee on that, if that is all right.

Q122 Dr Whitehead: Stephen, do you have any views on that?

Professor Thomas: I think the problem is not the need for a special administrative regime to rescue things if it all goes badly wrong in the construction phase. I think the problem is the RAB mechanism that is putting consumers' money at risk, and if we look at the impact assessment, we are looking at a plant that will not be completed until something like 2037 to 2041, so I will be paying into this plant for quite a long time and I probably will not live long enough to see any power

from it. The special administrative regime is a way to try to solve a problem that is better solved by simply not using this RAB mechanism.

Q123 Anthony Browne: If we are in an existential crisis of climate change—if it is the biggest threat that we face as a species—should we not use every tool in the toolbox to combat it? Why would you rule one of them out? That is a question for Doug Parr first, and then Mycle Schneider.

Doug Parr: I do not think I have ever made any secret of the fact that there are attendant risks that come with nuclear that do not apply to other forms of zero-carbon and low-carbon generation. What I would ask, in the light of the climate crisis—it is not an insignificant challenge that you have put there—is why UK Governments of all colours have continued to emphasise nuclear policy over and above other ways of cutting emissions. For example, the last time I saw figures on Department for Business, Energy and Industrial Strategy civil servants and where they were working, there were more people working on nuclear than on renewables and clean building heat put together, so when it came to two of the big-ticket items that are going to be absolutely essential—lots of renewable power and lots of clean heat for buildings—there were fewer civil servants working on those than on nuclear.

Nuclear is a bit-part player in this. All sensible, cost-effective models show that nuclear will not be a big piece of the pie, in terms of delivering what we need to deliver, and there are considerable problems with delivering heat, as members of the Committee will know. There are some substantial issues with delivering the amount of renewable power that we need, yet what we have is a Bill for delivering nuclear, and more civil servants working on it than on other things. I emphasise that this is a distortion that has been in place over years, and it is becoming quite problematic, because every time people are working on nuclear and not working on these other things—not putting energy and money into other things—we lose our ability to deliver what we need to deliver.

Q124 Anthony Browne: The Government are obviously doing a lot of other things; most obviously, there is wind power, which has increased dramatically and now produces far more electricity than nuclear. Mycle, if we are in a climate crisis, why rule out one of the tools in the toolbox, which could be one of the most effective or most scalable?

Mycle Schneider: The question has to be: if I spend money today, what is the most climate-effective option that is available? There is absolutely no doubt, wherever it is, that it is impossible today to build a new nuclear plant as quickly as many other options, and at a cost that is competitive. Every dollar, euro or pound put into new nuclear is making the climate crisis worse. There is no doubt about that; it is very clear. It is straightforward. Existing nuclear power plants are a bit of another story, because they are there.

Q125 Anthony Browne: When wind power was in its early days—I used to be environment editor of *The Observer,* 20 years ago—obviously, the environment movement was very pro-wind power. It never worried about the cost of it, which was incredibly great then; it was an incredibly cost-ineffective form of energy, but because we invested in it, the prices came down. As Professor Thomas said, it has become a far more cost-effective form of power, so why are you so worried about the cost of nuclear now when people were not worried about the cost of wind power 20 years ago?

Mycle Schneider: That is their problem. We have a very precise view about what nuclear power has actually delivered. Nuclear power is not a new technology. It was 70 years ago that construction started on the first nuclear power reactor. We have long experience, but the strange thing is that the nuclear industry always claims a "first of its kind" situation. It is surprising because whether it is Olkiluoto—an EPR in Finland—Flamanville in France or Hinkley Point C, every time the industry claims it is the first of a kind. How many times can it do that? We see that each time, costs skyrocket and the nuclear industry does not deliver.

By the way, the nuclear industry is not delivering on existing reactors, either. It is not a coincidence that Standard and Poor's downrated EDF Energy to junk last year. For me, as an outside observer, that is a strange situation. Basically, the business as it is run by EFD Energy is judged by the credit rating agencies as not investment grade. In fact, the EDF Group has been downgraded as well. It is still investment grade, but only because they get additional notches from extraordinary state support. The RAB scheme suggests bringing down financing costs—making borrowed money cheaper—but the way EDF runs its business is judged to be so bad by credit rating agencies that it is rated non-investment grade.

All of those things have to be taken into account, and the question for me—having listened to much of the industry's presentations today—is about how incredibly confident it is about what it will deliver in the future, when what it has delivered in the past is way off its own targets.

Anthony Browne: You are based in Paris and 70% of France's electricity comes from nuclear. France has consistently lower carbon dioxide emissions per capita than the UK. Presumably you agree that that is because of the size of its nuclear sector.

Mycle Schneider: Of course that is a substantial part of it, at this point. The problem is that in 2020 the production of nuclear power was the lowest it had been in 17 years, and the share of nuclear power in the French system was at its lowest since 1985. That does not sound like a very reliable source of electricity. Basically, the French reactors were down to zero production for 115 days in 2020. That means that for every two reactors you need one in reserve, because they do not generate power for a big part of the year.

Do not forget that France has created a very distorted energy system. The peak load in the winter is historically more than 100 GW, while the lowest load day is about 30 GW. To give you an idea, Germany is about 80 GW at the peak, but it has 20 million more people. France has distorted the system with electric space heating.

The nuclear sector provides just over 60 GW, and those 60 GW are never all available. So what happens in the winter is that France often imports power from Germany. As we know, quite a bit of that peak power from Germany is coal, so one has to look at the carbon footprint and not only the grand gigawatt-hour.

The Chair: Order. We are drifting a little from the scope of the Bill. Can we get back to questions that relate to the Bill, please?

Q126 Mark Jenkinson: This question is particularly for Stephen. I want to go back to comments on baseload. The Climate Change Committee says that we need 37% firm power—we can call that what we like; we can change its name from baseload to firm power—which most of our renewables do not provide. You talked about CfDs being better for consumers than RAB. At the time, I thought we were mad to strike at £92.50 at Hinkley, which is probably 800% of construction costs, because of the cost of capital being all back-loaded, which RAB will obviously do away with. What is an acceptable level to force on the poorest in our society for energy per megawatt-hour? We have heard today that we can probably produce energy at £60 per megawatt-hour, possibly a bit less. The update in levelised cost of energy for 2020 for one of the UK's biggest wind farms, which continues to be extended in Walney, was £136 per megawatt-hour. That is before we take into account constraint payments and all the other inefficiencies in wind power. You talked about tidal and how it is not on the radar, but is far off in the future, and of course into three figures per megawatt-hour. What is acceptable? What is the answer for that 37% firm power?

Professor Thomas: As I said, I do not think there is a case for the need for firm baseload power. If the National Grid Company does not think there is a need for it, who are we to tell it that it does not know how to operate a system reliably?

Q127 Mark Jenkinson: That is the Climate Change Committee's sixth carbon budget. Are we saying that the Climate Change Committee is wrong?

Professor Thomas: I would trust the National Grid Company over the Climate Change Committee on matters of reliability of the grid.

Q128 Mark Jenkinson: That was not the question. Are we saying that the Climate Change Committee is wrong to say that we need 37% firm power?

Professor Thomas: Yes, I am saying that it is wrong. If the National Grid Company does not say that there is a need for firm baseload power, I will trust it. If that means that the Climate Change Committee is wrong, so be it.

Q129 Mark Jenkinson: Reliability not being baseload, but—Doug wants to come in. Go on, Doug.

Doug Parr: There is a difference between firm and baseload. We absolutely need firm power because there will be spells when we do not have much wind and solar. That is where there is a need for firm power, and I do not believe that anybody who thinks about it for a moment would dispute that. The question is what forms that. As I hinted earlier, on the question about where nuclear fits in the overall system to deliver a cost-effective and secure system, it is now a race between cost-effective storage of renewable power on the one hand and something like nuclear on the other. We can see that the existing deployment of green hydrogen and the money that is flowing into it will bring that cost down sharply. The Climate Change Committee has already assumed that there will be cost reductions. How fast they will go is still not certain, but we know that those costs will come down pretty quickly.

Q130 Mark Jenkinson: Back to the definition of firm power, we have energy requirements of up to 50-something gigawatt-hours. Thirty of that is a constant. The figure does not drop much below 30 or the late 20s. We can dress it up however we like, but that is a firm requirement that is likely only to increase. The Climate Change Committee defined firm power very specifically as nuclear or gas with carbon capture and storage. Are we saying that we should ignore its proposals in favour of intermittent renewables?

Doug Parr: No, we are not. We are saying that there needs to be a storable medium for energy, and that is the gas that I would be talking about. There needs to be a firm dispatchable form of power, and that is what it is, because there will be times when there will be an excess of renewable power, which will be convertible. In the first instance, it will be exportable. Then it becomes importable, and usable in the form of stored energy. I take the point about what the committee says is necessary for system security, but as Steve said, the National Grid does not see that as being baseload; it is about something that can be flexible to accommodate the other aspects of the system, and it needs to be looked at as a system.

Mark Jenkinson: It is semantics—baseload or firm power.

The Chair: Order. I am going to move on. Two more people want to ask questions.

Mark Jenkinson: I just want to pick up on hydrogen specifically, because we heard that it is incredibly inefficient.

The Chair: Order. Mark, I am going to move on. There are two more people, and you have had a long time. I call Kirsty Blackman.

Q131 Kirsty Blackman (Aberdeen North) (SNP): Thank you very much, Ms Fovargue. Specifically on what Mycle said earlier in relation to the ways that we can tackle the climate emergency, given that the climate emergency is now are there better uses of money and time than supporting new nuclear?

Doug Parr: I think we need to really get a shift on with deploying renewables as fast as possible. I know it is said that we are already deploying them. Sure, but are we deploying them at the speed we need to? I think the answer is no. We need to get a move on with that. That in itself will not take up a lot of money but, as the previous conversation alluded to, there need to be alterations to the electrical system that allow that to be best accommodated. That is where some of the money goes.

We also need much greater interconnection with the continent, because that allows the flows to be balanced much more easily, and we definitely need a shedload of money going into making our buildings and appliances more efficient, because the best and most secure energy is the stuff that you do not need. Those can all be done at scale in the 2020s, so well before Sizewell will ever get going.

Professor Thomas: I do not think that you can possibly argue that nuclear is the best option to pursue. As Doug said, energy efficiency can be implemented very quickly, and it has the double pay-off that, whereas expensive new power sources will increase bills, energy efficiency measures will reduce both emissions and bills. It will have a welfare pay-off for low-income consumers as well as reducing our carbon emissions.

Mycle Schneider: Most of it has been said. We need to schedule priorities by availability and cost. The combination of time and cost together makes climate effectiveness.

Q132 Kirsty Blackman: A brief question that Stephen touched on, but specifically to Doug. Would you be happy to pay more money on your energy bill in order to fund new nuclear?

Doug Parr: I would not be, no.

Q133 Kirsty Blackman: Would you be happy to pay more money on your energy bill in order to fund new renewables, for example?

Doug Parr: Yes. I have always been very clear that there are particular hazards around new nuclear developments, whether it is waste, the terrorist threat, what to do with them or security issues. That is why I think, as a society, it is worth avoiding those hazards and, if necessary, paying a bit more. In practice, there are models out there by, for example, Imperial College that say that no more new nuclear is on the cost-effective pathway, given the cost of renewables. Theoretically, I can say that. In practice, I am not sure that is the situation we are facing.

Q134 Matthew Pennycook: I have a two-part question for the panel, but in particular for Professor Thomas. The Bill is clearly designed to facilitate primarily Sizewell C. I still think there is a lack of clarity about Chinese investment in that project and how that interacts with the Bill's intentions. What is the panel's understanding—and specifically Professor Thomas—about what is in the October 2016 strategic investment agreement and what provisions are there in that agreement that would allow the Government to remove CGN from the project? Related to that, we had a number of questions earlier about the £1.7 billion allocated to nuclear in the Budget. The Budget line says that that funding is there:

"to enable a final investment decision for a large-scale nuclear project in this Parliament, and the government remains in active negotiations with EDF over the Sizewell C project."

What is your understanding of what that means and can you comment on potentially the use of that £1.7 billion as it relates to the RAB funding mechanism? It is a very different two sets of scenarios, if we are talking about whether that £1.7 billion is for a buy-out of the CGN minority stake or potentially put in as part of a pot of money alongside the funds generated from RAB.

Professor Thomas: If we go back to the 2016 agreement, CGN agreed to take a third of the Hinkley Point C project: the construction and the operation of the plant. It agreed to take 20% of the Sizewell B/C project up to final investment decision. It has an option to take 20% of the construction and operation of the plant if it goes ahead and for Bradwell, there is the 66% of CGN and 33% of EDF. EDF and CGN have spent about £0.5 billion developing the plans to the point they have reached so far. Let us say it is going to take another £0.5 billion to get to final investment decision—that is at the most. So £1.7 billion seems a bit too much for that. The wording of the £1.7 billion is very vague. Some people have assumed it will be an 8.5% stake, or whatever £1.7 billion works out as.

In terms of how you would get CGN out of Sizewell C, I think it is really dependent on what happens to Bradwell B. It is clear that CGN's presence in the UK is for only two reasons. First, to build the Bradwell B plant, and the price for that is its involvement in Sizewell C and Hinkley Point C. The other is to get the British safety regulator's endorsement of its technology. If it is not going to be allowed to build Bradwell B, I cannot see why on earth it would be interested in putting money into Sizewell C. It is not CGN's technology, it would provide nothing and it would not be particularly profitable. So if Bradwell B is abandoned, the Sizewell C CGN problem will solve itself. Can you briefly repeat me the gist of the second part of your question?

Q135 Matthew Pennycook: I think you have answered it in part, but it is about your understanding of how that £1.7 billion might potentially be used in a Sizewell C project and how that, in a sense, relates to the RAB funding mechanism set out in the Bill.

Professor Thomas: The CGN EDF consortium have spent about £0.5 billion so far, and they have some more money to spend to get to the final investment decision. They would then expect to sell that work to the company that actually builds and operates the plants, so they would get their money back. If Sizewell C goes ahead, it is sort of alone. It seems to make more sense to see it as a stake in the plant, which might encourage institutional investors to go in. If they saw Government involvement, they might think that it will probably not be allowed to collapse, but it is up to the Government to provide a bit more clarity about what they expect the £1.7 billion to do.

Q136 Alan Brown: I have a question for Stephen Thomas. We heard this morning that the Sizewell C company is looking for a 60-year contract under the RAB funding. Does that mean that, effectively, bill payers will be paying for the asset before it comes into use and can generate electricity, and that they will continue to pay for it once it has reached its end of life? Are there any protections in the Bill? If Sizewell goes ahead and then goes offline early in the way that Dungeness went offline and had to be shut down seven years early, would the bill payer still be stuck paying for that under the RAB model, or is it possible to have recovery mechanisms in order to counteract that?

Professor Thomas: I think there is a lot of missing detail in the RAB proposal, and one of the biggest elements of missing detail is how much the surcharge for consumers will be during the construction phase. The Government have said that it will be a maximum of about £10 per year per consumer. That makes no sense, because it would yield about £6 billion. In the context of a project that the Government said would cost between £24 billion and £40 billion, plus financing costs, £6 billion is a nice little present, but it will not be much of a game-changer. We need to see much more clarity about what that cost will be, because if it is to make a big

change to the cost of power from Sizewell C, it has to be quite a significant surcharge. We also need to include that in the price of power. At the moment, we are talking about £60 per megawatt-hour and completely forgetting the £6 billion, or however much it will be, that consumers will put in during the construction phase.

In terms of what happens if the plant has to close early, there is a big problem with decommissioning. Decommissioning funds work on the basis of discounted cash flow—in other words, a liability that falls due in 50 years. You have to have enough money in place now, plus the interest it would earn for 50 years, to pay off the debt. If the plant closes early, you do not earn all that income and you have to bring forward the process of decommissioning, so there will be a big hole in the decommissioning funds.

I remind members of the Committee that the decommissioning funds that we have in the UK have continually failed. Consumers have paid three or four times over, only for the money to disappear and not be available for decommissioning. Decommissioning is a very serious issue. It appears to disappear because of the belief that you can invest a sum of money at 2.5% or 3%, in real terms, for 100 years. That is not the case, I am afraid—not on the historical evidence.

Q137 Alan Brown: Under this current proposal, in effect, the decommissioning risk—some funding is built in, but the actual risk if costs increase or the liabilities kick in early—currently sits with the consumers.

Professor Thomas: The only people who can pay are taxpayers. If the company goes bust, unless you have powers to pursue the companies back to their parents, and the parents are still there to pay off, you will be left with the taxpayers. We are talking about a process that happens something like 100 or 120 years after the plant starts up. The chances of an entity that owns the plant at the start still being around in 120 years' time seems to be very slight, so I do not think that you will be able to pursue companies and you will end up with taxpayers having to foot the bill, as is the case with the Magnox plants now—that is being funded entirely by taxpayers.

Q138 Alan Brown: Does a 60-year funding model under RAB make sense given that the maximum lifespan of a nuclear power station to date has been 40 years? Why therefore is it a 60-year funding model?

Professor Thomas: That is a fairly rash decision, to go for 60 years. There are plants that are just about reaching their 50th birthday, but a lot of plants have retired well before that, so 35 years—as for Hinkley Point—is the very maximum I would want to go to.

The Chair: Doug, did you want to come in on that?

Doug Parr: Only as a rejoinder to what Stephen said about the risk of underperformance, if not early closure. Remember that the EPR that was constructed in Taishan is offline at the moment, because of a fuel issue. It has been offline for about three months, I think, and that is only three years into its operation. Underperformance, if not early closure, is a tangible issue even with that model of reactor.

The Chair: If there are no further questions from Members, I thank the witnesses for their evidence. Thank you very much for attending. That brings us to the end of our oral evidence session today. The Committee will meet again on Thursday to begin line-by-line scrutiny of the Bill, meeting at 11.30 am in Committee Room 11.

Ordered, That further consideration be now adjourned. *—(Craig Whittaker.)*

4.57 pm

Adjourned till Thursday 18 November at half-past Eleven o'clock.

Written evidence reported to the House

NEFB01 Derek Wyatt (former MP 1997-2010)

NEFB02 Maike Windhorst

NEFB03 Urenco Limited

NEFB04 Together Against Sizewell C (TASC)

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

NUCLEAR ENERGY (FINANCING) BILL

Third Sitting

Thursday 18 November 2021

(Morning)

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not later than

Monday 22 November 2021

The Committee consisted of the following Members:

Chairs: † Yvonne Fovargue, James Gray

† Baker, Duncan *(North Norfolk)* (Con)
Blackman, Kirsty *(Aberdeen North)* (SNP)
† Brown, Alan *(Kilmarnock and Loudoun)* (SNP)
† Browne, Anthony *(South Cambridgeshire)* (Con)
† Cairns, Alun *(Vale of Glamorgan)* (Con)
† Crosbie, Virginia *(Ynys Môn)* (Con)
† Doyle-Price, Jackie *(Thurrock)* (Con)
Duffield, Rosie *(Canterbury)* (Lab)
† Fletcher, Mark *(Bolsover)* (Con)
† Hands, Greg *(Minister of State, Department for Business, Energy and Industrial Strategy)*
† Jenkinson, Mark *(Workington)* (Con)
† Owen, Sarah *(Luton North)* (Lab)
† Pennycook, Matthew *(Greenwich and Woolwich)* (Lab)
† Wallis, Dr Jamie *(Bridgend)* (Con)
† Whitehead, Dr Alan *(Southampton, Test)* (Lab)
† Whitley, Mick *(Birkenhead)* (Lab)
Whittaker, Craig *(Lord Commissioner of Her Majesty's Treasury)*

Sarah Ioannou, Rob Page, *Committee Clerks*

† attended the Committee

Public Bill Committee

Thursday 18 November 2021

(Morning)

[Yvonne Fovargue *in the Chair*]

Nuclear Energy (Financing) Bill

11.30 am

The Chair: I have a few preliminary reminders for the Committee. Please will you switch all your electronic devices to silent? No food or drink is permitted during sittings of the Committee, except for the water provided. I encourage Members to wear masks when they are not speaking. That is in line with Government guidance and that of the House of Commons Commission. Please give each other and members of staff space when seated, and when entering and leaving the room. *Hansard* colleagues will be grateful if Members could email their speaking notes to hansardnotes@parliament.uk.

We now begin line-by-line consideration of the Bill. The selection list for today's sitting is available in the room and it shows how selected amendments have been grouped together for the debate—there is one change. Amendments grouped together are generally on the same or a similar issue. Please note that decisions on amendments do not take place in the order in which they are debated, but in the order they appear on the amendment paper. The selection and grouping list shows the order of debates. Decisions on each amendment are taken when we come to the clause to which the amendment relates. Decisions on new clauses will be taken once we have completed consideration of the existing clauses of the Bill. Members wishing to press a grouped amendment or new clause to a Division should indicate when speaking to it that they wish to do so.

We will start with amendment 1 to clause 1, but first, Dr Whitehead, did you wish to talk about the change to the selection list?

Dr Alan Whitehead (Southampton, Test) (Lab): Thank you, Ms Fovargue. It is a pleasure to serve under your chairmanship. I want to say two things before we go into detailed line-by-line discussion: one is on the order in which we are debating the Bill—clause 1, clause 2 and so on. The other is to say to the Committee before we start that Her Majesty's Opposition voted in favour of the Bill on Second Reading and, therefore, we hope that the amendments before us will be seen and discussed in that light, which is that they seek to strengthen the Bill and to address specific concerns that we have about elements, in particular the RAB—regulated asset base—process.

The Chair: Order. This should just be about the amendments and groupings; there can be no general statements about the Bill. Is everyone content to group amendments 1 and 2 together?

Hon. Members: Aye.

The Chair: Are there any declarations of interest?

Mark Jenkinson (Workington) (Con): Ms Fovargue, I draw the Committee's attention to my entry in the Register of Members' Financial Interests. It is a matter of public knowledge that I worked in the nuclear industry before my election to this place.

Clause 1

Key definitions for Part 1

Matthew Pennycook (Greenwich and Woolwich) (Lab): I beg to move amendment 1, in clause 1, page 1, line 15, at end insert—

"(6) 'Owned by a foreign power' means owned by a company controlled by a foreign state and operating for investment purposes."

This amendment is a definition of "foreign power" set out in amendment 2.

The Chair: With this it will be convenient to discuss amendment 2, in clause 2, page 2, line 14, at end insert—

"(c) the nuclear company is not wholly or in part owned by a foreign power."

This amendment prevents the Secretary of State designating a nuclear company owned or part-owned by the agents of a foreign power.

Matthew Pennycook: It is a pleasure to serve with you in the Chair, Ms Fovargue. The amendments you have grouped stand in my name and that of my hon. Friend the Member for Southampton, Test.

Taken together, the purpose of amendments 1 and 2 is to ensure that in enabling nuclear companies to benefit from the RAB model and for the Government thereby to bring a large-scale nuclear project to a final investment decision by the end of this Parliament, as they are committed to do, the Bill nevertheless makes it clear what kind of companies it would be inappropriate for the Secretary of State to designate for that purpose. In moving the amendment, my assumption—Government Members may correct me if I am mistaken—is that the Committee as a whole would accept that it would be inadvisable to allow some nuclear companies to own and/or operate a nuclear reactor on British soil. That is because civil nuclear power is, without question, critical national infrastructure, the compromise of which would have real implications for national security, given that any company owning and/or controlling such infrastructure would have direct access to the national grid.

Conservative Members, or indeed the Minister when he responds, may argue that the amendments are unnecessary, because no Secretary of State would choose to designate a nuclear company to benefit from the RAB model that posed any threat to national security. Yet it is precisely because previous Secretaries of State have been content to allow companies that the Opposition would argue should never have been given the opportunity to own and operate UK nuclear plants that we believe we need such additional safeguards in the Bill.

Put simply, we want to ensure that the legislation is amended so that this Government, or any future Government who might wish to use the RAB model for new nuclear, cannot make the kind of error that was without doubt made in recent years. Namely, a company owned and directly controlled by a foreign state—a state that the integrated review is clear poses a systemic

challenge to our security, prosperity and values—was given the opportunity to own and access critical national infrastructure.

I will touch on the way in which the Government might, if they were minded to accept our amendments or table modified versions of their own on Report, differentiate companies owned and directly controlled by a foreign power and those in which a state merely has a majority financial stake. Before that, I will examine the error that I have mentioned and the lessons we might draw from it to improve the Bill.

On Second Reading, we made it clear that our strong view is that although the Bill has the appearance of a general piece of enabling legislation, it is in practice concerned solely with the future of Sizewell C, as the last potential nuclear project that could conceivably begin to generate by the end of the decade.

Alan Brown (Kilmarnock and Loudoun) (SNP): I note that the hon. Gentleman was choosing his words carefully. We all know that it is about the China General Nuclear Power Corporation; many people have concerns about its involvement in the nuclear sector, which I echo. He talked about when a state is a majority shareholder, which includes EDF in France, but surely the amendment says

"not wholly or in part".

As France is a majority shareholder in EDF, would that not eliminate EDF from participating in the RAB exercise for Sizewell C?

Matthew Pennycook: The hon. Gentleman pre-empts what I will come on to say. We are keenly aware of the need to differentiate different types of companies, which is why, thankfully, the Chair has allowed me to group this amendment with amendment 1, which clearly defines what we mean by "owned by a foreign power". It is not just owned by in terms of a majority stake, but directly controlled by in the way that I would argue EDF is not.

To return to the involvement of the China General Nuclear Power Corporation in UK nuclear more widely, we believe that the case of Sizewell C illustrates precisely why amendments 1 and 2 are required. Driven by an almost embarrassing enthusiasm for Chinese investment, which was shared and arguably surpassed by the coalition Government that preceded it, the Cameron Government eagerly embraced Chinese involvement in UK civil nuclear energy. As a result, Hinkley Point C, while largely financed by EDF, is underpinned by effectively foreign Government part-financing in the form of a 33.5% interest on the part of China General Nuclear Power Corporation.

When the final investment decision for Hinkley Point C was approved, associated heads of terms were agreed for CGN to take a 20% stake in Sizewell C and to secure majority ownership, complete control of planning and financing, and unfettered operation of the nuclear plant at Bradwell-on-Sea in Essex that would incorporate, subject to generic design approval, a Chinese-designed Generation III Hualong One reactor. Bradwell B was always the ultimate prize for CGN and why it was willing to take a significant stake in the Hinkley plant and a minority stake in the development work to progress Sizewell C toward a final investment decision.

As far as we can ascertain, although the present Conservative Administration have never said as much—I invite the Minister to remedy that if he wishes—there is now a general acceptance that acquiescing in the construction of a piece of critical national infrastructure at Bradwell that would be designed, planned, owned and operated by a subsidiary company of a Chinese state-owned enterprise, and, as all SOEs are in China, controlled ultimately by the Chinese Communist party, was perhaps not the wisest decision that the Cameron Government made.

Furthermore—I do not believe a Minister has said this explicitly, so I urge the Minister to provide greater clarity to the Committee when he responds—I take it as read that the present Government now take the view that such an arrangement is no longer tenable, and that it is their intention to remove the influence of the People's Republic of China from the Sizewell C project entirely, and, should any new nuclear view on that project prove necessary, the future UK nuclear programme more widely.

The press release accompanying the publication of the Bill stated:

"The RAB model will reduce the UK's reliance on overseas developers for financing new nuclear projects".

The Committee will appreciate that that statement is not a clear declaration of intent when it comes to rolling out foreign Government part-financing, ownership and control of civil nuclear power in this country. If it is the Government's intention to end foreign Government part-financing and ownership of new nuclear projects, the Committee should be told what that means in practice for the October 2016 Sizewell C strategic investment agreement, as well as what the Government's reneging on that deal would mean for CGN's 33.5% stake in Hinkley Point C. More specifically, it is right that the Committee is also given a sense of how, assuming it has been determined, the Government intend to remove the CGN minority stake from the Sizewell C company, or, if it has not, the various options being considered.

That brings me to the £1.7 billion committed to nuclear in the recent Budget, the purpose of which, according to the Red Book, is

"to enable a final investment decision for a large-scale nuclear project in this Parliament"—

the very same intention that we are told is the purpose of the Bill. As I am sure Members will appreciate, that statement contained in the Red Book is wilfully obscure. Given that Sizewell C is, as I have said, the last potential nuclear project that could conceivably begin to generate by the end of this decade, and the fact that this Bill creates the funding model that will almost certainly enable a final investment decision on it to be made, the Minister needs to be more transparent with the Committee about the future of the CGN minority stake, because the answer could have real implications for the applicability of the funding model set out in this legislation, and, as a result, the bills that consumers in all our constituencies will pay in the years ahead.

We heard from Professor Stephen Thomas in our evidence session on Tuesday that the cost of buying out the CGN minority stake in Sizewell C is likely to be a tiny fraction of the £1.7 billion allocated to nuclear in the Budget, so what will the rest of that public funding be used for? Will it in whole or in part be used to finance Sizewell C beyond financial closure? If so, how do the Government intend to require the consortium to allow them to participate, and will the investment of direct

[Matthew Pennycook]

public funding, if made, have any impact on the amount of RAB financing that will be required for Sizewell C to proceed?

Whatever the £1.7 billion committed to in the Budget is ultimately used for, the involvement of CGN in UK nuclear power over recent years illustrates the risks associated with foreign states, particularly ones of an authoritarian nature, financing and operating critical national infrastructure. We should not only learn the lessons of that, but ensure that clauses 1 and 2 are tightened so that the Bill cannot be used to facilitate such involvement in the future. That is the purpose of amendments 1 and 2. Taken together—this follows on from the point made in the intervention earlier—they would ensure that the Secretary of State cannot designate a given company to benefit from the RAB model provided for in the Bill if the company in question was owned and directly controlled by a foreign power. Their combined effect would not be to prevent the coming together of consortia that are not UK majority-owned. That would almost certainly render future projects unviable or more costly, but the amendments' incorporation in the Bill would ensure that consortia drawing upon the RAB model could not include investors owned and controlled by a foreign state.

The use of the word "controlled", as per amendment 1, is critical. This follows on from the point I made in response to the hon. Member for Kilmarnock and Loudoun. We are acutely aware that in attempting to amend the Bill to prevent a company such as CGN from benefiting from the RAB model, we would not wish to prevent all companies in which states have a majority interest—EDF is the most obvious example—from doing so. That is why amendment 1 specifically defines "owned by a foreign power" as one owned and controlled by a foreign state.

I hope the Minister responds to the amendments in the constructive spirit in which they have been tabled and that the Government will see the value of incorporating them into the legislation.

11.45 am

Alan Brown: It is a pleasure to serve under your chairwomanship, Ms Fovargue. In my intervention, I wondered if the amendments would technically preclude EDF under the RAB scheme. I hoped that the amendments were a stalking horse for Labour to come round to our way of thinking regarding a new nuclear power station, but unfortunately, that does not seem to be the case.

That said, I support the amendments. It is crazy that decisions have not been made before now about excluding China General Nuclear from critical infrastructure. The UK Government probably acted on the back of the United States's actions to remove Huawei from critical telecoms infrastructure, so it makes no sense that a Chinese state-operated nuclear company is allowed to participate and invest in and possibly, if it gets its way, construct a new power station at Bradwell. That makes no sense. I would like to hear what the Minister has say about that. In principle, I support the amendments, although, ideally, I would rather we were not doing new nuclear.

Dr Whitehead: Continuing briefly from my initial remarks, I want to make it clear that the amendments—and all our other amendments—are based on the idea that the Bill should be strengthened, not subverted in any way. I can assure the Committee that the hon. Member for Kilmarnock and Loudoun's hope that these two amendments are a stalking horse to remove EDF from the project is certainly not the intention. The intention is precisely to ensure that the nuclear programme in this country is sound, robust and integral to our security in all senses of the word.

We do not think the amendments will do anything other than put us in a much better position to ensure that the financing of nuclear is done on a clearer footing and on the basis that we know who is putting money into the project, in this instance Sizewell C. I concur with my hon. Friend the Member for Greenwich and Woolwich that effectively the Bill is pretty much about how Sizewell C gets going, comes to financial closure and gets into its construction period so that it produces electricity in good time for the grid.

It is important that the Committee thinks carefully right at the beginning of its proceedings about how we want to framework that nuclear financing; how we want to framework the arrangements which, after all, will be the umbrella under which we have all our other discussions in Committee. The framework that we have at the moment, particularly for Sizewell C, as my hon. Friend has set out, is a sequence of memorandums and a number of things further to memorandums, which appear to lock our nuclear development into an arrangement with the Chinese General Nuclear Power Corporation, which is very much an instrument of the Chinese state. Although companies have been set up—set up for the purpose of engaging in Hinkley—with one nominated director, given who those nominated directors are and how they go back to China it is very clear that those companies are centrally state-controlled, and are state-controlled vehicles for investment—just as we have stated in our amendment—for the promotion of that particular foreign power's interests, in this instance in nuclear power.

Given those interests in nuclear power, it is important that we do not lose sight of the overall scheme of things in considering investment or otherwise in Sizewell C. It is important to understand that the deals, as it were, that were made between 2013 and 2016 were very much about that sequence of events leading from investment in a power station with a minority stake, with a reactor that would be built in France, within a framework of a company controlling that, that is a private company but has substantial state connections, but nevertheless is a very different model from what we are faced with regarding the CGN investment.

So there has been a sequence of events that starts with Hinkley C, with a minority stake, a French reactor and a French company with its own investment in the majority of the plant, and then a contract for difference at the end of it for production, moving to the second event in the sequence, which was envisaged at that time to be Sizewell C, with an undefined arrangement at the time for investment elsewhere in the plant, but a clear stake in that plant, beyond financial closure, of the Chinese General Nuclear Power Corporation, coming to 20%. And then would come the prize at the end of the sequence—certainly the prize for the Chinese Government—of the entry into European nuclear development for the first time of a Chinese reactor, the Hualong One. That would be the basis of a Bradwell nuclear plant. That reactor would separately go through

a generic commissioning process; the initial moves towards that are being made. That reactor would then be at the core of the Bradwell plant, and Bradwell would be majority-owned, run, controlled and operated by the Chinese state nuclear corporation.

So, leading down the path of that sequence, Sizewell C being a stopping-post in that sequence and the end of it being Bradwell, is obviously the nuclear project that we are discussing at the moment. Therefore, the part-ownership of the nuclear company must be seen as integral to that overall process and that overall agreement; and if we do nothing and say nothing about that involvement, we are effectively condoning that whole sequence of agreements.

Those agreements were initially made in the form of a memorandum of understanding on civil nuclear collaboration in 2013, and effectively those stakes that I mentioned were set out then. George Osborne, the then Chancellor, stated that Chinese companies were taking a stake, including potential future majority stakes, in the development of the next generation of British nuclear power. So, it was pretty explicit, certainly from the UK Government side, what they thought that sequence was going to be about, and it was actually pretty similar to the idea that the Chinese had, as far as their involvement in nuclear was concerned.

That was followed, during Chinese President Xi Jinping's state visit to the UK in 2015, by a "Statement of Cooperation in the Field of Civil Nuclear Energy", which welcomed the minority investment and the proposal for a Chinese-led project at Bradwell B in Essex. What is less well known is that that was followed by a very lengthy document, "Secretary of State Investor Agreement", which was primarily about investment by a number of parties, including CGN, in Hinkley but which also related to the whole sequence. It is arguable, therefore, that there is a substantial lock-on of Chinese involvement not just in 20% of Sizewell but in the whole sequence, as laid out in the various memorandums of understanding and the investment agreements undertaken between 2013 and 2016.

The question is: what are we going to do about it? The proposal is for a RAB scheme to cover the project's investment costs. A decision will have to be made about how the RAB scheme will work and we will discuss the detail later, including how Ofgem will set out the allowable costs that form the backbone of a RAB agreement. Ofgem will have to assess the overall allowable ceiling for the project costs, particularly in its construction phase but also during its production phase. That will form the basis on which the money to meet those costs will be taken in from the general bill-paying public. The ceiling for those allowable costs will be determined to a considerable extent by how much investment is likely to be required and, therefore, how much of it will have to be underpinned by the RAB arrangement at the Sizewell plant. If a substantial part of the plant is to be financed by the China General Nuclear Power Corporation, then logically the allowable costs would relate to the rest of the required investment, rather than all of it. Crucially, the decisions and discussions that this Committee is going to enter into will be determined by what that 20% consists of.

The Red Book offers a tantalising clue as to what that might be. As my hon. Friend the Member for Greenwich and Woolwich said, a total of three lines focus on the £1.7 billion of new direct Government funding being made available, essentially for the Sizewell C project. He said that the Red Book is possibly wilfully obscure; it is certainly obscure, and for a number of reasons. All the Budget and spending review document has to say about the £1.7 billion Government funding is that it is being provided

"to take a final investment decision this Parliament, subject to value for money and approvals."

12 noon

What the Minister has already said, in response to previous inquiries I have made, is that Chinese General Nuclear Power Corporation remains a 20% holder in the nuclear company up to the point of a final investment decision. That means that the cost of all the work needed to reach a final investment decision—legal documentation, initial site planning arrangements, possibly some site clearance arrangements, and facilitation to enable the project to present itself in a clear light—will be borne by the present owners of the Sizewell nuclear company, which is 80% EDF and 20% CGN. In a way, that is a given, so the Secretary of State's statement about Chinese General Nuclear Power Corporation being a 20% owner of the company at this moment in time is a bit of a statement of the obvious.

What is less obvious, however, is the extent to which Chinese General Nuclear Power Corporation will be involved in the costs of the nuclear company up to the point of investment decision closure. We heard in evidence from Professor Thomas, and indeed I have heard from a number of other people, that it is extremely unlikely—to the point of not being likely at all—that the cost of those arrangements and activities will be anything near £1.7 billion. It will probably be a few hundred million pounds at most.

If I know that, then I am sure the Government know it, so they must have taken it into account when they calculated the sum of up to £1.7 billion for the Red Book. Surely they must have calculated that only a portion of the £1.7 billion allowed would be for those sorts of costs, and that if Chinese General Nuclear Power Corporation were to cease its activities at the point of the investment decision, then it might reasonably expect to have some of its costs repatriated, and presumably those costs might be met out of the £1.7 billion. That would leave perhaps £1.5 billion unallocated and unknown, as it were.

I do not know what the Government's intentions are for that substantial part of the £1.7 billion, but it would be very interesting if we were told. Not only would it be very interesting; I also think it is vital that we know. Does it mean that the Government think that Chinese General Nuclear Power Corporation might take up the offer, set out in the memorandum of understanding and so on, that it not only takes part up to the point of a financial investment decision, but actually then invests in the project as a whole? Do the Government intend to buy out what might have been in that investment element as the construction period continued? If they do, that does not look like it is enough to buy out something that was going into the company subsequently, but it looks too much to buy out what might have been in before the investment decision was reached.

There is a big question for the Minister: what is most of that £1.7 billion intended to cover? It is important that we know the answer for our discussions in the Committee. Without knowing it, there will be some

difficulty about which decisions to take about the RAB procedure as a whole. I await with interest what the Minister has to say about the money from the Red Book.

I also await with some interest what the Minister has to say about the mechanisms for breaking the cycle that I mentioned earlier—Hinkley, Sizewell and Bradwell being stepping-stones to the complete Chinese control of a nuclear power plant—assuming that the Minister wishes, as I think we all do, to break that cycle. Does the Minister agree that it is a bad idea to keep that chain intact and not try to break it at some stage? Does the Minister agree that, in order to break that chain, some method must be put in place whereby it can be broken?

Does the Minister also agree that if that chain is broken we must be clear about the consequences in terms of the actions of the Chinese General Nuclear Power Corporation, not just in relation to future projects but in relation to this project? Does CGN withdraw at this stage, before financial closure? Does it exercise its options and have to be bought out of those options? Does it insist upon that continuing? Does it insist on the whole chain continuing? If it does insist, what might be the financial consequences of buying out its interests in the entire chain and, of course, its interests in Hinkley C? I assume that the—I think—33.3% interest that it has in Hinkley C would continue because, if it did not, there may be some additional funding implications for Hinkley. It may be that the £1.7 billion has those implications in mind.

It is not satisfactory that, at this stage of the procedure, we are talking about all this with so little information about the Government's intentions, and so little information about how they intend to go about—if, indeed, as has widely been trailed in the press, they intend to—at the very least loosening CGN's hold on Sizewell, and not proceeding at all with the Bradwell project subsequently. I hope that the Minister will provide clarity on all those fronts. If he is not able to this morning, we will certainly pursue this as the Committee progresses, because it is vital that we get it right as we go through the Bill and are not sorry afterwards.

The Chair: Order. We will suspend for a few seconds to enable the sitting to be broadcast more clearly.

12.8 am

Sitting suspended.

12.9 pm

On resuming—

The Chair: We can now resume.

The Minister of State, Department for Business, Energy and Industrial Strategy (Greg Hands): Thank you, Ms Fovargue. It is a pleasure to serve under your chairmanship. I look forward to working with Committee members as we scrutinise this important and timely Bill. To begin, I want to briefly remind Members of the purpose and background of the Bill.

As all Members will agree, it is vital that the UK continues to lead the world in tackling climate change. That is why we have committed to a 78% reduction in emissions compared with 1990, as well as fully decarbonising our power sector by the year 2035, which will mean ensuring that the UK is entirely powered by low-carbon electricity, subject to security of supply. To deliver that, we will need new nuclear power plants, which are the only proven technology deployed at scale to provide continuous, reliable, low-carbon electricity.

Alan Brown: The Bill is mainly about Sizewell C. Can the Minister tell me where any European pressurised reactor is operating at scale connected to the grid at this moment in time? He is talking about proven technology.

Greg Hands: I am speaking in a general sense about nuclear being a proven technology, deployed at scale. That has been the case since 1957 or '56, with the very first nuclear power plant in the world here in the United Kingdom at Calder Hall just by Windscale.

However, it is clear that we need a new funding model to support the financing of large-scale and advanced nuclear technologies. The Bill will deliver that, in the form of the regulated asset base model. I am sure the Committee will discuss the detail throughout our sittings, so I do not intend to go into the minutiae now, but I want to outline the Government's position that this is the best way of delivering new nuclear projects while delivering value for consumers.

I am glad that the Opposition recognised that point through their support for the Bill on Second Reading. That support has been reiterated today by Her Majesty's official Opposition, if not by the Scottish National party. I am grateful for their useful contributions on Second Reading and look forward to further discussions in Committee. Similarly, I recognise the interesting points raised by the SNP in that debate. I recognise that the SNP has a principled—if, in my view, irrational—objection to new nuclear projects. Nevertheless, I am pleased to subject the Bill to the SNP's careful scrutiny as well.

I hope that as we move through Committee and the rest of proceedings on the Bill, we can work in collegiate and co-operative ways, considering the individual clauses of the Bill to ensure that it can meet its objectives. I think that was the position laid out by Her Majesty's loyal Opposition at the start of the debate.

I turn to amendment 1, tabled by the hon. Members for Southampton, Test and for Greenwich and Woolwich. It is linked to amendment 2 to clause 2, and I am happy to debate both together. The amendments seek to insert as a criteria for designation that the company is not wholly or partially owned by a foreign country. I want to touch briefly on the implications that the proposed definition could have for the wider policy of financing nuclear projects in this country.

If the definition as drafted could rule in all companies that were seen to be controlled by state sponsors, it could thereby rule them out of eligibility for a RAB. The RAB allows us to bring new sources of financing into nuclear projects and reduce our reliance on overseas developers, but it is not credible to introduce a blanket exclusion on developer participation in RAB companies, many of whom are to some degree state-sponsored, including some of our closest international partners. One has already been named during proceedings on the Bill and in Committee this morning.

I am sure that the intention of the hon. Members does not lie in that direction, as that could make it much harder to bring new, appropriate projects to fruition. We should never forget that the Bill's purpose is to make it more possible to finance nuclear projects in the future, not less so. However, I welcome the focus on national

security in one of the UK's key infrastructure networks, a point made by Her Majesty's Opposition. We will no doubt focus on that matter fully in our consideration of all the amendments.

I will take the points raised in turn. The hon. Members for Southampton, Test and for Greenwich and Woolwich both asked what the £1.7 billion in the Budget and spending review is made up of. We had an extensive debate on the Budget—I think it was four days in all—and there was a chance to examine this, but I will now reiterate the purpose of the money.

12.15 pm

The funding is to bring a project to final investment decision this Parliament, subject to value for money and all relevant approvals. This could include development stage funding to support the maturation of a project and to de-risk it. It could also include some Government investment at the point of a transaction. This will help to mobilise other private sector capital into a project, and that is very important. We are in active negotiations with Sizewell C on its nuclear project—the most advanced currently in the UK. The funding could be used to support development and investment in the project, subject to value for money and relevant approvals. It is an active negotiation.

Alan Brown: The Minister will have noticed in the evidence session on Tuesday when I put the question to the Sizewell C company about the derivation of the £1.7 billion and what discussions the company had had with the Government about that, the lady did not seem to know, or to believe there had been discussions with the Govt. How does this £1.7 billion get defined if the Sizewell C company does not know its derivation?

Greg Hands: To be fair, I also listened carefully to Sizewell C's evidence, and the company will be as aware as we are that this is an active negotiation. I was not in any way surprised that Sizewell C's representative did not wish to be drawn on the question of exactly where the £1.7 billion would be deployed. We have outlined in the Budget document the sorts of areas that would be in scope. None the less, this is an active financial negotiation.

Dr Whitehead: Does that mean that the evidence that was given to us in our session with Sizewell C was not correct, or was ill-informed? Or was it informed, but matters have moved on since then? Or was it—

Mark Fletcher (Bolsover) (Con): Diplomatic.

Dr Whitehead: Was it, indeed, as the hon. Member for Bolsover suggests from a sedentary position, diplomatic? If so, was that diplomatic answer given after any sort of instigation from the Government, or was it just diplomatic on the basis that Sizewell C did not want to tell us?

Greg Hands: I do not think the hon. Gentleman is correct. It is not fair to conclude that the evidence from Sizewell C was incorrect, or that it was ill-informed in any other way. This is an active commercial negotiation. We have laid out the parameters of the £1.7 billion, and is in no way surprising that our negotiation partners may not wish to comment on what they think it is likely to be spent on. After all, it is taxpayers' money, which will be deployed by this Government to move forward a nuclear project.

Alan Brown: The Minister made a key point: this is taxpayers' money. Surely, we as taxpayers have a right to know, even roughly, what services will be procured from this £1.7 billion. I would still expect the Sizewell C company to have discussions with the Government and say, "We need to do x, y and z in order to de-risk this project and get it to the final investment decision stage".

Greg Hands: I would say two things in response. First, Sizewell C may not feel it is appropriate to comment on the deployment of taxpayers' money. Secondly, I know from long experience of Government that often the best way of securing taxpayers' money in a negotiation is not to reveal too much about what approach the Government might be taking. We have laid out in the Budget document, which was quoted by the hon. Member for Southampton, Test, what we think is going to be in scope—what the £1.7 billion might be spent on.

The hon. Member for Greenwich and Woolwich asked a more general question about China. He asked whether this was about sending a message to China, or words to that effect. The answer is no. The UK welcomes foreign investment in our infrastructure, but as we have always said, that should not come at the expense of our national security. It is already the case in UK law that all investment involving critical nuclear infrastructure is subject to thorough scrutiny and needs to satisfy our robust national security and other legal and regulatory requirements. The National Security and Investment Act 2021 also strengthens our powers to act should we need to.

Matthew Pennycook: I take the point about the National Security and Investment Act. The Minister will know that that was given Royal Assent only in 2021. The strategic investment agreement that applies to Sizewell C was signed off—agreed—in October 2016. I think that I am right in saying that the National Security and Investment Act does not apply retrospectively, so how does it cover the specific arrangements in place as a result of that deal? Can he expand on what regulation is in force to give us assurance about safeguards in relation to foreign states and investment in civil nuclear?

Greg Hands: I thank the hon. Gentleman for that intervention. Of course, the final investment decision has not yet been taken on Sizewell C. All the relevant parts of the NSI Act will be in place—he is right to say that it got Royal Assent this year—but that final decision has yet to be taken.

The hon. Gentleman asked about Chinese involvement at Hinkley. May I be absolutely clear? The Bill is not reopening that decision. Hinkley Point C is vital to reducing our reliance on fossil fuels and exposure to volatile global gas prices. CGN is a partner in financing and building that important project. There is no involvement by any Chinese company in any major contract at Hinkley, including the instrument and control system.

As for Sizewell, to be clear, this Bill does not determine the ownership structure of Sizewell C or any other future nuclear project. That is another really important point to understand about the Bill. The Bill increases our options for financing nuclear projects, ending our reliance on overseas developers for finance—we are not

[Greg Hands]

excluding overseas developers—which has led to the cancellation of other nuclear projects in the UK. It will ensure that our own new nuclear power plants can be financed by, for example, British pension funds and institutional investors—often from our closest partners. That is the purpose of it.

Matthew Pennycook: I would like to pick up and press the Minister on the thrust of amendments 2 and 1, which is a consequential amendment. I take what he is saying about the purpose of the Bill being to attract, potentially, more UK investment—we do not know how much, but potentially—and about not wishing to exclude foreign investment. I take the point that he made earlier about the language used in our amendments and how he sees it as meaning a blanket ban. I would argue that it does not have that intent. There are complexities here, but does he not differentiate in his own mind between state-sponsored companies and state-controlled companies—controlled by foreign powers—that his own Government say pose a systemic challenge, and if he does, why does he not think that it is worth putting this in the Bill? Surely there is a need to differentiate and ensure that those types of companies—the latter—are not able to access RAB funding.

Greg Hands: I thank the hon. Gentleman for that intervention. Looking at the amendments, amendment 2 states that

"the nuclear company is not wholly or in part owned by a foreign power"

and amendment 1 states that owned by a foreign power means

"owned by a company controlled by a foreign state and operating for investment purposes."

To be frank, I have a different interpretation, or at least I am not fully seeing his interpretation as being what he has in the amendment. The amendment strikes me as being worded in such a way that it could, for example, include nuclear operators from some of our closest partners. I look at what I see in front of me, rather than necessarily what Her Majesty's loyal Opposition say that something might mean.

Matthew Pennycook: If the Minister is unhappy with our language, will he undertake to introduce Government language on Report that satisfies that differentiation?

Greg Hands: As I have made clear, we think that the Bill adequately addresses these issues, particularly in combination with the National Security and Investment Act, so I do not see it as necessary for us to make any further clarification. Ultimately, the Bill is about bringing in more financial options for future nuclear power, not cutting them.

The hon. Member asked about Bradwell. To reiterate, that is not a decision for now. CGN does not have regulatory approval for its reactor, nor has it submitted any applications to build a nuclear plant in Essex. We are in negotiations for Sizewell C, as the most advanced nuclear project in the UK.

Dr Whitehead: I am afraid the Minister cannot have it both ways. Either the Bill is about financing Sizewell C or it is about financing nuclear power more generally, in which case Bradwell surely has to come into the equation. We could be committing today to a RAB model that could, in principle, help to fund Bradwell, if it goes ahead. It is part of the linked sequence that has already been agreed in heads of terms by the UK Government and the Chinese Government, effectively. He says that it is not a discussion for today, but that is true only if the Bill is just about Sizewell C, in which case his statement that the Bill is potentially about other things is not correct. Which is it?

Although the Bill is effectively about financing Sizewell C, it has implications elsewhere. The Minister says that it is not relevant because the Hualong reactor does not yet have generic approval. That is not a question of making a decision about the involvement of foreign powers or anything like that; whether the reactor gets generic approval for use in UK nuclear markets is just a technical issue. I presume that he would want the nuclear authority to take that line and to give approval, or not, on the technical merits of the Hualong reactor, not on who is running it. That is the issue, however, concerning Bradwell. It has nothing to do with generic commissioning or otherwise; it is a much bigger issue, and he needs to recognise that.

Greg Hands: The hon. Member is correct that this is about future nuclear projects, but I stress two things. The original question from the hon. Member for Greenwich and Woolwich was about the future of Bradwell. I am reflecting on the specifics in relation to Bradwell. Of course, nuclear projects going forward are what the Bill is all about, but I will not comment on specific projects potentially going into a RAB process, because that, as we will discover later, is a properly defined process, set out with approvals from the Secretary of State after consultations. The Secretary of State will make essentially two determinations: will the project provide value for money, and is it sufficiently advanced? It would not be proper to comment on whether a specific project that we discuss today will have the ability in future to meet the two most important criteria laid out in the Bill.

Let me say a few extra things about amendment 2. The legislation gives the Secretary of State the power to designate a nuclear company and to modify the company's licence subsequently to include RAB conditions. The Bill requires the Secretary of State to consider the two criteria that I just mentioned when deciding whether to designate a nuclear project. The two criteria are that the development of a project is sufficiently advanced to justify the designation and that the project is likely to result in value for money.

The amendments seek to include additional criteria for the Secretary of State to consider before designating a project. As I said, amendment 2 requires that a nuclear company may not be owned by a foreign power. I have already raised concerns about the unintended consequences of that for our ability to pursue new nuclear projects in this country.

12.30 pm

Matthew Pennycook: The Minister is being incredibly generous in giving way, which I appreciate. On the basis of what he just said, could CGN continue to be involved in a future project as long as those two criteria were met for that project, whatever it might be?

Greg Hands: The National Security and Investment Act is also involved, so I do not think it would be appropriate for me to prejudge that process. I would ask whether the project is at a sufficiently advanced stage, whether it is likely to result in value for money and also whether it fulfils the other criteria set out in the Government's current legislative approach.

I will not go over the consequences again. It is enough to say that I think the amendments could threaten our ability to bring forward new nuclear projects, even with our closest international partners. I nevertheless appreciate the attention paid by Opposition Members to the protection of the UK's core infrastructure; we are wholly aligned on its importance and centrality. Although we welcome inward investment to the UK civil nuclear sector, we recognise the need to ensure that that investment is subject to appropriate scrutiny and is in the interests of our national security.

To reassure Members, I will focus on the robust protections that we have in place to control who invests in our critical infrastructure, which gets to the heart of many of the interventions by Opposition Members. Under the National Security and Investment Act, the Government will have significant oversight of acquisitions of control in a nuclear project.

Significantly, the Government will be able to intervene in any qualifying transaction, including an acquisition that would take the holdings to 25% or more of the shares or votes in an entity, or an acquisition of material influence over an entity. Such qualifying transactions would be subject to a national security assessment and would require the approval of the Secretary of State for Business, Energy and Industrial Strategy to proceed. That is a very tough condition on the sort of involvement that is at the heart of the interventions made by Opposition Members.

The Act also provides the Government with the ability to call in any acquisitions for assessment if there are national security concerns. From that assessment, the Secretary of State can order the prevention or alteration of the acquisition. The final funding model of any nuclear project would also be subject to full scrutiny from the UK Government prior to a final investment decision.

As currently drafted, both amendments would appear to violate the commitments we made in article 129 of the trade and co-operation agreement with the European Union, in which we agreed that we would treat investors from the EU no less favourably than UK investors. There may be multiple views within the Committee about that agreement with the European Union—the hon. Member for Kilmarnock and Loudoun voted against it in the hope of no deal—but those of us who support it believe that that article is important. The discrimination that the amendment appears to propose towards some of our closest partners and operatives in the nuclear sector would therefore be undesirable policy-wise and could put us in a difficult position.

I hope that I have convinced Members that the Government take seriously the need to ensure the security of our nuclear energy assets, including who can invest in them, and that the amendments as currently drafted are not workable. I ask the hon. Member for Greenwich and Woolwich to withdraw the amendment.

Matthew Pennycook: I thank the Minister for his response. I also very much welcome his opining on the sanctity of the UK-EU trade and co-operation agreement—a refreshing change.

I agree with the Minister entirely that we are aligned on the importance of national security in our critical national infrastructure, but I am afraid he has not done enough to reassure me. From the argument he made, as long as the two criteria that he spoke to are met, it seems that we could still end up, having passed the Bill, with financing from companies such as China General Nuclear in future UK nuclear projects. Also—this is critical—because of the sequencing agreement that has been spoken about at length and has been agreed already, that would allow China in theory to own, plan, finance and operate a site at Bradwell. We might have not only CGN financing involved, but CGN operation.

I remain unconvinced by what the Minister said about the national security regulation that is in place. In essence, he said, "Trust the Secretary of State when the point of decision comes", but we do not think that that is enough. We think this should be in the Bill. If he is unhappy with the wording of the amendment, I invite him to propose wording more appropriate to his mind, but that does the job. We will therefore press amendment 2 to a Division—not amendment 1, which is definitional in nature and consequential. I beg to ask leave to withdraw that amendment.

Amendment, by leave, withdrawn.

Question proposed, That the clause stand part of the Bill.

Greg Hands: I think we have already had the debate, but I will say briefly that the clause defines the key terms referred to in part 1 of the Bill. Subsection (2) defines a "nuclear company" as one that holds an electricity generation licence granted by the authority for a nuclear energy generation project. The authority is the Gas and Electricity Markets Authority, the governing body of Ofgem.

The clause goes on to make a distinction between an ordinary licensed company and one that has been designated by the Secretary of State to benefit from a RAB through having its licence modified by the Secretary of State. Subsection (4) defines a "relevant licensee nuclear company". To become one such, it is necessary for the company to have had its licence modified by the Secretary of State to insert RAB special conditions and to amend the licence terms. It is also necessary for the company to have entered into a revenue collection contract with a revenue collection counterparty, so that RAB funding may flow to the company's project.

Alan Brown: I appreciate that the Minister has been generous with his time. Will he clarify whether Sizewell C has an electricity generation licence? I could not find that on Ofgem's website.

Greg Hands: I will write to the hon. Gentleman on that specific issue, perhaps this afternoon. I need to check whether Sizewell C has such a licence. I will get back to him.

Those steps in the clause are necessary to make clear the different stages that a company goes through under the RAB model.

Question put and agreed to.

Clause 1 accordingly ordered to stand part of the Bill.

Clause 2

DESIGNATION OF NUCLEAR COMPANY

Amendment proposed: 2, in clause 2, page 2, line 14, at end insert—

"(c) the nuclear company is not wholly or in part owned by a foreign power."—*(Matthew Pennycook.)*

This amendment prevents the Secretary of State designating a nuclear company owned or part-owned by the agents of a foreign power.

The Committee divided: Ayes 5, Noes 8.

Division No. 1]

AYES

Brown, Alan	Whitehead, Dr Alan
Owen, Sarah	
Pennycook, Matthew	Whitley, Mick

NOES

Baker, Duncan	Fletcher, Mark
Cairns, rh Alun	Hands, rh Greg
Crosbie, Virginia	Jenkinson, Mark
Doyle-Price, Jackie	Wallis, Dr Jamie

Question accordingly negatived.

Dr Whitehead: I beg to move amendment 3, in clause 2, page 2, line 14, at end insert—

"(c) the Secretary of State is of the opinion that the nuclear company is able to complete the nuclear project."

This amendment requires the Secretary of State to give a view that a designated nuclear company is able to complete the project for which it is designated.

I am grateful to you, Ms Fovargue, for grouping amendment 3 on its own so that we can talk about it in its own right. Like the previous amendment, it seeks to add into the clause the designation of a nuclear company. We have not talked about the designation process, although I am sure we will.

The designation process is where a nuclear company that appears to have an interest in a plant, and has at least taken some steps to develop it beyond the conceptual state, is then given a preferential initial contract and a window—again, we will discuss the timescale of the window later—where it goes through the various processes of modifications of its licence to set itself up to take part in a RAB. It agrees to various things relating to the counterparty in the RAB process and agrees the initial ceiling for allowable costs for the project, which it has at the time of designation brought to a position where work can start to proceed. It is therefore on a track, but not in the RAB process at that point.

We attempted to put a third designation criterion in the clause a moment ago, which states that the designation criteria are that

"the development of the nuclear project is sufficiently advanced to justify the designation of the nuclear company".

In other words, the project is more than just a drawing board idea. As I am sure the Minister will be painfully aware, we have had a plethora of nuclear projects in this country at various stages of advancement that have fallen by the wayside for various reasons. Some of them were relatively advanced and some were just concepts, but they were all reflected in the original planning documentation in, I think, 2011 in terms of consortia and sites and various other things that were given an overall green light in the planning process. The sites were not designated in the sense we are considering here, for nuclear development, but it is certainly true that a number of the projects suggested for those sites would not have passed the designation test before us today on the work having been done to advance the project.

12.45 pm

I take that designation criteria—in subsection (3)(a)—as requiring evidence that the company is serious about its intentions and has started to invest money in some of the preparatory works, that a lot of the paperwork on how the company stands on the project has been completed, and that there is, most importantly, a significant grip on all the elements of the project, such that conclusions could start to be drawn, for example about the general area of allowable costs, in advance of the RAB process itself. That is criterion (a) of the designation criteria.

Criterion (b) is that

"the Secretary of State is of the opinion that designating the nuclear company in relation to the project is likely to result in value for money."

That is much more challenging. I assume it means that the Secretary of State would want to be satisfied that the resulting power from the plant would be at a reasonable cost, that the company would be able to get its construction done in such a way that value for money would result in the production phase, and that the costs and arrangements for the plant were reasonably curtailed and in good order.

What is missing from the criteria is the big question of whether the company would, in the Secretary of State's opinion at the time of designation—I appreciate that circumstances can change and so on—be in a good position to be able to complete and deliver the project.

Alan Brown: I understand where the hon. Gentleman is going, but where is the fall-back?. The Secretary of State is desperate to get a nuclear deal signed off, so he just signs it off: "Yes, I am of the opinion that this project will be completed." Ten years down the line, it all falls apart and the project cannot be completed, a bit like the Californian example. What protection would the amendment introduce? It seems that the Secretary of State can just sign this off based on his opinion. If there are repercussions down the line, they do not come back on that Secretary of State.

Dr Whitehead: The hon. Member makes an important point, at least part of which we will discuss when we come to the procedures under which a potentially failed project might be rescued or transferred to other undertakings so that it can be delivered and completed, or if already operating, can continue to operate.

Dr Jamie Wallis (Bridgend) (Con): In what circumstances is it conceivable that a nuclear project would be deemed not to have a realistic prospect of completion but at the same time to be value for money?

Dr Whitehead: It is quite possible that the Secretary of State could deem the first two criteria on the basis of work that the company had done to approach designation.

However, unless the Secretary of State has in mind the whole picture at the point of designation—in the previous group of amendments, we touched on some of the things concerning the whole picture—it would be possible for him to conclude that, yes, on the basis of the work done so far, the particular mechanisms looked like they might produce, say, value-for-money electricity at a rate per kilowatt-hour that was compatible with market levels of electricity at that point or in the future or with value for money as far as other electricity production is concerned, but he might still not have a handle on whether the undertaking that the nuclear company was about to engage in was sound in the overall, as far as completion was concerned.

The hon. Member for Kilmarnock and Loudoun touched on an important lesson in that respect, which ought to be put before the Committee. He mentioned a case in California—it was not quite in California; it was a little way a way, although it began with the same letter. I am talking about the experience of a nuclear power plant in South Carolina in the United States. When I say the experience of a nuclear power plant in South Carolina, I do not mean that—because there is no nuclear plant in South Carolina; there are a bunch of a concrete foundings, walls and various other things that look like a nuclear power station, but it does not operate, it has never produced a single kilowatt of electricity and it remains abandoned.

More significantly, that project not only was abandoned but was commissioned precisely on the sort of criteria that are contained in the Bill. All those things were gone through by the South Carolina legislature, which put in place something remarkably similar to a RAB. Indeed, the bill payers of South Carolina were required to stump up money for the project as it progressed, and I am sure hon. Members will be interested to know just how much money went from the bill payers of South Carolina to that project and how much they got out of it as a result of introducing a RAB model in South Carolina. The answer is nothing. Some £9 billion of customers' money went into the project, and they will continue to pay for that lump of concrete for the next 20 years in their bills because of the way in which the thing was constructed, all on the basis of agreements that looked pretty similar to what is in the Bill.

What South Carolina did not do was ask serious questions about the resilience of the various partners and companies involved in the project in the light of changing circumstances in terms of the construction of the project and the health of the companies involved. Among other things, costs went through the roof, the timescale increased substantially and one of the companies that was in charge of the project effectively went bust—it called for chapter 11 protection and was therefore unable to continue with the project. All those things could have been foreseen by the South Carolina legislature, but were not. The project went ahead, with the customers footing the bill, as various reviews subsequent to the collapse of the nuclear programme said, on the basis of something that was extremely unlikely to ever come to fruition as a nuclear power plant, not only because of the dodgy nature of the financing of the project but because it had completely unrealistic timescales—those involved expected to produce electricity within six years from the start of production and so on, none of which was properly overseen.

Alan Brown: I appreciate the hon. Gentleman giving way once more; I am starting to feel like I am on a mission to annoy each contributor—apologies. He makes valid points, and I understand his concerns and what he is trying to do, but I still do not understand how the amendment would preclude such a scenario. Surely, as well as the amendment, the Secretary of State would need to look at a list of criteria, with their sign-off verifying what factors have been considered to reach the opinion that the project is viable. Otherwise, the Secretary of State could just say, "I think this project will be completed—let's move on."

Dr Whitehead: Yes, indeed. The hon. Gentleman is right, to the extent that the amendment does not actually guarantee the success of a project as a result of its placement in the designation clauses. Of course, it is not possible to do that, because changing circumstances can mean that projects cannot come to fruition. The difference the amendment would make is that the Secretary of State would be required to look at all those sorts of things in the overall scheme of things as far as the company and the prospects for success of a particular project are concerned, in such a way that he could form an opinion, which he would undoubtedly have to publish, that he was as satisfied as he could be, having done all that work, that the project had a very high prospect of being completed, and he would have to underwrite that.

One thing I did not say about the South Carolina project is that a lot of it is now the subject of legal action, and various state officials are being hauled up before the courts for their lack of diligence in actually looking at the overall circumstances of the project when they gave the go-ahead on a similar basis to that which we are discussing. If the Secretary of State had to sign off, on the basis of the amendment being in the Bill, that it was all okay and could go ahead, and it turned out that it was not okay and could not go ahead, under circumstances that could have been foreseen, he would then be liable. That is potentially quite an important concentration of the mind, ensuring that the work had been done, as much as it could be done—I accept that it would not be a perfect operation—to ensure that there was a reasonable or good prospect that the company involved could complete the project. That is all the amendment says. It would be an important addition to the designation process.

We need to be clear that, as much as we can do the work, we have done the work in getting the designation clearly marked on the basis that the company really can deliver a nuclear plant and produce electricity for customers. As I have said, we are engaged in a RAB process, which ultimately lands on the customers. We absolutely do not want to ever land the customers of the United Kingdom in the same position that the customers of South Carolina are in today, so far as a nuclear power plant is concerned.

Ordered, That the debate be now adjourned.—*(Mark Fletcher.)*

1 pm

Adjourned till this day at Two o'clock.

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

NUCLEAR ENERGY (FINANCING) BILL

Fourth Sitting

Thursday 18 November 2021

(Afternoon)

CONTENTS

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not later than

Monday 22 November 2021

The Committee consisted of the following Members:

Chairs: † Yvonne Fovargue, James Gray

† Baker, Duncan *(North Norfolk)* (Con)
† Blackman, Kirsty *(Aberdeen North)* (SNP)
† Brown, Alan *(Kilmarnock and Loudoun)* (SNP)
Browne, Anthony *(South Cambridgeshire)* (Con)
† Cairns, Alun *(Vale of Glamorgan)* (Con)
† Crosbie, Virginia *(Ynys Môn)* (Con)
† Doyle-Price, Jackie *(Thurrock)* (Con)
Duffield, Rosie *(Canterbury)* (Lab)
† Fletcher, Mark *(Bolsover)* (Con)
† Hands, Greg *(Minister of State, Department for Business, Energy and Industrial Strategy)*
† Jenkinson, Mark *(Workington)* (Con)
† Owen, Sarah *(Luton North)* (Lab)
† Pennycook, Matthew *(Greenwich and Woolwich)* (Lab)
† Wallis, Dr Jamie *(Bridgend)* (Con)
† Whitehead, Dr Alan *(Southampton, Test)* (Lab)
Whitley, Mick *(Birkenhead)* (Lab)
Whittaker, Craig *(Lord Commissioner of Her Majesty's Treasury)*

Sarah Ioannou, Rob Page, *Committee Clerks*

† attended the Committee

Public Bill Committee

Thursday 18 November 2021

(Afternoon)

[Yvonne Fovargue *in the Chair*]

Nuclear Energy (Financing) Bill

Clause 2

Designation of nuclear company

Amendment proposed (this day): 3, in clause 2, page 2, line 14, at end insert—

"(c) the Secretary of State is of the opinion that the nuclear company is able to complete the nuclear project."—*(Dr Whitehead.)*

This amendment requires the Secretary of State to give a view that a designated nuclear company is able to complete the project for which it is designated.

2 pm

Question again proposed, That the amendment be made.

The Minister of State, Department for Business, Energy and Industrial Strategy (Greg Hands): Welcome back to the Chair, Ms Fovargue.

I believe that the intent of the amendment is already captured in the approvals framework for the regulated asset base. That includes the process for designating a project and then modifying its licence, and wider due diligence on the project. The Government simply would not allow a company to enter into a RAB revenue collection contract if there were cause to doubt the ability of the company to complete construction, a point made slightly more pithily by my hon. Friend the Member for Bridgend in his intervention on the shadow Minister, the hon. Member for Southampton, Test. We expect to say more about how the Secretary of State will make this judgment in our statement on the designation criteria, which we will publish in advance of any consultation on designation.

Before considering the matter of licences, let me return to the question asked earlier by the hon. Member for Kilmarnock and Loudoun. Sizewell C does have a licence, as within the terms of clause 1(2). He said that he could not find the link to the licence on the Ofgem website, so I will commit to write to him, copied to the Committee, with that link.

Designation is very much the first step in the process of amending a developer's licence to include the RAB conditions. At the point of designation, no commitments have been made; a project will be under development, and further negotiation is required between the developer and the Government. The process is open and transparent and includes consultation at several stages, meaning that a project will be designated only at an appropriate point.

Let me deal with the points raised about various RAB projects in the United States. It is not unreasonable to look at foreign experiences, but it is important to separate the experience of another country in developing and delivering a nuclear power plant from what part of that experience was due to a RAB model. There were several unique circumstances linked to the failure of the South Carolina Virgil C. Summer project, which was referred to, and the parent company, including—*[Interruption.]* I beg your pardon?

Dr Alan Whitehead (Southampton, Test) (Lab): Sorry. I was just wondering to myself whether the Minister had looked all this up during lunchtime. If so, I congratulate him on doing so.

Greg Hands: I thank the hon. Gentleman for that intervention—I think it was an intervention—from a sedentary position. As the Energy Minister, I have to be aware of what is going on in the world of nuclear globally, so no, I did not look it up during lunchtime, actually; I have looked into this and other US plants. The failure of the Virgil C. Summer project—I think that is the one he was referring to—and the parent company included arrests and a conviction for fraud. There were also issues linked to design and supply chain immaturity, as well as a lack of experience with the construction of new nuclear projects. Those issues are pretty far removed from its status as a RAB project. I do not think those risks in South Carolina are applicable to the UK.

Dr Whitehead: I fully accept that the Minister did not look that up at lunchtime and that he is fully apprised of the circumstances surrounding the South Carolina project. However, does he not accept that the issues that he has mentioned as relevant to the failure of that project—it was entered into without proper consideration of a lot of things that, as he said, were at least in part responsible for its failure—are precisely the sorts of issues that we would expect him to take into account and sort out before deciding on the designation of a project in this country?

Greg Hands: Broadly speaking, the answer is yes. I think that all of those factors, if known at the time, would be considered when the Secretary of State makes the designation. That is the point. Of course they would be factors, were they to be known. I cannot put myself in the shoes of the governor of South Carolina—if indeed it was the governor of South Carolina who made the decision—but if he were or had been of the opinion that the project could not have been completed, he would surely not have made the designation at that time. I am slightly hesitant to stray into the politics of South Carolina, but doubtless the governor was of the opinion at that time that the project would have been completed. The hon. Gentleman uses South Carolina as an example, but I do not think that his amendment would have helped the governor make that decision.

This is not just a question of the factors, which are already covered in the Secretary of State's determination of a RAB designation. The timing is also important. A project has to go through many stages and approvals post designation of a RAB. To include the hon. Gentleman's additional definition at this stage might be premature, though I doubt it is needed at all, for the reasons pithily put by my hon. Friend the Member for Bridgend about the chances of the person making the decision being of the view that the project might not be completed. If that were the case, I think it would be a highly material fact in determining whether to designate a RAB. I do not

believe that this amendment is necessary in order to meet the laudable objectives that Opposition Members seek to achieve. I therefore ask the hon. Gentleman to withdraw the amendment.

Dr Whitehead: I hear what the Minister says about the amendment, but I am not entirely convinced that he has made the case that he thinks he has made as to why this addition is not necessary for the designation process. After all, we are not talking here about a particularly adept and alert Minister in a particular Administration taking a decision on Sizewell C. As the Minister has said, this Bill is supposed to deal with decisions that might be taken under other circumstances, for other projects, at other times, with other Ministers, and possibly other Administrations. It is important that we put in legislation everything that we think could go wrong with a project and its designation process, so that the legislation is robust for the future.

On South Carolina, the Minister is right. The project failed as a result of a series of interlocking issues. Those issues were not necessarily associated with the RAB process, which is what we are considering in this Bill, but there were wider concerns that should have been apparent to legislators in South Carolina when the project was commissioned and went ahead. Many of the things that the Minister alluded to that occurred in South Carolina were not unforeseeable events. They were events that could have been analysed out at the time of the designation of the plant. Essentially the amendment seeks to address that issue.

We will not press this amendment to a vote—indeed, we will withdraw it—but we have put on the record our belief that the Secretary of State should have a very substantial hand in ensuring, as far as possible, that the project really can come to completion. I am sure that the Minister is with me on that and agrees that that should be the process by which we conduct designation.

Even if it is not explicitly in the Bill, the fact that the Minister has indicated that he thinks that a number of these issues can be covered within the designation elements is perhaps a step along the path to ensuring that these processes can be carried out properly. I do not wish to proceed with the amendment on that basis, but we need to do a proper job at the point of designation, for the protection of investors, for the project and for the customers who pay for it.

Greg Hands: Just to probe the hon. Gentleman on this, if I may, one of the criteria is whether the project is sufficiently developed to warrant a RAB. At what point does he think that the fact that the person making the decision might not necessarily think it would be completed would mean that they do not think it is sufficiently developed to start the process? Surely, if they did not think it was going to finish, they would not think it was ready to start either?

Dr Whitehead: The Minister puts that as a binary choice, but it is not because there are circumstances. That is essentially what happened in South Carolina. A number of people thought that it was a fine project that would go ahead; they put forward impossible timelines for the project to work on, there were very difficult financing arrangements and the RAB was placed on top of that. Yes, they may have thought that the project could come to completion, but it was not a very well-founded thought, and nor was it arrived at on the basis of the sort of diligence we should expect from the approach to a project the size of, say, Sizewell C.

The amendment's intention is not to make the Secretary of State make a choice based on a potential view, when designating a project, that it might not be completed. He should do all that work, and indeed be publicly accountable for it, when ensuring that his view is as well founded as possible and that it will stand the test of time as the project progresses. There are points of landing between knowing whether a project is not going to be completed, and being sure that it is going to be completed. When making a designation, the Secretary of State should be held accountable for arriving at an informed position, which can be scrutinised in future, on whether it is reasonable and realistic to say that a project is likely to be completed. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Question proposed, That the clause stand part of the Bill.

Greg Hands: This clause, through subsection (1), gives power to the Secretary of State to designate by notice a nuclear company to benefit from a RAB. The later provisions of this part mean that the designation power can only be exercised with appropriate protections and transparency of decision making. Subsection (3) sets out the criteria a company must meet to be eligible for designation: that the Secretary of State must be of the opinion that, as previously debated, the nuclear project is sufficiently advanced to justify the designation, and that designating the company in relation to the project is likely to result in value for money. In considering value for money, it is expected that the Secretary of State will take into account considerations such as the cost to consumers and the impact on our net zero obligations. As set out in clause 3, the Secretary of State will be obliged to publish details on the process that he will follow when assessing whether the criteria are met.

The eligibility criteria offer important protections for consumers and taxpayers. A company can have access to a RAB only when the Secretary of State is convinced that it is a good project and sufficiently advanced, and where the likelihood of cost overruns is remote. The Secretary of State will also need to consider whether using the RAB to fund the project is likely to represent value for money.

2.15 pm

Alan Brown (Kilmarnock and Loudoun) (SNP): I will come to this in my own comments, but is it not the case that the Secretary of State gets to sign off whether he thinks a project is value for money and sufficiently advanced, and then a statement is published giving the reasons for that? However, the Secretary of State gets to write the rules for the sign-off. Is it not the case that no clear structure or checklist will be gone through so that the Secretary of State can sign off such projects?

Greg Hands: I disagree with the hon. Gentleman. I think that the process and the checklist is set out pretty well. If he would like, I can run through how the process works when we get to the later clauses and look at the specifics of the process. It might appropriate to take him through that.

[Greg Hands]

When considering value for money, the Secretary of State is expected to have regard to the cost to consumers, future security of supply and our decarbonisation targets. The Secretary of State can designate multiple nuclear companies at any given time, so more than one project can be designated for a RAB at the same time, but the designation criteria, project status and likely value for money will be applied individually to each project.

Alan Brown: Following on from my intervention, I have real concerns about the clause—we will come later to clause 3—and the lack of transparency in what constitutes value for money. In signing off projects, the Secretary of State has to give an opinion on whether they are suitably advanced to justify a designation, but what constitutes "suitably advanced"? What considerations must the Secretary of State be compelled to make to ensure that a project is suitably advanced to give the correct level of detail and analysis for cost definition in sign-off? We should bear in mind that sign-off for a 60-year contract ties up consumers.

I do not see those considerations in the Bill. The Minister said that he would take the Committee through them, but how does the Secretary of State consider how suitably advanced a project is? Does there have to be a working prototype? There is no working prototype of the evolutionary power reactor model generating electricity to the grid. The projects in France and Finland are years late, over cost and still not connected to the grid—and, as I said earlier, the Taishan 1 EPR is now offline due to safety concerns. How can the Secretary of State have any confidence that a project such as Sizewell C is suitably advanced when there is no working prototype?

What other permissions need to be taken into account to determine whether a project is suitably advanced? Does it need to have planning permission? Does it need to have gone through all its environmental appraisals and have all its environmental approvals in place? Are there other things to consider? How far is outline design to be developed? Is there a level of detail to consider to determine whether a project is suitably advanced? How much site investigation work needs to be undertaken before a Secretary of State can have confidence that a project is suitable advanced, bearing in mind the cost of a 60-year contract? Should consideration be given to a company's track record on deliverability? That takes us full circle to how there is not an EPR up and running. In a way, that touches on what the shadow Minister said about having confidence that a project can be delivered when not one project has yet been delivered successfully.

The Government are in advanced negotiations on Sizewell C, which is the most well developed nuclear project at the moment. Does it come close to the definition of "sufficiently advanced" or does a lot more work need to be done? That takes us full circle back to the discussions earlier about the £1.7 billion allocated in the Red Book. The Minister has still not given us any clarity on what the £1.7 billion is for. Is it to allow the Sizewell C company to develop the project further to get it to a position that the Secretary of State thinks is sufficiently advanced? That would mean that, by default, the Secretary of State knows what "sufficiently advanced" means, so we should be able to understand what the £1.7 billion is going to pay for. Hopefully, all that can be explained.

EDF has claimed it is using Hinkley as a prototype that it will replicate at Sizewell C. It will accrue savings and just move the design almost lock, stock and barrel from Hinkley into the footprint at Sizewell C. I would have thought that, by default, that means the project is sufficiently advanced such that we do not need the £1.7 billion to advance it any further. A bit of clarity on that would be useful.

We need a lot more clarity on subsection (3)(b). What is the process for the Secretary of State assessing and giving the opinion that

"the project is likely to result in value for money"?

What are the intended governance and transparency protocols? We have spoken about the designation in a statement, but there is no clarity on what the Secretary of State will consider and what will be provided in the statement.

In recent months we have had the dodgy covid contracts. How do we ensure good faith rather than backroom negotiations and that there is public trust in what goes on in the signing-off of contracts? When I asked the Treasury a written question about the £1.7 billion and the discussions the Chancellor has had, the answer I was given was:

"Details of any meetings with companies regarding funding are commercially sensitive."

If the Treasury will not even tell me who it is meeting and when, how can we have any comfort about what goes on behind closed doors in respect of the negotiations and the assessment of value for money? I hope to come back to value for money later in Committee, because I have tabled a relevant new clause.

It seems to me that as it stands, subsection (3)(b) means nothing, other than that the Secretary of State can rubber-stamp something that he believes to be value for money. Let us bear in mind that this is the Government who told us that Hinkley was value for money, even though everybody argued that the strike rate was too high. With this Bill, they are telling us that Hinkley was actually a rubbish deal, so we need the RAB model in the Bill to save taxpayers' money.

The Government explained on Second Reading that a contract for difference had to be used for Hinkley because it was the first of a kind, so all the risk was on the developer, but that raises further questions. If a CfD was needed for Hinkley because it was the first of a kind in the UK, how on earth can the Government make a final decision to proceed with Sizewell C under a RAB model before Hinkley is even operational?

Hinkley is 25% over budget and at least a year late, with a possible further 15-month delay on top of that. How can the Government have any confidence in signing off on something like Sizewell C, for which the impact assessment talks about a 2023 construction start date? How can that project be anywhere close to "sufficiently advanced"? How can the Secretary of State do a proper value-for-money assessment given all the outstanding issues with Hinkley?

As I said, we need a lot more clarity on that £1.7 billion. Is that going to be the way forward in future? Is it the intention that, for a project to get to a stage where it is sufficiently advanced and the Secretary of State can make a value-for-money assessment, something like £1.7 billion

will be allocated to each developer that is in the mix for a new nuclear project? That is crucial for value for money overall.

Paragraph 50 of the explanatory notes gives four criteria that might be used to consider value for money, but three of them are just the traditional Government tropes to justify nuclear in the first place: security of supply, low-carbon electricity and net zero targets. The Minister alluded to that in his opening speech. Those same arguments have been put forward to justify new nuclear for the past 15 years. We still do not have a new nuclear plant operational, so when the Secretary of State looks at the reasons for value for money, it will be very easy because those are the arguments that they will use.

In particular, the security of supply argument was used to justify Hinkley, but Hinkley was supposed to be required by December 2017 to stop the lights going out. It will not be operational for at least 10 years after that original date, and the lights have not gone out, so security of supply is almost a nonsense argument for value for money. That confirms to me that the criteria are too loose and will be too easy. There will be a lack of transparency, but the Secretary of State will sign it off and say, "Yes, I think the project is value for money." Again, we have this Bill because they are desperate to get Sizewell signed off at any cost.

In conclusion, for me the clause is too loose and too vague. It is set up to encourage backroom negotiations without transparency. At the very least, it would be nice if the Government conceded to an independent assessment of the risks and value for money for consumers. That was suggested in the witness session on Tuesday by Citizens Advice. I look forward to the Minister's response, but he will have to go a long way to satisfy me that there is a robust procedure in place to assess value for money and how suitably advanced the project is for designation.

Greg Hands: I thank the hon. Gentleman for that varying and detailed speech on clause 2. I will try to deal with each of his points. First, he raised a series of additional factors that could be considered by the Secretary of State. He might have tabled an amendment, for example, on what those additional factors might be. I do not think I have seen any amendments tabled by the Scottish National party, but he might have perhaps tabled one in the same way that the official Opposition did as a test. My initial response is that the additional factors he raised would be covered by the two criteria on whether it is value for money and sufficiently advanced, so his additional criteria would be encompassed by the two processes that are already there. Perhaps he can table an amendment to deal with where he would specifically like something added.

The hon. Gentleman asked about the £1.7 billion. We have been clear, while remaining consistent with the fact that this is a commercial negotiation, that the funding is to bring a project to a final investment decision in this Parliament, subject to value for money and all relevant approvals. That could include development stage funding to support the maturation of the project to de-risk it. It could also include some Government investment at the point of a transaction, helping to mobilise other private sector capital. It is already laid out in detail in the Budget document. It was debated at Budget, and I reiterate it today. That there is a limit to how much additional information I can put out on something when ultimately the background is that it is a commercial negotiation.

Alan Brown: Earlier, the Minister talked about UK pension funds as well in terms of levering in capital. Is some of the £1.7 billion going to be matched funding with pension funds, for example, or is it to provide some guarantees so that the pension fund can invest at a guaranteed rate of return, where the guaranteed rate of return comes from the taxpayer?

Greg Hands: I am not going to add anything on the £1.7 billion, which is a separate process and a separate factor to the Bill. I have nothing further to add. I have given sufficient detail of where the £1.7 billion might be spent. Where it will be spent is properly a matter for which the background is the commercial negotiation.

The hon. Gentleman mentioned delays at Hinkley Point C. He is in danger of arguing with himself at times. At one point he argued that we had not brought a nuclear project to a final investment decision, or we had brought only one in the last decade. Then he said that we should wait to make a decision on Sizewell C until we had Hinkley Point up and running. It sounds to me as if he wants to have it both ways—

Alan Brown: I want it no ways.

Greg Hands: He is saying we are either moving too quickly or too slowly. Ms Fovargue, it reflects back to the starting position. If the hon. Gentleman does not mind me saying it, I think he is opposed to nuclear power per se. I suspect he is less interested in whether it is going too quickly or too slowly, to be frank, and it would be helpful if he gave us a straight view as to whether we are being too quick or too slow.

2.30 pm

The hon. Gentleman raised alleged overruns at Hinkley Point C, which he rightly acknowledged is the first new nuclear power station project in a generation. It is natural for parts of a project like that to be susceptible to overruns. Nevertheless, we have identified the causes of them, including the estimation of construction quantities and the impact of covid on it, and the cost of these errors has been resolved at Hinkley Point C.

Most importantly for this Committee, the corrected information is being used in Sizewell C estimates. We have learned from the experience of what the hon. Gentleman rightly acknowledged was an innovative project and the first new nuclear power station in 20 years. The achievement of an engineering baseline at Hinkley Point C will be used to form the baseline for Sizewell C. This will mitigate the recurrence of the core engineering delivery issues experienced at Hinkley Point C.

The hon. Gentleman asked about sharing the value for money assessments before approving the project. On this, the Bill requires the Secretary of State to publish a statement setting out how they will judge a company's suitability for a RAB against the designation criteria, including how likely the project is to be good value for money, which encompasses quite a few of his concerns. We will publish this statement in due course and in advance of any consultation on the reasons for designating a company for a RAB. The Secretary of State will also consult on draft reasons for designating companies as named parties before making any final decisions.

That is a little bit more information on that process, Ms Fovargue, and on that basis I urge the Committee to support the clause.

Question put and agreed to.

Clause 2 accordingly ordered to stand part of the Bill.

Clause 3

DESIGNATION: PROCEDURE

Dr Whitehead: I beg to move amendment 4, in clause 3, page 2, line 37, at end insert—

"(5) Prior to consulting persons under subsection (3)(g), the Secretary of State must publish a statement setting out why it is relevant to consult those persons."

This amendment requires the Secretary of State to indicate the relevance of the people he is consulting on the designation of a nuclear company.

The amendment, and another couple that relate to clauses further down the order paper, need not detain us for long. They essentially seek to improve the effect of the text of the Bill and are not controversial.

Amendment 4 applies to clause 3, on page 2 and requires the Secretary of State to

"publish a statement setting out why it is relevant to consult those persons."

That refers to the list of those people who are to be consulted upon the designation of a nuclear company. At the bottom of that list is the phrase

"such other persons as the Secretary of State considers appropriate."

I appreciate that is often seen in Bills and I am sure hon. Members have seen it in their time in other Committees, but I suggest that it is rather loose arrangement if we want to have a Bill that will stand the test of time. While it is a catch-all arrangement, one could almost ask why the other categories are listed. One might as well just put, "Those persons who the Secretary of State considers appropriate."

Surely, where the Secretary of State is considering consulting other people, in addition to those listed, those people ought to be relevant to the designation of the nuclear company. As the Bill stands, it is just people

"the Secretary of State considers appropriate."

Kirsty Blackman (Aberdeen North) (SNP): I am slightly confused about why the hon. Member seems to be suggesting that it is a bad thing for the Secretary of State to undertake more consultation. Surely more consultation is a good thing. Generally, the Opposition call for more transparency. If the Secretary of State feels that it is necessary to consult more people, I am not hugely convinced that there is a point to making him justify that.

Dr Whitehead: I hope that the hon. Member will forgive me if I have not made myself clear. I am certainly not saying that consultation is a bad thing or that there should be less of it; I am saying that the Bill appears to provide for consultation with all the people named in it and anybody else the Secretary of State feels like including. One may think that that is a good thing, but I would have thought that anyone else the Secretary of State feels like including ought to be relevant to the designation of the nuclear company. All the amendment asks is that, when and if the Secretary of State decides that people other than those who were already on the list be consulted, he publish a statement to say why the people he has selected for additional consultation are relevant to the issue in hand. Otherwise in principle it would be possible for the Secretary of State simply to choose a random number of people off the street and consult them. That would not serve the cause of further consultation and transparency.

Kirsty Blackman: May I check that an alternative amendment could have been to change the last word in subsection (3)(g) to "relevant" rather than "appropriate", which would mean that the Secretary of State would be able to consult all the other people he considered to be relevant, rather than appropriate? Is that the direction in which the hon. Member is trying to go with his amendment?

Dr Whitehead: Indeed. The hon. Member has drafted her own, perhaps more succinct, amendment on the fly. I would welcome hon. Members tabling amendments if they feel that they can do it better, or more succinctly, than we can. She is right that it is a test of the relevance of the consultation process. Her suggestion does not quite cover the point because I would like the Secretary of State to say why those people are being consulted. Essentially, the amendment requires the Secretary of State to not just think that people are relevant but tell us why. It is not a big point, but I think that would improve the Bill a little were it to be accepted.

Greg Hands: I thank the hon. Members for Southampton, Test and for Greenwich and Woolwich for amendment 4, which amends the clause governing the process by which the Secretary of State can designate a company. As part of the process, the Secretary of State must consult a named list of persons, including the authority, Ofgem, the Office for Nuclear Regulation and the relevant environment agency. The Secretary of State will also be able to consult, of course, such other persons as they deem appropriate at that time. The amendment would require the Secretary of State to publish the reasons for consulting those persons not named in the legislation.

Of course it is important for us to be transparent, and I welcome the intention of the amendment to increase transparency and accountability throughout the process, but it might help if I set out the intention of the consultation requirement in clause 3. The Government have agreed a set of persons that they feel must be consulted: the Office for Nuclear Regulation, Ofgem, the relevant environmental agencies and the devolved Administrations in the event that all or part of one of the plants be located in one of the devolved nations of the United Kingdom. The ones who must be consulted include the key regulatory bodies for nuclear generators in Great Britain.

Alongside that, for each designation, there may be other relevant parties that the Secretary of State thinks it is reasonable to consult to inform the draft reasons for designation. That sort of provision is standard practice. The clause is modelled closely on existing consultation obligations in the Energy Act 2013, which allows the Secretary of State to consult other persons without the requirement to publish a justification.

I do not seek to reject the amendment because of concerns about transparency. The designation process takes several important steps to ensure transparency, including the publication of a statement on how the designation criteria will be assessed and the publication of the designation notice.

The hon. Member for Southampton, Test says that those consulted ought to be relevant, but I think that the Secretary of State will consult only with those who ought to be relevant rather than, in the terms of the hon. Member for Southampton, Test, a random set of people off the street. The way that governmental processes work is that consultations are supposed to be with people who are relevant. I do not think that including a relatively unprecedented amendment to publish a statement about why it is relevant to consult those persons will help the transparency or the understanding of the decision made by the Secretary of State.

I hope that I have shown hon. Members that the legislation already takes the necessary steps to ensure transparency and that the amendment would go against the established precedent for this kind of provision, which has generally worked well for big Government infrastructure decisions. I therefore ask the hon. Member for Southampton, Test to withdraw the amendment.

Dr Whitehead: I am certainly happy to withdraw the amendment, but in passing I mention that the Minister has drawn attention to the word "must" in clause 3(2), which precedes the people who the Secretary of State is listed as consulting. I am glad that he drew attention to that, because it may reflect on an amendment that I will move later concerning the words "may" and "must". The Minister will know that a regular concern of mine is that legislation needs to be written in the right way concerning the imperatives on the Secretary of State rather than the allowances. We have made progress from that point of view.

Although this clause contains a fairly standard way of putting things, that may just mean that legislation has been slightly lax in the past, which may be considered less than satisfactory in future. I take the Minister's point, however, that it is not an exceptional way of putting things, and I take his assurance that a question of relevance would be in the Secretary of State's mind when he consulted anybody under such circumstances. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Question proposed, That the clause stand part of the Bill.

Greg Hands: Let me lay out the purpose of clause 3, which is to set out the procedure that the Secretary of State must follow to designate a nuclear company for the purposes of the nuclear RAB model. The clause requires the Secretary of State to undertake various transparency and consultation obligations before a company is designated.

The clause sets out the process. By putting the process in the Bill, the Government are showing their commitment to transparency and openness when designating a company. Prior to the designation of any company, subsection (1) requires the Secretary of State to publish a statement setting out the procedure they expect to follow in determining whether to designate a nuclear company and how they expect to determine that the designation criteria are met.

The Government anticipate that a nuclear company with a generation licence, and which thinks that its project should be funded through a RAB, would approach the Secretary of State. The Secretary of State will then assess the project against the factors set out in the statement, before consulting expert bodies on the designation. That provides opportunities for those directly affected by the potential designation, or with special expertise relevant to the decision, to provide their views on the matter. That includes the Gas and Electricity Markets Authority, the governing body of Ofgem—I will refer to it generally as Ofgem in the course of this debate, for the sake of time—whose primary statutory duty is to protect the interests of consumers.

2.45 pm

The Secretary of State must publish a designation notice as required by subsections (5) and (6). That notice should include a description of any conditions and the reasons for undertaking the designation. While recognising the role of the Secretary of State in negotiating with prospective projects on behalf of consumers and taxpayers, the effect of the clause is to allow transparency over decision making regarding project designation. I therefore urge that the clause stand part of the Bill.

Alan Brown: The Minister spoke about transparency, but as I touched on earlier, it seems to me that clauses 2 and 3 still do not provide transparency. Clause 3(1) gives the Secretary of State the power, in effect, to make things up as they go along. Under paragraph (a), the Secretary of State sets out the procedure that they will follow, so they are setting the rules, and then paragraph (b) allows the Secretary of State to confirm whether the designation criteria that they have already set in clause 2 have been achieved. The criteria in clause 2 are simply these: does the Secretary of State think that the project is advanced enough to be designated and is it value for money?

Effectively, by my logic, the Secretary of State states that the project is advanced enough and is value for money. Then, under clause 3(1), the Secretary of State affirms what rules will be applied to confirm what has already been confirmed—that the project is value for money and suitably advanced. It is a kind of circular argument. If the Secretary of State is determined to sign off on a new nuclear project, which they are, and they are setting the rules that they are going to apply and then they will publish the rationale as to why it has been signed off, that, to me, does not provide proper transparency. It is not things that can be challenged; it is actually just the Secretary of State giving their reasons for why they have signed off.

As I touched on earlier, paragraph 50 of the explanatory notes still does not give enough information, either. It actually gives too much wriggle room for a Secretary of State to be able to sign off, so that is also not robust enough. The Minister challenged me to table amendments, and I can table a new clause at a later date, or we can challenge further, but it is really hard to table amendments to clauses that are so fundamentally flawed. It is hard to actually improve them.

Turning to value for money, the cost to consumers is one of the items that has been suggested, but the Government are also good at saying that a new nuclear power station will add only £x a year to a consumer's electricity bill and therefore it will have minimal impact

[Alan Brown]

on bills. That is a very neat way of trying to argue that a new nuclear station involves minimal cost to consumers, but of course we are talking about a 60-year contract.

In the same vein, the letter from the Minister to all MPs on 26 October stated that a nuclear project starting construction in 2023 will add only a few pounds to bills during the lifetime of the Parliament and only £1 per month during full construction. I will leave to one side the fact that 2023 is a fanciful construction date, but let me break down what the cost of £1 per month per consumer means. According to the Office for National Statistics, there are now 27 million households in Great Britain. According to the Bill's impact assessment, the construction period for unit 1 is estimated to be between 13 and 17 years, plus another year for unit 2, so let us call it a 15-year construction period. That £1 a month per household is circa £5 billion up front. It can be argued that £1 a month is a low cost for consumers, but something like £5 billion is actually being committed. That is why we need more robust ways to evaluate what is the actual cost to consumers and what is value for money.

Let us work backwards from some of the figures in the impact assessment. It is suggested that, under RAB, the capital cost and associated financing for a new nuclear power station could be £63 billion. If we work backwards over a 60-year period, that is still only a few pounds a month, but it is actually £63 billion that we are talking about. That is a huge sum, which could be invested much better elsewhere in other forms of renewable energy. I hope that demonstrates how much wriggle room the Minister and Secretary of State have given themselves with the Bill. In fact, looking at the cost and impact assessment that the Government have quoted, it almost undermines their argument about the justification for new nuclear.

I turn now to subsection (2). Truthfully, it adds little more in the way of transparency. The Secretary of State must provide

"draft reasons for the designation"

and consult stakeholders, but the subsection does not detail how the statutory consultation will be undertaken, the timescales applied to it or, more importantly, what happens to the consultation feedback from the stakeholders whom the Secretary of State consults. Paragraph 54 of the explanatory notes states that a final reasons determination must be published as part of the designation notice, and subsection (5) covers that too. With the way the Bill is currently framed, however, this has the potential to simply be a tick-box consultation exercise. The Secretary of State can consult and stakeholders respond, then the consultation is dismissed out of hand and the final reasons are printed.

Subsection (3)(f) states that the Secretary of State may consult the Scottish Ministers and the Scottish Environment Protection Agency for Scottish projects, so what protection is there for the Scottish Government if they say no? We are implacably opposed to new nuclear, as is current SNP policy and the policy of the Government who have been elected by voters in Scotland since 2007. At the moment, the Scottish Government rely on the national planning policy framework to block new nuclear, but will the Minister confirm that, despite market failure, if somehow a proposal came for a new nuclear project in Scotland, the Bill, along with the United Kingdom Internal Market Act 2020, will not be a way for the UK Government to ram it through? How valid would the consultation with the Scottish Government be? It is not clear in the Bill.

Again, clauses 2 and 3 do not do enough to provide transparency and hold the Government to account. As I say, I would like to amend the clauses and be helpful to the Government, but given that I am opposed to the Bill and that I do not think the clauses are robust enough, it is very difficult to do so.

Kirsty Blackman: It is a pleasure to be able to take part in this Committee. Thank you very much for your excellent work in chairing today's sitting, Ms Fovargue.

I have just been on the Subsidy Control Bill Committee, and the Subsidy Control Bill has an incredible lack of information. We spend a huge amount of time asking for more transparency in that Bill, but this Bill is significantly worse than the Subsidy Control Bill in the lack of information that has been provided. To be honest, I cannot believe that the Bill is actually considered appropriate for primary legislation, because there is a totally stunning lack of info and an absolute lack of transparency.

The Secretary of State has to publish the reasons for the designation. What does that mean? What does the Secretary of State actually have to say in their reasons for the designation? Do they just write, "I think it's a good idea. Let's go for it."? There is not enough information. As my hon. Friend the Member for Kilmarnock and Loudoun asked earlier, does the Secretary of State have to take into account whether there is planning permission in place? Does the Secretary of State have to take into account the licences that have been put in place? It is totally unclear how this is likely to work.

I have a specific question for the Minister in addition to my general dismay at the clause. Subsection (3) talks about the people who have to be consulted. It says that if part of a site is in Scotland, the Scottish Ministers and SEPA have to be consulted. It also says something similar in relation to Wales and England. We know that if something is to be built in a border area, it will likely have cross-border environmental effects, so two environmental agencies could be involved should a project be fairly close to a border.

I would like the Minister to give me some comfort by saying that he would consider consulting more than one environmental agency, because if a project were to be on the border between England and Wales but slightly more on the English side, it might still have environmental impacts in Wales. It would be relevant, therefore, for the Minister to ensure that the consultations are slightly broader than simply where the footprint of the site is, because we know that any large thing that is built—whether it is something as potentially likely to cause massive environmental problems as nuclear or something much less of a potential environmental risk—has wider environmental issues than simply its footprint. It would be useful if the Minister could confirm that he would give consideration to that happening in the event that it is really pretty close to a border.

Greg Hands: I thank the hon. Members for Kilmarnock and Loudoun and for Aberdeen North for their contributions on clause 3. I will try to deal with their points.

It is important to understand the different parts of the process and the transparency involved in the process. The rules are published first; then comes the rationale for the designation, which is consulted on. It is standard practice in a consultation, of course, to take into account the results or the responses made to the consultation. Perhaps the hon. Member for Kilmarnock and Loudoun was trying to characterise it as superfluous or part of a process that would not add any additional information, but a Government consultation is there specifically to seek out and find more information. We then publish the final rationale for the designation. I hope that is helpful in setting out a little of the process involved.

The question about stating the length of the consultation is one that would be appropriate to the project itself. Let us not forget that we are trying to design a process here that would take into account a number of different possible future nuclear power stations. It would be difficult for us today to be prescriptive about the length of time that a consultation should take. We have set out those who we think must be consulted, and we have also left it open for the Secretary of State to consult other interested parties, which is quite reasonable considering that this legislation is supposed to encompass various forms of future nuclear power plants. We would be in danger of becoming too prescriptive about things such as the length of the consultation and the earlier amendment about stating reasons for particular people to be consulted.

Dr Whitehead: I do not want to be accused of trying to be too helpful to the Minister but, as I understand it, this part is about the designation of an existing nuclear company for the possibility of receiving RAB payments for a project it has not yet undertaken. That is it. It seems to me that what we are concentrating on in this part of the Bill—although not later on in the Bill—is just the designation process. I hope the Minister will agree that that is not the project or the RAB process itself, on which we would expect considerable transparency as it goes through, but not necessarily at this particular stage.

Greg Hands: The hon. Gentleman makes a fair point, and he is right that that is the purpose of this clause. None the less, the purpose of the clause is also to allow designation for a potential variety of timeframes within those projects, so it is still important not to be over-prescriptive, for example with the suggestion that we lay out today what the length of time for a consultation should be.

In terms of the costs, the whole purpose of the Bill is to reduce costs. The hon. Member for Kilmarnock and Loudoun is probing on the costs and what they actually mean, but the point is that this is a reduction in the costs that would otherwise be the case under a contract for difference model. That is ultimately getting to the heart of the Bill. I appreciate that he is against nuclear power, but he would surely have to recognise that the Bill is about reducing the costs of nuclear power. That is the purpose of the Bill. He says it is going to be very expensive—we acknowledge that it can be very expensive, and the purpose of the Bill is to make it less expensive.

3 pm

Some reasonable questions were asked about the role of the Scottish Government or other devolved authorities. The Bill does not change in any way the powers of the devolved Administrations in this space. Electricity generation is a reserved matter, so it will be for the Secretary of State to specify a RAB licence for future projects. Officials have also worked closely with their counterparts in the Welsh and Scottish Governments as RAB policy has been developed and the terms of the legislation have been confirmed. We plan to continue consulting with and, where appropriate, involving the devolved Administrations in project discussions, particularly in considerations of regional benefits.

Scotland benefits from a lot of this country's nuclear infrastructure. I am always a bit puzzled about why the SNP does not seem particularly interested in the jobs in Scotland that are involved in this country's critical nuclear infrastructure.

Mark Jenkinson (Workington) (Con): Is it not the case that the rest of the UK can learn from Scotland's lead on net zero when we see the low-carbon content of their grid, which is thanks to nuclear technology?

Greg Hands: My hon. Friend makes a very strong point—one made by quite a few people who were in Glasgow just two weeks ago. Ironically, in Scotland, making that argument strongly were not just the UK Government, but countries from all over the world. They were making the argument for nuclear power being part of our low-carbon future.

The powers of the Scottish Government are unchanged. The Bill makes provisions for the Secretary of State to consult named persons and organisations prior to the specification of any project under a nuclear RAB, and to consult those persons or organisations before he or she amends a projects licence to insert RAB conditions. Ministers in devolved Administrations will be captured—in scope, I should say; not physically—by this consultation.

Alan Brown: The Minister has already said that energy generation is a reserved power. Is he confirming that if the devolved Administrations say no in a consultation, that could be overruled by Westminster, with the imposition of a nuclear power plant?

Greg Hands: The hon. Gentleman is inviting me to go down a hypothetical road. The devolved Administrations have powers in other areas, and if the devolved Administration was strongly minded about having a nuclear power plant in that particular part of the UK, it is difficult to envisage circumstances in which the UK Government would proceed to do that. I hope that gives him enough reassurance.

I will deal with the point made by the hon. Member for Aberdeen North. On the question of a project near a border, it is reasonable then that the UK Government would consider the appropriateness of consulting with the devolved Administration. I return to my earlier point about specifying those who must be consulted and those who the Secretary of State would think it reasonable to consult. That would be within the scope of who the Secretary of State would think it reasonable to consult.

Kirsty Blackman: I appreciate that really helpful clarification.

A couple of points about the lack of transparency in the clause have not been covered. Subsection (2)(a) states that the Secretary of State has to "prepare draft reasons".

[Kirsty Blackman]

Subsection (5)(b) states the Secretary of State must provide the reasons "amended as appropriate". We have not heard what those reasons look like. Do they say something along the lines of, "The Secretary of State gives designated status because he feels like it"? I presume not, but there is no information about what those reasons would include. Could we have something in writing about what could be in those reasons? There is no framework here at all—the Bill seems to be quite lacking.

Greg Hands: I thank the hon. Lady for that intervention. The point strikes at the heart of what a Government Minister is doing. I think she is asking what happens if a Government Minister behaves entirely unreasonably. The way our constitutional settlement works is that if a Minister is behaving entirely unreasonably, he or she is answerable to Parliament. If Parliament believed the Secretary of State to be unreasonable or acting in a way contrary to the intention of the Act, people would find ways of getting the Secretary of State to explain. I think the hon. Lady was trying to suggest that the Secretary of State might arbitrarily decide to go through with something—

Kirsty Blackman *rose—*

Greg Hands: I am not going to give way again, because I have set out clearly that the Secretary of State is ultimately accountable to Parliament, and Parliament would find a way of examining the reasons that he or she laid out under this clause.

Question put and agreed to.

Clause 3 accordingly ordered to stand part of the Bill.

Clause 4

Expiry of designation

Dr Whitehead: I beg to move amendment 5, in clause 4, page 3, line 24, leave out "5" and insert "4".

This amendment shortens the maximum time allowed by the Secretary of State for the designation period of a nuclear company.

The Chair: With this it will be convenient to discuss amendment 6, in clause 4, page 3, line 33, leave out "5" and insert "4".

This amendment shortens the maximum time allowed by the Secretary of State for the designation period of a nuclear company.

Dr Whitehead: The amendments are grouped because one follows directly from the other—amendment 6 is consequential on amendment 5. The previous debate about the designation process was helpful for discussion of this clause, because clause 4 looks at how long a designation may last once the process has started. That is important because the process can cease to have effect either on the expiry of the designation—that is, a company has been designated for moving along the path to eligibility for a RAB and various negotiations will take place as the company develops its plant—*[Interruption.]*

Greg Hands: The House has adjourned.

Dr Whitehead: Hon. Members have such Pavlovian responses these days, automatically running out of the door whatever the circumstances.

The expiry date of a designation could well arrive because the company has received a designation, but has done nothing about it, or because the Government have got a designation through, but are a bit lax in pursuing the subsequent process. Alternatively, as the clause suggests, it could be because a project is under way, the revenue collection contract starts biting, investment is secured and the project goes ahead.

However, I am a little concerned that the expiry date is set at a period of five years, beginning on the date of the designation notice in question. As such, both the nuclear company and the Government have five years to get their act together on the RAB process, although that could lead to a going slow or delays. We already know that nuclear projects have a habit of running over time, sometimes due to construction issues and so on, but we do not want projects to be further delayed because people have not got themselves organised for a proper RAB process or because the Government cannot be bothered to get things going at a certain time and believe that they have five years to sort that out.

We have made the modest suggestion that that period should be four years; that might concentrate minds a little on moving from the process of hopefully being designated to the process of having a revenue collection contract and getting under way properly. There would not be that time to mess about between the two ends of the process, as might be the case under the five-year designation period.

I agree that we could pick any one of a number of different dates; the four-year period is just to suggest that we should concentrate minds a little. The amendment does not lay down the law: if the Government think it could be reconstructed in a different but more concentrated way, we would be happy with that. The amendment just suggests an indicative new date so that the point is borne in mind. I hope the Government will be able to accept it on that basis.

Greg Hands: Amendments 5 and 6 would seek to reduce the length of time a designation remains valid from five to four years and they would reduce the period for which the Secretary of State may extend the designation notice for a designated nuclear company to four years.

First, I thank the Opposition for their consideration of this matter. The hon. Member for Southampton, Test spoke to his amendment in a probing way—trying to get to the bottom of why the period should be five years rather than some other period. I am glad that the Opposition recognise the importance of the designation notice period and the fact that it should strike the right balance between providing enough time for the Government and the company to undertake all the processes necessary to inform a decision on licence modifications without leaving a designation in place for an unreasonable length of time. That is, as it were, the exam question here.

I believe that we have achieved that balance in the Bill. Currently, if negotiations on a project are successful and a relevant licensee nuclear company becomes party to a revenue collection contract, the power of the Secretary of State to modify its licence ceases, of course, outside some limited circumstances. That is vital to give investors

confidence that the Secretary of State does not have an open-ended power to further amend the generation licence.

On the other hand, if negotiations are not successful after a project has been designated—the point here is to give enough time for those negotiations to be successful—it is necessary for the Secretary of State's modification powers to lapse rather than continue indefinitely, so a sunset clause to the designation is also needed. That sits alongside the provisions in the Bill that revoke designation if the designation's criteria or conditions are no longer met.

However, a decision to take a financial close on a nuclear power station may not happen overnight; robust processes must be followed, extensive due diligence must be carried out and there must be rigorous negotiations to ensure value for money for both the consumer and taxpayer. That is the case with many large infrastructure projects.

Take the negotiations at Hinkley Point C as an example: discussions and eventual negotiations on the project took a number of years to complete. I believe therefore that a five-year window is a reasonable period to expect negotiations to have run their course, recognising that a project for RAB must be suitably advanced to be designated in the first place—that goes back to the earlier debates. That window provides time for negotiations to achieve a successful outcome without providing the Secretary of State with licence modification powers for an inappropriate period. The ability to extend the designation presents a backstop provision that allows the designation to be continued when the designation criteria continue to be met and negotiations are ongoing—in other words, it builds a certain amount of flexibility with a positive decision to extend negotiations. It is therefore appropriate that the extension period should mirror the initial designation period.

I do not consider that the amendments would provide any enhancement to that rationale. I did not hear any specific argument for four years rather than five years, so I am minded to continue with five years. I consider the provisions within this clause, which will permit the Secretary of State to revoke a designation notice at any point if he considers that the criteria are no longer met, mitigates the risk that negotiations—or, indeed, the modification power—will continue for longer than they should. I therefore invite the hon. Gentleman to withdraw his amendment.

3.15 pm

Dr Whitehead: As the Minister has said, the amendment was essentially a probing amendment to seek a little more clarification on why five years is considered to be the appropriate time. I am not sure that the Secretary of State has fully answered the question about the extent to which that might allow people not to get on with things as quickly as they might otherwise do, but I appreciate that in a complicated project such as those we are considering, there are processes that take quite a lot of time; it may well be that getting on for five years is the time necessary for such projects to be completed.

The overall point is that we want to make sure that, once designation has been undertaken, we move to the next stage as quickly as possible. I am sure that the Secretary of State would concur with that particular aim. On that basis, I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Question proposed, That the clause stand part of the Bill.

Greg Hands: Clause 4 sets out the circumstances in which the designation of a nuclear company would expire. As set out in subsections (1) and (2) of the clause, the designation of a nuclear company will be limited to a period of five years from the date of the project designation. If a designation expires, the Secretary of State must publish the details of that fact under the provisions in subsection (5). However, the Secretary of State will have the power under subsection (3) to extend the designation period before the five-year period lapses.

Subsection (4) of the clause requires that prior to granting an extension for a maximum of five years, the Secretary of State would need to consult the company, the authority, the ONR, the relevant environment agency, and the devolved Governments if relevant. Before exercising that power, the Secretary of State would also need to continue to be satisfied that the criteria for designation are met. This would allow for any circumstances in which the negotiations with the designated company and engagement with the financial markets last beyond the five-year designation period, but the Secretary of State believes that the project both represents value for money and is sufficiently advanced to warrant a RAB.

The designation will also expire if the company enters into a contract with a revenue collection counterparty. That is to provide confidence to investors that once the RAB licence conditions have been inserted into the company's electricity generation licence, the Secretary of State will no longer be able to modify that licence except in the limited circumstances set out in clauses 7 and 35 of the Bill. This is a proportionate approach that balances the need for investor certainty with the ability to flexibly apply the RAB model to individual projects. On that basis, I commend the clause to the Committee.

Question put and agreed to.

Clause 4 accordingly ordered to stand part of the Bill.

Clause 5

Revocation or lapse of designation

Dr Whitehead: I rise to speak to amendment 7, in clause 5, page 4, line 16, leave out "either" and insert "any".

This amendment is consequential on amendments 2 and 3.

This amendment was tabled to deal with the possible eventuality that we would have three designation criteria in clause 2(3), rather than two, as is the case at the moment. We moved an amendment to try to place three criteria into that clause, which the Committee did not accept. The statement, therefore, that either of those two criteria are relevant stands as far as the Bill is concerned, and the word "either" should therefore not be replaced by "any". On that basis, amendment 7 logically falls, so I have no wish to move the amendment.

Question proposed, That the clause stand part of the Bill.

Greg Hands: Clause 5 provides the Secretary of State with the power to revoke the designation of a nuclear company and sets out the applicable circumstances and procedure for doing so, as well as the circumstances and procedure whereby a project designation could lapse. The revocation power is tightly constrained by subsection (1). It applies only where a nuclear company ceases to hold a generation licence in respect of the nuclear project for which it was designated or it no longer meets the designation criteria. It is important that only the right projects are able to benefit from a RAB where they are sufficiently advanced and likely to provide value for money.

As set out in subsection (2), revocation of a designation would follow a similar process to project designation. The Secretary of State must prepare draft reasons, consult the named persons and publish a revocation notice, where relevant; they can attach additional conditions to a designation notice, as set out in subsection (3). If a company fails to comply with the conditions set out in the designation notice, the Secretary of State will notify the company that it has failed to comply, which will result in the designation lapsing. Such a notice must be published by the Secretary of State under subsection (5).

Such a model is a common feature of similar RAB models. The procedures envisaged allow time for consideration and consultation before any decision to revoke is taken. Given that the ability to continue to meet any of the conditions attached to designation is within the control of the company, there is no consultation requirement for the Secretary of State before a designation lapses.

Taken together, these routes to ending a designation provide an important layer of protection for consumers before a designated company enters into a RAB. In essence, they allow for a designation to end in any circumstance where it is no longer appropriate for a company to benefit from a RAB before project funding begins.

Question put and agreed to.

Clause 5 accordingly ordered to stand part of the Bill.

Clause 6

LICENCE MODIFICATIONS: DESIGNATED NUCLEAR COMPANIES

Dr Whitehead: I beg to move amendment 8, in clause 6, page 5, line 3, at end insert—

"(2A) Prior to exercising the power under subsection (1), the Secretary of State must publish a statement setting out how the exercising of the power will facilitate investment in the design, construction and commissioning of nuclear energy generation projects."

This amendment requires the Secretary of State to justify the exercise of a power to modify the electricity generation licence of a nuclear company.

The clause concerns modifications to the licences of companies that have entered into a designation with regard to the RAB process. It sets out a number of powers enabling the Secretary of State to make modifications to licences in order to square the designation process with the licence process. It occupies a lot of other areas, but would be particularly relevant to the licence as it applies to, say, the Sizewell C project.

Subsection (2) states that the Secretary of State is able to exercise the power under subsection (1)—to modify licences—

"only for the purpose of facilitating investment in the design, construction, commissioning and operation of nuclear energy generation projects",

which restricts the powers of the Secretary of State to modify the licences, concentrating it in the field of the design, construction and operation of the nuclear project.

Hon. Members will notice that that restriction stops there—that is, the Secretary of State may exercise that power for that purpose, but no one else needs to know about it. The Secretary of State may consider doing that, or restricting himself or herself to that particular designation, and may consider that he or she has done that, but it is a completely opaque process.

This amendment seeks to ensure that the Secretary of State publishes a statement setting out how his decision does indeed facilitate investment in the design, construction, commissioning and operation of nuclear energy generation projects, so that when he is considering exercising that power, it is a publicly exercised power, and information on what he has done is in the public domain.

The publication of the statement does not restrict what the Secretary of State can do; it sheds a light on what they can do, and ensures that they are carrying out that particular power correctly, as laid out in the legislation. We think that would be a good, safe addition to the Bill. It does not fundamentally alter its direction, but sheds a little more light on the process as the directions of the Bill are undertaken.

Greg Hands: As the hon. Gentleman says, this amendment addresses the process for modifying a designated nuclear company's licence, particularly which documents should be published before the power is exercised. We recognise that designating a nuclear company and subsequently modifying its licence is a significant decision. That is why the legislation lays out a clear process, which provides transparency and builds confidence in the decisions that the Secretary of State will make when exercising these powers. The process in the Bill is strongly based on existing licence modification powers; it is well precedented.

The amendment obliges the Secretary of State to publish a document setting out how the licence modification would facilitate investment in nuclear projects before modifications are made. I do not believe that is necessary. The Government have already set out a clear process and strong transparency provisions in the legislation. Currently, the Secretary of State is required to consult named persons prior to making any licence modifications, and must then publish the details of any modifications as soon as reasonably practicable after they are made, with material excluded only when necessary—for example, for purposes of commercial confidentiality or national security.

Alan Brown: Could the Minister give an example of an existing licence that the Government have granted that could likely need to be modified to facilitate the investment that the Government are looking for? Could he explain what that process looks like?

Greg Hands: The process is as described. It is based on a very good precedent on these sorts of licence modifications. This would not be the first Bill to come along to look at how to modify a licence, and we have based that entirely on existing precedents. There is nothing unusual in this process or this structure.

The approach of consultation followed by publication is well precedented, as I said, in other licence modification powers. We think that the amendment proposes an

unnecessary additional process. Moreover, the consultation provisions will allow expert voices to input on whether the licence modifications are effective in facilitating investment, which, of course, is exactly the purpose of the clause. I therefore hope that the hon. Gentleman will withdraw the amendment.

Dr Whitehead: We do not intend to press the amendment to a vote, but I will say that we think it is a good idea, which adds to the Bill's transparency. The Minister has given examples where certain elements of that transparency would be facilitated by other components of the Bill, but I would note that most of those are post hoc rather than before the process. Nevertheless, I take some assurances from what the Minister has said about the proper transparency of the process, so we will not pursue that this afternoon. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

3.30 pm

Dr Whitehead: I beg to move amendment 9, in clause 6, page 5, line 13, at end insert—

"(ba) the interests of existing and future consumers of electricity in relation to their prospects of recouping their contribution at the conclusion of the construction phase of the project;".

This amendment requires the Secretary of State to have regard to the interests of electricity consumers in recovering the value of their contribution to the construction of a nuclear power plant.

We have now reached the point where we have the first consideration of the consumer in the Bill, in clause 6(4)(b), dealing with the licence modification arrangements. Hon. Members will note in subsection (4) the things that the Secretary of State must have regard to when exercising the power under subsection (1), subject to what we have just discussed about subsection (2) in terms of the design, construction, commissioning and operation of nuclear energy generation projects.

Subsection (4)(b) says that the Secretary of State must have regard to

"the interests of existing and future consumers of electricity, including their interests in relation to the cost and security of supply of electricity".

I understand that to mean that the Secretary of State, in modifying licences, particularly in respect of a RAB agreement, must look at the interests of consumers with respect to the cost of electricity and the extent to which it may be produced at a better price as production develops in the years following the adoption of a RAB, and the extent to which security of supply to customers can be maintained.

What is lacking in that list of things that the Secretary of State must have regard to—along with many other things—as far as the consumer is concerned is a recognition that the consumer has an active interest as well as a passive interest in this process. If we are setting out to produce a RAB arrangement that effectively requires a levy on customers at all stages of the process—during development, construction and production—then the consumer surely has rather more of an interest in that process than just the passive interest in price and security that is suggested in subsection (4)(b).

For example, the consumer has a considerable interest in making sure that the cost to them is reasonable at all stages of the process, and that it does not simply set out to milk the consumer for the purpose of sorting out the project regardless of its vicissitudes. The consumer has a particular interest not only in the way that the RAB contract talks about the price of electricity, but in how it addresses the extent to which the consumer's investment may be recouped as the RAB process comes to its conclusion and goes down its path.

Of course, in that context, the RAB arrangements that we are discussing have, during their latter stages, a two-way process. If the production of electricity goes above the ceiling of the allowable costs limit, then it is expected that the company producing the electricity, because the model is regulated, will restore money to the consumer in one way or another. If its production is under that allowable costs ceiling, however, it will take money from the consumer to allow that process to continue smoothly. Indeed, in the RAB consultation, we had a rather optimistic, smooth little curve down as the process comes to its end. I do not think that will quite be the reality as the RAB process goes on, but it is important.

Alan Brown: I share the hon. Gentleman's concerns about protecting consumers from costs and so on. That is actually why we are against large-scale new nuclear. Can he explain a wee bit more about recouping costs? Recouping costs sounds like getting money back in terms of the asset, which does not make sense. The amendment also mentions recouping contributions

"at the conclusion of the construction phase of the project".

That is effectively rent on a 60-year contract for the RAB, so I am not sure why it would be at the conclusion of the construction stage.

Dr Whitehead: It is at the conclusion of the construction stage because the construction stage gives way to a production stage. That is the point at which electricity is produced, when the customer—I am assuming we can describe the consumer and customer as an entity—or those acting on behalf of the customer can start to think about the extent to which some of that money may come back as a result of the way that production is carried out within the ceiling set for overall RAB programme costs.

There could be circumstances under which, as the RAB process comes to an end, the customer recoups—in lower bills, dividends and so on—a lot of the money that was put in. There will always be excessive production over the allowed costs level, so money will come back to the customer. We will see later in the Bill the methods by which that money might be restored to the customer. Yes, there is a real interest, post the construction phase, in recouping those costs.

A second issue for the consumer is the eventual outcome of the ownership of the plant at the end of the RAB period, as it goes into production. As it is a regulated asset base, by the end of the RAB period, the company that has undertaken the construction and run the production of the plant will have received all the money it should have received through the regulated asset base arrangement, and will have worked successfully as a result of the support that the RAB process provides.

Depending on how many years are set out for the RAB process to take place, if it reaches its end within the working life of the nuclear plant, the question then arises of who owns the nuclear plant at the end of that period.

[Dr Whitehead]

Does the consumer own it at the end of that period? If they do, that is a little bit like a mobile phone contract, whereby the consumer would expect the charges to reduce substantially after paying off the cost of the phone in their contract. Clearly, it is in the interests of customers to have an active involvement not just in spending their money wisely, but in recouping or changing it into a different form as the RAB process sets its course. Indeed, under those circumstances, the Secretary of State might need to consider the length of the RAB contract, and how far it goes into the operating life of the nuclear power station, to carry out the terms of the contract and to consider what arrangements might be made for life at the end of that contract.

I suggest that those are all things that the Secretary of State ought to have regard to over and above the passive involvement of consumers that is set out in subsection (4). That is why we tabled the amendment, which states that the Bill should take account of

"the interests of existing and future consumers of electricity in relation to their prospects of recouping their contribution at the conclusion of the construction phase of the project".

That is an active consideration in the management of customers' contracts, not just a passive one where the customer stands by and waits for the money to be deducted from their account to pay for these projects forever. The Secretary of State should have an active view on that in terms of how to get the best value for the customer from the project overall, over and above the best value for the project itself.

Greg Hands: Amendment 9 addresses how the interests of consumers, which are vital in this process, will be taken into account and what the consequences of that would be. In the Bill as currently drafted, the Secretary of State must have regard to a number of matters when modifying a designated company's licence. That includes the UK's net zero ambitions and the interests of existing and future consumers in relation to the future cost and security of electricity supply.

The amendment requires the Secretary of State also to have regard to the prospect of consumers recouping what I think the shadow Minister described as their "investment" at the end of the construction phase. I appreciate hon. Members' enthusiasm for ensuring that consumers will benefit from any RAB project, and, in that sense, I welcomed their support on Second Reading. However, the amendment is not compatible with how the RAB model works.

The hon. Member for Kilmarnock and Loudoun got to the heart of this: the amendment would make RAB effectively inoperable. It treats consumers as investors, but they are not investors. Consumers will benefit from a new nuclear power station. He and I might disagree on whether that should have happened in the first place, but none the less, the benefit to consumers is in electricity rather than in a return on any investment.

Fundamentally, the amendment misunderstands how the RAB model will work. The RAB model will mean that consumers contribute to meeting project costs from the start of construction and reducing the cost of capital, which is the main driver of project costs. That is why we are seeking consumers' contribution. What they get in return is a nuclear power station that produces low-cost, low-carbon electricity.

Dr Whitehead: Let me say two things. First, if someone contributes in a penny fund to a co-operative society account of some description, that does not mean that they are not an investor; it just means that they are investing in a certain way and at a certain rate. The fact that the RAB arrangements will be passed on to customers' bills and that there will be a known and determined amount of levy on those bills, which can be quantified, means that the customer is, in effect, adding an investment into the process on top of their bills. That is what I am trying to say, and I am sure that the Minister would agree that that is a form of investment in the process, even though the consumer is not a conscious investor in the way that a corporation might be. This is one of the problems of how we best protect the consumer interest in this process. Nevertheless, I suggest that that is a consumer investment in the overall process.

Secondly, I am sure that the Minister would agree that the RAB process continues after construction for a considerable time in the production period, as the RAB consultation set out. Therefore, that part of the process needs to be considered equally as an investment in the overall outcome of the project, as it is in the construction period. If he thinks that it is something different, he ought to explain why.

The Chair: Order. Interventions are getting very long. There will be an opportunity to respond at the end of this debate, Dr Whitehead.

Greg Hands: I thank the hon. Gentleman for that lengthy intervention. I think that a bill payer's contribution is not an investment. The objective is to lower the cost overall to the consumer. That is why we have the figure of £30 billion or more, or £10 a year per bill payer. The consumer's objective is not to become an investor and get a return on that investment, but to have a future source and availability of low-cost, low-carbon electricity—that is, through a nuclear power station.

3.45 pm

The amendment confuses matters and, as the hon. Member for Kilmarnock and Loudoun pointed out, would effectively render the model inoperable. Rather than recouping funding at the end of the construction, as would be the case in an investment, consumers instead get the benefit of a reliable low-carbon, lower-cost energy system, supported by the new nuclear power plant. That is the role of the consumer and it is why the consumer is being asked to contribute during the construction phase.

The legislation already captures the need to ensure that consumers will benefit from an operational plant in return for their funding. As we have already discussed on amendment 3, the existing checks, consultation requirements and non-legislative approvals provide sufficient assurance that a project will successfully complete construction.

Kirsty Blackman: It is not low-cost energy. It may be slightly lower than more expensive nuclear, but it is still way more expensive than offshore wind, onshore wind, solar and such. Characterising it as low cost is simply wrong.

Greg Hands: That is a wider debate around nuclear, which I would contest. Obviously, it is an active debate: first, how expensive is nuclear, and secondly, how expensive is it relative to other forms of power generation? Those are active parts of political debate.

Kirsty Blackman *rose—*

Greg Hands: Can I just deal with the hon. Lady's first intervention? We are seeking to give effect to Government policy, which is to support the roll-out of more nuclear power. How do we do that in a financially reasonable and more cost-effective way for both consumers and the taxpayer? That is the purpose of the Bill within the confines of having already agreed as a Government that nuclear power is going to be the way forward in providing a large part of Britain's electricity.

Kirsty Blackman: I was not aware that there was a political debate about the cost. The Department for Business, Energy and Industrial Strategy's figures say that offshore wind costs £47 per megawatt-hour; nuclear is £93, onshore is £45 and large-scale solar is £39. Those are BEIS figures, so I did not think there was any debate. I am concerned that the Minister is inadvertently misleading us by using the term "low-cost". He can use "low-carbon", but to say "low-cost" is simply not true, even by BEIS figures.

Greg Hands: Again, I thank the hon. Member for that intervention. The cost of different forms of power generation is a very interesting part of the energy debate. Obviously those costs move around and will be based on any number of factors, including global market prices and the cost of extracting and producing particular forms of energy. Nuclear's advantage is its ability to provide a steady, constant baseload, which is not always the case with some of the other technologies the hon. Lady is comparing it with.

I hope I am not digressing too far, but when it comes to offshore wind, the UK has had enormous success. We have the world's largest capacity. None the less, when the wind is not blowing and the sun is not shining, we have to have something else to provide that baseload. That is the purpose of nuclear power. The Bill is about making it more cost-effective and reasonable for consumers. That is the Government's position.

I hope I have convinced hon. Members that this amendment would not achieve their goals of helping consumers. The concept of consumers investing in a plant and then recouping their money somehow is incompatible with the RAB model. There are mechanisms in place to give confidence that any RAB project will successfully lead to the means of delivering large amounts of stable, low-carbon energy to consumers. I hope the hon. Member will withdraw the amendment.

Dr Whitehead: This really worries me. What does the Minister think consumers are doing in contributing to a RAB process? If the Minister does not think that that is in any way a form of investment in the plant and that consumers are just completely passive recipients—that they are good for whatever money is required to get the system through and should have no interest in the proceedings, other than being a milch cow for the process—I am afraid that we differ.

Kirsty Blackman: On that, consumers are investing in the significant profits for private companies that are in many cases not based in the UK. That seems to be the essence of the hon. Gentleman's concerns and the reason he moved the amendment. Is that correct?

Dr Whitehead: Yes, indeed. This is perhaps a separate debate, but we have a position not just on this particular instance of nuclear power, but on similar arrangements that relate to the RIIO process for energy distribution and network companies, whereby they are enabled to charge an additional amount on bills in order to secure assets that they own and that consumers or the public do not. The consumers, however, are expected to pay for the privilege of having that piece of technology at their disposal subsequently, but the question of ownership never comes into it, because they pay collectively for someone else to have an asset to call its own. That is exactly the situation with the nuclear plant.

We therefore need to take the consumer rather more seriously than just being a passive contributor in the way often set out in such processes—"Oh well, the customer will pay an additional levy in the bill. As long as it doesn't look too serious at any particular time, that's okay." Not only is that not okay, in particular for levies with no consequences if applied to customers, but it is not okay to have a cumulative set of levies that put a lot of money on electricity and gas bills over a period for particular purposes that the consumer has no hand in at all.

I agree that the concept of the consumer being a part investor in the process might sound a little odd to those who have a traditional view of an investor and how an investor works, it is nevertheless a real thing: the consumer is in effect investing in the success of the plant. The Secretary of State—the Minister; I have promoted him already—has set out how he sees the customer being involved in the process, but that completely ignores the proper interest and protection of the consumer and bill payer as far as the overall process is concerned.

The amendment would not make the RAB process impossible; it merely states that as part of that process—we will come to the debate about where allowable costs have been exceeded—yes, the customer invests in it, but the customer also has reasonable expectations of some quid pro quo for that investment. That ought to be looked after. The quid pro quo in this instance, as I set out—I am sure the Minister agrees that this takes place in the RAB process—is that in the production process, if there is an excess over the allowable costs of production, the fact that it is a regulated asset means that that money goes back to someone. In this instance, it should be the customer.

That is what I mean by the customers' interests being protected in recouping their investment. The Minister surely cannot deny that that is part of, not instead of, the RAB process in the production period. That is actually set out in the notes that accompany the Bill. I am therefore a bit mystified as to how the Minister takes the position that he does, given what is in his own Bill and in the arrangements for RAB that he himself is putting forward. I see no reason why he should not accept the amendment if he has the customers' interests at heart, because it does not detract from RAB; it adds to it by recognising who is paying the money, what their interests are and how they should be protected.

I will not press the amendment to a vote, but I want to record my disappointment in the Minister's apparent lack of either understanding or empathy for the customer's position. We are discussing a Bill in which the customer

[Dr Whitehead]

is central, because they are bankrolling a substantial part of the project as it goes forward. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Question proposed, That the clause stand part of the Bill.

Greg Hands: I will try to speed up a little. As we know, the clause allows the Secretary of State to make the necessary licence modifications to apply a RAB model to a designated nuclear company. Subsection (2) clarifies that the effect of a licence modification is that the company would benefit from being able to receive an allowed revenue to construct, build, commission and operate a new nuclear power plant. Subsection (3) requires that the power be exercised only in relation to a nuclear company that is designated in accordance with the provisions of the Bill.

Licence modifications will not take effect unless the nuclear company whose licence has been modified subsequently enters into a revenue collection contract with a revenue collection counterparty, as set out in subsection (9). The modifications will be subject to negotiation between the Government and the nuclear company. It is therefore not possible to describe the exact modifications that would be required; however, subsection (5) highlights possible examples, such as the revenue that a company is allowed to receive, how that revenue is to be calculated, and the kinds of activities that may be undertaken by the company.

When making any modifications to a licence, subsection (4) requires the Secretary of State to take into account both our commitment to decarbonising the power sector and the interests of existing and future consumers with respect to the cost and supply of electricity. Alongside that, and to ensure that any RAB project is financeable, the Secretary of State, when making modifications under the clause, must have regard to the costs incurred in delivering the project and the need for the company to finance that activity. Together, those obligations will ensure that the modification powers are used so that the project contributes to a transition to a low-carbon, low-cost energy system.

As set out in subsection (3), the power to make modifications to a licence will last while the designation for a nuclear company is in effect. That is important to allow the Secretary of State to make modifications to the licence to take into account developments in negotiations and engagements with the financial market. When making any modifications in that period, the Secretary of State will need to continue to take account of the consultation that he undertook with all bodies named in clause 8. In addition to the modification of the designated nuclear company's licence, subsections (7) and (8) allow him in very limited circumstances to modify the standard conditions of generation licences if necessary. The Secretary of State can make those modifications only if he considers it appropriate for consequential, supplementary or incidental purposes.

Alan Brown: I will be brief, because I know that time is getting on, and far be it from me to speak to a clause that both Front Benchers have agreed adds transparency to the Bill—albeit that, being facetious, I would say that doing so is a low benchmark. Subsection (2) clearly states that the licence can be modified only to facilitate

"investment in the design, construction, commissioning and operation of nuclear energy generation projects."

Given that clause 1 states that a company can be designated only if it already has a generation licence, I would like the Minister to provide more clarity on what could be in a generation licence that prohibits the investment that he says that we are seeking to unlock by modifying it. That is the part that I am not quite clear on.

Clause 6(5) says that it is all about being able to change the revenue mechanism to allow a company to create more money. The Minister rightly said that subsection (4) lists some of the things that need to be considered as part of a licence modification. I ask him to consider that in the light of what I said earlier about clauses 2 and 3, and about there not being enough information in the Bill about what the Minister or Secretary of State should consider. We could also look at that in the round on Report, but we would like a wee bit more information about why the licence would need to be modified to release this so-called investment.

4 pm

Greg Hands: I thank the hon. Member for his contribution. The Government are satisfied that the amount of information included in the Bill is sufficient. Far be it from me to suggest that Members table amendments, but perhaps he might seek to do so if he wants to see more transparency and more information. I realise I was not quite right earlier in saying that the SNP had not tabled any amendments; I know that it has tabled some new clauses. If he wants additional publications, he might table some amendments on Report to be a little more precise about what additional information he thinks the Secretary of State should publish.

Question put and agreed to.

Clause 6 accordingly ordered to stand part of the Bill.

Clause 7

Licence modifications: relevant licensee nuclear companies

Dr Whitehead: I beg to move amendment 11, in clause 7, page 7, line 8, at end insert—

"(3A) When exercising the power in subsection (1), the Secretary of State must not cause the excess of expenditure being incurred over the allowable revenue cap to lead to further charges upon revenue collection contracts."

This amendment prevents the Secretary of State from allowing the levy of further consumer charges should an increase in allowable revenue be agreed following increases in costs or timescale of a nuclear project.

The Chair: With this it will be convenient to discuss amendment 12, in clause 7, page 7, line 8, at end insert—

"(3A) When exercising the power in subsection (1), the Secretary of State must publish a statement setting out how an adjustment in the company's allowed revenue is to be made without relying on revenue collection contracts."

This amendment requires the Secretary of State to set out how an adjustment to allowed revenue, following an increase in costs or time, is to be provided for by means other than additional customer levies.

Dr Whitehead: With these amendments, we get to the heart of the consumer interest in the Bill. They are closely related, so it is appropriate that they are grouped and spoken to together.

As I think hon. Members know, when the RAB process gets under way, one of the first things that will happen is that Ofgem will be required to draw up a programme of allowable revenue. That is the sum total of the amount that is considered to be within the RAB process. Much of the rest of the Bill is about how that allowable revenue is collected from customers, placed with the counterparty and allocated out to the nuclear company that undertakes the construction and subsequent production of a nuclear plant, and about the safeguards and concerns surrounding that process. The question of allowable revenue is crucial to the rest of the Bill.

Allowable revenue is made up of a number of building blocks. The return on capital must be assessed, as must depreciation, operating costs, the project's taxation, grid costs, the funded decommissioning programme, incentives and other adjustments. Those all go into the pot of the allowable costs regime, which sets a ceiling for the amount of money that can be taken from the consumer, albeit that that is a contribution towards the process made by lots of people in small amounts on their bills over a period of time. It sets out the quantum of those contributions, and many adjustments can be made to how that works, in relation to the timescale of the process, the part of the allowable costs element that is placed into construction and the part that is placed into production. That is set out later in the Bill as part of the process of allocation from the counterparty body to the body that carries out nuclear construction and production.

As was mentioned earlier, it is not always the case that nuclear power plants are constructed exactly to cost and exactly to time. Indeed, if we look at the construction of nuclear power plants across the world, we find that all but one has run over time or over cost or both—in some instances by very large amounts. The allowable costs ceiling is therefore important for us to get a clear scope of what the customer will have to bear in this process. However, there is also a process in the Bill that allows that allowable costs ceiling to be raised, on the Secretary of State's consideration, if the circumstances change. If the costs rise or the timescale slips, the Secretary of State can allow the allowable costs ceiling to be raised.

What that means in principle for the consumer is potential catastrophe, because the consumer thought they were in for a particular allowable costs ceiling that had been determined. We have heard already about the rather heroically optimistic cost assessments provided for in the Bill, and on that sort of allowable costs arrangement consumers would have about £1 put on their bills in the design phase, with a lot more—perhaps £10—on their bills in the construction phase. The amount would then taper down as production gets under way, with the possible payback of some money in the process. The overruns on construction costs or time costs could double or treble that amount, particularly during the construction period, in a way that the consumer would not have anticipated.

In the amendments, we suggest that the consumer should be in for the initial allowable costs ceiling estimate—and that is it. In circumstances where the Secretary of State is contemplating what should happen with the allowable costs ceiling, he should not cause any excessive expenditure simply to be plonked on to customers' bills. At that point, if the costs or the timescale have changed, there are a number of options open to him as to how to deal with the new cost ceiling; that need not necessarily be done by simply raising the allowable costs ceiling. For example, it could be by adding a particular taxpayer's investment to the project, or it could be by issuing nuclear bonds, which puts additional money into the company but does not impact on customer bills.

We are seeking to cap the RAB in terms of what the customer expectation of it is. That does not necessarily mean that the function of the RAB is determined by that cap; it just means that the exponential milking of the customer to fund the RAB does not take place and that the Secretary of State has recourse to other means and should publish, as amendment 12 says, what the plans would be in the event of an excess over the ceiling to make the project a success.

That is a very important part of the new deal as far as RAB is concerned. The customer is now being asked to invest, in the first instance, in the hope for a plant, well before the plant has been established; that is new—the CfD process is post the construction of the plant. They are being asked to underpin the expensive costs that are incurred during the construction period. They are also being asked to engage in a two-way process whereby, yes, they get cheaper bills but they are still potentially contributing to a RAB process as the production phase continues. So the very least we should expect on behalf of the customer is that they know what they are letting themselves in for at the time of the outcome of the project.

We are not talking about capping costs necessarily; we are talking about how those additional costs are paid for under the circumstances where they do rise. We obviously hope that, as the project progresses, those costs and timescales do not increase, but if they do we do not see that the customer needs to foot the additional bill; there needs to be other recourse. That is what we have put in these amendments, and should the Secretary of State consider in any way that the customer is an investor in this process, we hope he would consider that a reasonable way of dealing with the investment that the customer is undertaking in the process as a whole.

Greg Hands: I will speak for a little longer than I might ordinarily do, because this is an important question of consumer protection. I will try to deal with all the points raised by the hon. Member for Southampton, Test.

Amendment 11 would limit the ways in which the Secretary of State could exercise the powers under clause 7. As we know, clause 7 allows for a nuclear company's allowed revenue to be increased should its financing cap be exceeded in construction, but only in certain circumstances and where a clear procedure is followed. The amendment seeks to prevent the Secretary of State from creating any additional recourse to consumer funding in the exercising of his or her powers under the clause. Amendment 12 proposes that the Secretary of State should be transparent about the funding of a nuclear RAB project were they prohibited from funding an extension to the allowed revenue through a revenue collection contract.

[Greg Hands]

First, I draw the House's attention to the remoteness of the scenario under which the Secretary of State may choose to exercise the power under clause 7. Under a RAB model, the licence would determine a risk-sharing mechanism, whereby construction cost overruns up to the agreed financing cap are shared between investors and consumers. We expect that any RAB structure will ensure that financial incentives are in place to ensure the company's investors manage project costs and schedules. The financing cap will be based on robust risk analysis, including best-practice, reference-class modelling, and set at a level that is sufficiently remote that there is a very low chance that it would be reached.

However, in the event that the financing cap is reached, investors would not be obliged to provide the capital to complete the project and this risks considerable sunk costs to consumers if the project is discontinued. Given the size and importance of the project, the Government consider it crucial that there is a mechanism in place to allow the additional capital to be raised to ensure completion of the project, and that decisions to extend the project's revenue rest with the Secretary of State.

I would emphasise at this point that any decision taken by the Secretary of State to adjust the allowed revenue is one that is subject to a robust process of scrutiny and transparency. The Secretary of State could exercise the power to extend the allowed revenue only following consultation with the licensee, the ONR and Ofgem, which, I remind the Committee, has as its primary statutory duty the need to protect the interests of existing and future consumers with respect to the cost and security of the supply of electricity.

In exercising the power, the Secretary of State must continue to have regard to those matters detailed in clause 6(4), which includes the interests of existing and future consumers with respect to the cost of supply of electricity. As is consistent with our approach across the Bill, we have sought to ensure a transparency process whereby the Secretary of State is required to publish a statement setting out the procedure to be followed when exercising this power. That is set out in subsection (6).

4.15 pm

I would now like to bring the Committee's attention to the two amendments. Amendment 11 seeks to ensure that in the event that a nuclear RAB project is forecast to reach the financing cap the Secretary of State must not take any action that may lead to additional costs being incurred by consumers beyond those provided for in the revenue collection contract. Amendment 12 seeks to ensure that the Secretary of State must instead publish a statement as to how the increase to the allowed revenue will be funded without consumer contributions.

We consider that both amendments would narrow down the options the Secretary of State has for ensuring that the project completes construction. Going back to earlier comments, the consumer has a strong interest in this project completing construction. These amendments would instead lead to sunk cost risk for consumers. Our focus should instead be on ensuring there is sufficient transparency, scrutiny and protection in place before further consumer contributions are sought in this very unlikely event. As I have already argued, that is exactly what the Bill already does. So I thank the Opposition for their consideration of the matter, but I have made it clear that this is a very remote scenario and a power that we hope the Secretary of State will not have to exercise.

I want to be clear that this is not a cast-iron commitment for consumers to fund a bad project come what may—of course not. There would be clear incentives on the project to manage costs and overruns; ultimately, in an overrun scenario, the Secretary of State can decide to commit public funding to finish the project. That simply provides another route to ensure that a plant built under a RAB benefits consumers with the low-carbon, resilient power it will supply.

I am appreciative of the Opposition's desire to protect consumers from any additional costs should a project breach the financing cap. However, the Government have ensured that the Secretary of state will carry out robust due diligence on the project and will give due consideration to the interests of existing and future consumers, as stipulated in clause 6(4).

I would remind everybody that that provision is further strengthened by the Secretary of State consulting Ofgem. Ofgem has a statutory duty to protect consumers during the consideration of the application from investors before any decision is made. That will ensure that consumer interests are rightly protected as we maximise the likelihood that consumers will reap the benefits of the project they helped to build. That is the consumer protection embedded in this Bill. I therefore hope that hon. Members will respect the process that we have put in place, and I ask them not to press amendments 11 and 12.

Dr Whitehead: That is very disappointing. The Minister has effectively said that the customer has no say in this arrangement. He used the phrase "reduce the options to Ministers"; yes, this would reduce the options available to Ministers—it would make them think about how they should put forward other ways of covering a breach of the allowed expenditure without simply fleecing customers. The Minister may think that one of his options ought to be to fleece customers—that might be the universe he inhabits—but we do not think that should be the case. We think that the customer must have much clearer lines of protection, other than the very woolly things that the Minister has said that might cause the customer to be given some consideration in this process. For those reasons, we would like to divide on amendment 11.

Question put, That the amendment be made.

The Committee divided: Ayes 5, Noes 7.

Division No. 2]

AYES

Blackman, Kirsty	Pennycook, Matthew
Brown, Alan	
Owen, Sarah	Whitehead, Dr Alan

NOES

Baker, Duncan	Hands, rh Greg
Crosbie, Virginia	Jenkinson, Mark
Doyle-Price, Jackie	
Fletcher, Mark	Wallis, Dr Jamie

Question accordingly negatived.

Amendment proposed: 12, in clause 7, page 7, line 8, at end insert—

"(3A) When exercising the power in subsection (1), the Secretary of State must publish a statement setting out how an adjustment in the company's allowed revenue is to be made without relying on revenue collection contracts."—*(Dr Whitehead.)*

This amendment requires the Secretary of State to set out how an adjustment to allowed revenue, following an increase in costs or time, is to be provided for by means other than additional customer levies.

Question put, That the amendment be made.

Question negatived.

Dr Whitehead: I beg to move amendment 10, in clause 7, page 7, line 17, after "operations" insert

"and have generated power for placement onto the National Grid".

This amendment amends the definition of the completion of construction of the nuclear project to include initial generation of power.

The amendment relates to statements made, for the purpose of licence modifications, about the completion of the construction of a nuclear project. Clause 7(5) states that completion of the project should be based on

"successful completion of such procedures and tests relating to the project as constitute, at the time they are undertaken, the usual industry standards and practices for nuclear energy generation projects in order to demonstrate that they are capable of commercial operations."

I wonder whether hon. Members can spot what is missing from that subsection. This is not a quiz, and I think hon. Members have long gone to sleep—but in case not, the answer is that there is no suggestion in it that the nuclear power station actually has to produce anything. Construction could be regarded as complete provided that all the hoops have been jumped through, even if no button has actually been pressed. Presumably what one would regard as the original purpose of the whole operation is that it should produce some power that goes into people's homes, buildings and so on.

The amendment simply says that not only must all those things be completed, but the project must do what it was originally supposed to do: generate power. As the amendment describes it, the project must

"have generated power for placement onto the National Grid".

That seems a very modest amendment, but it would put right what I think is rather a serious omission in clause 7(5) with respect to the whole idea of what a nuclear power station is for. Surely we must agree that generating power is the purpose of a nuclear power station, and that completion must therefore be based on that purpose.

I cannot see any great reason why the amendment should not be accepted, but I am sure that the Minister has a very good argument why not.

Greg Hands: I thank the hon. Gentleman for moving his amendment. It is important that we consider that the scenario is remote; before allowing any project to have a RAB, we will obviously have conducted robust due diligence, using best practice benchmarking analysis to set the financing cap at a remote level. The project's investors will be incentivised to control costs below that level and will be penalised for project overruns. We are clear that this power of modification should be exercisable only during the construction of the plant, and have sought to do this in clause 7(4). This determines that this power cannot be exercised at any point once construction has been completed. For the purposes of this clause, we have defined the construction phase in clause 7(5).

The amendment would provide further qualification to the definition of the end of a project's construction phase. It seems to make it explicit that the purpose of the construction phase of the nuclear project is to build a plant that will contribute electricity to the national grid, and that might appear fair enough. However, the clause is intended to cover both the period of construction and the testing of the plant, to ensure that it can operate commercially to provide power. An early part of this testing is the connection of the plant to begin to provide power to the national grid. However, there is further testing that follows, to ensure that the plant can operate effectively throughout its life. We consider it appropriate that the option to increase funding to complete the project should run until all testing completes.

In a nutshell, I think the cut-off point proposed by the hon. Member for Southampton, Test is too early in the process. The point at which the power station connects to the national grid is not the point at which one can have 100% confidence in the project from there. Therefore, I thank the hon. Gentleman for his interest and concern, and of course we would not wish to see consumers being penalised, but unfortunately I think he strikes the wrong point in the process at which this clause would kick in. I urge him to withdraw the amendment.

Dr Whitehead: I concede that I may not have fully understood all the various tests that are undertaken to usual industry standards, but nowhere in this clause does it say that those tests include the production of power. That is my central point. It is a bit like going into a car showroom and being shown a really nice vehicle. It has all the bells and whistles on it, and all the guarantees; it looks greats and the paint is really good. But when one asks to go for a test drive, the person in showrooms says, "I'm sorry, you can't do that, Sir; it hasn't got an engine in it." Surely it must be about producing power. That ought to be explicitly in the Bill. That is my only point. If the Minister thinks that, concealed in all these various tests is the production of power, which does not seem to be the case to me, then maybe that is not needed on the face of the Bill. I think it would be rather good if it were on the face of the Bill.

Dr Jamie Wallis (Bridgend) (Con): Does the hon. Gentleman agree that we are in a very sorry place indeed if all the usual industry standards and practices for nuclear energy production do not actually include the production of energy?

Dr Whitehead: We would be in a sorry place, but that is effectively what the clause appears to state. It is all about the fact that it could produce energy, not that it does produce energy. Those are two potentially different things. The hon. Gentleman is right about the industry standards that set it all up to make sure that energy can be produced. I merely think it might be a good idea if we found out if it did produce that energy.

Alan Brown: I do not want to go on for too long but, further to the previous intervention, is it not the case that it can easily be argued that the EPR reactors currently being built are capable of generating electricity, but not one of the two EPRs under construction in Europe have started generating electricity for the grid? They are actually 10 years late, which underlines the point made by the hon. Member for Southampton, Test.

[Alan Brown]

Dr Whitehead: The hon. Member makes a good point. We have a number of nuclear reactors in Europe that look like they can produce energy, and they are still standing there not producing energy, many years after they were supposed to do so.

We will not press the amendment to a vote. I am a little disappointed that the Minister did not take the opportunity to add to the Bill what I think an average person reading the Bill would think obvious, but I know we cannot get what we want all the time. He has put forward reasons why he thinks that point is covered elsewhere in the clause. It would have been good if it was more transparent and up front. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

4.30 pm

Question proposed, That the clause stand part of the Bill.

Alan Brown: Again, I will be brief. I have a few comments on clause 7 stand part. Subsection (2) and paragraph 83 of the explanatory notes confirm that a licence can be modified to allow the cost cap to be exceeded, but also, critically, so that additional revenue can be collected. The Minister spoke about transparency. How can that power be applied transparently? Clause 7 references clause 6(4), but that subsection does not provide enough scrutiny of governance.

I will give an example. What is to stop a nuclear company begging another £1 billion? With the costs of a nuclear project, £1 billion here or there does not make much difference in the overall scheme of things. If the Secretary of State thinks, "I am so worried about security of electricity supply"—that is an argument we keep hearing on nuclear—under clause 6(4)(b), they can then decide, "Yes, this power station is so critical for future energy security, I will just throw more good money after bad." It is an easy step, and one that could be repeated several times—£1 billion here or there makes no difference.

This Government have already proven to be so pro-nuclear that they signed up to the most expensive power station in the world, Hinkley Point C, and so pro-nuclear that, after market failure, we are here debating this Bill, and, as was said earlier on, they have committed £1.7 billion just to develop Sizewell C to the final investment stage. We know they are so desperate to get Sizewell C over the line for the final investment stage, they are making that the newest, most expensive power station in the world, which we will be paying for for 60 years. So I do not understand how the clause gives protection and transparency for consumers, if costs go up. Invariably, costs will go up. It is unlikely that the risk is going to be carried by the developer. The risk under the RAB model is going to be carried by the consumers.

Greg Hands: Clause 7 provides the Secretary of State with the power to modify the allowed revenue of a relevant nuclear company where that is required to complete the construction of the nuclear RAB project.

I stress that this is a narrow power. Subsection (2) makes it clear that it can be exercised only where the expenditure to complete construction is likely to exceed a cap under the licence and to make modifications to the allowed revenue of the company. Subsection (4) means the power can only be used before the completion of construction, the point at which the plant is ready to enter commercial operations. That refers back to our previous debate. That is the right point at which this power ceases to be exercisable. The use of the power is at the discretion of the Secretary of State.

Alan Brown: Will the Minister explain how he sees the cap being set? Obviously, on a construction project, there is usually agreed risk sharing and that effectively sets a cap, but presumably, given the way the Minister is talking, there will be even more headroom here. How is that headroom going to be set and how transparent will that be, in terms of understanding what costs have increased to reach the cap?

Greg Hands: The financing cap will be set out at the beginning of the project by the Secretary of State. It will be available to be scrutinised. The purpose of the power in the clause relates to what happens in the event that we approach the financing cap.

The clause would have relevance in the very unlikely situation that, during construction, the project is likely to breach its financing cap under a RAB. The financing cap is the point at which investors are no longer required to put money into the project. What happens then? The cap is set at a remote overrun threshold. This means that before committing to a company having a RAB, the Secretary of State should be confident that the prospect of costs hitting that threshold is really very unlikely. Under the RAB licence, mechanics will be in place to incentivise investors to minimise costs and schedule overruns, such as overrun penalties. That will ensure that the breach of the financing cap is a remote risk.

When deciding whether to exercise the powers, subsection (3) means that the Secretary of State will need to have regard to the achievement of carbon targets and the interests of consumers, and whether the company is able to finance its activities. Those are the same considerations as when deciding whether to amend the company's licence to insert the RAB conditions in clause 6. Given the strategic importance of a new nuclear plant, and the wider considerations, such as our need to secure resilient low-carbon energy, it is more appropriate that such a decision is made by the Secretary of State in this instance.

The Secretary of State is also the most appropriate person to balance the interests of consumers, taxpayers and investors. It is not about putting additional burdens on consumers. The RAB is designed to protect consumers by giving them a more cost-effective nuclear power plant, as shown by the steps that we have taken in the Bill. That includes robust due diligence before the final investment decision to be confident that the project will be effectively managed, incentives on the project in construction, penalties for investors in any overrun scenario, and the option for the Government to step in if the project hits extreme overruns.

Question put and agreed to.

Clause 7 accordingly ordered to stand part of the Bill.

Clause 8

PROCEDURE ETC RELATING TO MODIFICATIONS UNDER SECTION 6 OR 7

Dr Whitehead: I beg to move amendment 13, in clause 8, page 8, line 11, leave out from "power" to end

of line.

This amendment strengthens the requirement on the Secretary of State to publish details of license modifications.

Ms Fovargue, as there are no amendments or objections to the clauses from this one to the end of part 1, I suggest that it might be possible to dispose of them collectively to get to the end of part 1 this afternoon. The Opposition would have no objection to that.

I will be brief. Amendment 13 simply says that if the Secretary of State is going to publish something, they should get on and publish it. As it stands, the clause states:

"The Secretary of State must publish details of any modifications made under a relevant power as soon as reasonably practicable after they are made."

That is a weaselly dilution of the "must" at the start of the line—if the Secretary of State must publish details, they should just get on with it. Hon. Members will see that the following subsection states:

"If…the Secretary of State makes a modification…the Authority must…publish the modification."

That does not have the little weasel phrase at the end, so why is that weasel phrase in subsection (5) and not subsection (6)?

Alan Brown: I do not want to be a pain, but does not deleting

"as soon as reasonably practicable after they are made"

make the timescale for the Secretary of State to publish open-ended? In a way, the amendment is not tightening the timescale but leaving it more open-ended.

Dr Whitehead: My concern in this clause is that the phrase

"as soon as reasonably practicable"

gives the opportunity for almost limitless delay to publication. If the Secretary of State must publish details of any modifications, he must, and if he does not, he can be called up under the terms of the Bill. If that weasel phrase is in it, however, the delay could last for a long time. I suggest that the amendment tightens it up by saying that it should be published and that is it.

Alan Brown: I realise that we are arguing over semantics, but perhaps it should be amended to be "must publish details of any modifications made under a relevant power once that modification has been made" to try to bring absolute clarity that it needs to be published right away.

Dr Whitehead: Yes, that might have been a good idea, but unfortunately it is not on the amendment paper this afternoon. My amendment is, so I hope the Minister will consider ensuring that subsections (5) and (6) are consistent, so that both modifications made under both are required to be published, full stop.

Greg Hands: Amendment 13 addresses how soon the Secretary of State should be obliged to publish the details of any modification made under the relevant powers, as already referred to. We think the clause already provides a clear and transparent process, which includes consulting the named parties before exercising these powers and modifications, and then publishing medications made

"as soon as reasonably practicable"

after the fact. Of course, publication can exempt matters that are commercially sensitive or that relate to national security.

The purpose of the amendment is to remove the obligation on the Secretary of State to publish the details of any modifications as soon as practicable after they are made. The Secretary of State would therefore not be subject to an express time obligation on when the details of the modifications must be published. I welcome the Opposition's focus on ensuring transparency throughout the process of setting up a RAB for a project. We recognise that decisions to modify licences are important, and we believe it is necessary to provide a transparent decision-making process in legislation, as the Bill seeks to do.

I believe the amendment would reduce transparency, not increase it. I do not consider that it will help us to achieve the objective of a clear and transparent decision-making process. Removing the express obligation on the Secretary of State to publish details of any modifications as soon as reasonably practicable could result in uncertainty about when they should be published, which might cause the Secretary of State to unnecessarily delay the publication informing the public, stakeholders or industries of the modifications made. I hope that the hon. Members for Southampton, Test and for Greenwich and Woolwich will agree with that position; the amendment would reduce transparency, not increase it. I therefore ask that amendment 13 be withdrawn.

Dr Whitehead: I think we perhaps have a slight divergence of opinion here. We were seeking to simplify and create an imperative for publication by reducing the qualifications on that publication. The Minister has sought to suggest otherwise. We will have to disagree on that; however, we do not wish to push this to a vote this afternoon, so I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Clause 8 ordered to stand part of the Bill.

Clause 9

Expiry of modifications made under section 6

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to discuss clauses 10 to 14 stand part.

Greg Hands: Briefly, clauses 9 to 14 lay out pretty clearly the direction of travel. No amendments have been tabled, so I assume there is contentment across the Committee with the clauses as they stand. They are perfectly drafted, though I say so myself, and I therefore urge the Committee to agree that they stand part of the Bill.

Question put and agreed to.

Clause 9 accordingly ordered to stand part of the Bill.

Clauses 10 to 14 ordered to stand part of the Bill.

Ordered, That further consideration be now adjourned. *—(Mark Fletcher.)*

4.44 pm

Adjourned till Tuesday 23 November at Two o'clock.

Written evidence reported to the House

NEFB05 Energy UK

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

NUCLEAR ENERGY (FINANCING) BILL

Fifth Sitting

Tuesday 23 November 2021

(Afternoon)

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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

Saturday 27 November 2021

The Committee consisted of the following Members:

Chairs: † Yvonne Fovargue, James Gray

Baker, Duncan *(North Norfolk)* (Con)
† Blackman, Kirsty *(Aberdeen North)* (SNP)
† Brown, Alan *(Kilmarnock and Loudoun)* (SNP)
Browne, Anthony *(South Cambridgeshire)* (Con)
† Cairns, Alun *(Vale of Glamorgan)* (Con)
† Crosbie, Virginia *(Ynys Môn)* (Con)
† Doyle-Price, Jackie *(Thurrock)* (Con)
† Duffield, Rosie *(Canterbury)* (Lab)
Fletcher, Mark *(Bolsover)* (Con)
† Hands, Greg *(Minister of State, Department for Business, Energy and Industrial Strategy)*
† Jenkinson, Mark *(Workington)* (Con)
† Owen, Sarah *(Luton North)* (Lab)
† Pennycook, Matthew *(Greenwich and Woolwich)* (Lab)
† Wallis, Dr Jamie *(Bridgend)* (Con)
† Whitehead, Dr Alan *(Southampton, Test)* (Lab)
Whitley, Mick *(Birkenhead)* (Lab)
† Whittaker, Craig *(Lord Commissioner of Her Majesty's Treasury)*

Sarah Ioannou, Rob Page, *Committee Clerks*

† attended the Committee

Public Bill Committee

Tuesday 23 November 2021

[Yvonne Fovargue *in the Chair*]

Nuclear Energy (Financing) Bill

2 pm

The Chair: Before we begin, I have a few preliminary reminders for the Committee. Please switch electronic devices to silent. No food and drink is permitted during sittings of the Committee except for the water that is provided. I encourage Members to wear masks when they are not speaking in line with current Government guidance and that of the House of Commons Commission. Please also give one another and members of staff space when seated and when entering and leaving the room. *Hansard* colleagues would be grateful if Members emailed their speaking notes to hansardnotes@parliament.uk.

May I have declarations of interest first, please?

Mark Jenkinson (Workington) (Con): I draw the Committee's attention to my entry in the Register of Members' Financial Interests. It is a matter of public record that I was employed in the nuclear sector prior to my election to this place.

The Chair: Thank you.

Clause 15

Regulations about revenue collection contracts

Question proposed, That the clause stand part of the Bill.

The Minister of State, Department for Business, Energy and Industrial Strategy (Greg Hands): Welcome back to the Chair, Ms Fovargue. For the benefit of colleagues, I will speak briefly on the clause, which introduces part 2 of the Bill, and what that is all about. The clause gives a power to the Secretary of State to make regulations about revenue collection contracts, which operate between a revenue collection counterparty and a designated nuclear company, referring back to part 1. Contracts will require the revenue collection counterparty to collect payments from Great Britain electricity suppliers and pass them to the licensee nuclear company so that it can receive its allowed revenue. Subject to consent being given, we expect the Low Carbon Contracts Company to take on the role of the counterparty.

Clauses 16 to 24 set out in further detail what the regulations may cover in relation to the contracts. They could include, for example, the duties of the counterparty, the amounts that electricity suppliers must pay and how the authority will enforce the contract. The legislation will enable payments to flow in the opposite direction if necessary, such as in circumstances where the nuclear company receives more than its allowed revenue. The regulations will ensure that the nuclear company can receive its allowed revenue in a consistent and stable flow. Importantly, the regulations throughout this part are based on existing regulations governing the revenue model under the contracts for difference regime, taking precedent from the Energy Act 2013. Regulations relating to clauses to 16 to 22 and the first regulations made under clauses 23 or 24 will be made using the affirmative procedure. They will therefore be subject to a greater level of scrutiny, as we know, as such statutory instruments must be approved by a resolution of both Houses of Parliament.

Dr Alan Whitehead (Southampton, Test) (Lab): It is a pleasure to serve under your chairmanship, Ms Fovargue. Like the Minister, I would like to spend a moment announcing, as it were, this part of the Bill, which I hope we can get through in an orderly and suitably speedy fashion. It is however important to share an understanding of what we think this part is about. As the Minister said, it concerns the setting-up of revenue collection contracts; the setting-up of a counterparty to hold the revenue collected from suppliers to underpin action by the nuclear company in terms of construction; and, importantly, as he said—he seemed a little concerned when I mentioned this in our previous sitting—revenue collection and distribution during both the construction and production phases of a nuclear project.

My understanding is that during the production phase, the nature of the revenue collection changes. During the construction phase, within the overall allowable costs architecture, the nuclear company is likely to absorb whatever comes its way from the counterparty for the purposes of underpinning the construction costs of the nuclear plant. Obviously, there are debates to be held on that and further regulations to be put in place concerning how the revenue stream for a nuclear company is carried out and the requirements of the construction at various phases.

We have debated to some extent the instance whereby the allowable costs ceiling is breached because of rising costs, particularly during production; whether the regulator would have the opportunity to revisit the allowable costs ceiling; and what effect that would have on the run through the regulated asset base process to customer bills as a result of those recalculations. However, there are issues with what revenue stream goes into the nuclear company, and at what stage during construction, but that is within the overall costs ceiling, or should be, in the first instance.

During the production phase of a nuclear plant, the relationship between collection, distribution and re-disbursement becomes a little more complicated. I would be obliged if the Minister could shed a little light on some of the things that happen during the production process, which are still slightly unclear. That is important because, in the production process, the receipt of funding under the RAB process becomes a comparative issue. The company is making money and producing electricity, and one would expect that, as a result of the RAB model, the money that is being made by the company would sit within the parameters of what has been agreed for the regulated rate of return under the RAB model. If the company is making more money from its production of electricity than is allowed within the overall model's parameters, that money starts coming back to the counterparty or, at least indirectly, through to customers.

Conversely, if the company is making less money from its production than is allowed within the RAB model for production purposes, money continues to come in under the allowable costs ceiling. The best explanation is given on page 21 of the consultation document on a RAB model for nuclear, which suggests:

"Suppliers could pass the cost of the payment obligation onto their consumers, as they do with other regulated costs and could likewise reimburse their consumers (as happens under a CfD) in periods where suppliers receive payments from the project company (e.g. when the Allowed Revenue is lower than the project company's revenue from power sales). The design process would need to consider how these charges could be made in more detail, in consultation with suppliers and consumer representatives."

That is essentially the model during the production phase: it is potentially a two-way process.

That issue reflects, at least to some extent, the amendments that we wish to discuss this afternoon —an understanding of how the money goes into the counterparty, what the counterparty does with the money, what the counterparty does when the money is held, and what the counterparty does if that money may not be needed, or money has been paid back into it by the nuclear company during the production phase. Consideration of how that happens, where that money goes and what sort of requirements one should place on that process are at the heart of some of our amendments.

I thought it important to check whether we have a shared understanding with the Minister of how the process works. Assuming that we do, we can discuss the amendments on the basis of that shared understanding of what this part of the Bill sets out to do. That is essentially a contribution to the clause stand part debate, but I hope that it clarifies how we will proceed with part 2 as a whole, and that it will be helpful to the Committee.

Alan Brown (Kilmarnock and Loudoun) (SNP): It is a pleasure to serve under your chairmanship again, Ms Fovargue. It was interesting that the hon. Member for Southampton, Test spoke about a shared understanding. I wish I had one; I do not think that the Bill is good enough to have any shared understanding of what it is about. Part 1 is clearly all about the definition of designating a nuclear company, and then a blank cheque in terms of defining costs. It seems to me that part 2 is all about how the blank cheque moneys are recouped in revenue collection.

I have one point to put to the Minister. Explanatory note 119 states:

"The terms of a revenue collection contract will be bilaterally negotiated between the Secretary of State and an eligible nuclear company to be designated under Part 1."

Would he enlighten me on what expertise the Secretary of State has in negotiating a revenue collection contract for a new nuclear power station, how that will be undertaken in a transparent manner, and what options are available for scrutiny of that?

Greg Hands: I thank both hon. Gentlemen for their contributions. I will try to be as helpful as I can. Rather than setting any hares running, it is essentially a very similar process to how contracts for difference work under the Energy Act 2013. There is nothing essentially different here, other than the fact that it is about nuclear power generation and has the RAB model. What we are talking about in this part of the Bill is essentially the same process that is being used for contracts for difference under the 2013 Act. I am always slightly reluctant when an Opposition Member asks whether we have a shared understanding. It strikes me as often being slightly dangerous to give a blank cheque on that. My understanding of the process, and I think the Opposition would agree, is that it is essentially the same process that we have been using for contracts for difference through the collection company.

Dr Whitehead: I substantially agree that that is essentially how the process works, except that of course with CfDs the customer contribution does not change at all once the CfD has been implemented because there is a constant price. The difference is in the company getting the difference between the reference and the strike price, not what the customer pays for electricity bills or pays into the process itself.

Greg Hands: Here there will be a frequent resetting, which is likely to be twice yearly, in terms of the amount of money that has been collected, followed by a reconciliation at the end of the period, but a lot of the detail will be set out in the draft regulations. The hon. Member for Kilmarnock and Loudoun asked what expertise the Secretary of State has to negotiate such a deal. As I said, this has been a tried-and-tested methodology over the past eight years. When we say "the Secretary of State", we mean that the individual who is the Secretary of State is the decision maker, but acts with the advice of a group of excellent officials at the Department for Business, Energy and Industrial Strategy. That is the normal way in which any reference to a Secretary of State is made in primary legislation. As I say, the legislation is very much based on the Energy Act 2013 and how it looks at the contracts for difference regime.

2.15 pm

Alan Brown: The other point that I was making was about transparency. What options are available for the likes of me, an opposition MP, to scrutinise and challenge what is being signed off as a good deal?

Greg Hands: The regulations will be subject to the affirmative procedure, which, as the hon. Gentleman knows, will mean a debate in a Committee Room like this, and the potential to take the legislation to the Floor of the House and have a Division of the House of Commons. In that sense, the scrutiny available to Members of Parliament—if that is what he is referring to—is considerable. That is why the regulations will be subject to the affirmative procedure. I think it is reasonable for Parliament to see the regulations when they are made, although we do not envisage that further technical changes to those regulations will be subject to the affirmative procedure. As laid out in later clauses, those changes will be subject to negative procedure. I hope that the Committee will agree to clause stand part.

Question put and agreed to.

Clause 15 accordingly ordered to stand part of the Bill.

Clause 16

DESIGNATION OF A REVENUE COLLECTION COUNTERPARTY

Question proposed, That the clause stand part of the Bill.

Greg Hands: The power in clause 16 will enable the Secretary of State to designate an eligible and consenting company or public authority to be the revenue collection counterparty for revenue collection contracts. As stated earlier, the Government intend that the Low Carbon Contracts Company should fill that role. The counterparty will be responsible for collecting payments from electricity suppliers and making payments to the relevant licensee nuclear company, as well as collecting any payments from the licensee and making payments back to electricity suppliers.

Unlike contracts for difference, the authority will be solely responsible for determining amounts to be paid to or by the revenue collection counterparty, and would be responsible for communicating that to the counterparty. That responsibility is facilitated by regulations making provision to require information to be shared by the authority, a revenue collection counterparty, and the national system operator under clause 23, on information and advice. The power to designate a counterparty will commence at the point of Royal Assent to support the Government's aim of bringing at least one large-scale nuclear project to the point of final investment decision within this Parliament.

Question put and agreed to.

Clause 16 accordingly ordered to stand part of the Bill.

Clause 17

Duties of a revenue collection counterparty

Dr Whitehead: I beg to move amendment 14, in clause 17, page 14, line 31, leave out "may" and insert "must".

Although I have set out some of the shared understandings that I think necessary for the three amendments that we will move this afternoon, this is not one of them. Amendment 14 addresses the text of the Bill, and puts in place small question marks about what that text means for the Secretary of State's responsibilities, particularly in relation to the duties of a revenue collection counterparty.

At the moment, clause 17(1) states:

"A revenue collection counterparty must act in accordance with…any direction given by the Secretary of State"

and

"any provision included in revenue regulations."

That theme of "must" continues in subsection (4), which states:

"A revenue counterparty must exercise the functions conferred by or by virtue of this Part so as to ensure that it can meet its liabilities under any revenue collection contract".

It is an imperative. And subsection (5) states:

"Revenue regulations must include such provision as the Secretary of State considers necessary so as to ensure that a revenue collection counterparty can meet its liabilities under any revenue collection contract to which it is a party."

Clearly, those "musts" are imperatives for the revenue collection counterparty to undertake. It "must" act in accordance with directions given by the Secretary of State; it "must" ensure that it can meet its liabilities; and it "must" meet its liabilities under any revenue collection contract.

Then we go to subsection (2) and look at the provision for the regulations themselves, which logically should follow on from the imperatives that I have set out, but we see this statement:

"Revenue regulations may make provision".

The regulations that carry out the imperatives of the other provisions of the clause do not appear to have the same imperative applied to them.

I appreciate that the word "may" in legislation is a perfectly reasonable and acceptable term where something can be done as part of a series of powers that perhaps a Secretary of State has. A Secretary of State may decide to do various things under those powers. Indeed, we get some enlightenment on that in subsection (3), which refers to the

"provision that may be made by virtue of subsection (2)".

That is a proper use of the word "may".

However, in this case, what the word "may" appears to suggest is that the regulations that follow from the imperatives do not have to make provision for these particular things; they "may" make provision. There is no direction from the senior Bill to secondary legislation to actually follow the imperatives in the Bill. If the regulations do not happen to make provision, they simply do not, because they "may" make provision; they do not have to do so. That appears to me to be not a very good way of ensuring that the things that should happen under this clause actually do happen.

I know that we are all good Members of the House—I am sure that if legislation suggested that we should do particular things, we would do them—but that is not quite the point. Legislation from this place is supposed to stand the test of time, cope with the vicissitudes of Administrations as they come and go, and ensure that what the legislation intended will actually be done, so either this legislation intends that these regulations do not have to be made or the word "may" is a little less than robust, hence the very modest and small amendment that we have suggested. It would replace the word "may" in subsection (2) with the word "must", so that there was consistency throughout the clause. It would not be a major change to the Bill, but might strengthen it a little and give a little more certainty about its operation.

Greg Hands: As the hon. Gentleman outlined, the amendment addresses what the regulations relating to revenue collection contracts may or must contain. The amendment relates to the duties of the revenue collection counterparty in clause 17. The counterparty will be the body responsible for channelling funds between the designated nuclear company and suppliers. Currently, the Bill gives a discretionary power to make regulations that can ensure that the revenue collection counterparty, first, enters arrangements or offers to contract for the purpose of a revenue collection contract; secondly, must, may or may not do certain actions; and thirdly, undertakes or does not undertake actions specified in the regulations or the direction by the Secretary of State. The legislation further clarifies, for example, that the directions may cover, among other things, the enforcement, variation or exercise of right under a revenue collection contract. Amendment 14, moved by the hon. Member for Southampton, Test, seeks to make it obligatory that the revenue collection contracts will cover these areas whenever

they are made. I welcome the hon. Member's engagement with the detail of the revenue collection regulations, which will play a key role in the functioning of the RAB. However, I do not believe that the approach suggested by the amendment improves our arrangements for the regulations.

First, it is the Government's intention that the regulation made to establish the RAB revenue stream would likely contain all of the topics set out. Obliging them to be included would be unnecessarily restrictive at a point where we are still developing the structure of the regulations, which will be brought forward by the affirmative procedure in due course. It is therefore important that the power remains discretionary, to allow for sufficient flexibility as we progress the policy. Secondly, the amendment seeks to override the original intention of the clause, which was to provide an indicative, non-exhaustive list of what the regulations may cover. That approach is precedented by the Energy Act 2013, particularly in section 21, as well as in other clauses in this Bill. It is entirely regular to use the word "may" for things that we think will be likely to be included.

Finally, as currently drafted, the amendment appears to be in conflict with subsection (3), because the change from "may" to "must" is not reflected there—subsection (3) builds on the subsection that amendment 15 addresses. That leads to an inconsistency in drafting, where subsection (2) would state that the topics "must" be covered, whereas subsection (3) limits it to "may". I welcome the hon. Member's scrutiny of, and engagement with, the detail of the revenue provisions in part 2 of the Bill; I recognise the Opposition's concerns around ensuring that regulation is sufficiently robust. However, I do not believe that the amendment is the way to achieve that, and I hope that hon. Members will withdraw it.

Dr Whitehead: I appreciate that this is a habitual piece of drafting in legislation, found not just in this Bill but in a number of others. One of my hopes with legislation has always been that a group of Members might be courageous enough on one occasion to say, "This is lax writing of legislation and we should not put up with it. We should have what it means included in the Bill." I appreciate that the lax writing of the legislation may not be lax at all—it may be deliberately giving the Secretary of State a lot more leeway where things are not entirely sorted out. When we look at this clause, we can see that there already is, in subsection (2)(c), substantial leeway for the Secretary of State to take

"further powers to direct a revenue collection counterparty to do, or not to do, things specified in the regulations or the direction."

That is pretty wide leeway for the Secretary of State to have in the Bill already.

What the "may" does in this subsection is to cast further uncertainty on what sort of things the Secretary of State may do. I am sure that the Secretary of State will actually want, on this occasion, a "must" for what is conferred on the Secretary of State with further powers. That is very helpful to the Secretary of State for precisely the reasons that the Minister outlined a moment ago. The "may" that is in subsection (3) is a different sense of the word "may". How it would read fully is, "the provision that may well be made by virtue of subsection (2)." It is used in the conditional, whereas the "may" in subsection (2) is a dilution of the imperative. I am sure that the Minister will be pleased to know that that is the case, but I am afraid that it does not accord with what he had to say about the use of "may" and "must" in this provision.

I am not going to press the amendment to a Division, but I think we need to be more careful about how we draft our legislation overall, to make sure that it does what it says on the outside. I am sure this will not be the last opportunity to raise this issue in the Bill. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Clause 17 ordered to stand part of the Bill.

Clause 18

Direction to offer to contract

2.30 pm

Question proposed, That the clause stand part of the Bill.

Greg Hands: Clause 18 builds on clause 17. Subsection (1) explicitly gives the Secretary of State the power to direct a revenue collection counterparty to offer to contract with a designated nuclear company on terms specified in the direction. Those terms will be the outcome of negotiations between the Government and the project company. This power is again replicated from the contract for difference, namely section 10 of the Energy Act 2013, but has been adapted to account for the nature of the revenue collection contracts as a bespoke arrangement.

Regulations can set out the circumstances in which a direction to contract can or must be made, as well as the terms that may or must be attached to the direction. If the Secretary of State does not have the ability to specify when a contract should be offered under the legislation, there could be delays in the offering of a contract to a project company. That could damage investor confidence and slow progress on the project at a crucial time.

Question put and agreed to.

Clause 18 accordingly ordered to stand part of the Bill.

Clause 19

Supplier obligation

Dr Whitehead: I beg to move amendment 15, in clause 19, page 16, line 11, at end insert—

"(4A) Revenue regulations may make provision to prevent electricity suppliers from recovering the costs of paying a revenue collection counterparty from customers who qualify for the Warm Home Discount Scheme."

This amendment would mean that electricity bill payers who qualify for the Warm Homes Discount scheme would not be liable for levies on their bills that pay into the RAB revenue collection fund.

Amendment 15 relates to the latter end of clause 19. Hon. Members will see that the clause suggests that revenue regulations may make provision for electricity suppliers to pay a revenue collection counterparty for a number of purposes, including

"to hold sums in reserve; to cover losses in the case of insolvency or default of an electricity supplier."

[Dr Whitehead]

According to our shared understanding of how the RAB would work, the regulations would require electricity suppliers to pay into a revenue collection counterparty for those purposes. Thereby, as the RAB consultation makes clear, if that company has been required to pay into the revenue collection counterparty, the company could make restitution for the money it had paid into the revenue collection counterparty by adjusting its bills to reflect that fact.

We are in exactly the same territory as contracts for difference, where there is a levy on customers and the supply company recovers the money that it has paid into the levy fund by passing that levy on to customers in their bills. We have a problem with placing additional levies on already sky-high bills, but that is how this arrangement will work. We question how that process will work. As hon. Members will also know, we currently have within our electricity supply arrangements a warm home discount scheme, which provides for a number of bill payers to get £140 off their bills each year if they qualify. There are some issues about the size of the company relating to that obligation but, in principle, pretty much all customers on a low income or a guaranteed credit element of pension credit will, or should, receive that warm home discount.

The energy company has to supply that discount to its customers. It may socialise the costs through its overall bills as a sort of secondary levy, but it gives a proportion of electricity customers a permanent reduction in their bills due to their particular circumstances, such as—as the discount suggests—particular fuel poverty-type issues in heating their homes and meeting their fuel bills.

The effect of a levy—in this instance, quite a substantial levy—to customers under these circumstances, particularly during the construction phase of a regulated asset base operation, would be to put, say, an extra £10 on the bill of someone who is already receiving a warm home discount, so that their fuel bills go up. A number of people would be placed in fuel poverty as a result of that difference, and therefore, ironically, it is quite possible that more people would be eligible for the warm home discount as a result.

When and if this levy comes on stream, we do not think that the process should include the supply company passing on that increase to those people who are already paying their bills but have a warm home discount. Those companies should not be able to recover the cost of payment into the revenue collection counterparty by passing it to those people receiving warm home discount. This would mean a socialisation of that cost to other bill payers, but the warm home discount would nevertheless remain at the right proportion of the bill, not diminish in value because that person was required to pay that levy to the energy company so that it could recoup its costs related to the revenue collection counterparty.

This is quite a simple amendment to try to return that warm home discount to the position that it would have been in before that levy was introduced. I would suggest that it is in line with what the Government intended for that warm home discount in the first place. Although other customers may pay a little more on their bills, it would maintain the relative billing position for the poorest and most vulnerable customers, including those in receipt of a guaranteed credit element of pension credit, helping those who have considerable difficulties in paying bills and are perhaps in fuel poverty as a result. We would like this power to ensure that energy companies do not incorporate those customers into the arrangements for collection and distribution of money coming into the revenue collection counterparty.

Alan Brown: I will just say a couple of things. I was listening to the arguments and if the amendment goes to a vote, I will be happy to support it and do anything I can to try to support the most vulnerable and not create any more fuel poverty. Listening to the arguments, they seem to confirm that the concept as a whole is a costly burden on consumers. As the shadow Minister said, it creates a levy that will put more people into fuel poverty. The levy will not just last for a few years; it starts with a construction period of 10 to 15 years in all likelihood and then a 60-year contract. Rather than tinkering at the edges, protecting some people and pushing other people into fuel poverty, the heart of the matter is that this is a costly white elephant exercise. That said, I would still support the amendment for what it aims to do.

Greg Hands: As has been stated, amendment 15 looks to make provision to exclude from the RAB charge those consumers who are eligible for the warm home discount scheme. I understand the good motive and the effect of what the hon. Member for Southampton, Test is proposing. For background, the warm home discount is a Government initiative to take £140 from the energy bills of consumers who receive the guarantee credit element of pension credit, or who are on a low income and receive certain means-tested benefits. We have already proposed increasing the value of the rebate to £150 per annum in any case.

As we have discussed, if a new project is funded through the RAB model, suppliers will be obliged to pay towards it. It is expected that the suppliers will pass these costs on to consumers. While I do not intend to go back over the arguments in favour of the RAB model, we believe the arrangement will facilitate private investment while also reducing the costs of delivering new nuclear projects. I understand the Opposition's desire to protect consumers on the lowest incomes, which is what the Government are already doing. The Opposition are proposing to increase that element of protection. Of course, these consumers can spend a disproportionate amount of their income on energy costs. As we all know, energy bills are regressive.

However, a large-scale project funded under the scheme will add, at most, a few pounds a year to typical household energy bills during the early stages of construction and less than £1 per month on average during the full construction phase of the project. The Government have taken a number of actions to protect low-income households from energy costs, as laid out in our updated fuel poverty strategy. That includes not only the warm home discount but cold weather payments and the household support fund.

Alan Brown: Isn't the problem with some of the schemes aimed at protecting the most vulnerable that they are paid for by other consumers? By default, the schemes are always creating another cohort to move into fuel poverty, because actual schemes to help people are paid for by other consumers.

Greg Hands: The hon. Gentleman makes an interesting point, but I do not think the amendment in any way answers his question. In fact, if I have understood the amendment correctly, it would probably make those who are not on the warm home discount pay even more, so I am afraid he is making a speech against the amendment, however inadvertently.

As set out in the heat and buildings strategy late last month, we will also publish a fairness and affordability call for evidence to set out the options for energy levies and the obligations to help rebalance electricity and gas prices and to support green choices, with a view to taking decisions in 2022. We are looking at the totality of how these schemes work, then looking at the consultation and then taking decisions on the wider nature of these schemes next year. It is right that broader conversations about how to deal fairly with customers' bills are dealt with as part of this process, rather than by taking a narrower approach for each technology and funding scheme, which the amendment seeks to do.

As we know, the legislation obliges the Secretary of State to have regard to consumer interests and costs when setting up the RAB. As part of that, the Secretary of State will monitor any cumulative impact from multiple RABs being in operation.

2.45 pm

Matthew Pennycook (Greenwich and Woolwich) (Lab): The Minister has just mentioned the obligation on the Secretary of State that is in the Bill. My hon. Friend the Member for Southampton, Test made the point that this levy may be £10 a year on average, or it may be more. Have the Government made any assessment of the number of customers that that increase will potentially tip into a qualifying benefit, therefore making them eligible for the warm home discount? Have they assessed what a nuclear RAB might do to the number of people who are eligible for that discount? The argument we are trying to make is that there is potentially a saving for Government here by socialising the risk among non-warm home discount consumers when it comes to funding these types of projects.

Greg Hands: The hon. Gentleman asks a fair question, which I would answer in a couple of ways. First, this issue is best considered in the round as part of the process we have outlined, with the consultation and decisions to be made next year. Secondly, the actual amount would depend very much on the nuclear project in question. What we have shown is that we believe the RAB model will make bills overall less expensive to the consumer by roughly £10 a year for an average dual-fuel bill payer, as the hon. Gentleman has rightly pointed out. However, that amount will ultimately depend on the size and scope of the nuclear plant that is proposed. I think a better way to deal with this issue is to deal with it in the round, in the way the Government are proposing. I stress that the RAB is designed to save consumers money over the life of the plant; that is one of the key reasons why we are proposing it.

I am grateful to the hon. Member for Southampton, Test for tabling this carefully considered amendment and for raising the important issue of energy costs for low-income households. Nevertheless, I hope that I have shown both that the Government are already taking action to help this group and that this clause forms part of a wider conversation about how we transition our energy system away from fossil fuels in a way that is fair and affordable for all. I therefore hope that the hon. Gentleman will withdraw his amendment.

Dr Whitehead: I am not sure that the Minister quite gets this. The warm home discount was introduced in 2011 and has been at the level of £140 since then, so the Government suggesting that it should be increased to £150 is not an action of unparalleled generosity: it actually just catches up with inflation over the period that the warm home discount has been in place. That discount has been decreasing in value in real terms over the years, so increasing it is simply a matter of reasonable housekeeping, rather than innate generosity.

Kirsty Blackman (Aberdeen North) (SNP): I thank the hon. Gentleman for giving way; apologies to my hon. Friend the Member for Kilmarnock and Loudoun for getting in first. Does the hon. Gentleman agree that, given the massive increases in energy prices that we have seen—way outstripping inflation—this increase does not touch the sides of what is needed?

Dr Whitehead: The hon. Member is absolutely right. I am sure that we could do some back-of-a-fag-packet calculations about what we are going to need from the warm home discount, given the rises that are likely to occur under the fuel price cap in the coming spring and over the next six months, but it will certainly be rather more than £10.

Alan Brown: Does the hon. Gentleman agree that another odd aspect of the Minister's argument is that raising the warm home discount to £150—an extra £10—is really significant and helps people, but an extra £10 on their bill is okay and something we do not need to worry about? The two cannot both be right.

Dr Whitehead: The hon. Member makes a very interesting point, which I was rather slower than him to get to. He is quite right: if this is going to be £1 a month during the construction phase, therefore adding only £10 to £12 to the bill per year, it is contradictory to say that one is insignificant while the other is very significant.

There is also the fact that £12 a year, or £10 a year or whatever, will affect different people's bills in different ways, because the bill for a large family, or someone with a large house, will be higher in total, and the £12 nuclear levy will be a smaller proportion of it than for someone who is eligible for the warm home discount—perhaps a single pensioner living in a small house, with a lower bill but nevertheless without the wherewithal to pay it. That £12 would be a higher imposition on their bill than it would on other people's bills.

I think we all agree that the warm home discount is an important actor in combating fuel poverty and ensuring that the most vulnerable people in our society as far as energy costs are concerned do not have it even worse than they do at the moment and are given some assistance with their bills. We all ought to be very mindful of that when we put levies on people's bills. What the Minister says about who we do and do not put into fuel poverty when we change levies on fuel bills is true, but that is an argument for better indexation, not for continuing with the warm home discount in the way that we are.

[Dr Whitehead]

I am sorry to say that we will have to divide the Committee, because we think that this is an important principle that ought to be upheld. We do not want to the effects of the levies, which of course may be much more than £12, depending on how the allowable costs ceiling goes, to directly affect the warm home discount, which we think is a very important part of the energy landscape and the battle to combat fuel poverty. We would like it to be on the record that we did not simply allow this to be brushed under the carpet, and therefore wish to vote on the amendment.

Question put, That the amendment be made.

The Committee divided: Ayes 6, Noes 7.

Division No. 3]

AYES

Blackman, Kirsty	Owen, Sarah
Brown, Alan	Pennycook, Matthew
Duffield, Rosie	Whitehead, Dr Alan

NOES

Cairns, rh Alun	Jenkinson, Mark
Crosbie, Virginia	Wallis, Dr Jamie
Doyle-Price, Jackie	
Hands, rh Greg	Whittaker, Craig

Question accordingly negatived.

Alan Brown: I beg to move amendment 20, in clause 19, page 16, line 25, at end insert—

"(6B) Prior to making provisions by virtual of subsection (4), the Secretary of State must consider—

(a) the number of customers the supplier has;

(b) the level of bad debt from customers;

(c) the liabilities of the electricity supplier including any renewables obligations due and what levels of collateral will risk the supplier's operations as a going concern;

(d) the impact on consumer bills of upfront payments to the revenue collection company; and

(e) the value and extent of forward hedging the supplier has in the market."

This amendment would require the Secretary of State to consider the matters listed before requiring electricity suppliers to provide financial collateral to a revenue collection counterparty.

The other day, the Minister challenged us in the SNP to table amendments, so in that spirit of co-operation—given that I am fundamentally against the Bill but have still tabled amendments to improve it—I look forward to him accepting them.

Clause 19 further confirms the Government's desperation to provide unlimited guarantees and support mechanisms to get nuclear projects—as we know, that means Sizewell C—off the ground. For me, the clause is further proof of how ill-thought through the Bill is, and how loosely many clauses have been drafted. This clause will be blindly accepted by Government MPs without further thought or debate apart from some challenge from this side of the Committee.

Yesterday, energy supplier Bulb Energy, which has 1.7 million customers, effectively went into administration. Given that 23 energy suppliers have gone bust since August of this year, it beggars belief that the UK Government have introduced clause 19, which may require energy suppliers to pay money up front. Cash flow insolvency is a major issue in the energy supply market at the moment, but the Bill could place further demands on suppliers.

The clause will allow the revenue collection counterparty to set the form and terms of the financial collateral that it demands from electricity suppliers. There is no guidance or controls; there is simply the concept of a nuclear project being so important that revenues must be guaranteed for the nuclear company. Subsection (2) is the start of what I have no doubt will be an accountant's field day. Subsection (2)(a) is a typical catch-all, as it states that revenue may be collected under

"such…descriptions of its costs as the Secretary of State considers appropriate".

As an aside, will the Minister tell us whether it is really the Secretary of State who will make those assessments, as the clause states, or will it actually be the regulator?

Subsection (2)(b) and subsection (4) refer to holding sums in reserve and to suppliers providing financial collateral. The kicker with the financial collateral is that subsections (6)(a) and (b) state that the revenue collection counterparty may

"determine the form and terms of any financial collateral"

and may "calculate" the payments that are due. There seems to be no independent scrutiny and no way to challenge those demands. Then, for good measure, subsections (8) and (9) provide for the revenue collection counterparty to make demands on interest, debt collection and further add-ons. That certainly seems very balanced towards the assessments that the revenue collection counterparty makes.

Paragraphs (c) and (d) of subsection (8) mention "references to arbitration" and "appeals", but what will those processes and procedures look like? Yet again, there is too little detail. Without suitable protections and considerations, the clause and its consequences could damage well-run energy suppliers and those that are struggling to get by, and that is if they get through the ongoing crisis.

Why should energy suppliers pay up front to cover RAB payments? It might suit the Government to have clauses to protect funding for new nuclear, but that could lead to massive cash flow issues for the electricity supply companies that I mentioned earlier. As they would be paying in advance of receiving income from customers, they would need to manage that credit issue by servicing debt costs. Those costs would then be passed on to consumers, further raising the cost of our bills.

I have already stated my opposition to the Bill and to a new nuclear power station, but from my perspective as a consumer, the Government want me to tie into the construction costs payments for 10 to 15 years in a 60-year RAB contract, which will go beyond my lifetime. Then, just to be on the safe side, my electricity company, to which I pay money, will possibly have to provide money up front, which will cost me, as a consumer, more money. That is a ridiculous concept; it just does not make sense.

Although I am against the principle and poor drafting of the Bill, it is important that we debate clause 19, which is why I have tabled the amendment. I hope that paragraph (a) of the amendment is self-explanatory:

any collateral or money that is asked for would need to be pro rata based on the energy supplier's ability to pay, which would be based on its customer base. In paragraph (b), I highlight that bad debt needs to be considered, because some companies have much higher numbers of vulnerable customers, which means that they are likely to carry more bad debt. That dynamic could change further with the collapse of so many energy supply companies.

3 pm

Paragraph (c) says that the revenue counterparty needs to look at the other liabilities that companies might be carrying. It is interesting that, when we have been debating the energy retail market and energy supplier crisis, the Secretary of State at the Dispatch Box accepted that companies go bust every year and said that part of that was that suppliers tend to go bust at the time their renewables obligations become due. I thought that that was a very flippant attitude, and that is not right. It also seems bizarre to accept that companies will go bust rather than pay their renewables obligations, when the Bill demands that payments be taken from companies up front to ensure that the RAB payments are secured for the nuclear company.

Paragraph (d) further highlights and forces consideration of the cashflow and credit costs that will be imposed on customers by the demand for any up-front collateral. Finally, paragraph (e) looks at forward hedging. The whole point of hedging forward for, say, a year in advance is to secure energy at a given price so that companies know that they have stability in terms of what they have paid and that they can pass that price certainty on to the customer. If a company is hedging forward and has to use its cashflow and securities to do that, that needs to be taken into account before any other moneys are demanded up front to cover the RAB payments.

I hope that I have again made my concerns about aspects of the Bill clear. There are genuinely unintended consequences that could flow from the operation of clause 19 and demanding collateral up front. As I said in my optimistic opening sentences, I look forward to the Minister accepting the amendment and saying, "Well done and thank you."

Dr Whitehead: I am very sympathetic to the amendment, although I do not think that it will do exactly what the hon. Member for Kilmarnock and Loudoun would like. It would be helpful to have some clarification from the Minister as to exactly how the payments will be organised by the revenue counterparty body.

Although those payments are up front, in that the electricity supply companies would be required to make a payment on behalf of the customer into the counterparty before the power station had been built, that does not mean that the payment would all be up front. It means that the payment would be staggered over a period, which might be the whole of the production period of the nuclear power plant, according to what was required at particular times of the construction, so that the counterparty had sufficient funds to meet those calls from its revenues at any one time, but did not have a large surplus against calls. The counterparty would therefore have to modulate and regulate its calls on the energy supply companies as the process of construction continued.

Presumably, then, a company's health would not be set against an overall up-front payment in that instance. All companies would be required to pay into that levy arrangement regularly, so there would not be a greater demand on one company than another or a large amount of money demanded in one go. That is my understanding of how the system would work, but I appreciate what the hon. Member for Kilmarnock and Loudoun said about the 23 companies that have gone bust recently. As the energy market stabilises, I think there will not be many companies to take a levy from in the first place. Those companies that are able to pay a levy will by and large be those that were in sufficiently robust health in the first instance to weather the storm of high gas prices and high energy costs—there are a number of other reasons why companies may or may not be reasonably robust but that is a debate for another day.

Overall, I do not think that the amendment does exactly what it is intended to do.

Alan Brown: I think I understand the point that the hon. Gentleman is making, but subsection (4) says:

> "Revenue regulations may make provision to require electricity suppliers to provide financial collateral to a revenue collection counterparty (whether in cash, securities or any other form)."

I still read that as meaning that cash could be asked for to be paid up front.

Dr Whitehead: Indeed, and that is why we need better clarification from the Minister. Is there a distinction between cash up front in general—that is, one pays before getting any result from a nuclear plant that is being built—or cash up front in the sense of taking all the stuff in the agreed revenue allowance? Would that be taken either mostly up front, all in one go, or at level that an energy company would find unaffordable during particular elements of the process? There is still some uncertainty about exactly how that process would work.

I have a lot of sympathy with the argument of the hon. Member for Kilmarnock and Loudon. If the revenue counterparty decided that it was going to take a very large amount of levy early in the process to have lots of money in the bank and to be able to cover any eventualities connected with the construction process, that would be a pretty unreasonable imposition on energy companies, particularly in the present circumstances. However, I think there are least implied elements of regulation in the Bill that would prevent that from easily happening, and I would be interested to hear whether the Minister thinks that is the case. If he does, where in the Bill is that, and which arrangements would be preferrable in terms of the revenue collection counterparty operating on a more equitable basis as the construction period progressed?

Greg Hands: I thank the hon. Members for Kilmarnock and Loudoun and for Aberdeen North for tabling their amendment. Of course the Government welcome all Opposition parties tabling amendments; that does not necessarily mean that we will agree with the aforementioned amendments, but it is a useful process to test and probe the Bill, and I think our publics would like to see a

[Greg Hands]

process whereby all Opposition parties tabled amendments to test the Government's proposition. I fully buy into that process, but I do not happen to agree with this amendment.

The amendment addresses how the interests of suppliers and their customers should be considered when making provision in regulations for the supplier to pay the revenue collection counterparty. It would also require the Secretary of State to have regard to the other liabilities of electricity suppliers—the hon. Member for Kilmarnock and Loudoun talked with topicality about that—as well as to the impact that collateral requirements will have on a supplier's operation. I thank the hon. Gentleman and the hon. Lady for ensuring that the Government consider the impact on suppliers and consumers when establishing the RAB revenue stream.

I reassure Members that the Government intend to act in a way that effectively manages the payment obligations on suppliers and, through them, consumers. We do not believe, however, that the amendment is the best way of ensuring that. First, the provision of collateral by electricity suppliers is a form of security that has been administered very successfully in the contract for difference regime. As I said on clause 15, the regime seeks to replicate that tried-and-tested regime, which has functioned effectively to bring investment into new energy projects for the last eight years.

We have been clear that in designing the RAB revenue stream we are seeking to replicate many of the provisions of contracts for difference to help to provide a familiar and workable framework for suppliers, but it is not just about supporting investment. We will protect suppliers from paying unreasonable amounts of collateral and ensure that overpayment of collateral is returned to suppliers.

Alan Brown: What is there in the Bill that protects suppliers from having to pay too much collateral?

Greg Hands: The protection in the Bill is through the regulation of the process and the oversight, for example by the authority, in this case Ofgem, which will ensure that any amounts paid to the generation company are reasonable. The hon. Gentleman is right to ask who will set the parameters, the Secretary of State or the regulator. The Secretary of State sets the initial licence conditions; however, it is the authority, in this case Ofgem or its equivalent, that will ensure that any amounts are reasonable and in the interests of existing and future consumers. That is very much in the Bill.

Kirsty Blackman: Could the Minister provide more information on that, in the form of a letter perhaps? We have raised concerns on how companies, and therefore consumers, will be protected. I appreciate what he says, but that was not obvious to us, so a response in writing would be hugely helpful.

Greg Hands: That is a reasonable request. I am saying that this is a tried-and-tested process that has been there throughout the contract for difference regime. Paying in collateral, and the way that collateral operates, is something that has been around for decades, but if it is helpful I am happy to write to the hon. Lady and copy in members of the Committee to explain in more detail how it works in the CfD regime and the Energy Act 2013. I should also make it clear that the Bill provides a framework for the RAB revenue stream and requires that the detail of suppliers' payment obligations is set out in the secondary regulations that will need approval from both Houses. Ahead of that, and as required by the Bill, we will publish and consult on the draft regulations. We will include British energy suppliers within the consultation, so they will have the opportunity to feed in any views from an energy supplier perspective.

In the context of protecting our most vulnerable energy consumers, which was the subject of the previous amendment, I refer Members to my comments in that debate setting out the numerous actions that the Government are taking to help low-income households, including the warm home discount, cold weather payments and the household support fund. I hope that I have assured the hon. Member for Kilmarnock and Loudoun that the design of the RAB revenue stream will ensure that the interests of consumers are protected and that mechanisms are in place to protect suppliers from disproportionate requirements that would affect their ability to operate. As such, I believe that the amendment is unnecessary, and I hope that he will withdraw it.

Alan Brown: It was no surprise that the Minister did not accept the amendment. It will be no surprise to him that he has not completely satisfied me either with his explanation. We keep hearing the argument that we are trying to replicate the CfD model, which is interesting considering that we are introducing the RAB model. It was said that CfD would not work for nuclear, but now we are trying to replicate certain things. He said that there will be consultation and secondary legislation, but there are no guarantees on what the Government will do or how they will respond to any consultation. Secondary legislation can easily get steamrollered through this place anyway. Given that, I would prefer to press my amendment to a vote.

Question put, That the amendment be made.

The Committee divided: Ayes 2, Noes 7.

Division No. 4]

AYES

Blackman, Kirsty	Brown, Alan

NOES

Cairns, rh Alun	Jenkinson, Mark
Crosbie, Virginia	Wallis, Dr Jamie
Doyle-Price, Jackie	
Hands, rh Greg	Whittaker, Craig

Question accordingly negatived.

3.15 pm

Dr Whitehead: I beg to move amendment 16, in clause 19, page 17, line 2, at end insert—

"(10) Persistent non-payment of sums owed to the counterparty by an electricity supplier may be referred to OFGEM, which may in such circumstances place the electricity supplier's licence under review."

This amendment would allow cases of persistent non-payment of sums owed to the counterparty by an electricity supplier to be referred to OFGEM.

The amendment follows on quite well from our previous debate. Although the issue is not entirely certain, the collateral expected to be paid by energy supplier companies would be required in a measured way. The Secretary of State would make sure that the revenue collection counterparty did not try to scoop up huge funds in one go—not that I think that very likely—and would regulate the collateral so that it was more or less allied with the calls on it by the nuclear company at that stage.

If the revenue collection counterparty had a large pot of money sitting in its bank account at any stage, one would expect that money to be redistributed to the supplier companies from which it had been collected, and one would hope that in the end it would be redistributed back to customers. I think that there is still some way to go in deciding how exactly the regulation is to be set up, but I welcome the Minister's statement that that is roughly how the Government assume the process will be undertaken. That being the case, there is then the question of what happens if supplier companies do not pay what the revenue collection counterparty has required of them, assuming that it is a reasonable payment. That leads on to some existing issues with how levies are collected by counterparties.

There has already been some mention of what happens with Ofgem's collection of the renewables obligation, and of the collective obligations of energy companies to supply the right amount in buy-outs, renewables obligation payments or whatever. For those who think that the renewables obligation is done and dusted and that it came to an end in 2017, I should mention that it is still alive in a ghostly fashion and is collecting money until 2027, I think, so the obligations continue.

If one were being very unkind, one might say that a barometer of the health of some of the smaller energy companies that have recently been involved in the struggle to stay afloat has often been whether their renewables obligation payments were outstanding at the time of closure, which I think is the end of each October. There were reports from Ofgem, I think in September, that x number of companies had not paid their renewables obligation levies, and that if they did not do so by the closure date, it is conceivable that action would be taken—which could include, in the end, the removal of the company's licence to operate.

One could say that that is what happened over the recent period, in that companies that knew they were in some difficulty with their renewables obligation payments at the end of October folded pretty soon afterwards because they were not going to pay them. That has had the unfortunate side effect that that non-payment has had to be socialised among other energy companies in order to ensure that the fund is the right amount to meet the renewables obligation certificates going around. Nevertheless, the regime appears to have a sanction relating to an energy company's licence, so that we can ensure that payments are brought in, or that there is fairly swift closure relating to the outstanding amount, so we at least know roughly where we are regarding the payment pool at a future date.

As the Bill stands, that does not appear to be the procedure that will be adopted regarding levies into the revenue collection counterparty. Indeed, the Bill states that if payment is not received, collection will be a civil matter. In the amendment, we suggest that we adopt a similar procedure to that which is in place with Ofgem concerning non-payment of renewables obligation payments. In the case of persistent non-payment, a sanction should be available regarding the continuation of the company's licence. The Minister may say that going through the civil courts is just as good. What concerned me about the arrangements in respect of renewables obligations was that some energy companies were borrowing their payments in order to stay in business. That is not what a healthy energy company should do, long term; it will not result in a secure landscape as regards collateral inputs to a counterparty.

A better way of proceeding would be to have in place the sort of regime that we have for the RO. The amendment would allow the Secretary of State to introduce that kind of arrangement, if he thought it a good idea for the stability of collateral payments. It gives him an extra option, and goes beyond the regime set out in the Bill, so that we can ensure that payments are properly levied, paid on time, and not resisted.

Greg Hands: As the hon. Gentleman outlined, amendment 16 addresses how the obligations of suppliers under revenue collection contracts should be enforced. Clause 19 deals with suppliers' obligations in relation to the RAB. It lays out what the revenue collection regulations may provide for. This includes how the obligations placed on suppliers by RAB revenue collection contracts can be enforced by the revenue collection counterparty. The powers in clause 19 are supported by clause 22, entitled "Enforcement", which states:

"regulations may make provision for"

obligations under revenue collection contracts to be enforced

"by the Authority as if they were relevant requirements…for the purposes of section 25 of the Electricity Act 1989."

This means that a breach of such a contract can be treated as if it were a breach of a licence condition, and this allows the authority to obtain an order to secure compliance and impose financial penalties.

The amendment would set up a different enforcement route, outside the regulations, by allowing the revenue collection counterparty to refer suppliers who persistently fail to meet their obligations to the authority—that is, to Ofgem. Ofgem could then consider whether to remove a supplier's licence. Of course, I welcome the Opposition's focus on ensuring adequate protection from non-compliance. Creating strong enforcement procedures will be vital to give investors confidence that the RAB will function and that the project will receive the funds to which it is entitled. However, the amendment leaves out much of the detail necessary for a clear understanding and the smooth functioning of the enforcement procedure. For example, it does not clarify what should be classed as "Persistent non-payment", or the process for referral. It also does not make clear what Ofgem would take into account when reviewing a supplier's licence, or the process for appeal.

The hon. Gentleman feels that a supplier's failure to make payments to the counterparty should have consequences for their licence, but those concerns are adequately addressed by clause 22, which states that the regulations may make provision to treat non-compliance as if it were a breach of a licence condition, and to allow the imposition of suitable penalties against suppliers

[Greg Hands]

through tried-and-tested, long-standing legislation. This will ensure compliance, and will mean that obligations under revenue collection contracts are met.

I welcome the hon. Gentleman's constructive contributions, his proposing the amendment, and his recognition of the need for strong enforcement provisions, but I hope I have convinced all hon. Members of the appropriateness of the Government's approach, which already treats non-compliance in the way that is suggested in the amendment, but in a far more watertight way, and that the hon. Gentleman therefore feels able to withdraw his amendment.

Dr Whitehead: The Minister talks about taking action in a more watertight way, and suggests that we look at clause 22, which relates to clause 25, which relates to a series of clauses relating to the Electricity Act 1989. It is a sort of Marx brothers' "A Day at the Races" form guide arrangement, whereby in order to understand a guide, a person needs another one, and so on endlessly—and they end up missing the race.

The Minister will be aware that there are a number of instances in which we are asked to go way back, via regulations, into Acts such as the Utilities Act 2000 and the Electricity Act, and we are reluctant to do that. Indeed, there are a couple of quite incomprehensible repeals at the end of the Bill, to which I might draw the Committee's attention; one has to go through four or five stages before one can understand what on earth those are about.

In this instance, it is possibly true that we could, by regulation, apply the provisions of section 25 of the Electricity Act 1989 relating to licence modification or removal; but that provision is not in the Bill, but possibly applied by regulation. In the Bill there is one remedy, and one remedy only. The Minister may say, "Trust us; we may produce regulations that have the effect that I have suggested." However, it probably would have been wiser for some of those things to be in the Bill. Of course, the amendment does not do all those things that the Minister mentioned. I fully accept that it is deficient from that point of view, because it does not mention the four or five other pieces of legislation that have to be taken into account, amended or consequentially changed. It merely allows us to make the point that these things ought to be in the Bill, so it is a probing amendment.

I hope that the Minister will think about whether there are better ways of getting those different forms of regulatory certainty than this extended process of referring to other pieces of legislation, which may become more or less opaque as one reads them. It would be much more straightforward for this provision to be in the Bill and clear for everyone to see. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Clause 19 ordered to stand part of the Bill.

Clause 20

PAYMENTS TO ELECTRICITY SUPPLIERS

Question proposed, That the clause stand part of the Bill.

Greg Hands: Clause 20 seeks to ensure that electricity suppliers can be reimbursed in cases where the counterparty has overcharged suppliers or overpaid a licensee nuclear company. The clause is similar to the approach in section 17 of the Energy Act 2013. It is proposed that suppliers will be charged their share of a RAB payment based on their expected market share. Where their actual market share is less than expected, reconciliation processes will be carried out and the revenue collection counterparty will repay them the difference.

Likewise, when the relevant nuclear licensee company's forecasted market revenue exceeds its allowed revenue over a given period, the counterparty could be required to repay any overpayments to suppliers. Again, that would replicate the approach used in contracts for difference. Subsections (1) and (2) allow regulations to be made requiring the counterparty to make payments to suppliers in such instances. Regulations made will be subject to the affirmative procedure, given the effect they will have on electricity suppliers and other relevant bodies.

Dr Whitehead: I do not oppose the clause, but I want to ask the Minister about what it actually says. At first sight, it appears to say—this was the shared understanding that we established—that there were circumstances where a revenue collection counterparty could pay collateral back to electricity suppliers. We are not clear over how long a period the collateral might be repaid, or at what point it might be considered that there was sufficient additional collateral in the funds of the counterparty to warrant a repayment.

The funds might be held for quite a long time while consideration is given to whether the nuclear company is likely to overperform on its revenue generating activities in the production phase so consistently that the money can be safely restored to the supply company. The counterparty might hold the money over a considerable period, thinking there would be variations or fluctuations in the revenue stream obtained by the nuclear power company, and that the money might therefore need to be called on, if it dipped below the range implied by the overall allowed costs arrangements. There is that question of the likely length of the period over which repayments take place.

However, the second question, which is also quite important, is what would happen to that money once the counterparty had restored it to the electricity supplier. There is nothing in this clause that says anything other than, "That money is restored to the electricity supplier, and the electricity supplier is very pleased about that and puts the money in its bank account."

However, the electricity supplier has collected that money from the customers—albeit at the direction of the counterparty—in the form of an additional levy placed on their bills. If the electricity supply company is getting that money back again, then as night follows day, the company should give that money back to the customers and not just hold it in its bank account. There is nothing in this clause to ensure that that happens. I would be interested to hear whether the Minister thinks that such a requirement ought to be added to the regulatory procedure that will be undertaken. He may want to go away and think about whether he can at least indicate to the Committee that it will be assumed, and probably will happen, that as long as the

surplus funds can be distributed back to suppliers by the counterparty, they should be given back to the customers.

Essentially, we have a couple of questions, but we do not oppose this clause standing part. I am sure that the Minister will be able to reassure us about his intentions with regard to making this clause operate as well as it can.

Greg Hands: I will try to deal with the two questions that the hon. Gentleman raised. First, he asked whether the funds can be held for a long time, and about the period over which they can be held. Obviously, the regulations will be laid before Parliament in due course, and will be subject to the affirmative procedure. However, I point him to how the contract for difference regime works under the 2013 Act. My belief is that in this case, the reconciliation takes place after a period of months—that is probably the best way to describe it. It depends on what the hon. Gentleman means by somebody holding on to funds, or indeed having a shortfall of funds, for "quite a long time", but we always have to strike the balance between what is operationally straightforward and what prevents somebody from holding on to funds, or from having a shortfall of funds over a period of time. However, the workings of the contract for difference regime might give the hon. Gentleman the most likely pointers as to what the regulations may look like; they will obviously be subject to consultation in due course anyway.

The hon. Gentleman also asked what happens to the money, and whether the supplier is obliged to return the money to the customer. He raises a fair point. The difficulty is that there is no obligation on the supplier to take the money for the RAB from the customer in the first place. The assumption is that the supplier will bill the customer for the cost of the RAB, but there is not an obligation to do so, so I am not sure that creating an obligation in this legislation to send back money the other way would be appropriate. Again, I refer the hon. Gentleman to the workings of the contract for difference under the 2013 Act.

Matthew Pennycook: That raises an interesting, and quite concerning, point: what in the legislation prevents a supplier from overcharging its customers on the basis that it is levying the RAB? Is there a limit to which a supplier can levy the customer? On the basis of what the right hon. Gentleman has just said, the supplier could overcharge the customer, make the payment owed to the counterparty and find itself with additional funds raised from those customers.

Greg Hands: First, the whole process will be regulated by the authority—in this case Ofgem—which would have oversight. Secondly, that would also be a matter for the regulations that are to be published in due course. Thirdly, the frequent reconciliations would obviate risk of that happening in the way the hon. Gentleman describes.

Question put and agreed to.

Clause 20 accordingly ordered to stand part of the Bill.

Clause 21

APPLICATION OF SUMS HELD BY A REVENUE COLLECTION COUNTERPARTY

Dr Whitehead: I beg to move amendment 17, in clause 21, page 17, line 34, leave out from 'are' to end of line and insert 'not to be paid into the Consolidated Fund unless there is no other alternative.'

This amendment would require the Government to consider alternatives to the absorption into the consolidated fund of sums held by a revenue collection counterparty on behalf of energy bill payers.

Amendment 17 takes aim at a different part of the undergrowth we are dealing with in the often fairly complex arrangements related to the revenue collection counterparty and all that goes with it. In this instance, we have two subsections in italics because they include a Treasury implication. Clause 21(5) says:

"The provision that may be made by virtue of subsection (4) includes provisions that sums are to be paid, or not to be paid, into the Consolidated Fund."

In that regard, subsection (4) states:

"Revenue regulations may make provision about the application of sums held by a revenue collection counterparty."

Effectively, that subsection allows regulations to be made about the sums held by a revenue collection counterparty. We have already discussed how long they may be held for and the circumstances under which they may be paid back—*[Interruption.]* The Minister and his Whip are discussing when we will finish, I suspect. They must not worry; we will finish on time.

The clause adds a new dimension to the question of where the sums held by the revenue collection counterparty may go and, indeed, suggests where they might go, presumably, after the process outlined by the Minister. At a certain stage, the existence of surplus amounts held by the revenue collection counterparty is established and then there is an issue as to where that money goes. Clause 21(5) says that the money may be paid into the Consolidated Fund, which is the Treasury. It therefore gives rise to the idea that money could have been raised from customers and paid into the revenue collection counterparty by suppliers. Levies are raised on customers and possibly overpaid, as my hon. Friend the Member for Greenwich and Woolwich has just said. The money sits in the account of the revenue collection counterparty for a time and then, when the decision is made about what to do with the money, the Treasury nicks it. That is not right and it is not what should be done. As we have established, if there are surpluses in those funds, they should certainly be returned to the supplier and the supplier should make sure that they are returned to the customer.

As we have said on a number of occasions, the customer is at the heart of the process as they are funding it through their bills. They are not paying free money into the Treasury but paying into the process on a reasonable basis of allowed costs. If those allowed costs prove to be more than is required, the least they should reasonably expect is to get their money back.

There should be no talk of the Consolidated Fund in the Bill; I do not think it is right that it should be in the Bill. We have sought to suggest in the amendment that only if there are no other recourses for the payment of those funds should it even be considered that money go

[Dr Alan Whitehead]

into the Consolidated Fund. I can conceivably imagine circumstances in which nothing else could be done with the money but put it into the Consolidated Fund, but it is a real squeeze for me to think that.

The Secretary of State must be able to think of better purposes for the money than for it to go in that direction. The amendment strengthens the Secretary of State's ability to do that. I hope that the Secretary of State—the Minister; I am promoting him again—will be happy to accept it as a clear understanding of what we want to do with the money unless absolutely pressed to do otherwise.

3.45 pm

Matthew Pennycook: I rise to speak briefly to amendment 17, because it relates to an important matter that builds on our earlier discussions. I listened to the Minister and heard what he said about the revenue collection contracts arrangement seeking to replicate the tried and tested CfD arrangement, as he put it. The thing that makes what we are talking about different is that there has never been a CfD arrangement of the size of the RAB nuclear model. The scale of the capital commitment involved in a nuclear project dwarfs anything that we have seen before. The changes in total nominal amounts that are likely to happen from year to year in the scale of that capital value could mean that we have large fluctuations in the amounts being collected by the counterparty.

The Minister has said that regulations will address that and are forthcoming via the affirmative procedure. He expects that the reconciliation process of attempting to ensure that the revenue stream matches the allowed expenditure will happen twice a year, but there is the possibility that very large sums will sit within the counterparty, even if just for months. The amendment tries to address the possibility of those funds, or a proportion of them, finding their way into the Consolidated Fund.

It surely has to be the case, and I assume that it is the Minister's intention via regulations, that the reconciliation process should be as frequent as possible so that the revenue stream matches the allowed expenditure at any point in the construction. I foresee circumstances in the production phase, however—perhaps not in the construction phase, because it is unlikely that a future nuclear project will come in under budget given their history—in which a company's revenue from power sales might exceed the allowed revenue. There is a chance that we could see large mismatches and, therefore, lots of funds being stored up in the counterparty.

The central thrust of what the Opposition are trying to do with the Bill is to protect consumers and ensure that they pay the lowest possible amount to get a project such as the one that we are talking about onstream. It is therefore really important that we ensure that the Treasury cannot in any circumstances, unless it has exhausted all other options, take part of the funds that may sit with the counterparty for relatively brief periods. The Treasury could decide to take sizeable amounts, and it is important that they flow back to suppliers and, ultimately, to customers. That is the thrust of the amendment.

Greg Hands: As the hon. Members for Southampton, Test and for Greenwich and Woolwich laid out, amendment 17 addresses the situation in which funds held by the counterparty may be paid into the Consolidated Fund, which of course is the Government's general bank account at the Bank of England. Currently, the legislation allows the revenue regulations to provide for sums to be paid into the Consolidated Fund. The intention of the amendment is to narrow the scope of that so that the regulations can provide for sums to be paid into the Consolidated Fund only where there is no alternative.

I thank the hon. Members for the amendment, which they explained well. It certainly echoes my sentiment that consumer funds should not generally go into Government accounts. I reassure Members that we envisage the power to have limited but important uses. For example, it could be used to ensure that the counterparty repays a loan given by the Government—by the taxpayer—to respond to an emergency. That is not a hypothetical situation. We saw the importance of it quite recently in the course of covid, when the Government did indeed have to provide a loan to the counterparty for the contract for difference regime: to the Low Carbon Contracts Company.

The taxpayer should be able to be repaid that loan, but the amendment provides that sums cannot be paid into the Consolidated Fund where there is an alternative. I could see a number of people making an argument that different things that could be done with that money would provide alternatives to what is being envisaged: in this case, repaying the taxpayer. If passed, the amendment would unnecessarily narrow the scope of the power in a way that would limit its use. I hope that my explanation has shown Members the importance of the power, which is in my view unlikely to be used. However, I have given a real example from the last couple of years of where exactly such a situation arose.

Alan Brown: The Minister has given the example of an emergency loan, but surely the regulation is all about

"apportioning sums…received by a revenue collection counterparty from electricity suppliers under provision made by virtue of section 19".

Clause 19 is about collecting money from electricity suppliers; ergo, the example of a loan does not equate to what this is about.

Greg Hands: I disagree with the hon. Gentleman. My understanding is that the loan would not be repayable if an alternative were there. The ambiguity of an alternative would unnecessarily narrow the scope of the power, though I appreciate where he is coming from.

Alan Brown: I ask the Minister to read clause 21(1)(a), which contains the reference I quoted to clause 19, which I do not think covers the emergency loan situation.

Greg Hands: We will just have to agree to disagree. I think the amendment unnecessarily narrows the scope of the power in a way that we would not wish to see in terms of protection of the taxpayer. I therefore ask the hon. Member for Southampton, Test to withdraw it.

Dr Whitehead: I thought that this was the most reasonable amendment by far that we have tabled. I am sorry that the Minister has responded in the way that he has. He made the point that some money that had come from the taxpayer might be sitting in the funds of the

revenue collection counterparty, and should therefore be paid out of it. That would actually be covered by the amendment, which would insert:

"not to be paid into the Consolidated Fund unless there is no other alternative."

If someone were trying to pay back a loan that they effectively got from the Consolidated Fund in the first place, there is no alternative other than to pay it back to the Consolidated Fund, so the amendment would cover that. We want circumstances in which the Treasury—I am sure that the Minister does not particularly want to be a high-ranking Treasury Minister in the future—

Greg Hands: Again!

Dr Whitehead: Again—indeed. I think the Minister will know from his previous experience that the Treasury is not above, shall we say, treating all Government money as essentially its own. In circumstances in which the Treasury thinks that it can get hold of certain amounts of money, it may well do so. Obviously, the purpose of Bills is not to be written to keep the Treasury's hands off money that it really should not have, but it might not be such a bad idea at least to put that in regulation so that it would be fairly hard for that to happen. As the amendment is drafted, however, it is not a prohibition; it just says that there needs to be a pretty good argument—the argument made by the Minister about the loan, for example—for that money to be paid into the Consolidated Fund. That, really, is all the amendment says, and I think that is a wholly better construction than what is in the Bill.

The Chair: Dr Whitehead, are you pressing the amendment to a vote?

Dr Whitehead: Given the circumstances, I think I will.

Question put, That the amendment be made.

The Committee divided: Ayes 6, Noes 7.

Division No. 5]

AYES

Blackman, Kirsty	Owen, Sarah
Brown, Alan	Pennycook, Matthew
Duffield, Rosie	Whitehead, Dr Alan

NOES

Cairns, rh Alun	Jenkinson, Mark
Crosbie, Virginia	Wallis, Dr Jamie
Doyle-Price, Jackie	
Hands, rh Greg	Whittaker, Craig

Question accordingly negatived.

Clause 21 ordered to stand part of the Bill.

Clause 22

ENFORCEMENT

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to discuss clauses 23 to 30 stand part.

Dr Whitehead: The Labour party accepts that the clauses cover important technical matters relating to how the rest of this part of the Bill holds together, and we therefore have no objection to their being taken together.

Question put and agreed to.

Clause 22 accordingly ordered to stand part of the Bill.

Clauses 23 to 30 ordered to stand part of the Bill.

Ordered, That further consideration be now adjourned. *—(Craig Whittaker.)*

3.59 pm

Adjourned till Thursday 25 November at half-past Eleven o'clock.

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

NUCLEAR ENERGY (FINANCING) BILL

Sixth Sitting

Thursday 25 November 2021

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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

Monday 29 November 2021

The Committee consisted of the following Members:

Chairs: Yvonne Fovargue, † James Gray

† Baker, Duncan *(North Norfolk)* (Con)
† Blackman, Kirsty *(Aberdeen North)* (SNP)
† Brown, Alan *(Kilmarnock and Loudoun)* (SNP)
† Browne, Anthony *(South Cambridgeshire)* (Con)
† Cairns, Alun *(Vale of Glamorgan)* (Con)
Crosbie, Virginia *(Ynys Môn)* (Con)
† Doyle-Price, Jackie *(Thurrock)* (Con)
† Duffield, Rosie *(Canterbury)* (Lab)
† Fletcher, Mark *(Bolsover)* (Con)
† Hands, Greg *(Minister of State, Department for Business, Energy and Industrial Strategy)*
† Jenkinson, Mark *(Workington)* (Con)
Owen, Sarah *(Luton North)* (Lab)
† Pennycook, Matthew *(Greenwich and Woolwich)* (Lab)
Wallis, Dr Jamie *(Bridgend)* (Con)
† Whitehead, Dr Alan *(Southampton, Test)* (Lab)
Whitley, Mick *(Birkenhead)* (Lab)
† Whittaker, Craig *(Lord Commissioner of Her Majesty's Treasury)*

Sarah Ioannou, Rob Page, *Committee Clerks*

† attended the Committee

Public Bill Committee

Thursday 25 November 2021

[James Gray *in the Chair*]

Nuclear Energy (Financing) Bill

11.30 am

The Chair: I welcome Members back to the line-by-line consideration of the Nuclear Energy (Financing) Bill. I will not trouble you with the parish notices that you have heard before, with the exception of reminding you that Mr Speaker has encouraged us to wear masks when we are not speaking, which I will do, but of course it is a matter for individual choice.

Clause 31

Relevant licensee nuclear company administration orders

Question proposed, That the clause stand part of the Bill.

The Minister of State, Department for Business, Energy and Industrial Strategy (Greg Hands): May I welcome you to the Chair, Mr Gray? It is a pleasure to serve under your chairmanship. I will be brief.

Clause 31 is the first clause of part 3 of the Bill, which establishes a special administration regime for relevant licensee nuclear companies, or RLNCs. In the unlikely event that such a company becomes insolvent during the construction or operation of the power plant, the Secretary of State, or the authority—that is, Ofgem—with the Secretary of State's permission, may apply to the courts for the appointment of a special administrator. The objective of the administrator would be to ensure that electricity generation commences, or continues, until it is unnecessary for the administration order to remain in force for that purpose.

The introduction of a special administration regime will reduce the risks of customers being deprived of the benefits of the building of a nuclear power plant using a regulated asset base model compared with normal insolvency proceedings. It also reduces the risk of requiring a replacement source of electricity generation, which may further increase the cost of electricity to consumers. The clause defines the relevant terms for this part, which are necessary for the effective functioning of the legislation. I therefore urge that the clause stand part of the Bill.

Dr Alan Whitehead (Southampton, Test) (Lab): I thank the Minister for setting out what the clause is about. Hon. Members will recognise that the clause is deeply embedded with the rest of the clauses in this part of the Bill. Further clauses spell out in greater detail what clause 31 talks about. Hon. Members will also be aware that we have an amendment to the following clause to be discussed, which, were it to be agreed, would have implications for clause 31. Although we do not wish to oppose clause stand part, we would like it to be noted that when we discuss the amendment to the next clause we will refer back to clause 31 as one of the reasons why the amendment was tabled and the difference that might make to the whole part, should it be passed.

The Chair: Order. I am ready to be advised on this matter, but I suspect that if the Opposition believe that amendment 18 would have a consequence for this clause, it would have been necessary to table an amendment to this clause, or we would have to revisit this clause later. The Clerk advises that we cannot revisit. In other words, if we pass this clause stand part now, it will not be possible to amend it later. Let us cross this bridge when we come to it. That might be the sensible way forward.

Dr Whitehead: Mr Gray, if the amendment were to be passed, I do not think it would have an effect on clause 31. I merely raise the issue because we will be talking about all these issues in clause 32.

The Chair: That is fine.

Question put and agreed to.

Clause 31 accordingly ordered to stand part of the Bill.

Clause 32

Objective of a relevant licensee nuclear company administration

Dr Whitehead: I beg to move amendment 18, in clause 32, page 24, line 24, at end insert—

"(5A) In the event that a relevant licensee nuclear company cannot be rescued as a going concern, or if a transfer of the undertaking to a wholly owned subsidiary does not result in the establishment of a going concern, the Secretary of State must establish a Government-owned company into which the assets, liabilities and undertakings of the relevant licensee nuclear company may be transferred in order to allow electricity supply to be commenced or continued at the nuclear installation in respect of which the relevant nuclear licensee holds a nuclear licence."

Where a failed company cannot be rescued as a going concern or successfully have its assets transferred to a subsidiary, this amendment would require the Government to establish a Government-owned company to allow operations to continue.

The amendment goes to the heart of this part of the Bill, which deals with a special administration regime for when a nuclear power plant cannot get to production levels—in other words, when the nuclear power plant is not completed at the point at which the company that is constructing it effectively goes bust—or is in production but the company that is responsible for the management and operation of it goes bust at that point. The special administration regime is put in place, as the Minister says, to protect the interests of the customer, in terms of the sums they have put into the whole arrangement through the counterparty. We discussed how that works in a previous sitting of the Committee.

We certainly welcome the setting out of the provision in part 3, because it is important in providing a backstop in case of failure, during either construction or production, of the company that is involved in doing it. That company will have gone through the process of designation, licence modification and so on, and is therefore deeply involved in the nuclear power station at that point. Although we welcome the provision, analysis of how the clause works suggests that there are potential deficiencies in the end outcome of the process that is set out. I say that partly because, as I am sure hon. Members will be interested to know, the clause is closely modelled on the special administration regime set out in the Energy Act 2011. Of course, the 2011 special administration

regime is oddly pertinent this morning because of the collapse of Bulb Energy and the decision by the Secretary of State to invoke sections of the Energy Act to establish a special administration regime over and above the supply of last resort, which was previously the method used for assuring customers about their supply when energy companies went bust. On this occasion, the Energy Act has come to the rescue.

There are lots of questions about how the regime under the 2011 Act will work, but it is sufficient for us to note the closeness of the text and direction of part 3 of the Bill to sections 94 and 95 of the Energy Act. Hon. Members will have to take it on trust that the wording is so similar, but they are very welcome to go and look up the relevant piece of legislation. I have a copy in front of me, and if this were an undergraduate essay that I had to mark in a previous life, I would be immediately on the phone to the department to say that my student had been guilty of substantial plagiarism.

Of course, there is a substantial difference in the application of those two pieces of legislation. One is applied to a failed energy company, about which a number of things can be done fairly quickly, such as seeking to revive the failed energy company through a period of administration and then relaunching it at a later date, when circumstances have changed—in this instance, perhaps when the high fuel costs have abated and the company, with different set-ups, might be a going concern again. The options are to launch it as a going concern, to pass it on to other buyers—which is very possibly the case with Bulb Energy—or, as an extreme, to eventually close the company down and parcel out its customers to other companies. According to the 2011 legislation, there are a number of fairly obvious routes that end that period of administration.

That is not the case for a nuclear power station. It cannot be divided up; it is a huge, multibillion piece of investment on the books of the company, and in this case largely supported by its customers paying into the regulated asset base arrangement. The idea that a company might easily come along and say, "I know, we'll take over the assets of this nuclear power station and run it ourselves" is a fairly unlikely proposition, as we have seen from events around the world. Nevertheless, the wording of the clause follows the 2011 wording closely enough to suggest that that would be relatively easy in the case of a nuclear power company failure.

As the Minister has already outlined on the previous clause, the court would make an order to the nuclear company to go into administration, and

"the affairs, business and property of the company are to be managed by a person appointed by the court"—

that is, an administrator. The objective, stated in this clause, is

"that electricity generation commences, or continues, at the nuclear installation in respect of which the relevant licensee nuclear company to which the administration relates holds a relevant licence"—

that is, generation continues under administration—or "that it becomes unnecessary" through two means that are set out in the next subsection:

"the rescue as a going concern of the company"

or transfers of that company that fall into the next subsection, whereby the company can be transferred to another company or two or more different companies.

As such, the path that would be followed in this instance is that an administration order would be made; the company would be kept running in the meantime; and the alternative outcomes would be that the company either becomes a going concern again as a result of administration, or is effectively sold to another company or two or more other companies. Failing that, this clause appears to suggest that that special administration continues forever. That is the conclusion one has to reach when reading these subsections.

11.45 am

The effect of administration continuing forever, of course, is that that nuclear company is in a half-world where it is operating as a ghost company. Nothing much can happen to it, other than it continuing to do basic things under the control of the administrator: it does not go anywhere, but merely functions, as opposed to not functioning. Of course, were that to happen, it would be a very substantial and continual drain on taxpayer resources, and indeed bill payer resources. As I read it, while that company is in administration, it would still be able to claim the payments during the production period under the RAB arrangement. As such, the public would be in the difficult position of funding under the RAB arrangements a company in administration that could not go anywhere, but that nevertheless was taking a substantial amount of the public purse and, in this instance, the bill payers' money in order to sustain it. That appears to be a substantial flaw in this Bill, written as it is based closely on the 2011 Act in which this does not appear as a substantial flaw because the operation of the special administration regime, expensive though it is likely to be—as we see in the press today, in the case of Bulb Energy—is nevertheless of a different order and clearly of a much more finite duration.

Our amendment suggests that there needs to be an additional endgame possibility in the process that, under circumstances where the company has not revived as a going concern or been sold to another company, the Government are required to set up a new company to run that enterprise and allow it to operate properly as a nuclear production facility in the long term. It is not a complicated amendment; it effectively adds a bottom-line clause to the previous arrangements, which have been placed slightly slavishly into the Bill from the 2011 Act. We think that would be an improvement. It would place an absolute bottom-line block on the proceedings and, in the end, if all went wrong, and was not retrievable, would enable a route out to ensure that the plant operated properly in the bill payer's interest.

Alan Brown (Kilmarnock and Loudoun) (SNP): It is a pleasure to serve under your chairmanship, Mr Gray. Some of the other Labour amendments that we supported when they went to a vote have been about cost controls and have tried to provide protections for the consumer. Despite what the hon. Member for Southampton, Test said, I do not think the amendment protects consumers or customers, although we are not sure that clause 33 in itself would not provide this option. The explanatory statement says:

"this amendment would require"—

that is, compel—

"the Government to establish a Government-owned company to allow operations to continue".

[Alan Brown]

I am not sure of the benefits of compelling the Government to keep running a power station if a company goes bust and cannot be taken over as a going concern, because it is still loss-making and a transfer cannot be concluded. Why do we want to make it mandatory for the Government to take over a loss-making operation to continue to generate electricity?

It seems to me that in the event of such financial failure, the best value might be to shut the thing down and decommission it. Although the hon. Member for Southampton, Test said that this provides a final option—a final endgame—there is nothing on time scales here. The amendment does not say how long the Government would be expected to continue to run this loss-making power station to generate electricity. There is nothing that gives that certainty or end date. I think it actually places a burden on the Government and the consumers—the taxpayers. For that reason, it does not make sense to me. I do not think it achieves the ends it is supposed to.

I will quickly refer to new clause 5, which is in my name; I know we will debate it later.

The Chair: I would rather we did not debate it now, unless it is relevant to clause 32.

Alan Brown: New clause 5 does relate to clause 32. I will refer to it just briefly. All I would say is that the new clause sets out considerations that would need to be addressed before anyone contemplated taking over a nuclear power station. I will return to that when we debate the new clause.

I have concerns about clauses 32 and 33, when considered together with clause 41. We will return to this, but clause 41 possibly gives the Secretary of State an open-ended blank cheque to do what he wants to keep a power station operational; I dare say that ensuring security of supply will be the excuse given.

The hon. Member for Southampton, Test, referred to the provisions relating to the special administration regime under the Energy Act 2011, which have now been applied to Bulb Energy. It would be good if the Minister could enlighten us on how those provisions will operate with regard to Bulb Energy, and how the similar provisions in clause 32 would operate if they had to be used. Also, will he commit to reviewing how the special administration regime operates in the Bulb Energy scenario, and to making improvements to the Bill, if they are required, following that process?

Greg Hands: I thank hon. Members for their speeches for and against amendment 18. I remind the Committee that a relevant licensee nuclear company, or RLNC, is one that has had its licence modified under part 1, clause 6(1) of the Bill and has entered into a revenue collection contract. An RLNC administration order is made by the court in relation to an RLNC and directs that, while it is in force, the company is to be managed by a person appointed by the court. That is defined in part 3, clause 31(1), which we have just debated.

Amendment 18 addresses the course of action that the Government must take if an RLNC administration order is in force, but an RLNC cannot be rescued or a transfer envisaged by clause 32(4) effected, namely a transfer of the undertaking of the RLNC to a subsidiary that results in a going concern. The amendment seeks to ensure that, in this scenario, the plant will commence or continue electricity generation under public ownership. The amendment would require the Secretary of State to move the assets, liabilities and undertakings of the RLNC to a Government-owned company, even if a transfer envisaged by clause 32(3) to one or more companies would achieve the objective of the administration order. The amendment would put in place a new process. Although the amendment does not address who must make the assessment that the objective cannot be achieved by the means specified, it appears to limit the available options before the power plant is moved into public ownership.

First, obviously, I thank the hon. Members for Southampton, Test, and for Greenwich and Woolwich for their clear desire to ensure that a nuclear power station will commence or continue the generation of electricity—on the face of it, that seems a very reasonable objective—and for recognising that the special administration provisions add a valuable layer of protection in this area. Ultimately, that is why they are in the Bill. However, I do not consider it necessary to place a statutory requirement on the Government to take ownership of a plant in the unlikely event that a special administration fails in its objectives, because the provisions for the energy transfer scheme, applied by clause 33, already serve this purpose. The amendment may even inadvertently lengthen the period of an RLNC administration order, as one assumes that the Government-owned company would, for example, need to apply for a new nuclear site licence.

In the unlikely circumstance where rescue cannot be achieved and it is unnecessary for the administration order to remain in place, the Secretary of State—or the authority, Ofgem, with the consent of the Secretary of State—may apply to bring the administration order to an end. Once the administration has ended, the Secretary of State may prepare a nuclear transfer scheme, which would bring the plant under the control of a public body, or, for example, the Nuclear Decommissioning Authority. In such a scenario, it is envisaged that the plant would then be decommissioned and cleaned up. However, the Government would still retain the option to move the power plant into public ownership and, if deemed in the best interests of consumers and taxpayers, commence or continue the operation of the plant.

Let me say in response to comments made by the hon. Member for Kilmarnock and Loudoun that there may be circumstances in which discontinuing the project and having it safely decommissioned is in the best interests of both consumers and taxpayers. That will ultimately be down to a value-for-money process that asks: what is the best deal here for consumers and taxpayers? The Office for Nuclear Regulation may have shut down the plant for safety reasons; there may have been an environmental or security incident, or maybe something else happened that meant that trying to make that plant commence or continue to generate electricity was not in the interests of consumers or taxpayers. It is important, then, that the Secretary of State retains discretion to act in whatever way will achieve the best outcome for consumers and taxpayers during the insolvency of a relevant licensee nuclear company.

I stress to the Committee that the likelihood of those scenarios is, of course, very remote, as indeed is the likelihood of a nuclear administrator ever being appointed. I thank the Opposition for their forward thinking and consideration of what would happen in such a scenario, but I hope that I have assured the Committee that it would not be sensible to tie the hands of the Government in such a way that they had to commit further taxpayer money to a project without being able to balance that against the merits of doing so. The amendment would create an automatic process, but the Bill provides sufficient flexibility to allow the Government to pursue the option that the amendment provides for if they consider such a decision to be in the best interests of consumers and taxpayers. I therefore ask the hon. Member for Southampton, Test, to withdraw the amendment.

Dr Whitehead: I thank the Minister for his consideration of the processes by which a power plant might need to be rescued and/or decommissioned and/or discontinued. I think he will recognise, however, that the circumstances in which he says ministerial discretion would need to be exercised are an unlikely part of an unlikely scenario of an unlikely future.

The Minister gave the example of an accident, or something else, closing the plant down, so that it would have to be decommissioned and could no longer produce power. That would need to be done anyway, even if the company was placed in Government hands, so I do not think that those circumstances affect the path I have set out relating to Government interest in a plant that could not be bought out of administration because it was a going concern, or because it had been sold to another company—unless the Minister has it in mind that the sale of a nuclear company to another company would be done on a peppercorn basis, in which case the nuclear plant would lose all the value that the bill payer had invested in it.

In any event—this is what concerns me about the intervention by the hon. Member for Kilmarnock and Loudoun—the whole purpose of the RAB model is to produce a working nuclear plant that was invested in up front by members of the public and bill payers. That plant would then produce power as a reward for that up-front investment. If we easily closed a plant down because it was insolvent, we would be overthrowing the whole purpose of the RAB scheme, which is for the public to get something back, and we would be back to the instance that we talked about early on in Committee.

Alan Brown: The hon. Gentleman is right about the purpose of the RAB model, but would the unlikely event of insolvency not just confirm the failure of the RAB scheme? We should not keep throwing good money after bad in the event of such a failure.

Dr Whitehead: The hon. Member is right that in the event of an utter catastrophe, where the nuclear core does not work, the concrete casings are seriously deficient and the whole thing has to be closed down, we are in a scenario—this was sort of suggested by the Minister—where it would not be viable to continue the project. However, where it is in principle possible, electric power production in the plant should continue, because billions of pounds of customer payments will have been invested in the plant.

12 noon

With amendment 18, I am suggesting that there are more ways to ensure that than are set out in clause 32; one way is to take the plant into public ownership, and operate it on that basis. The alternative is that, under those fairly unlikely circumstances—and I agree that they are unlikely—we could end up with a situation like that in South Carolina, which we discussed earlier in Committee, and which the Minister had a lot of information on. The outcome in South Carolina was that a power plant was simply abandoned—not because it was particularly deficient, but because it could not be funded. The public lost all the money they had put into the plant. We want to avoid that in all circumstances, and the amendment ensures that we do.

The Minister is by now fairly well apprised, I hope, of the amendment's intentions. I hope that, despite what he has said, he will give careful consideration to whether the clause is as robust as it might be. We do not propose pushing the amendment to a Division, but we have put on record what we think about the shortcomings of the clause. I hope the Minister will take our concerns seriously, and will either give the matter consideration later in the Bill's passage, or strengthen the special administration regime subsequently. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

The Chair: We have had a substantial debate on clause 32 already, so I will put the question on it.

Clause 32 ordered to stand part of the Bill.

Clause 33

APPLICATION OF CERTAIN PROVISIONS OF THE ENERGY ACT 2004

Question proposed, That the clause stand part of the Bill.

Dr Whitehead: I have a brief question for the Minister on clause 33(7)(b), concerning the application of section 171(1) of the Energy Act 2004. It says:

"omit the definition of 'non-GB company'.

I am slightly mystified as to why that is in the clause, because so far as I can see, the definition in section 171(1) of the 2004 Act of a non-GB company is perfectly reasonable and should continue to exist. Perhaps the Minister can shed some light on that.

Greg Hands: I have to confess that I am not able, at this moment, to shed light on subsection (7)(b) and why section 171 of the 2004 Act should be so amended. I pledge to write to the hon. Gentleman—I will copy in Committee members—to clarify why omission of that part of the 2004 Act is proposed.

The Chair: Is that acceptable, Dr Whitehead?

Dr Whitehead: Yes. I thank the Minister.

Question put and agreed to.

Clause 33 accordingly ordered to stand part of the Bill.

Clauses 34 to 42 ordered to stand part of the Bill.

Schedule

MINOR AND CONSEQUENTIAL PROVISION

Question proposed, That the schedule be the schedule to the Bill.

Dr Whitehead: I suspect that the Minister may also want to write to me on this. Paragraph 4 deals with consequential repeals. I am familiar, as I am sure everybody is, with the works at the back of any Bill amending various Acts to bring them in line with the amendments made in the Bill, or in some instances repealing measures that are replaced by provisions in the Bill. I have no dispute with the way that various Acts are to be amended in the schedule.

However, the consequential repeals—I have tried to follow them through in the way I described to the Minister in our recent discussion on form guides—include repeals of section 6(10)(b) of the Smart Meters Act 2018 and section 11(2) of the Domestic Gas and Electricity (Tariff Cap) Act 2018. These actually do the same sort of thing: delete sections of various Acts regarding licence modifications. Having looked through how these two provisions apply and why they are being repealed, I cannot see what on earth they have to do with nuclear energy financing. While I am sure that this would not have anything to do with somebody trying to put a couple of repeals in the back of a Bill even though they are not strictly in scope, I would like some assurance that these repeals are actually relevant to the forthcoming Act. If they are relevant, how? Why is it necessary to repeal two provisions that, on the face of it, do not appear to have anything to do with the Bill? I am sure the Minister will be happy to write to me to set out why that is the case.

Greg Hands: Yes, I think I will write to the hon. Gentleman, if I may. I am told that it is to remove a double label in the legislation, so it is purely a tidying up exercise. I will write to him, copied to members of the Committee, and for convenience I may combine it with the letter mentioned in the previous debate. It would be convenient for the Committee to have that letter well in time for Report, in case Committee members wish to consider following up with an amendment on Report.

Question put and agreed to.

Schedule accordingly agreed to.

Clauses 43 to 45 ordered to stand part of the Bill.

New Clause 1

REPORT ON EXPECTED COSTS

"(1) Prior to exercising the power under section 6 (1), the Secretary of State must lay a report before Parliament.

(2) The report must set out—

(a) the expected overall capital cost of the prospective projects;

(b) the expected up-front cost of the prospective projects."

—(Alan Brown.)

This new clause would require the Secretary of State to set out (a) the overall capital cost; and (b) the expected up-front cost of the prospective projects prior to exercising the power under Clause 6 (1).

Brought up, and read the First time.

Alan Brown: I beg to move, That the clause be read a Second time.

Again, I am trying to rise to the challenge from the Minister to put forward amendments and new clauses to improve the Bill. New clause 1 is about trying to ensure much greater transparency on costs by asking the Secretary of State to lay a report before Parliament. That in itself should not be onerous and it is something that I expect the Minister would easily be able to commit to. All the other new clauses are similar and about trying to establish that transparency, so that parliamentarians and consumers understand the cost of a nuclear project once it is signed off or at different phases following that.

New clause 1 is very modest. Subsection (2)(a) is about the provision of confirmation of the capital cost. Parliamentarians and, more importantly, consumers need to know just how many billions of pounds are committed to each new nuclear project. We hear that Hinkley Point C is now costing around £22 billion, an increase of 25% on the original estimated cost of £18 billion, but we never get these figures confirmed by Government, because it is said that cost increase is a contractor risk. So, we do not ever formally get to understand the true costs of Hinkley Point C.

At the moment, while we assume that Sizewell C will be in at least the same order of magnitude of cost, we are always told that Sizewell C will be cheaper than Hinkley Point C because of lessons learned in the design and construction of the project. Even then, that still means that Sizewell C will be in the order of £20 billion. That is a lot of money being committed for consumers, and consumers have the right to know just how much money is being committed.

We do not even know how that £20 billion estimate is going to pan out because construction costs are soaring post covid and post Brexit. Even if savings are made on Hinkley Point C, they could easily be counterbalanced by natural cost increases in the construction industry.

Subsection (2)(b) calls for all up-front costs to be clarified. If we look at the development of Sizewell C, that would mean confirmation of how much of the £1.7 billion allocated in the budget has been used and what it was used for. We also need to know what other costs are committed to during the anticipated construction period. Under the RAB proposals, consumers will start to pay money as soon as construction begins, but they are actually not committed to the full construction cost because that gets spread out over the rest of the RAB contract period; but I think it is only right to know what costs have been committed to as soon as construction commences.

Looking at the bigger picture—possibly I should have made the new clause more wide-ranging—we need to know what decommissioning costs are committed to within the overall cost envelope. We should also have the full details of RAB payments in terms of anticipated changes going forward, over the six-year period post construction.

I say to the Minister that I do not want to hear commercial confidentiality used as a smokescreen for not providing information. Giving details of the kind that I have highlighted would in no way endanger an operating company's patent in design, or people being able to work out the costs of individual elements, because we are looking for the big picture costs.

12.15 pm

Lastly, we also need to consider any other consequential costs. As part of the Hinkley Point C deal, it was reported, the strike rate of Hinkley Point C would reduce from the extortionate £92.50 per megawatt hour strike rate to £89.50 per megawatt hour if Sizewell was given the go-ahead. However, presumably when that arrangement was agreed it was on the assumption that Sizewell would also be continuing on the contract for difference model. If a RAB funding model is agreed for Sizewell C, will we still see that reduction in strike rate for Hinkley Point C, or is that by default a further hidden cost of the RAB model if taken forward for Sizewell C?

Greg Hands: As the hon. Gentleman just explained, new clause 1, tabled by himself and the hon. Member for Aberdeen North, seeks to place additional reporting requirements on the Secretary of State. In particular, it will oblige the Secretary of State to lay a report before Parliament outlining expected overall capital and up-front costs of the project, before the licence modification powers are exercised. I want to thank the hon. Member for engaging with the substance of the Bill. He is right that I challenged him on the first day because he had not tabled any amendments; now he duly has, and it is our job to debate and scrutinise those amendments.

While we agree that it is important for the Secretary of State's decision making with respect to a RAB to be transparent, a requirement to publish details of a negotiated deal prior to the licence modifications could jeopardise our ability to complete a successful capital raise—that is the point here. That could in turn impact our capacity to secure value for money for consumers; at the end of the day, that is what this Bill is all about. I want to reassure the hon. Member—

Alan Brown: Can the Minister explain more fully why giving detail on what the anticipated capital costs of the project are will somehow endanger the sign-off of that deal?

Greg Hands: At the point of the licence modification, we then go into the raising of the capital. Raising the capital may be more difficult, or be jeopardised, if that information has been published. It must be in the best interests overall for the Secretary of State to make the judgment as to how they can best effect best value for money for consumers, and ultimately for the sake of the taxpayers.

Alan Brown: I am still not clear how putting in the public domain what the capital cost is would make it difficult for somebody to secure private investment. First, they will have already looked at securing investment; and secondly, once the costs are known it would surely be easier for them to secure additional private investment.

Greg Hands: The hon. Gentleman may be mixing up what is in the public domain and what is part of the negotiation. You will know, Mr Gray, that it is important for the Secretary of State to be able to, in the negotiation, get the best deal—that is what we are looking for here. That is the whole purpose of the legislation; the purpose of the RAB model is to save consumers money overall. It responds to the National Audit Office report that mentioned Hinkley Point C, and said that there ought to be the ability to save money overall by sharing costs between consumers and taxpayers. That is what the RAB model is seeking to do. What we are debating overall with this legislation is how to best effect a saving for the consumer, which we estimate to be in the region of £30 billion overall. That is a very effective saving for consumers.

I would like to reassure the hon. Member that the allowed revenue for the project will be calculated by the authority throughout the construction period, thus helping to ensure that the company is spending money efficiently and economically. In response to that part of the new clause looking for detail on capital costs, these will be a key input to a project's value for money assessment as it goes through relevant approvals. As set out in our consultation on RAB, when assessing the value for money of new nuclear projects, the Government would be focused in particular on whether the project was expected to contribute to the target of net zero emissions by 2050 and deliver security of supply at a lower total electricity system cost for consumers than alternatives without the project, so additional considerations do come into play.

In response to the part of the new clause that asks about the up-front costs of a project, we have suggested elsewhere that any initial costs to the project financed under a RAB model would be very small. For example, a project beginning construction in 2023 would cost only a few pounds per dual-fuel household in this Parliament.

The new clause is not necessary, given the steps that we have taken elsewhere in the Bill to ensure that the modification procedure and the designation process that precedes it are as transparent as possible. We believe that sufficient transparency is already embedded in the Bill. The Secretary of State will be obliged to publish the designation statement setting out how they will assess nuclear companies against the designation criteria, including value for money, for a RAB project. The Secretary of State will also need to consult with a list of key independent bodies, including Ofgem as the RAB regulator, the UK's nuclear and environmental regulators and the devolved Administrations, on their draft reasons for project designation, which will include the Secretary of State's assessment of the project's value for money. They will then be obliged to publish these reasons at the point that a project is designated.

The Secretary of State is also required to consult named persons prior to making any licence modifications, which will allow expert voices to input on whether the licence modifications are effective in facilitating investment. Following the consultation, the Secretary of State must then publish the details of any modifications made as soon as reasonably practicable after they are made. This approach—of consultation followed by publication—is well precedented in other licence modification powers.

I turn to a couple of points raised by the hon. Member for Kilmarnock and Loudoun. He asked some questions about potential the savings of Sizewell relative to Hinkley. First, of course we are expecting there to be savings—learnings from the Hinkley process to be transferred to the Sizewell process. Secondly, going back to what I said earlier, we would expect that the RAB model would also lead to savings overall for the consumer over the life of the plant.

[Greg Hands]

The hon. Member then asked about the strike price reduction. Under the RAB model, it is not appropriate to talk about a strike price, because it is a fundamentally different financing construct, without a strike price, which is applicable under a contract for difference regime. It would not be appropriate to use a strike price in this case. It is fundamentally different.

Alan Brown: My point was that part of the original strike rate deal agreement for Hinkley Point C was that if Sizewell C followed on, there would be a consequential reduction in the strike price for Hinkley. I know this is about a RAB model; but I am asking, will that consequential price decrease in the strike rate nevertheless be made—or, because of the RAB model, does Hinkley remain at £92.50?

Greg Hands: The hon. Member raises a very good question. The negotiation is ongoing at the moment with Sizewell. I reiterate the point made by the Secretary of State that the learning process from Hinkley is ultimately transferable to Sizewell. There are also aspects of the supply chain that were established for Hinkley that are transferable to Sizewell. If I understand correctly, there have been savings during the construction of Hinkley, with learnings from the earlier part of the construction going into the later part. We expect those savings to go forward to Sizewell. However, I stress again that comparing a RAB model strike price with the strike price of a contract for difference is not appropriate. There is no strike price with a RAB model.

By following this model and allowing the Secretary of State to lead on negotiations, as is standard for a project of this type, we will be able to achieve the best deal for consumers and taxpayers. I hope that demonstrates to hon. Members the Government's commitment to transparency in the licence modification and the processes that support it. I hope they will withdraw the amendment.

Alan Brown: I have listened to the Minister and I am still not convinced in any way that what he outlined will provide the transparency that I am looking for. Again, the argument is, in terms of construction costs, "Well, it is only a few pounds per dual-fuel household per month for the duration of this Parliament." That is one of the points I keep returning to. "We are talking about just a few pounds per month per consumer" is a way of trying to minimise the actual costs that are being committed, and I do not think it is sufficient. That is why I want to see much more transparency on the actual costs that are committed.

It is also interesting that the Minister made an assessment about security of supply and the whole-system cost, and looking at the value for money of a nuclear power project on that basis. I would like to understand a bit better how the Government actually undertake that. I refer him to the Imperial College report that demonstrated that using pumped storage hydro would save £690 million a year compared with nuclear energy. So, clearly, it is all about how we look at the metrics and which other technologies we consider when looking at the whole system and looking ahead to 2050.

I will not press the new clause to a vote at the moment. We will look at bringing back something on Report to try to encapsulate what we are looking for in terms of that transparency. I beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

New Clause 2

REPORT ON AGREED STRIKE RATE

"(1) When granting an electricity generation licence to a nuclear company in relation to a nuclear

energy generation project, the Secretary of State must lay a report before Parliament.

(2) The report under subsection (1) must set out—

(a) whether the Government has offered the nuclear company a guaranteed strike price for the sale of electricity onto the National Grid;

(b) the strike price included in any such arrangement;

(c) the duration in years of any such arrangement."—*(Alan Brown.)*

In respect of new nuclear projects, this new clause would require the Secretary of State to publish details of any agreement reached offering a guaranteed strike price for the sale of electricity onto the National Grid.

Brought up, and read the First time.

Alan Brown: I beg to move, That the clause be read a Second time.

I will be very brief because most of my new clauses are quite self-explanatory. This new clause seeks full clarity on any commitments that we undertake in a new nuclear project. It has previously been suggested that once a new power plant is operational, the actual cost of the electricity will be deducted from the RAB payments and, arguably, somehow the RAB payments could then be nullified by that arrangement. I do not see how that is credible.

If we are entering a 60-year contract to pay back a lot of the capital cost of the project, it does not make sense that the electricity would work to counterbalance that. I am concerned that a strike rate or some sort of minimum floor price will be agreed with a company, else it might not want to commit to the £20 billion or £20 billion-plus capital expenditure. That is what the new clause is all about. If there are any agreements on the price for the sale of electricity that is baked into contracts or negotiations—although it might not be called a strike rate—we need to understand that. Again, we need to have that full transparency on the costs that will be committed to consumers' bills.

Greg Hands: I thank the hon. Member for Kilmarnock and Loudoun for probing, but I will briefly point out two reasons why we cannot include his new clause in the Bill. First, the new clause makes reference to "granting an electricity licence"; to be clear, the Bill does not give powers to the Secretary of State to grant any licences but, instead, to amend existing generation licences. Purely on language terms—important terms—we cannot accept the new clause. Secondly, the new clause proposes that the Secretary of State must report on any strike price agreed in relation to a project and provide further detail on that price. As I have already said, "strike price" is not an appropriate term because there is no strike price in a RAB model. For those reasons, I ask that the hon. Gentleman withdraw his new clause.

Alan Brown: I will not press the new clause to a vote at the moment. I will have a think about what the Minister recommends on language, which presumably means the language he would accept; I will also revisit what we are calling a strike rate. Maybe we can agree something on Report. I beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

New Clause 3

REPORT ON DECOMMISSIONING COSTS

"(1) When granting an electricity generation licence to a nuclear company in relation to a nuclear generation project, the Secretary of State must lay a report before Parliament.

(2) The report under subsection (1) must set out—

(a) how decommissioning costs will be met, including any role played by—

(i) revenue collection contracts;

(ii) strike rates; and

(iii) consumer risk.

(b) how this would change if the nuclear company were to become insolvent."—*(Alan Brown.)*

In respect of new nuclear projects, this new clause would require the Secretary of State to publish details of how decommissioning costs will be met, including in the event of the nuclear company becoming insolvent.

Brought up, and read the First time.

Alan Brown: I beg to move, That the clause be read a Second time.

Again, I will be very brief, because I think it is clear what I am looking for. I am sure that the Minister will give the same answer about granting and modifying a licence, and that it is not the time to provide that information. However, I do think it is very important that, at some point, we understand it. We keep being told that decommissioning costs are baked in, up front, in the price of a contract. For me, it is vital that we get more information on what is actually baked in, and how that can provide any certainty on future decommissioning, because I still have grave concerns that a company could choose to walk away, and the taxpayer or consumer is left to pick up the decommissioning costs at a later date.

12.30 pm

Greg Hands: I thank the hon. Gentleman for tabling the new clause. He is right that, in my view, it cannot be accepted into the Bill because it refers to granting rather than amending a licence; however, I welcome his attention to the costs of decommissioning, which is an important issue across all these projects. It is important to note that the Energy Act 2008 legislated to ensure that the operators of new nuclear power stations have secure financing arrangements in place to meet the full costs of decommissioning. Nothing in the Bill would alter in a negative way the provisions of the 2008 Act.

Under the 2008 Act, operators are required to submit a funded decommissioning programme to the Secretary of State for approval. I stress to the Committee that it is a legal requirement to have an approved FDP in place before any nuclear-related construction can begin on site. When making a decision on an FDP to approve, reject or approve with conditions, the Secretary of State must have regard to the FDP guidance, which sets out the guiding factors that the Secretary of State must be satisfied are met. The guidance stipulates key documentation and so on, and consultation with the ONR, the Environment Agency and Ofgem.

All of that is laid out in the 2008 Act, so I hope to have demonstrated that the robust FDP legislation, combined with the RAB model and our insolvency measures, will ensure that the costs of decommissioning are met. For all those good reasons, in addition to the reason that the new clause talks about granting rather than modifying the licence, I ask that the hon. Gentleman withdraw the new clause.

Alan Brown: I will not press the new clause to a vote. Equally, I am not convinced that there is enough transparency on the decommissioning costs. It is certainly something that I would like to revisit. I understand what the Minister says about the process, but of course we have not had a chance to test how robust it is. It has been applied to Hinkley, but decommissioning is some way off. We know how much liability the taxpayer has at the moment in terms of the existing decommissioning, which it is estimated will cost £132 billion over the next 100 years. We have an astonishing nuclear waste legacy that the taxpayer is having to pick up. That is why I am really keen to explore the robustness of the process, and more importantly what costs there are, but I beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

New Clause 4

REPORT ON PROPOSED PAYMENTS TO A NUCLEAR ADMINISTRATOR OR RELEVANT LICENSEE NUCLEAR COMPANY

"(1) Prior to making payments for the purpose described in section 41(2)(c), the Secretary of State must prepare and publish a report on the proposed payment and must lay a copy of the report before Parliament.

(2) Before the payment is made, the report under subsection (1) must be approved by the House of Commons."—*(Alan Brown.)*

This new clause would require any payments under clause 42(2)(c) to be approved by the House of Commons before being made.

Brought up, and read the First time.

Alan Brown: I beg to move, That the clause be read a Second time.

I will be brief. The new clause could have been an amendment to clause 41. I am concerned that the financial provisions under clause 41 are open-ended. The Secretary of State can make decisions, and subsection (1) begins:

"There is to be paid out of money provided by Parliament".

It is effectively saying that Parliament will pay for whatever decisions the Secretary of State makes. As I say, that is open-ended; it is a blank cheque, if something is enacted under clause 3. That is why I simply ask that, before making any payments, information be provided to Parliament, and the anticipated level of expenditure be approved by Parliament itself.

Greg Hands: New clause 4 would add another new report for the Secretary of State to lay before Parliament, as the hon. Gentleman said, to detail the funding that the Secretary of State would propose to make to a nuclear administrator or relevant nuclear licensee company, and further requires that the report be approved by the House of Commons. As I have already made clear, I think the clear and transparent process that we have already laid out in the Bill achieves the objective overall, but in this particular case such an amendment could have negative implications for the operability of the SAR, or the special administration regime. This may place additional risk on consumers being unable to realise the benefits of the plant that they have contributed to building and significant sink costs. Of course, these are powers that we hope the Secretary of State will never have to use, and money that will never need to be spent.

As well as the need for pace, there is also a need for all relevant parties to be comfortable that the SAR is deliverable. In order to take on the administration appointment, the administrator would need to be assured that funding in the form of loans, guarantees or indemnities would be available from day one of the SAR. That is a crucial part of how a SAR regime operates. The administrator must know that funding is available from day one. The proposed amendment could introduce a degree of uncertainty over the funding pending a report from the Secretary of State to be deposited in Parliament, such that the administrators might be reluctant to take on the appointment.

I remind the House that the objective of the RLNC administrator is to commence or continue the generation of electricity, and we expect that in doing so the administrator must be able to act swiftly. It is imperative that an administrator has quick access to the funding required to ensure that such outages do not occur—we are talking, after all, about a nuclear power plant—and security of supply is maintained. More importantly, such swift action must also be conducted safely, and any lapse in funding could result in safety-critical operational expenditure not being spent. I therefore consider that such a reporting obligation on the Secretary of State would hinder the effectiveness of the special administration regime, so I ask the hon. Gentleman to withdraw the motion.

Alan Brown: I really do not buy the argument that getting approval for expenditure somehow jeopardises getting that expenditure and getting the plan operating. It makes no sense whatever. I think the Minister just wants to retain the open chequebook policy that allows the Secretary of State to do whatever he wants, but he argued it was necessary for security of supply.

It feels as though the end is in sight. I am not going to press this to a vote, given that we will simply lose it, so I am happy to withdraw, but, again, I would like to reconsider it because, to repeat myself, I want greater clarity and transparency on the costs that could be committed in future. I beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

New Clause 5

REPORT ON TRANSFERS FALLING WITHIN SECTION 32(3)

"(1) Prior to a transfer falling within section 32(3), the Secretary of State must lay a report before Parliament.

(2) The report under subsection (1) must set out—

(a) the liabilities associated with the nuclear company;

(b) any estimated costs of getting the plant operational again if it has been temporarily shut down;

(c) the estimated lifespan of the nuclear power station; and

(d) decommissioning costs and confirmation of any funding provided by the nuclear company for this purpose."—*(Alan Brown.)*

This new clause would require the Secretary of State to publish a report on the matters listed prior to any transfers falling within clause 32(3).

Brought up, and read the First time.

Alan Brown: I beg to move, That the clause be read a Second time.

Lastly and briefly, new clause 5 ties in with the debate that we had earlier on amendment 18 to clause 32. These are the key considerations that the Government would need to consider before committing to maintaining the operation of a nuclear power plant. In the case of a company becoming insolvent, it cannot be taken over as a going concern and cannot be transferred. In terms of the going concern aspect, what liabilities are associated with the nuclear costs? Obviously, there are the actual costs of getting the plant operational again if it has had to shut down. The estimated lifespan of a nuclear power station and the decommissioning costs and confirmation of any funding that is provided by the nuclear company for that purpose again gets into the value for money argument and making a sensible decision. Do the Government take over the operation of the plant, for example, or do they start the decommissioning process and shut it down to get best value for the taxpayer?

Greg Hands: I thank the hon. Member for Kilmarnock and Loudoun for describing his proposed new clause 5. It is important to understand that the new clause, like the previous ones, would oblige the Secretary of State to lay before Parliament a report, in this case detailing the liabilities associated with a nuclear company, the estimated costs of restoring operation in the event of a shutdown, the estimated lifespan of the nuclear power station and the decommissioning costs of the project.

Obviously, I welcome the hon. Gentleman's desire to increase transparency and the robustness of the Bill. However, I would like to bring to the Committee's attention that it is of course the court that has the final say, as it is the court that appoints the time at which the energy transfer scheme is to take effect, following approval by the Secretary of State. It is a matter for the court. Therefore, the proposed reporting obligation on the Secretary of State must be considered unnecessary, as sufficient transparency is already offered through the court process. The courts will make an informed decision and will have ultimate responsibility for the decision on when an energy transfer shall take effect.

The proposed reporting requirement might oblige the Secretary of State to publish sensitive material, including of a commercially sensitive nature, which could have implications for the effectiveness of the RLNC administration order, the ability to achieve the objective and also to bring the administration to an end. It might well act against the public interest. The new clause risks the failure of the RLNC administration order's objective and considerable sunk costs to consumers. I therefore ask the hon. Gentleman to withdraw the motion.

Alan Brown: In each response, the Minister says that he welcomes my desire for greater transparency, but he then rejects all my requests for greater transparency, so it does not quite feel like that. Presumably it means that we will be able to agree something on Report to get the transparency that we desire. Again, I am not convinced that doing this report would jeopardise the process, but I am happy to withdraw the new clause at the moment and to try to find ways to get the answers and transparency that I am looking for. I beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

Question proposed, That the Chair do report the Bill to the House.

Greg Hands: On a point of order, Mr Gray. I would like to thank you and Ms Fovargue for your excellent chairing of the Committee, getting us through this important process efficiently and effectively. This has been a very interesting debate on a very interesting Bill on a very interesting topic, which attracted broad interest across the House. I have to confess that this has none the less been a relatively uneventful Committee, but for connoisseurs of the topic, it will provide many future years of reading as to how nuclear financing was scrutinised by the House of Commons so effectively and in significant detail.

I thank the excellent witnesses whom we heard from last week and all members of the Committee for their constructive debate. That has allowed the Bill to go through significant scrutiny, and facilitated important discussions. I also thank the Whips—the Whips must always be thanked—on both sides for their efforts and their effective management of the time. I offer my thanks to the Clerks, the *Hansard* reporters, the Doorkeepers and, indeed, all the parliamentary staff, and to my excellent team of Department for Business, Energy and Industrial Strategy officials, for the smooth proceedings and ensuring that we have all been well looked after and have finished with the Bill well scrutinised, but in good time. I look forward to the next stages of proceedings on the Bill and the continued insight from colleagues across the House.

Dr Whitehead: Further to that point of order, Mr Gray. I would like to associate myself with the Minister's remarks about the passage of the Bill and with the thanks that are due to the many people who took part in its processes, from witnesses to hon. Members here today. A number of them were, I know, somewhat tested on occasion by the detail into which some amendments went. But overall, we have had good scrutiny of the Bill, facilitated by the courteous way in which the proceedings were conducted. I thank the Minister for those courtesies in how our debates proceeded, and I thank you, Mr Gray, for your excellent chairing of our proceedings.

Alan Brown: Further to that point of order, Mr Gray. In a similar vein, I thank yourself and Ms Fovargue for chairing the Committee. I especially thank the Clerks for all they have done, and for the assistance they have provided with drafting amendments and new clauses. I must admit, although the Minister has said that some were not relevant, I trust the Clerks' judgment more than I trust the Minister. I do not mean that to be facetious.

12.45 pm

The Minister has said that people will be able to review how we have debated nuclear financing and what this Bill might achieve. I actually hope that this Bill ends up getting dusty sitting on a shelf and is never required to be used; I am not going to change my viewpoint on what the endgame of this is. However, it has certainly been an interesting debate, and I thank the Minister for the good spirit he has shown. It was funny when the hon. Member for Southampton, Test made the joke about how long we have spent on some amendments: it is amazing that we have got here after our sitting dealing with the first amendment, but I thank everybody for their participation.

The Chair: All three points of order are, of course, entirely bogus, but are none the less very welcome indeed. I put on the record my view that the bulk of the work of the chairing of the Committee has been done by my hon. Friend the Member for Makerfield. Nevertheless, I am grateful to all three Members for their entirely bogus points of order.

Question put and agreed to.

Bill accordingly to be reported, without amendment.

12.46 pm

Committee rose.

Written evidence reported to the House

NEFB06 Sizewell C Consortium

NEFB07 Stop Sizewell C