



House of Commons
Welsh Affairs Committee

**The suspension of work
on Wylfa Newydd
nuclear power station:
Government Response
to the Committee's
Third Report**

**Fifth Special Report of Session
2017–19**

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Welsh Affairs Committee

The Welsh Affairs Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Office of the Secretary of State for Wales (including relations with the National Assembly for Wales).

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Committee staff

The current staff of the Committee are Kevin Maddison (Clerk), Matthew Congreve (Second Clerk), Rhiannon Williams and Simon Horswell (Committee Specialists), Louise Glen (Senior Committee Assistant), Kelly Tunnicliffe (Committee Assistant) and Nina Foster (Media Officer).

Mariam Keating (Committee Specialist) was also a member of Committee staff during this inquiry.

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Fifth Special Report

The Welsh Affairs Committee published its Third Report of Session 2017–19, [The suspension of work on Wylfa Newydd nuclear power station](#) (HC 1938) on 3 May 2019. The Government's response was received on 3 September 2019 and is appended to this report.

Appendix

The UK Government welcomes the Welsh Affairs Committee's report *The suspension of work on Wylfa Newydd nuclear power station* (HC 1938) which was published on 3 May 2019. The Government has considered the Committee's findings and recommendations and our responses are set out in this document.

Implications for North Wales

Recommendation

The nuclear sector has long been an important part of the North Wales economy. We were impressed by the various innovative projects, particularly plans for alternative, sustainable energy projects, underway to maintain this importance over the coming decades. Given the suspension of work on Wylfa Newydd, these projects are even more crucial in ensuring the sector in North Wales remains vibrant and that skills are retained. (Paragraph 11).

Government Response

The UK Government, the Welsh Government and local partners have identified low carbon energy as a key sector for the North Wales Growth Deal. There are several projects in this sector, and proposals that would support growth in the low carbon sector, currently under consideration.

The UK Government welcomes proposals for renewable generation projects in the North Wales Growth Deal which can demonstrate effective use of public funds, regional economic impact, the ability to secure private sector investment and financial viability. Growth Deal proposals will be assessed by both the UK and Welsh Governments and agreed as a package jointly with the North Wales Economic Ambition Board (NWEAB).

Our sustained support for clean energy has led to dramatic falls in the costs of some renewable electricity generation technologies. For example, Government investment in offshore wind through the Contracts for Difference (CfD) scheme saw the clearing price for future offshore wind projects halve in 2017, compared to the first CfD auction in 2015.

The UK Government recognises green power will likely be the cheapest power by the mid-2020s, and the prospect of subsidy free solar photovoltaics is becoming increasingly realistic for developers. Two such solar farm sites have already deployed in the UK at Clayhill and Westhampnett.

Recommendation

Ynys Môn is arguably one of poorest parts of Wales, and the over-reliance of the local economy on one big project is concerning. The UK and Welsh Governments must come together to develop a strategy to sustain and diversify the local economy of North West Wales away from solely nuclear, especially considering Hitachi's decision to suspend the project at Wylfa Newydd. This strategy should include how public support earmarked for Wylfa B could be utilised in an alternative manner. Work on this strategy should commence immediately and this committee should be consulted on its development. (Paragraph 12)

Government Response

We recognise that more can be done on Ynys Môn to create a sustainable and diversified local economy with good, well-paid jobs. This is why the UK Government are delivering a number of projects that will directly benefit the region. This includes improving rail infrastructure and direct services from North Wales to Liverpool as part of our £16 million investment in the Halton Curve. We have recently delivered a £50m re-signalling project along the North Wales mainline, and HS2 will significantly improve connectivity between North Wales and London. We are also working with the Welsh Government to deliver the £40m Thermal Hydraulics facility on Ynys Môn.

The UK Government is working with Welsh Government and local leaders on delivering a North Wales Growth Deal. This Deal was created using local knowledge and initiative by the local leaders and businesses with respect to a geographic and sectorial spread across the region. These proposals include considerations from large scale development of the Port of Holyhead to digital infrastructure that will support SMEs for the whole region.

Our ambitious, modern Industrial Strategy sets out a long-term plan to boost the productivity and earning power of people throughout the UK. It sets out how we are building a Britain fit for the future – how we will help businesses create better, higher-paying jobs in every part of the United Kingdom with investment in the skills, industries and infrastructure of the future.

We want to continue our work with the devolved administrations to ensure that we can deliver on the promise of key policies for all four nations. We are recommitting to our dialogue on the Industrial Strategy as we move to implementation, with a focus on how we address our Grand Challenges; deliver Sector Deals for businesses across the UK; maximise the impact of our respective agencies' work together; and working jointly to deliver for places in each nation.

As set out in Parliament on 4 June 2018, it remains the Government's objective in the longer term that new nuclear projects – like other energy infrastructure – should be financed by the private sector. As such, we did not set aside money for Wylfa but did agree to enter into negotiations to see if an agreement could be reached. We are continuing to review the feasibility of a RAB model for future new nuclear projects which has just gone to consultation.

The UK Government remains committed to North West Wales. We will seek to ensure that UK Government investments in the region deliver transformational and widespread economic growth, including for Ynys Môn.

Recommendation

We are concerned about the effects of the Wylfa Newydd suspension on the North Wales Growth Deal. We encourage the UK Government, Welsh Government, local authorities and other partners to work together to ensure that other projects in the Growth Deal bid can be accelerated to minimise the damage to the local economy. (Paragraph 13)

Government Response

The UK Government recognises the significant impact that Hitachi's decision could have on the region, and on planned investments such as the Growth Deal. We have been working with all partners to ensure that careful consideration is being given to how the impact on projects can be mitigated effectively.

The Office of the Secretary of State for Wales has provided ongoing support to the region to enable the NWEAB to refine their proposals ahead of a Heads of Terms agreement at ministerial level. As part of this support, the UK and Welsh Governments recently held challenge sessions in North Wales with Ministers from both Governments and senior members of the private sector. The purpose of these sessions was to:

- Consider the proposals for a North Wales Growth Deal and its ability to meet the challenges of the regional economy, assess the proposed structure of the Deal, and in particular provide a view on the strengths and deliverability of projects;
- Consider if the proposals are underpinned by a robust evidence base, including economic modelling and baseline;
- Challenge the fit of projects with regional economic priorities and policies; and
- Provide challenge and advice on the developing assurance frameworks and governance structures.

Further work following these sessions is ongoing, and the UK Government expects to be in a position to sign a Heads of Terms agreement in the near future.

Recommendation

We note that with a further £44 million each the UK and Welsh Governments could provide the full amount of capital funding originally sought by the Growth Deal. We also accept the Secretary of State for Wales's argument that the money should only be provided on the basis of strong, cost-effective bids. We recommend that the two Governments provide support and advice to the Growth Deal partners to ensure that high quality proposals, worthy of further investment, can be brought forward in time for the 2019 Budget. (Paragraph 14)

Government Response

In the 2018 Budget, the UK Government announced £120 million for the North Wales Growth Deal, which was subsequently matched by the Welsh Government contribution.

It is vital that the Growth Deal is built from the local area and that they focus resources on the content of the growth deal projects, within the financial envelope from both

Governments, so that local partners can secure approval of full business cases for projects included in a Heads of Terms agreement and the subsequent release of this funding to the region.

The UK Government is providing ongoing advice and support to our Growth Deal partners in North Wales around the production of business cases, including specialised support from policy teams across UK Government departments.

Our door is always open to future ideas and new proposals that can be truly transformative for the region. As such, the UK Government also remains open to examining any credible case for further funding that we receive from our Growth Deal partners in North Wales. Any such case will be assessed on its individual merits and must be able to demonstrate clear value for money, transformational economic impact and the ability to secure private sector investment in the region.

Recommendation

We reiterate our predecessors' conclusion that Trawsfynydd is an ideal site for a first-of-its-kind small modular reactor. It is imperative to explore new ways of sustaining the local economy, ensuring expertise is retained in the area and sustained by similar employment opportunities. The suspension of work on Wylfa Newydd makes it all the more important that plans for Trawsfynydd are brought forward at the earliest opportunity. We recommend that the UK Government work with the Welsh Government and potential developers on a proposal for Trawsfynydd to be designated as a site for a new SMR. We ask the UK Government to update us on this work in its response to our Report. (Paragraph 17)

Government Response

The UK Government agrees with the report that previous infrastructure investment at the Trawsfynydd site, along with an existing skills base and supportive community, are likely to make it an attractive site to SMR developers. We are in the process of developing an approach to the siting of Small Modular Reactors and Advanced Modular Reactors, and we hope to be in a position to provide a fuller update later this year.

We have maintained and will continue to have regular contact with colleagues from the Welsh Government and Gwynedd Council on the development of a range of energy policies and initiatives, including siting and planning policy for SMRs.

While work on siting continues, we are developing proposals to invest Government money in the development of SMRs. The UK Government have now confirmed that the proposal from a consortium of businesses, led by Rolls-Royce, has been accepted into Wave 3 of the Industrial Strategy Challenge Fund and we are looking to make an initial award of up to £18m in Autumn 2019. This is subject to final decisions to invest, including business case and other approvals. The Rolls-Royce led consortium believes this new technology could create 40,000 jobs at its peak and each power station could produce enough clean energy to power 750,000 homes. This money is alongside up to £45 million to be invested in the second phase of the Advanced Modular Reactor programme, with project bids currently under consideration.

Recommendation

If North Wales is to remain a centre for the nuclear sector, it is important to have a supply of skilled workers for the future. While we are pleased that funding is in place to enable the apprentices from Wylfa Newydd to complete their programmes, we would be deeply concerned if they moved permanently to other parts of the UK and their skills were lost from North Wales. We recommend that the UK Government work with the Nuclear Decommissioning Authority to explore opportunities for the apprentices at the Wylfa and Trawsfynydd sites, to complete their training and for permanent roles at the end of their programmes. (Paragraph 21)

Government Response

The UK Government welcomes this helpful recommendation and will work with the Nuclear Decommissioning Authority (NDA), which is a non-departmental public body of the Department for Business, Energy and Industrial Strategy, and in partnership with its supply chain partners, the Welsh Government, and local communities to consider what support could be provided to complete the training of apprentices from the Wylfa and Trawsfynydd sites.

Since 2005, the NDA has already committed more than £10 million of socio-economic funding in North and Mid Wales to develop skills, create hundreds of new employment and educational opportunities and improve local infrastructure and will continue to support skills and training opportunities to help local economies diversify as Trawsfynydd and Wylfa are decommissioned.

Prospects for resuming work

Recommendation

We note that witnesses spoke positively about the potential for resuming work at Wylfa Newydd. The site clearly offers a number of advantages that make it favourable for the development of a nuclear power station. (Paragraph 24)

Government Response

The UK Government agrees that the site is suitable for the development of a nuclear power station. New build remains an option at Wylfa and we are discussing the future of the site with Hitachi, who own it. Future decisions about what Hitachi does with the site are commercial ones for the company. Additionally, Wales has world-leading expertise and capability across the nuclear sector and Ynys Môn has been a host community for nuclear power for many years. We are committed to creating a broad-based resilient economy through our modern Industrial Strategy and will continue to work with the Welsh Government and local partners to ensure that Wales prospers.

Recommendation

The regulated asset base model appears to offer a potential means of addressing Hitachi's concerns about the financing structures. We welcome the UK Government's intention to

assess the model. We encourage it to complete and publish the assessment as quickly as possible. If the assessment concludes that the model would help to restart development on Wylfa Newydd, the UK Government should bring forward the necessary legislation without delay, and explore whether it offers a viable model for other large scale energy projects. (Paragraph 30)

Government Response

The UK Government has reviewed the viability of a Regulated Asset Base (RAB) model and concluded that it could present a sustainable and value for money model for funding new nuclear projects, alongside the existing Contracts for Difference (CfD) model. It has the potential to attract significant investment for new nuclear projects at a lower cost to consumers, enabling low carbon power to be delivered at scale. On 22 July 2019 we published our assessment as part of a public consultation on the RAB Model for Nuclear which runs for 12 weeks to 14 October 2019.

We are also considering whether a RAB model could be applied to other firm low carbon technologies, such as transport and storage and infrastructure for carbon dioxide. This is included in a separate consultation on business models for Carbon Capture Usage and Storage.

Following analysis of the responses to the consultation, should the UK Government decide to proceed with introducing a RAB model to facilitate delivery of new nuclear projects, there could be further consultations on the specific design features of a nuclear RAB model.

Recommendation

When considering alternative financing and funding models, such as the regulated asset base model, the UK Government should consider conducting an assessment of a 100% equity stake model. All models should be assessed on the costs and risks to taxpayers and consumers. (Paragraph 31)

Government Response

As stated in the January 2018 Government response to the Public Account Committee inquiry into Hinkley Point C, the UK Government has considered a range of possible financing structures for large infrastructure projects including new nuclear.

The previous Secretary of State for the Department for Business, Energy and Industrial Strategy made clear in June 2018 that the Government's objective in the longer term was that new nuclear projects, like other energy infrastructure, should be financed by the private sector.

The consultation on the RAB model for nuclear sets out our assessment that, by providing regulated returns to investors, a RAB model has the potential to reduce the cost of raising private finance for new nuclear projects, thereby reducing consumer bills and maximising value for money for consumers and taxpayers. The consultation is on the basis that this

model would be introduced alongside our existing model for delivering new nuclear projects, the CfD model. A decision on which model was most appropriate for a particular project would be made on a case-by-case basis.

Recommendation

If Hitachi is not prepared to resume development of the site, it is possible that another developer might wish to take the work forward. We recommend that, if after the assessment of the regulated asset base model is completed, it becomes clear that Hitachi does not wish to take work forward alone, the UK Government encourage it to sell the site or to take part in a consortium of developers. Alongside this, the UK Government should take steps to identify other developers who might be willing to resume the development of, and explore alternative energy projects to, Wylfa Newydd. (Paragraph 34)

Government Response

Hitachi have indicated they wish to retain ownership of the Wylfa site whilst they discuss options for its future with the UK Government. Ultimately, whether Hitachi decide to take the project forward or sell the site is a commercial decision for the company. We will continue to work with Hitachi and other potential partners regarding future nuclear opportunities in Wales, including at Wylfa.