

Annex F: Response form for the consultation document on a Fixed Unit Price methodology and updated cost estimates

You may respond to this consultation by email or by post.

Please note that if you accessing this document electronically you will only be able to enter text in the response fields.

Respondent Details	
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Please return by 18th June 2010 to:

Fixed Unit Price methodology and updated
cost estimates consultation
Office for Nuclear Development
Department of Energy and Climate Change
Area 3D
3 Whitehall Place
London
SW1A 2AW

You can also submit this form by email:
decomguidance@decc.gsi.gov.uk

Tick this box if you are requesting non-disclosure of your response. ☐

No.	Question
Chapter 3: The methodology to determine a Fixed Unit Price	
1	<p>Do you agree or disagree that prospective operators of new nuclear power stations should be given the option to defer the setting of their Fixed Unit Price? If so, do you agree that this deferral should be limited to 10 years after the nuclear power station has commenced operation? Do you have any comments on the way the Government proposes to determine an expected Fixed Unit Price as the basis for an operator's interim provision in the event that they choose to defer the setting of their Fixed Unit Price?</p>
Response	<p>It is helpful to add flexibility on reasonable terms and cost, and where participants see value in the flexibility. The proposal opens the way to those participants who anticipate greater value in delaying the price compared to the risk of adverse price variation during the Deferral Period.</p> <p>We acknowledge the reasoning behind the maximum delay of 10 years.</p> <p>However, if an operator chooses to defer, the consultation document is not sufficiently clear about the procedure for delayed price setting. Paragraph 3.2.7 mentions deferral "for a defined period" without specifying what is meant by a defined period. Paragraph 3.2.8 mentions a maximum Deferral Period, "at the end of which the Fixed Unit Price will be set".</p> <p>This leaves the matter open to different possibilities:</p> <ul style="list-style-type: none"> (a) eFUP will necessarily exist for the full 10 years, and the operator will have no further choice but to wait to see what Fixed Unit Price is awarded at the expiry of the full Deferral Period. (b) Or, the operator will have the opportunity to change an eFUP into its Fixed Unit Price at any time during the Deferral Period. This would be a one-off right to "close" the Fixed Unit Price within the 10 years. However this is not supported by the consultation document as there appears to be no procedure for setting the Fixed Unit Price in this way. (c) Or, there will be specified review points within the Deferral Period, giving the operator limited choice to "close" the Fixed Unit Price at those times. The consultation document does contain provisions for periodic review of eFUP, but again, it does set out a procedure to support the concept of periodic "closure" of the Fixed Unit Price. <p>Finally, paragraph 3.2.21 refers to "no more than 10 years after the nuclear power station begins to generate electricity". Given the activities and time scales involved in commissioning (which can continue for more than a year), it would be helpful to add some detail to clarify what is meant by "begins to generate".</p>
2	<p>Do you agree or disagree with the proposal that the Schedule for the Government to take title to and liability for an operator's waste should be set</p>

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	in relation to the predicted end of the decommissioning of the nuclear power station? Do you have any comments on the way the Government proposes to recoup the additional costs it will incur in this case?
Response	<p>We accept that the Government is in a better position to take responsibility for waste at the end of the decommissioning period, and this guides us to conclude that the principle strikes the right balance.</p> <p>The proposals have no concept of setting a fixed unit price for waste storage and handling between the Transfer Date and ultimate disposal in a GDF. There is good reason for this as individual sites and operators will have their own particular solutions and costs to the intermediate storage of waste. Operator control over their own facilities naturally leads to the view that the proposals will be most effective if the operator bears at least a proportion of the risk of cost variation for these facilities after the Transfer Date.</p> <p>However we believe it is appropriate for the Government to also bear a significant proportion of that risk as the facilities will be under Government control after the Transfer Date. It is important to avoid an adverse allocation of risk to the operator as this could create barriers to obtaining private finance. We believe this would benefit from further clarification as there may be a risk that the present proposals could introduce late changes in funding liabilities which arise from expectations of cost variation after the Transfer Date, but which will be wholly outwith the control of the operator.</p>
3	Do you agree or disagree that the proposed methodology to determine a Fixed Unit Price strikes the right balance in protecting the taxpayer, by taking a prudent and conservative approach to cost estimation, while facilitating new nuclear build by providing certainty to operators? What are your reasons?
Response	<p>We acknowledge and understand the need to protect the taxpayer as well as the importance of nuclear security and safety at all stages of the new build cycle.</p> <p>However these proposals raise significant uncertainties and risks with operators being asked to bear the risk of change of liabilities, substantially determined by the Government, in periods when the operator will have no control over the risk factors. We are not convinced that the proposed structure and risk allocation will satisfy financing criteria, and therefore whether these proposals will make new build any more likely.</p> <p>Our reasons are as follows.</p> <p>Paragraph 2.11 mentions a significant risk premium to help to ensure that the operator bears the risks around uncertainty in waste costs and to provide material protection to the taxpayer against cost increases. Paragraph 3.1.2 says that the Fixed Unit Price will be set at a level over and above expected costs and will include a significant risk premium. We</p>

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	<p>accept the principle of a risk premium, although we are unable to confirm that the proposal is acceptable until we have more complete knowledge of the level of the premium.</p> <p>According to paragraph 3.1.1, the Fixed Unit Price is intended to provide certainty to operators of new nuclear power stations on the costs of disposing of the ILW and spent fuel they will generate, but asks the operator to bear the risks around uncertainty in waste disposal costs. We are not convinced that these objectives can both be achieved. Some balance of outcome needs to be established at the outset. If the risk premium plays the role of the balancing item, we would need more knowledge of the level of the risk premium to form a view of the value of these proposals.</p> <p>According to paragraph 3.2.34, the Government will provide an operator with an Assumed Disposal Date in the approach to the Transfer Date to enable the operator to make prudent provision for waste management costs. Paragraphs 3.3.66 and 3.3.67 introduce a discount rate to reflect time differences. The Assumed Disposal Date and long-term discount rate are important parameters which have the effect of giving the Government significant control over operators' funding liabilities at a very late stage in the project lifetime. These have much the same effect as the government holding a late option to adjust demands for funding and represent a significant risk factor, and leaves operators little or no scope for risk mitigation.</p> <p>Paragraph 3.2.23 describes certain planning assumptions around the opening and operation of a GDF, plus the view that emplacement of new build wastes will follow emplacement of legacy waste. There is presently little knowledge of how these will advance in the near-to-medium term. As there are pros cons to Government and operators in the timing of emplacement of different wastes, we believe it would be advantageous to fix the assumed disposal date for new build waste at the outset for all operators who do not elect to defer the Fixed Unit Price. Using information provided in the consultation documents, it may be reasonable to set a date based on an assumption of 2040 commencement date for a GDF, plus 90 years to emplace other wastes before new build operator wastes. Given the time scales and uncertainties, we would not see any benefit in assuming different dates for different operators who set their Fixed Unit Prices at the time of their FDP. For those who choose an eFUP (including the attendant risks), we would accept that the Government should be free to change a common assumed disposal date for all eFUPs when evaluating and revising its requirements for cost recovery.</p> <p>Finally we note Paragraph 2.8 mentions how finalised guidance is expected to be published later in 2010 and will assist operators in understanding obligations under the Energy Act, and what is required for an approvable FDP. Our present view does not have the benefit of the final terms for approval of an FDP, and is necessarily contingent the guidance raising no significant further issues.</p>

No.	Question
4	Do you agree or disagree with the proposed approach to determining an operator's contribution to the fixed costs of constructing a Geological Disposal Facility? What are your reasons?
Response	<p>It is sensible to get the maximum benefit from a GDF by emplacing both legacy and new build waste. It is equitable to take both into account when seeking to allocate fixed costs amongst those contributing to the demand for such a facility.</p> <p>We believe the allocation methodology contains the right parameters and operational factors, but there may be scope for improvement in certain details of implementation.</p> <p>Our reasons are as follows.</p> <p>The parameters in the proposed allocation ratio (V_n/V_t) will necessarily be planning values at the time of setting the Fixed Unit Prices of new build operators. As such, the ratio could be based on mid-range assumptions of new and legacy wastes in order to factor-in a safety margin to maintain some protection for taxpayers. This leaves the upside of greater new build (dilution of fixed costs) but also leaves the risk of increased fixed costs due to any second disposal facility with taxpayers (other than those operators who elect for deferral).</p> <p>We would invite the Government to consider the assignment of a numerical value to the above ratio at an early opportunity in order to remove one present source of uncertainty in the Fixed Unit Price. All nuclear new build operators (who do not elect to defer) should then have the same ratio applied to them to avoid perceptions of planning data which could vary further down the line, and therefore create winners and losers for no better reason than the timing of their investments versus the timing of planning assumptions.</p> <p>This may not be necessary for eFUP as it is clear that those who chose to defer will be accepting the uncertainty of future variations.</p>
5	Do you agree or disagree with the proposal that the units to be used for the Fixed Unit Price are pence per kWh for spent fuel and cubic metres of packaged volume for intermediate level waste? What are your reasons?
Response	<p>A fully variable cost has the advantage of creating a positive incentive for operators to reduce the quantity of waste produced. We therefore agree with this aspect of the consultation because it should help to align the interests of Government and operators.</p> <p>Other than that, we would raise relatively minor points of detail as follows.</p> <p>Pricing ILW per cubic metre of packaged volume will create incentives to reduce disposed volume, and this would appear to produce the right</p>

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	<p>outcome environmentally and from a safety/security perspective.</p> <p>Pricing spent fuel per kWh(e) represents at least some departure from the above alignment of interest. As a consequence, there may be a risk of some inefficiency in the outcome, if it has an impact on the operator's view of the optimum time to replace depleted fuel elements. We do not express a view of the materiality of this question.</p> <p>However it would be helpful to more precisely specify how kWh(e) is to be measured, including the specification of a measurement point and reliable means of measurement.</p>
Chapter 5: Updated estimates of the costs for decommissioning, waste management and waste disposal	
6	Do the updated cost estimates represent a credible range of estimates of the likely costs for decommissioning, waste management and waste disposal for a new nuclear power station?
Response	<p>We believe the methodology set out in the consultation document captures the main cost drivers, however the outcome remains uncertain as it rests on achieving the right balance of risk and certainty. This is essentially a matter of determining the risk premia and planning assumptions that the Government considers to be appropriate to protect taxpayers.</p> <p>We believe that more certainty is required to convert the concepts into commercial proposals. This necessarily requests that the Government firm-up its requirements with regard to cost structure, pricing parameters and risk premia.</p>

Please select the category below which best describes who you are responding on behalf of.

- ☐ Business representative organisation/trade body
- ☐ Central Government
- ☐ Charity or social enterprise
- ☐ Individual
- ☒ Large business (over 250 staff)
- ☐ Legal representative
- ☐ Local Government
- ☐ Medium business (50 to 250 staff)
- ☐ Small business (10 to 49 staff)
- ☐ Micro business (up to 9 staff)
- ☐ Trade union or staff association
- ☐ Other (please describe):

Thank you for taking the time to let us have your views. The Government does not intend to acknowledge receipt of individual responses unless you tick the box. ☐

Department of Energy and Climate Change
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