



Department for
Business, Energy
& Industrial Strategy

Revenue stream for the Nuclear RAB model

Consultation in respect of revenue
regulations relating to the implementation of
the nuclear RAB model revenue stream

Closing date: 9 August 2022



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Introduction

The Government consulted on a Regulated Asset Base (RAB) funding model for new nuclear projects in July 2019. Following the outcome of the consultation, the Government confirmed in its response, published in December 2020, that the RAB model remained a credible basis for funding large scale nuclear projects.

A RAB model has typically been used to finance large scale infrastructure assets such as water, gas, and electricity networks in the UK, and enables investors to share some of a project's construction and operating risks with consumers and taxpayers. The nuclear RAB model would allow for a nuclear company to receive regulated revenues (funded in part by levies on electricity suppliers who may pass on these costs to their consumers) as long as RAB licence conditions are in place (i.e. throughout the RAB regulatory period). The model has the potential to significantly reduce the financing costs and hence the overall cost of a nuclear project.¹ A RAB model can also help attract private sector investment into a project, thereby increasing financing options for building new nuclear plants. This can support the transition to net zero emissions whilst retaining a resilient energy system.

The Nuclear Energy (Financing) Act 2022 ('the Act') received Royal Assent on 31st March 2022 and makes provision for the implementation of a RAB model for nuclear energy generation projects through:

- **The implementation of a statutory framework for an economic regulatory regime**, whereby the Secretary of State is able to 'designate' an eligible nuclear company provided certain criteria are satisfied (relating to the project being sufficiently advanced, and designation being likely to result in value for money). The Secretary of State is then able to modify the designated company's electricity generation licence to incorporate RAB licence conditions and terms which would allow the company to receive regulated revenues in respect of the design, construction, commissioning, and operations of a nuclear project. The Act supports this by ensuring that Ofgem, as the economic regulator, has the information and powers required to regulate a nuclear company benefitting from RAB conditions.
- **Providing a framework for the implementation of a revenue stream for the nuclear RAB model, in particular by providing the Secretary of State with the powers to make 'revenue regulations'**, in order to set out the detailed mechanics of how the nuclear RAB revenue stream would operate.
- **Creating a Special Administration Regime to apply for companies benefitting from the nuclear RAB model** in the unlikely event of insolvency whereby the

¹ Financing costs over the construction period (i.e. before a project is generating revenues) are one of the main drivers of nuclear project costs. A RAB model seeks to address this in two ways. First through sharing construction and operating risks with consumers and taxpayers to reduce the overall cost of capital, and second by providing a supplier funded allowed revenue during construction thereby avoiding compound interest and financing costs during a lengthy construction period for a nuclear project (i.e. 10 years+).

Secretary of State or Ofgem would be able to appoint a nuclear RAB administrator, whose objective would be to complete construction and/or keep the plant running.

- **Clarifying the meaning of certain terms in the Energy Act 2008** relating to Funded Decommissioning Programmes.

Fundamental to the successful implementation of a nuclear RAB model is a robust revenue stream that ensures a secure and consistent flow of revenues between electricity suppliers and a licensed nuclear company for the duration of that nuclear project's regulatory period. The Secretary of State therefore intends to make revenue regulations that, in particular, provide for the following:

- Implementation of statutory obligations on electricity suppliers to make payments to the designated 'revenue collection counterparty', which is the Low Carbon Contracts Company Ltd ('LCCC')², for the purposes of enabling the counterparty to make payments under revenue collection contracts.
- Imposition of statutory duties and functions on the revenue collection counterparty for the channelling of funds from suppliers to "relevant licensee nuclear companies" (as defined in the Act ³) and vice versa in accordance with the terms of the relevant revenue collection contracts.

The Government has used the Contracts for Difference ('CFD') revenue stream as a starting point in the design of the nuclear RAB revenue stream. The primary goal in the introduction of CFDs was to incentivise private sector investment in secure, low-carbon electricity. This means that the revenue stream for CFDs was designed with similar considerations in mind to the nuclear RAB revenue stream. Following assessments of the different models that could be used for the revenue stream under nuclear RAB, it has been determined that a CFD like model is likely to be the least disruptive to the market and the option that potential investors in nuclear RAB projects would be most comfortable with. This approach is also beneficial as the fundamental principles in the workings of the revenue stream under the nuclear RAB model are similar in respect to what is done under CFDs, for example:

- During operations, relevant licensee nuclear companies would receive payments, funded by electricity suppliers, equal to the allowed revenue minus any applicable forecast market revenues under the RAB licence.⁴ This is similar to the difference payment model used under CFDs set out below (from paragraph 8).
- There will be a counterparty (i.e. revenue collection counterparty for the nuclear RAB model) that channels payments between electricity suppliers and nuclear companies.

² LCCC's role as revenue collection counterparty would be similar to their existing role as 'CFD counterparty' in administering contracts for difference, see below.

³ Section 1(4) of the Act provides that a nuclear company is a "relevant licensee nuclear company" if the company's generation licence contains modifications made under section 6(1) of the Act (i.e. to incorporate RAB conditions) and the company is party to a revenue collection contract.

⁴ Under the nuclear RAB model, relevant licensee nuclear companies receive payments throughout the RAB regulatory period. This means payments start from the construction phase (during which time, as they would not be generating electricity, their payments would be equal to the allowed revenue).

- Contracts will be entered into between the revenue collection counterparty and nuclear generators.

The above features of the revenue stream have been shown as being able to attract investment under the CFD regime. It is expected that suppliers would treat their obligations under the nuclear RAB model as something akin to their obligations under the CFD regime.

Given that the CFD regime has been administered successfully for several years now, suppliers, generators and investors are familiar with this revenue stream model. As such and given the similarities between the CFD model and RAB model, Part 2 of the Nuclear Energy (Financing) Act 2022 sought to replicate, so far as appropriate, Chapter 2 of Part 2 of the Energy Act 2013.

The intention is to take a similar approach in relation to revenue regulations for the nuclear RAB regime, by having regard for the regulations made in relation to the CFD regime including, in particular, The Contracts for Difference (Electricity Supplier Obligations) Regulations 2014 (as amended). Where appropriate, the approach to the revenue regulations is expected to differ to reflect the specific requirements of a RAB revenue stream and the regulatory regime it supports. For example:

- Regulations would enable payments to a relevant licensee nuclear company to be made during construction; and
- Regulations would need to account for the regulation of how much revenue a relevant licensee nuclear company is entitled to receive under a revenue collection contract (the amount would be set by Ofgem as the economic regulator in accordance with the company's modified electricity generation licence).

Section 25 of the Act places a statutory obligation on the Secretary of State to consult a list of specified persons before making revenue regulations. This includes provision for the Secretary of State to consult any other persons it considers appropriate – for the purposes of this consultation the Government has included the public (i.e. any person with an interest in this policy area) under this provision.

This consultation document sets out the proposals in relation to the revenue regulations, with particular focus on how the revenue regulations would differ from the CFD revenue regime, which suppliers are already familiar with. It is anticipated that the revenue regulations will be laid in draft before Parliament later this year in accordance with the affirmative resolution procedure.

BEIS are seeking responses on the specific questions set out in the consultation document, so that they can be taken into account by the Secretary of State when preparing the draft revenue regulations.

Scope of consultation

Section 15 of the Act confers powers on the Secretary of State to make regulations about revenue collection contracts ('revenue regulations') with the purpose of implementing the nuclear RAB revenue stream. The purpose of this consultation is to seek views with respect to the specific questions posed to inform the policy behind the revenue regulations. It is expected that the draft regulations will themselves be subject to informal pre-laying scrutiny by the legal advisors to the Joint Committee on Statutory Instruments prior to them being laid before Parliament and being considered by the Committee. Once the revenue regulations are laid before Parliament, they will be subject to the affirmative resolution procedure.

The consultation sets out an overview of the RAB revenue regulations, describing both proposed policy to follow the precedent set by the CFD regime wherever appropriate, and where appropriate, to propose different elements in the revenue stream where these are needed to account for the specific features of a nuclear RAB model. These matters relate in particular to:

- Information sharing mechanics required for the determination of supplier payment obligations under the regulations.
- Wider information sharing provisions required for the effective functioning of the revenue stream.
- The notice period for forthcoming quarterly supplier interim levy rates and reserve amounts.
- Secretary of State directions to offer to contract under section 18 of the Act, including considerations relating to the bespoke nature of revenue collection contracts and certain matters the terms of the revenue collection contract must cover.
- The revenue collection counterparty notifying the Secretary of State if it considers it will be unable to carry out its functions.
- The revenue collection counterparty projecting future supplier payment obligations.
- Potential exemptions to supplier payment obligations.
- Potential measures relating to vulnerable groups and consumers in receipt of Universal Credit.
- The revenue collection counterparty's operational costs.

Consultation details

Issued: 14 June 2022

Respond by: 9 August 2022

Enquiries to:

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Consultation reference: Revenue stream for the Nuclear RAB model

Consultees:

Section 25(1) of the Nuclear Energy (Financing) Act requires the following persons to be consulted:

- a) Scottish Ministers
- b) Welsh Ministers
- c) Every nuclear company in relation to which a designation under section 2(1) of the Act has effect
- d) Every nuclear company that is a relevant nuclear licensee company under the Act
- e) Every person who holds a licence to supply electricity under section 6(1)(d) of the Electricity Act 1989
- f) The Authority (i.e. Ofgem)
- g) The national system operator (i.e. National Grid ESO)

Section 25(1)(h) of the Act makes provision for consultation with such other persons as the Secretary of State considers appropriate. In accordance with this section, given the particular issues covered by this consultation, the Secretary of State considers it appropriate to consult more widely than the statutory consultees specified in section 25(1)(a) to (g) of the Act and welcomes responses from any person with an interest in this policy area.

Given the technical nature of the revenue regulations and the questions set out in the consultation document, it is expected that the consultation will be of particular interest to the statutory consultees named above as well as nuclear developers and other stakeholders who would be directly affected by the proposals for the revenue regulations. It is expected that these persons will be well placed to input on the technical aspects associated with the nuclear

RAB revenue stream. Additionally given that the consultation on revenue regulations touches on aspects such as protections for vulnerable groups, and that the consultation will inform drafting of revenue regulations that could support multiple nuclear projects benefitting from the RAB model, the Secretary of State also welcomes responses from the general public, with respect to the specific questions posed.

Publication:

This consultation has been published on gov.uk as the Government welcomes responses from any person with an interest in the proposals for the revenue regulations for the implementation of a RAB model for new nuclear energy generation projects.

Territorial extent:

In accordance with the extent of Part 2 of the Act, revenue regulations would extend to England, Wales and Scotland. They would not extend to Northern Ireland. This consultation is therefore only relevant to England, Scotland, and Wales.

How to respond

Your response will be most useful if it is framed in direct response to the questions posed, though further comments and evidence are also welcome.

When responding, please state whether you are responding as an individual or representing the views of an organisation.

Respond online at: <https://beisgovuk.citizenspace.com/clean-electricity/nuclear-rab-revenue>

or

Email to: rabrevenueconsultation@beis.gov.uk

Write to:

New Nuclear Projects team
Department for Business, Energy and Industrial Strategy
3rd Floor,
1 Victoria Street
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SW1H 0ET

Confidentiality and data protection

Information you provide in response to this consultation, including personal information, may be disclosed in accordance with UK legislation (the Freedom of Information Act 2000, the Data Protection Act 2018 and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential please tell us, but be aware that BEIS cannot guarantee confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not be regarded by us as a confidentiality request.

BEIS will process your personal data in accordance with all applicable data protection laws. See our [privacy policy](#).

BEIS intends to summarise all responses and publish this summary on [GOV.UK](#). The summary will include a list of names or organisations that responded, but not people's personal names, addresses or other contact details.

Quality assurance

This consultation has been carried out in accordance with the government's [consultation principles](#).

If you have any complaints about the way this consultation has been conducted, please email: beis.bru@beis.gov.uk.

Background on RAB revenue mechanics

Legislative processes under RAB

1. Following the designation of a nuclear company under the Act in relation to a nuclear energy generation project, the Secretary of State would make modifications to the electricity generation licence of the company (who would become a 'relevant licensee nuclear company' upon entry into a revenue collection contract) subject to value for money and all relevant approvals. It is these modifications to a company's licence (i.e. the 'RAB licence') that would permit the relevant licensee nuclear company to receive the benefit of RAB conditions, such as a regulated revenue stream, as long as those licence conditions are in place.
2. The payments made to a relevant licensee nuclear company ('RAB payments') would be funded by electricity suppliers (who may pass these costs on to consumers). The amount a relevant licensee nuclear company is allowed to receive ('allowed revenue') in respect of its activities relating to the design, construction, commissioning and operation of the relevant nuclear project would be determined by Ofgem, in accordance with the conditions of the RAB licence. In performing its role as economic regulator, Ofgem will be required to act in accordance with its existing statutory duties, including specifically its "principal objective" to protect the interests of consumers, both current and future.
3. The Secretary of State has designated LCCC to perform the role of revenue collection counterparty – i.e. to be the counterparty for revenue collection contracts and to channel funds between electricity suppliers and relevant licensee nuclear companies.⁵ LCCC was created specifically to be the Contracts for Difference (CFD) counterparty and has carried out this role since the scheme's introduction in 2014. The fact that the CFD regime has been in place for several years now means that electricity suppliers and the investor market are familiar with the role of LCCC and its systems in providing a recognised and reliable revenue stream.
4. It is proposed that the nuclear RAB revenue mechanics will replicate much of the CFD revenue regime and accompanying regulations. Given LCCC's proven track record in administering the CFD payment system, stakeholders can be confident in the robustness of the revenue stream mechanics and LCCC's ability to carry out the functions required under the nuclear RAB model. In accordance with section 16(4) of the Act, LCCC has also provided its consent to being designated.
5. Under section 18 of the Act, the Secretary of State can direct the revenue collection counterparty to offer to enter into a bespoke 'revenue collection contract' with a designated nuclear company. After the contract is entered into, revenue regulations would allow the revenue collection counterparty to collect from suppliers the applicable allowed revenue amounts (being the RAB payments as confirmed by Ofgem) that are owed to the relevant licensee nuclear company under the terms of the revenue collection contract. The revenue regulations would contain provisions relating to the revenue collection counterparty's duties to properly carry out its functions.

⁵ Designation notice: Low Carbon Contracts Company designated as revenue collection counterparty for nuclear Regulated Asset Base (RAB) model (2022), available: <https://www.gov.uk/government/publications/low-carbon-contracts-company-designated-as-revenue-collection-counterparty-for-nuclear-regulated-asset-base-rab-model>

Explanation of CFD payment mechanics as context

6. To illustrate the similarity between the nuclear RAB revenue stream and the existing CFD revenue regime, this section will set out how the supplier payment obligations currently operate under CFDs. This will then be followed by a section on the nuclear RAB specific payment mechanics which are different to CFDs.
7. CFDs are private law contracts designed to support low carbon electricity generation. Most CFDs are normally awarded under a statutory allocation framework delivered by the national system operator (i.e. National Grid ESO). Here, the contracts between the CFD counterparty and CFD generators are based on standardised terms. However, the CFD for the Hinkley Point C (HPC) nuclear plant was entered into under bespoke terms, following a direction from the Secretary of State to the CFD counterparty to offer to contract with an eligible generator (which is similar to what would be done for the nuclear RAB model). The parties to these contracts are the CFD generators and the CFD counterparty who is responsible for managing CFDs and for collecting payments from electricity suppliers to meet the CFD counterparty's payment obligations to generators under their CFDs.
8. The 'Supplier Obligation', as set out in The Contracts for Difference (Electricity Supplier Obligations) Regulations 2014 ('CFD ESO Regulations') is a compulsory levy on electricity suppliers for the CFD counterparty to be able to meet its CFD payments owed to CFD generators (under the terms of each CFD). The amounts which are due to or from the CFD counterparty under the CFDs are calculated by reference to an agreed 'strike price' set out in the CFD.⁶ If, in the course of the generator's daily power revenue, it receives less than the strike price for output sold into the market, then the CFD counterparty will need to pay the CFD generator a top up payment representing the difference between the generator's power revenue and the strike price.
9. The CFD counterparty will charge electricity suppliers levies in order to ensure it can fund these top up payments to CFD generators (which the CFD counterparty does on a pay if paid basis). Each supplier only pays levies corresponding to its actual market share (and subject to any applicable exemptions). Conversely, if the CFD generator receives more in power revenue than the strike price then it will need to make a payment to the CFD counterparty reflecting the amount in excess of the strike price, and the CFD counterparty will pass these amounts back to electricity suppliers.
10. Electricity suppliers receive notices from the CFD counterparty containing a forthcoming CFD levy rate to apply over a quarterly period and then receive daily invoices corresponding to their supplies (i.e. market share) for each day.

Interim levy rate

11. Since the CFD counterparty does not have certainty in advance of what payments are owed to each generator (since payments are based on daily generation), the CFD ESO Regulations require the CFD counterparty to calculate an interim levy rate to use to calculate supplier interim rate payments over a quarterly period. The CFD counterparty then conducts reconciliations after that period to ensure that the amounts collected from suppliers are enough to meet its actual payment obligations to each CFD generator. Since the CFD counterparty operates on a pay if paid basis, applying an interim levy rate would mitigate the risk of supplier non-payment. The quarterly interim levy rate is based on

⁶ Being a price of electricity reflecting the cost of investment in a particular low carbon technology.

(among other things) the CFD counterparty's estimates of payments required to CFD generators, expected payments from generators, and expected electricity supply for the quarter.

12. In advance of the start of the quarterly period suppliers receive a notice from the CFD counterparty of the interim levy rate (a £/MWh rate). Suppliers then receive daily invoices from the CFD counterparty reflecting the MWh amount of electricity they supplied on each day in that quarter (i.e. the CFD counterparty multiplies each supplier's daily supply of electricity (taking account of any exemptions) by the interim levy rate to give a 'daily interim rate payment'). For each daily invoice of CFD levies, suppliers are required to make payments to the CFD counterparty within 5 working days after the invoice date.
13. To ensure that the CFD counterparty collects enough funds to make daily payments to CFD generators across its CFD portfolio, and to protect against delayed/non-payment from suppliers, the CFD counterparty requires that suppliers have adequate credit cover in place (again corresponding to each supplier's market share). The CFD counterparty will notify each supplier of the collateral they must provide (reflecting the CFD counterparty's estimate of 21 calendar days of interim rate payments).

Reserve amounts

14. Suppliers also make reserve payments to the CFD counterparty in respect of each quarterly period (again to ensure that the CFD counterparty has sufficient funds to make payments to the CFD generators). Like the interim levy rate, suppliers receive notice in advance of a quarterly obligation period of the total reserve amount and their portion of the reserve amount, (i.e. each supplier's 'individual reserve amount'). Prior to the start of the quarterly period the CFD counterparty sends an invoice to suppliers who have 5 working days to make this reserve payment.

Reconciliation

15. In respect of every quarterly period, there is a reconciliation process whereby the CFD counterparty will determine the actual payments that each supplier was liable to make based on its actual market share (through balancing actions in accordance with the Balancing and Settlement Code and after applying any exemptions⁷). Once the necessary data is received on each supplier's actual market share, where suppliers were overcharged during a quarterly obligation period the CFD counterparty would return such amounts to them, and where they were undercharged the CFD counterparty would send them an invoice for further payments owed.

CFD Operational costs levy

16. The operational costs of LCCC in the CFD scheme are funded by suppliers through the operational cost levy. In LCCC's notice to suppliers of a forthcoming quarterly interim levy rate there is also a line setting out the applicable operational costs levy (a £/MWh rate). The operational costs levy is set out under the CFD ESO Regulations on an annual basis so suppliers would already likely be aware of the prevailing operational levy rate. As with the CFD daily interim rate payment, suppliers are invoiced a daily operational cost payment based on their market share and then have 5 working days to make their payment.

⁷ For further details on exemptions see below from paragraph 94

Nuclear RAB payment mechanics - What is different?

17. As set out above (see Introduction), the revenue stream for CFDs was designed with similar considerations in mind to the nuclear RAB revenue stream (i.e. to incentivise private sector investment in secure low carbon electricity) and offers a recognised and reliable revenue model that investors are familiar with. It is therefore proposed that the nuclear RAB revenue regulations will largely replicate the CFD revenue model as set out in the CFD ESO Regulations, except where it is considered that differences are needed to account for nuclear RAB specific design mechanics.
18. Under the nuclear RAB revenue model, it is proposed that suppliers would see similar mechanics to CFD payments. Suppliers would receive a notification of RAB interim levy and operational costs levy rates and reserve amounts, they would then be invoiced daily RAB interim rate payments, daily operational cost payments and quarterly reserve payments, (as detailed above) which suppliers are familiar with. These payments would be calculated according to each supplier's relevant market share. Reconciliations would also be carried out in a similar way.
19. However, the manner in which payments due to a relevant licensee nuclear company would be calculated would differ, as a nuclear RAB model is a form of economic regulation that will be overseen by Ofgem. The RAB licence would allow a relevant licensee nuclear company the right to recover its regulated 'allowed revenue' in respect of its activities throughout the regulatory period applicable to the project, including during the construction period. The allowed revenue would be set by Ofgem in regular review periods (and in accordance with the company's licence conditions). The allowed revenue would be recovered via market-based sales of electricity (once the plant is generating and selling electricity) and also through levies on suppliers (who would be charged as 'users' of the Electricity System). Suppliers would be able to pass these costs onto their consumers who also use the Electricity System (should suppliers elect to do so).
20. Throughout the regulatory period of a nuclear RAB project, Ofgem would calculate the relevant licensee nuclear company's allowed revenue in accordance with the terms of its RAB licence. The relevant licensee nuclear company's allowed revenue could also take into account Ofgem's reconciliations to reflect any over or under payments of allowed revenue in any preceding period(s).
21. For the purposes of the revenue stream, Ofgem would calculate the revenue which the relevant licensee nuclear company is entitled to receive over a period set out in the RAB licence, and would then confirm to the revenue collection counterparty what payments they should make to (or receive from) the relevant licensee nuclear company in accordance with their revenue collection contract (i.e. 'RAB payment'). Under the proposed RAB revenue model, the revenue collection counterparty would not make any determination of what payments are due to or from the relevant licensee nuclear company under the revenue collection contract.
22. During the construction phase of the project the relevant licensee nuclear company's allowed revenue would be primarily calculated by reference to amounts required to service the financing costs to build the nuclear plant. During operations the calculation of the allowed revenue would include consideration of the various costs in operating the plant and, at that point, Ofgem would need to take into account the relevant licensee nuclear company's forecast market revenues ('FMR') in determining the amount which the revenue

collection counterparty must pay to (or receive from) the relevant licensee nuclear company under its revenue collection contract.

23. To note that the FMR would be used in order for Ofgem to be able to forecast the RAB payments owed to or from the relevant licensee nuclear company for revenue collection purposes. Ofgem would then reconcile these amounts against the outturn at the end of each period under the terms of the RAB licence (so the relevant licensee nuclear company is not exposed to forecasting risks in respect of the FMR).
24. So once the relevant licensee nuclear company is generating electricity, to the extent that its FMR from energy sales would be insufficient to allow it to recover its allowed revenue, then the relevant licensee nuclear company would receive from the revenue collection counterparty a top-up payment (i.e. RAB payment) up to its allowed revenue, funded by electricity suppliers. However, where the relevant licensee nuclear company's market revenue exceeds the allowed revenue, the relevant licensee nuclear company would have to pay the difference to the revenue collection counterparty who would pass this back to suppliers (see Figure 1 below).⁸ As with the CFD payment mechanics suppliers may pass on any costs or benefits associated with their payment obligations under the RAB model to consumers (but it is not proposed that they would be specifically obligated to do this in the revenue regulations).
25. Following confirmation from Ofgem of the amounts due to the relevant licensee nuclear company, the revenue collection counterparty would then calculate the amounts due to or from suppliers (e.g. interim levy rates, reserve amounts etc) as done under the CFD mechanics.

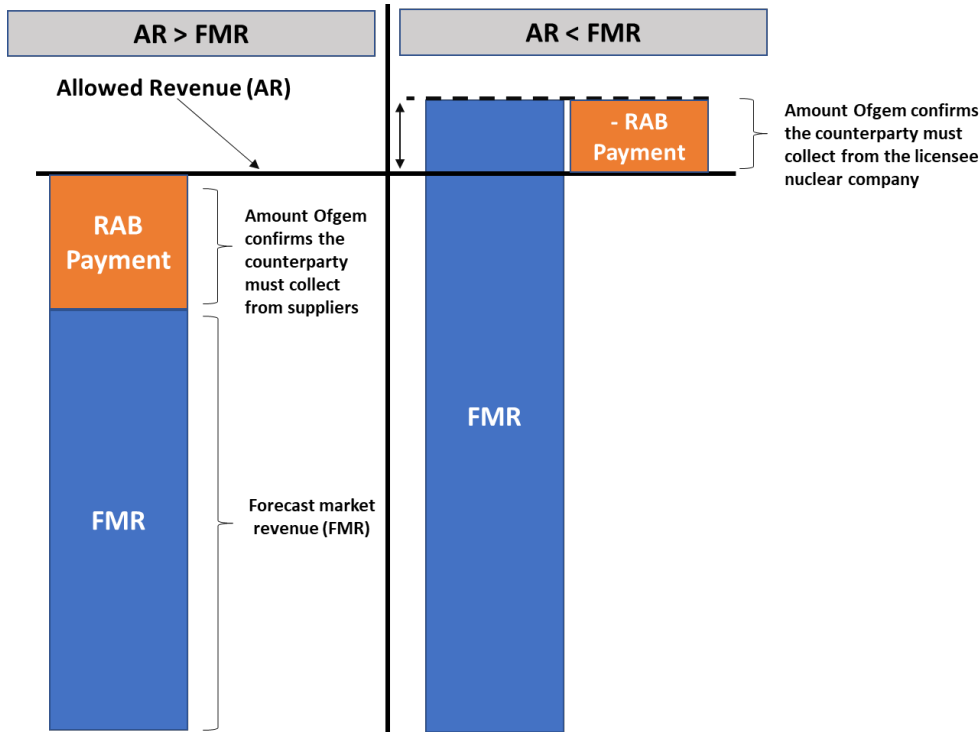


Figure 1 RAB payment mechanics (operations phase)

⁸ The mechanics of how this difference would be calculated and paid back to the relevant licensee nuclear company would be set out in the RAB licence/revenue collection contract and could be done through Ofgem simply making an adjustment to a subsequent period's allowed revenue or by some other agreed mechanic as communicated by Ofgem.

Policy Proposals

Revenue regulations proposed to be replicated from CFD ESO regulations

26. Set out below are summaries of the revenue regulations that BEIS is proposing to largely replicate from the CFD ESO regulations (subject to any specific drafting differences needed to tailor them to the nuclear RAB revenue model):⁹

The supplier obligation

27. This provision (equivalent to CFD ESO regulation 3) would set out the fundamental obligation on electricity suppliers to make payments to the revenue collection counterparty under a nuclear RAB model, as well as provision for the revenue collection counterparty to make payments back to suppliers where there has been an overcollection from suppliers. The absence of this provision would result in no revenue flowing from electricity suppliers into the relevant project.

28. Based on the RAB payment calculated by Ofgem, the revenue collection counterparty would calculate each supplier's contributions over a quarterly period based on their market share. It is proposed that this would be calculated in a manner broadly equivalent to CFD ESO regulations 3, 4 and 5. However, it would be adjusted to account for the fact that there may be different frequencies of payments to nuclear companies under the RAB model and the fact that the revenue collection counterparty would not calculate the amount owed to each relevant licensee nuclear company. Under nuclear RAB such calculation would be done by Ofgem in accordance with the conditions of the company's generation licence (being different to the CFD ESO Regulations where such amounts are calculated by the CFD counterparty based on daily generation by CFD generators).

29. The manner in which suppliers ultimately fulfil this supplier obligation is by making interim payments in accordance with the interim levy rate (see below) and relevant reconciliation payments where required. Suppliers must also provide data to enable the revenue collection counterparty to determine each supplier's market share (allowing for the revenue collection counterparty to make reconciliations for over or under payment of their supplier obligation).

Setting the interim levy rate

30. This provision (equivalent to CFD ESO regulation 6) would make provision for the revenue collection counterparty to determine an interim levy rate applicable over a quarterly obligation period and issue a notice to suppliers of that rate in advance of that quarter (see from paragraph 73 below on how the notice period mechanics would be different for the nuclear RAB model). This would allow for suppliers to then make any arrangements before

⁹ Given that it is proposed to largely replicate the CFD ESO Regulations, this consultation does not set out the detail of each provision in full but gives an indicative summary of how the revenue regulations would be modelled on the CFD ESO Regulations. Should extra context be required, this can be achieved by reviewing the CFD ESO Regulations.

the start of the quarter to meet their daily payments to the revenue collection counterparty at that interim levy rate.

Estimated cost, income & electricity supply

31. This provision (equivalent to CFD ESO regulation 7) would set out how the revenue collection counterparty would calculate the estimates which it would use to determine the interim levy rate for a quarterly obligation period. This is in order for it to be able to meet RAB payments under its revenue collection contracts for that period. As at paragraph 28, it is proposed that RAB revenue regulations would not make reference to the revenue collection counterparty calculating the amount that is owed to each relevant licensee nuclear company, as this calculation would be made by Ofgem under the regulatory regime.

Interim rate payments

32. This provision (equivalent to CFD ESO regulation 8) would set out the obligation on electricity suppliers to make daily interim rate payments to the revenue collection counterparty (in proportion to their estimated share of daily electricity supply). Following which, the counterparty would conduct reconciliations to reflect any over or underpayment (i.e. provision equivalent to CFD ESO regulations 15 & 16).

Data reconciliation of interim rate payments

33. This provision (equivalent to CFD ESO regulation 9) would provide for the revenue collection counterparty to use supplier data to conduct reconciliations to reflect any over or underpayment of interim rate payments from suppliers before the conclusion of a quarterly obligation period, thus contributing to ensuring that suppliers only make payments corresponding to their actual market share.

Reserve payments

34. This provision (equivalent to CFD ESO regulation 10) would require the revenue collection counterparty to calculate what reserve amounts it needs to collect from all suppliers (over a quarterly period) so that it has a 95% probability in meeting its RAB payment obligations to any relevant licensee nuclear company with whom it has a revenue collection contract. This would help to protect the revenue collection counterparty from supplier payment shortfall or delays. See from paragraph 73 below on how the notice period mechanics would be different for nuclear RAB.

Individual suppliers' reserve amounts

35. This provision (equivalent to CFD ESO regulation 11) would set out how the revenue collection counterparty would calculate each supplier's share of the total reserve amount (as determined under the provision discussed immediately above) which would, again, be based on their market share.

Adjustments to interim rate and additional reserve payments

36. These provisions (equivalent to CFD ESO regulations 12, 13, 14 and 14A) allow for the revenue collection counterparty to adjust the interim levy rate and/or require additional reserve payments from suppliers where it considers there to be a high likelihood of it being unable to make all of its payments to any relevant licensee nuclear company or companies

during a quarterly period. Because these adjustments take effect in-period, suppliers would not have as much advance notice, instead the revenue collection counterparty would publish the new rate or reserve amount and send a notice to each supplier as soon as reasonably practicable. Provision would also allow for the determination of a reduced total reserve amount.

37. BEIS proposes to replicate this provision as it provides a means to ensure the revenue collection counterparty can meet its payment obligations under revenue collection contracts and ensure that suppliers are paying the right amount. In practice though, for the purposes of a stable and consistent revenue stream it is anticipated that the amount which the revenue collection counterparty would have to pay a relevant licensee nuclear company would probably be a fairly static amount/ frequency (subject to the conditions of the relevant RAB licence). This is because it is an amount confirmed by Ofgem that is applicable for revenue channel purposes instead of being dependent on the daily generation and sales of electricity as is the case with CFD payments. Therefore, it is expected that there would be less of a need (as compared to the above mentioned CFD payments) of in-period adjustments to supplier interim rate payments or reserve amounts within each quarterly period for the RAB revenue stream under the consultation policy proposals.

Reconciliation

38. These provisions (equivalent to CFD ESO regulations 15 and 16) make provision for the revenue collection counterparty to calculate any reconciliation payments that must be made to or from a supplier in respect of a quarterly obligation period. The revenue collection counterparty would issue notices to the supplier of the relevant amounts. This provision would ensure that suppliers would be paying the right amount. Reconciliation payments would be calculated by reference to the difference between the revenue collection counterparty's calculation of a supplier's payment obligations for the relevant period and the funds received in respect of that period to date. Reconciliation would be carried out on a rolling basis after the end of the quarter (at which point more accurate metered data would be available).

Mutualisation

39. These provisions (equivalent to CFD ESO regulations 17 and 18) would set out a process whereby, if an electricity supplier defaulted on a payment that it was required to make, the revenue collection counterparty could require other suppliers to pay further amounts to cover the amount of that default in proportion to their respective market shares. This would ensure that the revenue collection counterparty would be able to collect enough funds to make RAB payments to relevant licensee nuclear companies notwithstanding the supplier's default. If the revenue collection counterparty exercised this mutualisation option, the counterparty would need to pay back those suppliers to the extent it subsequently recovered funds from the defaulting supplier to mitigate against those suppliers over-paying in respect of RAB payments.

Requirement to provide collateral

40. These provisions (equivalent to CFD ESO regulations 19 to 22) would place an obligation on suppliers to provide collateral in respect of their payment obligations operating in the same manner as CFDs. This would provide the revenue collection counterparty with a guarantee of funds in the event of supplier default thereby ensuring that the revenue collection counterparty could meet its RAB payments to relevant licensee nuclear companies. There would also be provision allowing a supplier to request a return on

collateral where the amount they have provided represents more than the supplier is required to provide under the regulations.

The operational costs levy

41. These provisions (equivalent to CFD ESO regulations 23 and 24) would place a requirement on suppliers to pay an operational costs levy (again proportional to each supplier's market share) to cover the operational costs of LCCC carrying out its functions as the revenue collection counterparty with any excess in operational costs levies being returned to suppliers (see from paragraph 106 on operational costs levy).

Enforcement of requirements

42. This provision (equivalent to CFD ESO regulation 25) would provide for the method of enforcement by the revenue collection counterparty against suppliers in the event of non-payment of RAB interim rate payments, operational cost payments, reserves, collateral etc. In addition to the revenue collection counterparty's powers of enforcement, Ofgem would be able to use its powers to enforce against suppliers in the event of non-payment as if the suppliers' payment obligations were "relevant requirements" for the purposes of section 25 of the Electricity Act 1989.

Dispute notices

43. The dispute resolution processes (equivalent to CFD ESO regulations 26 & 27) would set out how suppliers could dispute amounts that the revenue collection counterparty had billed them and the procedure that the counterparty would need to follow in determining such disputes. This would ensure that suppliers have recourse in the event that they do not agree with, say, the revenue collection counterparty's determination of their market share and where they believe that they are being overcharged.

Duties of revenue collection counterparty to enforce and notify

44. This provision (equivalent to CFD ESO regulation 28) would set out a general duty on the revenue collection counterparty to exercise its functions in the manner best calculated to ensure the collection of all funds required from suppliers under the regulations, and a duty to keep suppliers informed of their liabilities under these regulations (including publication and issuing notices to suppliers of forthcoming charges).

Notices and publications

45. This provision (equivalent to CFD ESO regulation 29) would make provision for the giving of notices by the revenue collection counterparty and electricity suppliers in relation to payments due. It would also make provision in relation to the revenue collection counterparty's publication of information. This would allow suppliers to have the information they would need in relation to their liabilities under the regulations.

Set-off of payments by the revenue collection counterparty

46. These provisions (equivalent to CFD ESO regulation 30) would apply where the revenue collection counterparty considers that there is a high likelihood that suppliers will fail to make their payments. This would allow the revenue collection counterparty to set off amounts it has to pay to suppliers against the amount suppliers must pay.

Netting off payments by the revenue collection counterparty

47. This provision (equivalent to CFD ESO regulation 30A) would allow the revenue collection counterparty to net-off amounts it has to pay to suppliers against the amount suppliers must pay in certain circumstances. This is to avoid unnecessary additional invoices to suppliers and superfluous transfers of funds back and forth.

Discharge of obligations by payment

48. This provision (equivalent to CFD ESO regulation 31) would set out how the revenue collection counterparty should treat a partial payment of a payment obligation it received from a supplier. It would set out the order in which it should apply that partial payment (i.e. to meet the revenue collection counterparty's operational costs levy first, then any other payment obligation under the regulations and, lastly, any applicable interest). It would also set out the manner that the revenue collection counterparty would give notice to the supplier of how much they still owe after a partial payment.

Use of payments

49. This provision (equivalent to CFD ESO regulation 32) would prevent the revenue collection counterparty from using payments from suppliers in any way other than for purposes for which they were raised (e.g. funds received to meet the revenue collection counterparty's operational costs could not be used to make payments to relevant licensee nuclear companies under their revenue collection contracts).

Apportioning sums to revenue collection contracts

50. These provisions (equivalent to CFD ESO regulations 33 & 34) would deal with the circumstances where the revenue collection counterparty does not hold enough money to make all payments it is required to make under multiple revenue collection contracts. In those circumstances the amount held by the revenue collection counterparty would be apportioned between each relevant licensee nuclear company in order that each can at least receive partial payment from the revenue collection counterparty in respect of its obligations under each revenue collection contract.

Interest

51. This provision (equivalent to CFD ESO regulation 35) would set out the interest rate that would apply in the case of supplier non-payment, being 5% per annum over the relevant Bank of England base rate.

Schedule

52. This schedule under revenue regulations would be similar to that set out in the CFD ESO regulations to account for the scenario where there is more than one revenue collection counterparty designated. This would set out how the revenue regulations would operate under these circumstances.

Frequency of payments by suppliers

53. BEIS has proposed that the collection frequency of interim rate payments (and the operational costs levy payments) from suppliers should be on a daily basis, replicating the existing CFD regime. Alternatives to this were considered, including whether the collection frequency should be done on a monthly basis.
54. Rather than using the existing CFD daily collection mechanics, we considered the collection frequency from suppliers being on a monthly basis as it may offer the benefits of less operational complexity and cost savings for both suppliers and the revenue collection counterparty.¹⁰ However, it is considered that there is an increased risk of inaccurate forecasting of suppliers' market share since suppliers may effectively have to pay a month in advance of supply. Under a monthly collection mechanic, suppliers would either be making payments based on their market share for the previous month, or, based on a forecast of their electricity supply for the next month— with both mechanics meaning that they would be paying the levy in advance of them selling electricity within the applicable month. Suppliers would therefore have to wait until the periodic reconciliation to get any overpayments back. This could have a particularly negative impact on smaller suppliers who may not have the funds to continue making payments to the revenue collection counterparty whilst waiting to receive money they are owed. This contrasts with the daily mechanics where supplier payments are based on settlement data in respect of actual supply for each day.
55. There may be multiple revenue collection contracts administered by the revenue collection counterparty, and each of these could require a different frequency of payment through to a relevant licensee nuclear company (depending on the specific terms of each contract). BEIS considers that daily collection from suppliers would best respond to different payment frequencies to the relevant licensee nuclear company across contracts. This could mitigate the risk of, for example, collection from suppliers taking place on a monthly basis whilst payment to a relevant licensee nuclear company is required on a bi-weekly basis.
56. Additionally, having monthly collections from suppliers (as compared to the existing CFD daily collection mechanics) could potentially expose a nuclear project under the RAB model to higher supplier default rates meaning that the revenue collection counterparty may not be able to meet its RAB payment obligations to relevant licensee nuclear companies (since the revenue collection counterparty operates on a pay if paid basis). If suppliers default on their monthly payment, then there would not be much time for the revenue collection counterparty to enforce against any delays. Under the daily collection mechanic, it is considered that it would likely be easier to identify, resolve, and enforce against issues around payment default compared to a monthly mechanic, as is done very efficiently under the CFD regime.
57. Following assessment of these options, it is proposed that suppliers would be required to make interim rate and the operational cost levy payments on a daily basis under the RAB revenue regulations.

¹⁰ To note, under CFDs payments (i.e. interim rate payments and operational cost levy) are collected from suppliers daily, not monthly.

Consultation questions

Question 1: Do you have any comments on how BEIS proposes to replicate the relevant parts of the CFD ESO Regulations (as described above) with the objective of the proper functioning of the nuclear RAB revenue stream?

Question 2: To assist development of impact assessments, specifically in relation to potential costs to suppliers in administering their proposed payment obligations under the RAB revenue stream, it would be helpful if electricity suppliers could provide BEIS with any evidence on how much it currently costs them to administer their payment obligations under the CFD regime. Do suppliers expect this administrative cost to be different under the nuclear RAB model, e.g. administering daily payments, holding reserves, making collateral available etc?

Question 3: It is proposed that the interim rate payments and the operational costs levy payments should be paid daily by suppliers under the RAB revenue regulations, replicating what is currently done under the CFD regime. Do you have any comments on this approach?

Nuclear RAB specific revenue regulations

58. This section sets out the key areas in which it is proposed that the revenue regulations would be different to the CFD ESO regulations in accounting for the RAB specific revenue mechanics:

Information sharing mechanics in determining supplier payment obligations

59. As set out above, under the nuclear RAB model Ofgem will determine a relevant licensee nuclear company's allowed revenue in accordance with the parameters in their RAB licence (e.g. deducting their forecast or actual market revenue etc.), and confirm to the revenue collection counterparty the total RAB payment due to or from the relevant licensee nuclear company in accordance with the revenue collection contract. After Ofgem confirms this amount to the revenue collection counterparty, the counterparty would then calculate payments/levies (e.g. interim rate levies, reserve amounts and collateral) that the electricity suppliers are required to make based on their market share so that the revenue collection counterparty can meet its payment obligations under revenue collection contracts. This is different to the CFD revenue mechanic where the revenue collection counterparty calculates amounts owed to each CFD generator based on each CFD's strike price, generation output and the applicable market reference price (as set out above).

60. To reflect these RAB mechanics, it is proposed that regulations will set out that the revenue collection counterparty may request information from Ofgem in connection with the performance of the counterparty's functions – and this will include information about amounts calculated by Ofgem in accordance with a relevant licensee nuclear company's licence. The counterparty will thus be able to require Ofgem to notify it of the amount that it must pay to or receive from a relevant licensee nuclear company (in accordance with the company's RAB licence conditions and under the terms of its revenue collection contract). The revenue collection counterparty would then calculate how much it needs to collect from suppliers to make this RAB payment.

61. It is proposed that regulations will also give Ofgem the power to request information from the revenue collection counterparty, including, for example, confirmation of the prevailing reference price data to support it in making its calculations of the FMR (which would in turn form part of its calculation of RAB payments). This is because during the operations phase Ofgem would take into account a relevant licensee nuclear company's FMR in determining the RAB payments to which it is entitled (so that the relevant licensee nuclear company is receiving its allowed revenue). The revenue collection counterparty (i.e. LCCC) currently has access to market price information for the purposes of calculating CFD payments (in its role as CFD counterparty).

Consultation question

Question 4: It is proposed that the revenue regulations will include appropriate information sharing provisions between Ofgem and the revenue collection counterparty (as described above) to facilitate the determination of payments under revenue collection

contracts and the calculation of amounts which must be raised from (or paid to) suppliers. Do you have any comments on this approach?

Wider information sharing

62. BEIS proposes that information sharing obligations for the purposes of the revenue regulations should not be granular in detail. This is because the timing, extent and nature of information exchange could vary from project to project and/or information sharing arrangements may need to adapt over time. Where appropriate, it is proposed that the specifics of information exchange are contained in the RAB licence and/or revenue collection contract and/or as agreed between the relevant persons (e.g. between Ofgem and the revenue collection counterparty).
63. Under the nuclear RAB model, certain information flows are critical for the revenue stream to function effectively. BEIS proposes that the information sharing provisions in the revenue regulations relate to the required persons as follows:

Revenue collection counterparty

64. It is proposed that revenue regulations make provision for the revenue collection counterparty to be able to request information from electricity suppliers, Ofgem, and the CFD counterparty in order to enable it to carry out its functions.
65. The revenue collection counterparty would require information from suppliers to work out their payment obligations in accordance with their market share. Additionally, as set out above, the revenue collection counterparty may need to request information from Ofgem in relation to the RAB payments it needs to make to or receive from the relevant licensee nuclear company (since Ofgem would calculate the RAB payments in accordance with the RAB licence). Such information requests could include, for example the revenue collection counterparty asking Ofgem to provide them with indicative RAB payments under the revenue collection contract (whilst Ofgem is in the process of verifying information), or asking Ofgem to provide the period for which the amounts confirmed by Ofgem apply (e.g. over a financial year, semi-annually etc).
66. It is also considered that provision should be made for the revenue collection counterparty to request information from the CFD counterparty in relation to the Energy Intensive Industries (EII) exemption should it be adopted (see from paragraph 94).¹¹ Information provided by the CFD counterparty in this case would allow the revenue collection counterparty to identify the excluded electricity supply from the supplier's market share (under the EII exemption) for the purpose of calculating their payment obligations.
67. It is also considered appropriate for revenue regulations to make provision for Ofgem and the CFD counterparty to be able to provide information to the revenue collection counterparty regardless of whether it has specifically requested it. This is to enable these persons to provide information to the revenue collection counterparty proactively to ensure the smooth operation of the revenue stream.

¹¹ This would allow the revenue collection counterparty to request information it would otherwise not have access to from the CFD counterparty (also being LCCC, but acting in another capacity).

Ofgem

68. It is proposed that provision is made in revenue regulations for Ofgem to be able to request information from the revenue collection counterparty and the national system operator to enable it to carry out its functions. As above, it is proposed that Ofgem would be able to request confirmation of reference price data from the revenue collection counterparty to support Ofgem making its calculations of the FMR, during the operations phase, to calculate the RAB payments (since LCCC currently has access to this information for the purposes of calculating CFD payments). It is also considered appropriate for there to be provision for the revenue collection counterparty to be able to provide information to Ofgem if it considers that Ofgem requires it to perform its functions, regardless of whether it was requested.
69. It is also proposed that the revenue regulations include provision whereby Ofgem could require the national system operator to provide information to support Ofgem in performing its functions. This provision would enable Ofgem to, for example, confirm or verify any information from a relevant licensee nuclear company on balancing actions that it took part in.

The Secretary of State

70. Given its role in the designation and licence modification processes under the nuclear RAB model, and its powers to modify a relevant licensee nuclear company's licence in certain circumstances following entry into a revenue collection contract, it is proposed that regulations would allow the Secretary of State to be able to request certain information from certain persons in connection with revenue collection contracts. It is intended that this would cover relevant information from the revenue collection counterparty, Ofgem, the national system operator, relevant licensee nuclear companies, and/or a nuclear administrator appointed in the unlikely event that the relevant licensee nuclear company enters into special administration.
71. It is also proposed that provision is made for the revenue collection counterparty, Ofgem and the nuclear administrator to be able to provide information to the Secretary of State even where not explicitly requested by the Secretary of State should they consider it necessary for the Secretary of State to carry out its functions. It is also important for the Secretary of State to be able to request advice (as well as information) from the revenue collection counterparty, Ofgem and the national system operator.
72. These provisions would allow the Secretary of State (who would not be a party to RAB licences or revenue collection contracts) to have some visibility in respect of the revenues being channelled to relevant licensee nuclear companies. Information provided could, for example, inform wider policy making decisions on future designation applications for nuclear RAB project companies, or other matters, and is important given the scale, cost and length of nuclear RAB projects. Additionally in the case that a nuclear administrator is appointed, it is proposed that revenue regulations make provision for the Secretary of State to be able to request that the nuclear administrator provide information to Ofgem. This would allow the nuclear administrator to provide Ofgem with information that it may require to calculate the RAB payment during a period of special administration for a nuclear RAB project (see above).

Consultation question

Question 5: It is proposed that the revenue regulations should contain appropriate information sharing interfaces between the persons mentioned above, with more detail of the information exchange to be contained, where appropriate, in the RAB licence or revenue collection contract and/or as agreed between the relevant persons (e.g. between Ofgem and the revenue collection counterparty). Do you have any comments on this approach?

Notice periods for the interim levy rate, total reserve amount and individual suppliers' reserve amounts

73. As is done under the CFD regime, it is proposed that the revenue collection counterparty would send a notice to suppliers of their forthcoming quarterly interim levy rate and each suppliers' quarterly reserve amount (based on their market share). This would allow suppliers to factor this information into their business planning and make necessary arrangements for collateral and reserve amounts.
74. It is proposed that the revenue regulations impose an obligation on the revenue collection counterparty to provide suppliers with notice of the interim levy rate and total reserve amounts at least 1-month prior to the commencement of the forthcoming quarterly obligation period. Under the CFD ESO regulations, suppliers are given at least 3 months' notice before the start of a quarterly obligation period whilst a shorter 30 days' notice period may apply to in-period adjustments to interim levy rates and additional total reserve amounts.
75. The reason for the 1-month notice period proposed under the revenue regulations is to allow for the sequence of processes that need to take place before the revenue collection counterparty gives suppliers notice, these are as follows:
- Ofgem calculates the RAB payment
 - As set out above, prior to calculating the RAB payment Ofgem would need to calculate the relevant licensee nuclear company's allowed revenue including any applicable deduction of FMR. This would involve Ofgem reviewing various information provided to them, for example the projected revenues confirmed to them by relevant licensee nuclear companies, which Ofgem will then validate and approve.
 - In calculating the RAB payment, Ofgem may also need to verify any information provided to it and may require input from external parties.
 - Ofgem then confirms the RAB payment to the revenue collection counterparty.
 - The revenue collection counterparty would then calculate an interim levy rate and total reserve amount to apply over the quarterly period to ensure it can meet all its RAB payment obligations to relevant licensee nuclear companies.

76. If there was a longer notice period of a forthcoming interim levy rate or reserve amount (say more commensurate to the 3-month notice period for CFDs), this would give suppliers more notice to make necessary arrangements to meet these payments (including potentially reflecting this in consumer bills). However, it is considered that having a longer period would not give enough time to allow for the above processes to take place.
77. To facilitate a longer notice period, RAB payments would need to be based on projections of RAB payments which are potentially less accurate. Although this could give suppliers longer notice of a forthcoming levy rate, there is an increased risk that the levy rate would be set at a higher or lower level than it should be. This would mean that suppliers would either (i) be paying more than necessary over the quarterly obligation period with excess collection from suppliers then reconciled by the revenue collection counterparty at the end of the quarter, or (ii) be paying less than they should be resulting in a bigger jump in the next quarter's interim levy rate to make up the deficiency.
78. Therefore, it is proposed to adopt a 1-month notice period of a forthcoming interim levy rate and total reserve amount which, as compared to a longer notice period, would allow Ofgem to confirm to the revenue collection counterparty more accurate RAB payments, therefore reducing fluctuations in the next quarterly interim levy rate and with less risk of amending the interim levy rate while it is in force (through regulations governing in-period adjustments). Also, on the basis that the CFD ESO Regulations allow for in period adjustments to the interim levy rate and additional total reserve amounts with 30 days' notice, BEIS considers that a 1-month notice period should be sufficient time for suppliers to make necessary arrangements.
79. In terms of the reserve amount, it is proposed that the revenue collection counterparty will need to determine the total reserve amount 1-month prior to the start of the relevant quarterly obligation period and within 8 working days the revenue collection counterparty will then need to notify each supplier of their individual reserve amounts based on their market share. Therefore, the notice period for the suppliers' individual reserve amount would be in effect around 2 & half weeks before the commencement of the quarterly obligation period (under the CFD regime the notice period for individual supplier reserve amounts is around 2 months and 2 & half weeks prior to the start of the quarterly obligation period). Again, the reason for this shorter notice period is to allow for a more accurate reserve amount to cover supplier obligation payments and avoid charging suppliers an inaccurate amount to then be made up at a later date.
80. BEIS considers that it is important for the levy and reserve notice periods to account for Ofgem's regulatory mechanics. This is particularly so given the relatively static frequency of payments anticipated under a RAB revenue model (expected to be a relatively consistent amount confirmed by Ofgem to be paid over a payment period specified in the RAB licence, as compared to the CFD revenue model which is dependent on daily power sales and subject to more fluctuation). Allowing for more accurate RAB payment amounts to be confirmed by Ofgem to the revenue collection counterparty means there is likely to be less potential for steep hikes or dips from one quarterly obligation period to the next. The suggested notice period is expected to leave sufficient time for suppliers to make arrangements in respect of the interim levy rate, reserves and any collateral arrangements.

Consultation questions

Interim levy rate & total reserve amount

Question 6: BEIS proposes to proceed with the 1-month notice period for the interim levy rate and total reserve amount under the nuclear RAB revenue stream for the reasons set out above. Do you have any comments on this proposal?

Individual reserve amounts

Question 7: Do you agree that the notice period for individual suppliers' reserve amounts allows for a more accurate individual reserve amount to be determined (so that they are not overpaying, or not underpaying and then exposed to a steeper hike in the next quarterly obligation)?

Question 8: Do you agree that the c. 2 and a half weeks' notice period for individual suppliers' reserve amounts gives suppliers sufficient time to prepare for the reserve payments that they will need to make?

Secretary of State directions and terms of a revenue collection contract

81. Under a nuclear RAB revenue model, it is proposed that revenue collection contracts would not be based on standard terms, as done under the CFD allocation framework, but would instead be bespoke like that of the HPC CFD (see paragraph 7). Whilst a revenue collection contract will be an agreement between the revenue collection counterparty and the relevant licensee nuclear company, its terms would be negotiated between the Secretary of State and the relevant licensee nuclear company to ensure consistency with the RAB terms and conditions of the company's licence (as modified by the Secretary of State).
82. In accordance with section 18 of the Act, the Secretary of State would direct the revenue collection counterparty to offer to contract with the designated nuclear company. It is proposed that revenue regulations would provide that the Secretary of State's direction to the revenue collection counterparty must append a draft of the full agreed revenue collection contract. The counterparty would not be permitted to modify the revenue collection contract when making an offer to contract unless it received the prior written consent of the Secretary of State.
83. It is proposed that the revenue regulations would set out certain matters that must be covered by the terms set out in the draft revenue collection contract (appended to the Secretary of State's direction to the revenue collection counterparty, as above). This is to ensure that the agreed revenue collection contract contains terms which give effect to revenue stream mechanics which function properly between Ofgem, the relevant licensee nuclear company and revenue collection counterparty and also fits the wider project structure as set out in the RAB licence. Revenue regulations would not set out the specific

content of any terms but rather would list certain matters that must be covered by the terms contained in the draft revenue collection contract. It is proposed that these matters may include, for example:

- Circumstances in which payments must be made to or from the revenue collection counterparty as confirmed by Ofgem in accordance with the relevant RAB licence.
- Any circumstances in which the revenue collection counterparty is not required to make payments.
- Timing of when payments should be made under the revenue collection contract.
- Any circumstances in which the relevant licensee nuclear company must receive consent from the counterparty before transferring the contract or assigning its rights or obligations under the contract.
- Information sharing obligations between the revenue collection counterparty and the relevant licensee nuclear company.

84. It is proposed that revenue regulations would allow the Secretary of State to revoke a direction to the revenue collection counterparty at any point before a relevant licensee nuclear company accepted an offer to contract made by the counterparty (if revoked, the revenue collection counterparty would be under an obligation to withdraw its offer to contract).

85. It is proposed that revenue regulations also make provision for the publication of the revenue collection contract once the contract is entered into (ensuring that any confidential information is excluded). This approach would be equivalent to regulation 60 of The Contracts for Difference (Allocation) Regulations 2014 (as amended).

Consultation questions

Question 9: It is proposed that revenue regulations set out certain matters that must be covered by the terms in a draft revenue collection contract - to be appended to a Secretary of State direction to the revenue collection counterparty. The objective of this is to ensure that revenue collection contracts are fit for purpose in administering a stable and functioning revenue stream into a RAB nuclear project. Do you have any comments on this proposal?

Question 10: Do you consider there to be any other matters the revenue regulations should set out, so that they are included in the terms of a draft revenue collection contract for effective functioning of the revenue stream?

Question 11: Do you have any other comments on the proposals on the provisions to be included in revenue regulations about Secretary of State directions?

Revenue collection counterparty's ability to carry out its functions

86. In the event that, for example, the revenue collection counterparty is performing poorly and cannot satisfactorily carry out its functions, the Secretary of State may need to appoint another revenue collection counterparty to take over. Section 16 of the Act also makes provision for the revenue collection counterparty to withdraw its consent to remain designated as the revenue collection counterparty by giving no less than 3-months' notice in writing to the Secretary of State (which mirrors the position under the CFD regime).
87. However, it is considered appropriate to impose a requirement in revenue regulations (in addition to the formal 3-months' notice) so that the revenue collection counterparty must flag issues to the Secretary of State earlier than the formal 3-months' notice period. This is for the following reasons:
- Sufficient time would be needed for the Government to undertake selection processes to find a replacement revenue collection counterparty and carry out various assessments and due diligence on the transferee's suitability for the role.
 - A revenue collection contract and RAB licence would be specific to each relevant nuclear licensee company. This means that should the revenue collection counterparty's role need to be transferred to another body it would need to familiarise itself with each revenue collection contract and begin the process of ensuring that it has the resources and systems in place to carry out the required functions for the role. This would involve a handover from the existing revenue collection counterparty, implementation of customised systems to carry out their functions in respect of, for example, calculating and collecting levies and reserves from suppliers, identifying collateral needed from suppliers, making payments to the relevant licensee nuclear company etc.
 - The role of the revenue collection counterparty is a specialist role which requires significant expertise so would involve a great deal of planning and resourcing by a new body, which would likely take longer than 3-months.
 - Any pause or issue in the revenue collection mechanism could potentially have a critical impact on a nuclear RAB project. If a suitable replacement cannot be found and made operational in the formal 3-months' notice this could severely impact the revenue flow into relevant licensee nuclear companies, so transition to the replacement revenue collection counterparty would need to be as seamless as possible.
88. For this reason, it is proposed that in addition to the 3-months' notice period in the Act, revenue regulations include a requirement on the revenue collection counterparty to promptly notify (i.e. potentially before the 3-months' notice period) the Secretary of State as soon as it considers that it may become unable to carry out its functions as revenue collection counterparty. This is so that the Secretary of State can start making arrangements for a replacement.

Consultation question

Question 12: Do you agree with the rationale for including a requirement in regulations on the revenue collection counterparty to promptly notify the Secretary of State at the point that it considers that it may become unable to carry out its functions (in addition to the formal 3-months' notice period in the Act) or, do you consider that the formal 3-months' notice period is sufficient?

Projecting future supplier charges

89. When calculating the RAB payments, Ofgem would determine the relevant licensee nuclear company's allowed revenue less their forecast market revenue for a specified RAB payment period set out in the RAB licence (e.g. annual, semi-annual etc). As set out above, it is proposed that the revenue collection counterparty would need to give suppliers advance notice (1-month) of forthcoming quarterly interim levy rates or reserve payments.
90. BEIS have considered whether it may be beneficial for revenue regulations to make provision for Ofgem to provide the counterparty with further information (such as the allowed revenue and FMR). This would be in order for the revenue collection counterparty to carry out its own indicative calculations of the RAB payments that might be due (in advance of Ofgem's formal confirmation of these RAB payments in accordance with the conditions of the relevant RAB licence). This would potentially allow the revenue collection counterparty to provide projections to suppliers of their likely liabilities in upcoming quarterly periods. The CFD counterparty currently gives suppliers such projections under CFD ESO regulation 28 (5), in respect of estimates of suppliers' liabilities arising during three consecutive quarterly obligation periods, which it must publish at least two quarterly obligation periods in advance.
91. There are however risks in this approach, including that if two entities are carrying out their own calculations this could lead to suppliers receiving inaccurate information on their forecast of future payment obligations.¹² This could also lead to errors in the revenue collection counterparty's systems if there is duplicative data from different sources, and it would also increase the operational costs levy charged to suppliers (albeit potentially by a small amount).
92. Unlike the CFD regime, it is intended that the amount to be paid to or from a relevant licensee nuclear company under the nuclear RAB model would be according to amounts confirmed by Ofgem (as calculated under the relevant RAB licence). Unlike CFDs, this would not be wholly dependent on the amount of daily power sales by a CFD generator and would not be subject to daily fluctuations. BEIS expects that it would be relatively simple for the revenue collection counterparty to calculate projections of forthcoming quarterly levies to suppliers, as this will be based on the RAB payment amount confirmed by Ofgem and will stay largely consistent over the course of the relevant RAB payment period.
93. Accordingly, BEIS does not consider there to be much utility in having this additional layer of calculation done by the revenue collection counterparty.

¹² Due to the inherent mechanics of the Nuclear RAB revenue model mechanics involving the confirmation of RAB payments by Ofgem to the revenue collection counterparty.

Consultation question

Question 13: It is proposed that Ofgem confirms RAB payments to the revenue collection counterparty, and that the revenue collection counterparty is not given other information to make its own projections of supplier liabilities. Do you have any comments on this proposal?

Exemptions to RAB supplier payment obligations

Energy Intensive Industries ('EII') exemption

94. BEIS considers it appropriate to replicate the Energy Intensive Industries ('EII') exemption from the CFD regime. This would be to avoid the risk of putting GB electricity-intensive businesses at a significant competitive disadvantage when they are operating in international markets as a result of them passing through RAB costs onto the price of their products.
95. It is proposed to replicate this EII exemption for the purposes of the nuclear RAB revenue stream in revenue regulations by cross referring to the existing exemption as set out in The Electricity Supplier Obligations (Amendment & Excluded Electricity) Regulations 2015 (as amended). This would be with the intention of allowing suppliers to benefit from the exemption in the context of the nuclear RAB revenue stream on the same basis as under the CFD regime.

Consultation question

Question 14: Do you have any comments on the proposal that RAB revenue regulations should replicate (by cross referring) the EII exemption from The Electricity Supplier Obligations (Amendment & Excluded Electricity) Regulations 2015 as amended, to allow suppliers to benefit from this exemption in respect of their payment obligations under the RAB model revenue stream?

The Green Excluded Electricity ('GEE') exemption

96. It is noted that there is a further exemption in the CFD regime, namely the Green Excluded Electricity (GEE) Exemption. This exemption was implemented as a condition of the CFD State Aid approval and relates to electricity that has been imported to Great Britain from an EU member state where electricity is generated by a renewable generating station, which if located in GB would have been potentially eligible to apply for support under a CFD.
97. BEIS recently ran a consultation on the removal of this exemption.¹³ Based on the similarities of the RAB supplier obligation and the CFD supplier obligation, it is likely that a

¹³Feed in Tariffs and Contracts for Difference: proposals relating to Guarantees of Origin (2022), available: <https://www.gov.uk/government/consultations/feed-in-tariffs-and-contracts-for-difference-proposals-relating-to-guarantees-of-origin>

consistent approach to the exemption will be adopted across both schemes. However, this is subject to the outcome of the consultation.

Consultation question

Question 15: Do you have any comments on the approach proposed for the GEE exemption?

Potential measures relating to vulnerable groups and consumers who are in receipt of Universal Credit

98. During the passage of the Nuclear Energy (Financing) Act in Parliament an amendment was tabled that would have required revenue regulations to include provision to prevent electricity suppliers from recovering the costs of their payment obligations under the RAB revenue stream from consumers claiming Universal Credit, or any legacy benefits specified in regulations. As such, a commitment was made during debates that as part of this consultation the arguments for introducing such a provision would be explored further, as well as whether the administrative arrangements required to give effect to this would be considered proportionate and appropriate.
99. BEIS has considered whether provision should be included in revenue regulations that prevents suppliers from passing on the costs arising from their payment obligations under the RAB revenue stream to consumers who are recipients of Universal Credit or otherwise identified as vulnerable through other schemes.
100. As with CFD levies, suppliers would be free (but not obliged) to pass on any costs or benefits related to RAB supplier obligations on to their consumers. However, in this case a statutory requirement could be placed on suppliers to prevent them passing on costs to vulnerable groups. In order for such a measure to be made workable, suppliers would need to be able to gain access to data (which they currently are able to do through existing schemes such as the Warm Homes Discount scheme) on consumers who are in receipt of Universal Credit or other identified schemes. As suppliers onboard new consumers, they could ask consumers to confirm this information and then update their records as consumers' situations change.
101. Suppliers would need to pay the full amount of their RAB supplier obligation payments, and could then choose to shoulder the full cost, or, if they choose to, pass on any portion of those costs to the remaining consumers who are not on Universal Credit or other identified schemes.
102. If suppliers exclude relevant consumers from the costs associated with payment obligations under the RAB revenue stream, suppliers may choose to offset the reduction in their revenues by increasing the bills or price plans of remaining consumers. These consumers would then pay more to reflect the share of the amount that would have otherwise been passed to recipients of Universal Credit or other identified schemes.
103. The following issues with the practicalities of this measure are observed:
- If suppliers chose to pass costs to consumers who are not recipients of Universal Credit (or other identified schemes) then this could potentially have the impact of shifting those

consumers into a vulnerable category (especially those who are borderline to being classified as vulnerable).

- A measure which prevents suppliers from passing on costs to a certain group of consumers could disincentivise suppliers from engaging in commercially beneficial practices to attract and reward consumers, for example with additional flexibility, payment plans, loyalty benefits etc., as it could add to their costs.
- By limiting its application to recipients of Universal Credit or other identified schemes for vulnerable consumers, this measure would be narrow enough to be administered. However, this could mean that other vulnerable consumers (who do not fall within scope of these schemes) would be affected if suppliers chose to spread the cost of their liabilities under the RAB revenue stream across all eligible consumers.
- Whilst suppliers could not pass costs associated with their RAB obligations to recipients of Universal Credit or other identified schemes, suppliers could in theory offset this by reflecting their costs that are unrelated to their payment obligations under revenue regulations in consumer bills/price plans; thereby impacting all consumers, including those who are recipients of Universal Credit or otherwise vulnerable.

104. The Government considers it very important to support low-income households. There are a range of schemes to offer such support to vulnerable groups, for example the Warm Homes Discount, Fuel Direct scheme, and the recently expanded Energy Bills Support Scheme amidst the rising cost of living.

105. BEIS will review the cumulative impact of the nuclear RAB model taking into account the interests of current and future consumers in relation to the cost and security of supply of electricity. However, BEIS continues to consider that support for vulnerable groups would be best tackled holistically. This would be through looking into all cost drivers for energy bills, rather than targeting individual schemes and policy costs (such as nuclear RAB costs) and developing plans to tackle this across households. This will support wider protection for vulnerable consumers across a range of different policy areas.

Consultation questions

Question 16: Do you agree with the rationale to not include provisions in the regulations preventing suppliers from passing costs arising from their payment obligations under the RAB revenue stream to Universal Credit recipients or other identified vulnerable consumers, and to instead take a more holistic approach to protect vulnerable groups?

Question 17: Do you have any views on how revenue regulations could prevent suppliers from passing on costs arising from their payment obligations under the RAB revenue stream to vulnerable groups? Do you consider there to be any benefits or drawbacks on that approach?

LCCC's operational costs

106. As with CFDs, it is proposed that an operational costs levy would be charged to suppliers to meet the operational costs of LCCC performing its functions as the revenue collection counterparty.
107. The Government will (in line with all the relevant approvals and assessment processes) pay for any set-up costs (e.g. resources, system design etc) for LCCC to become operational as a revenue collection counterparty. LCCC is expected to subcontract with EMR Settlement Ltd ('EMRS') to design and develop its RAB revenue systems.
108. Suppliers would be liable for the operational costs of LCCC (after it has entered into a revenue collection contract) via the operational costs levy. The operational cost levy would be invoiced and collected from suppliers alongside the interim rate payments with the operational costs levy appearing as a separate line on the invoice for supplier transparency (with deduction relating to a supplier's estimated EII exempted supply where applicable).
109. Upon the commencement of the first revenue collection contract for a relevant licensee nuclear company, LCCC's duties are anticipated to include:
- collecting from electricity suppliers the operational costs levy and all other supplier obligation payments, which will involve (for example):
 - setting the quarterly supplier obligation interim levy rate and reserve amounts;
 - collecting the supplier interim rate payments, the total reserve amount and the suppliers' collateral payments;
 - making RAB payments to relevant licensee nuclear companies as required under revenue collection contracts;
 - managing payments under the supplier obligation reconciliation process;
 - informing Ofgem of the prevailing reference price (under the relevant RAB licence) to enable Ofgem to calculate the RAB payments to be paid to or from relevant licensee nuclear companies;
 - managing their contract with EMRS whom, it is intended, will carry out the functions of 'RAB settlement services provider' (being similar to their current role as CFD settlement provider under the Balancing and Settlement Code);
 - Contributing to nuclear RAB and policy development:
 - supporting the ongoing review and development of future bespoke RAB revenue collection contracts;
 - feeding into RAB consultations concerning potential changes to the RAB revenue model and any other related regulations and settlement activities; and
 - implementing revisions to the RAB settlement system to reflect policy changes, ensuring the continued correct processing of transactions.

110. It is expected that the operational costs levy will be collected using the same settlement systems, market share data and invoices as the supplier interim rate payments. The operational costs levy rate will usually apply over LCCC's financial year (1 April to 31 March). The levy is calculated based on LCCC's annual budget in respect of the RAB revenue stream divided by the total estimated electricity supply (in TWh) for that same year. This would be charged as a fixed levy rate (£/MWh of electricity supplied) and would be set out in the revenue regulations for the applicable proportion of the remaining 2022/23 financial year and for the entirety of the 23/24 and 24/25 financial years (mirroring the operational cost levy timetable under the CFD ESO regulations).
111. LCCC's current estimated operational costs levies¹⁴ over the three financial years are:
- FY22-23: £561k/275.38TWh = £0.0020/MWh
 - FY23-24: £681k/271.46TWh = £0.0025/MWh
 - FY24-25: £735k/266.87TWh = £0.0028/MWh
112. Further consideration will be given to LCCC's estimated annual budgets, business plan etc., and internal governance and approvals processes will be completed before finalising the operational levy rates for inclusion in the revenue regulations to be laid in draft before Parliament. The above figures are therefore subject to change and refinement.
113. Prior to financial year 25/26 BEIS intends to conduct a consultation for the operational cost levies for the following three financial years. Forthcoming operational levies will be implemented through an amendment to the revenue regulations and subject to the affirmative resolution procedure. In the event a proposed rate is not approved by Parliament, or the laying of revenue regulations is delayed (for example as a result of the outcome of the consultation), it is proposed that the existing rate would continue to apply.

Consultation question

Question 18: Do you have any comments on the above proposals regarding the operational costs levy to meet LCCC's operating costs in acting as the revenue collection counterparty?

General

Consultation question

Question 19: Do you have any comments with respect the Public Sector Equality Duty that can be used to support the Impact Assessment?

¹⁴ For context/comparison the operational cost levy for CFDs over the next three years are FY22-23: £24.210m = £0.0879/MWh, FY23-24: £26.978m = £0.0994/MWh, FY24-25: £29.051m = £0.1089/MWh

Next steps

The consultation period will last for 8 weeks and close on 09/08/2022

Stakeholders should respond to the consultation questions during the 8-week consultation period so that we can capture a range of views on our proposals in relation to the nuclear RAB revenue regulations.

Following our analysis of responses, we intend to publish a government response on the outcome of the consultation and how we will take the responses into account in the draft revenue regulations ahead of laying them before Parliament.

This consultation is available from: www.gov.uk/government/consultations/revenue-stream-for-the-nuclear-regulated-asset-base-rab-model

If you need a version of this document in a more accessible format, please email enquiries@beis.gov.uk. Please tell us what format you need. It will help us if you say what assistive technology you use.