



Making a positive difference
for energy consumers

The Rt Hon Kwasi Kwarteng MP,
Secretary of State for Business
Energy and Industrial Strategy,
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Dear Secretary of State,

Ofgem's response to the consultation on the Draft of the Secretary of State's reasons for the designation of NNB Generation Company Limited (NNBG SZC).

We welcome the opportunity to respond to the consultation on the Secretary of State's (SoS) draft reasons for designating NNBG SZC. In the interests of transparency, we request that the Department of Business Energy and Industrial Strategy (BEIS) publish this letter which sets out our full response.

Ofgem regulates the gas and electricity markets in Great Britain. Our principal objective is to protect the interests of current and future gas and electricity consumers. The Nuclear Energy (Financing) Act (the Act), which achieved Royal Assent on 31st March 2022, formally extends our statutory duties to cover designated nuclear RAB licensees. We have, and continue to, provide advisory support to BEIS development of an economic regulatory regime for nuclear RAB licensees.

As stated in our forward work program¹, Ofgem is committed to delivering a greener, fairer energy system. This supports the Government's legally binding target to bring greenhouse gas emissions to net zero by 2050.² Ofgem's principal objective is to protect the interests of existing and future consumers, and as such, we will continue to work to enable the delivery of net zero at fair cost to consumers. Furthermore, the investment in low carbon

¹ <https://www.ofgem.gov.uk/publications/202223-ofgem-forward-work-programme#low-carbon%20infrastructure>
² https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1033990/net-zero-strategy-beis.pdf

infrastructure will contribute to our aim of building greater resilience in the GB energy sector by transitioning away from an energy market that relies on fossil fuels, and reducing the UK energy market's sensitivity to their price volatility. Therefore, the deployment of additional low carbon electricity generation via a nuclear RAB licensee, aligns with our shared net zero ambitions and strategic objectives. It is not, however, a question for Ofgem to decide upon the combination of low carbon technologies that should be subsidised or delivered to meet those strategic aims. As such, it is not for Ofgem to determine whether the Sizewell C nuclear project represents value for money for consumers, nor whether to designate NNBG SZC.

We consider that the SoS should continue to adhere to appropriate levels of transparency around the project, and how consumers would support it under this financing model, including when they come to finalise their assessment of the case for value for money. This is especially significant given the current cost of living crisis. We agree that the SoS should exercise their discretionary powers in revoking NNBG SZC's designation, if at any point in time, the SoS takes the view that project maturity and/or value for money fails to comply with the designation criteria in section 2(3) of the Nuclear Energy (Financing) Act.

We acknowledge the importance of carrying out a pre-designation project maturity assessment to build confidence for consumers, investors, and Government. The SoS' draft reasons demonstrates BEIS' active engagement with NNBG SZC on assessing project maturity, to maximise the likelihood of delivering value for money for consumers. We consider that a strong delivery strategy will be key to ensuring the success of a RAB model, which shares a number of risks across consumers, investors, and taxpayers. Following designation, we are confident BEIS will continue to engage with NNBG SZC to ensure there is a strong delivery strategy for the Sizewell C nuclear project.

Ofgem - as the gas and electricity markets regulator - is focused on safeguarding the interests of consumers today, and ensuring that the transition to a low carbon GB energy infrastructure is at a fair price, to minimise the impact on consumer bills in the future. Ofgem therefore, strongly welcomes the SoS' commitment to ensuring that the designation of NNBG SZC will deliver value for money for consumers. We trust that the SoS will take a robust approach to finalising any value for money assessment before designation, continue to consider the overall value for money case before awarding the economic licence, and ultimately take action if circumstances change and the Sizewell C nuclear project is no longer likely to deliver identifiable benefits to consumers.

Our review of the draft designation statement indicates that the Sizewell C nuclear project is likely to deliver value for money for consumers, when considered against a counterfactual with no further nuclear development. We note that in one scenario ("Net Zero - Low Demand with point estimate cost correction") BEIS's modelling suggests that

value for money may not be met, while other scenarios provide a range of the extent of consumer benefits. For the purposes of project designation, and noting that we have no formal role in assessing whether the Sizewell C nuclear project presents value for money for consumers, Ofgem has not undertaken any assurance relating to BEIS's modelling or analysis, nor otherwise sought to independently verify on behalf of BEIS whether project designation is likely to result in value for money for consumers. We understand BEIS will continue to undertake robust analysis and economic modelling, to ensure that a decision to designate NNBG SZC and/or award NNBG SZC an economic licence, is made on the best possible underlying analysis. We trust that BEIS will ensure it engages appropriately with all relevant stakeholders to help ensure that any assumptions used for this analysis are appropriate.

Due to the long-lived nature of nuclear generating stations, we expect that under a RAB model consumers will support the Sizewell C nuclear project for a significant period of time, much longer than typical consumer subsidy periods under the Contracts for Difference regime. As such, we trust BEIS will retain a robust focus on consumer bill impacts over the whole project lifecycle in its assessment. Furthermore, to aid our role as the economic regulator for the Sizewell C nuclear project over its whole life, we would welcome an approach that balances the need to provide sufficient certainty to investors to make the project financeable, while allowing appropriate regulatory flexibility to adapt to any potential future changes in the energy sector. We consider one of the benefits of the RAB approach is that it can achieve such a balance in a way that other forms of subsidy may not.

We consider one pertinent consideration around designation is the overall allocation of risk across investors, consumers, and taxpayers. The RAB model is designed, in part, to deliver value for money to consumers by allocating risk in an efficient way, to minimise as far as possible the costs of private finance. We therefore expect BEIS to robustly consider the impact of risks allocated to consumers under the RAB model, and how decisions on risk allocation might affect the value for money case.

The ongoing energy crisis has put significant financial pressure on gas and electricity consumers, and Ofgem remains committed to delivering resilience in the retail sector which protects all consumers. Given the increasing significance of ensuring future energy market resilience, we recognise that securing the future supply of electricity generation is an important factor for safeguarding the interests of consumers and meeting our shared objectives. Therefore, we agree that security of supply is likely to be a relevant factor in considering the potential benefits of designating NNBG SZC. We agree that such benefits are often hard to monetise, although does not detract from their significance.

The production of heat and potential flexibility benefits may also be viable options to provide local and national benefits to energy consumers, especially considering the need to build a regulatory regime that can adapt to future energy demands. However, we would encourage further quantification and analysis of the potential costs and benefits of pursuing areas, like the production of heat and flexibility services, given the way the RAB model is likely to allocate certain costs and risks to consumers. Given the important role the Electricity System Operator (ESO) will have in optimising the future electricity network, we encourage BEIS to continue engaging with the ESO in regard to maximising the value of the Sizewell C nuclear project to consumers. As with all of the monetised benefits and opportunities identified by the SoS, we trust that the impacts on consumer bills will be considered fully when making policy decisions for the regulatory regime.

In response to this letter, if you would like to discuss further, please contact my colleague Oliver.Lonsdale@Ofgem.gov.uk or on 0207 901 7488.

Yours sincerely,

Zak Rich

Deputy Director, Low Carbon RAB