



Nuclear Industry Association

Carlton House
22a St James's Square, London
SW1Y 4JH

Tel: +44 (0)20 7766 6640
Fax: +44 (0)20 7839 1523
E-mail: info@niauk.org
Website: www.niauk.org

Response by the Nuclear Industry Association to the Department of Energy and Climate Change Consultation on a Methodology to Determine a Fixed Unit Price for Waste Disposal and Updated Cost Estimates for Nuclear Decommissioning, Waste Management and Waste Disposal

The Nuclear Industry Association (NIA) welcomes this opportunity to comment on the Government's proposals on the financing of new build decommissioning and waste management.

NIA is the trade association and information and representative body for the civil nuclear industry in the UK. It represents over 190 companies operating in all aspects of the nuclear fuel cycle, including the current and prospective operators of the nuclear power stations, the international designers and vendors of nuclear power stations, and those engaged in decommissioning, waste management and nuclear liabilities management. Members also include nuclear equipment suppliers, engineering and construction firms, nuclear research organisations, and legal, financial and consultancy companies. Several of these companies will be making their own responses to this consultation.

Chapter 3: The methodology to determine a Fixed Unit Price

1 Do you agree or disagree that prospective operators of new nuclear power stations should be given the option to defer the setting of their Fixed Unit Price? If so, do you agree that this deferral should be limited to 10 years after the nuclear power station has commenced operation? Do you have any comments on the way the Government proposes to determine an expected Fixed Unit Price as the basis for an operator's interim provision in the event that they choose to defer the setting of their Fixed Unit Price?

Yes as an option. By waiting this length of time there is greater certainty for both sides at that point as the details of the repository are more likely to be known. Also if companies are forced to take the fixed price they are offered at the time they submit their FDP then there is a danger that this will discriminate against the first operators into the market and could potentially cause delay in bringing the new nuclear stations that the UK needs on stream on time to meet demand. However we do understand that the deferral can not be indefinite as the plant must have time to build up the required fund for the actual price they are given (albeit they will be contributing to the FDP according to their estimated fixed cost). The limit of ten

years would seem to be a short one however. If this is on a basis of a 40 year operational life so that there is 30 years of operational life remaining to spread any payment adjustments over then this is extremely conservative. Experience shows PWRs routinely achieve 60 years of operational life so applying the basis of 30 years to make adjustments then the delay in fixing the price should be 30 years not 10. There should however be a linkage between the deferral and progress in the MRWS process. The basis on which the Government proposes to operate in the interim seems sensible as if a payment holiday was granted in the FDP then subsequent payments would be unduly high.

For certainty in project financing operators may prefer instead to take the fixed price offered at the outset taking a possible higher price in order to reduce risk. In which case the option to take the initial price offered should be retained.

Where an operator chooses to defer fixing the price, the consultation document is not sufficiently detailed about the procedure for delayed price setting.

This leaves the matter open to different possibilities:

- a) eFUP will necessarily exist for the full Deferral Period, and the operator will have no further choice but to wait to see what Fixed Unit Price is awarded at the expiry of the full Deferral Period; or
- b) the operator will have the opportunity to change an eFUP into its Fixed Unit Price at any time during the Deferral Period. This would be a one-off right to “close” the Fixed Unit Price within the Deferral Period. However this is not supported by the consultation document as there appears to be no procedure for setting the Fixed Unit Price in this way; or
- c) there will be specified review points within the Deferral Period, giving the operator limited choice to “close” the Fixed Unit Price at those times. The consultation document does contain provisions for periodic review of eFUP, but again, this does not appear to extend to a procedure which entitles an operator to periodically “close” its Fixed Unit Price.

Given the length of the Deferral Period, the operator should have the opportunity to elect to set the Fixed Unit Price during this period under a process that is defined in a manner similar to (b) or (c), or some variation of the above.

2 Do you agree or disagree with the proposal that the Schedule for the Government to take title to and liability for an operator's waste should be set in relation to the predicted end of the decommissioning of the nuclear power station? Do you have any comments on the way the Government proposes to recoup the additional costs it will incur in this case?

Yes. It is unreasonable to expect an operator to act as purely a waste management company for decades after a reactor has ceased generating electricity purely while they wait for the Government's repository to start accepting their waste. However the timetable should be kept under regular review. The industry would welcome confirmation that title would be transferred at the actual rather than predicted decommissioning date.

We would welcome confirmation that the payment of funds to Government along with the transfer of waste title is on a net present value basis for storage, encapsulation, transport and disposal.

The setting of the discount rate for calculating the net present value will be very important in determining the sums which need to be accrued. We would welcome some clarification on how this would be set.

3 Do you agree or disagree that the proposed methodology to determine a Fixed Unit Price strikes the right balance in protecting the taxpayer, by taking a prudent and conservative approach to cost estimation, while facilitating new nuclear build by providing certainty to operators? What are your reasons?

While we broadly agree with the methodology we think that it is too conservative, particularly in the application of the optimisation bias. We also believe that the model used should be for a GDF which is optimised for UK new build waste as well as legacy waste rather than using the current NDA base case which appears to be based on a relatively high level extrapolation from the SKB Swedish disposal model.

4 Do you agree or disagree with the proposed approach to determining an operator's contribution to the fixed costs of constructing a Geological Disposal Facility? What are your reasons?

We disagree with these proposals.. Given the Government has to build this facility anyway to deal with its own legacy waste this methodology means that new build operators are being asked to subsidise the Government's legacy waste costs. We accept the government's position of not allowing any subsidy for new build, however conversely new build should not be expected to subsidise the Government. We do however accept that there will be an element of the repository's fixed costs that will relate to the total volume of waste being emplaced and so we would accept that new build operators will be liable for a fair share of this.

5 Do you agree or disagree with the proposal that the units to be used for the Fixed Unit Price are pence per kWh for spent fuel and cubic metres of packaged volume for intermediate level waste? What are your reasons?

Yes as we agree that ILW can be easily be calculated volumetrically and that the issues surrounding the disposal of spent fuel will depend on its history and so a price per unit output is more appropriate. Also this approach incentivises waste minimisation. However, our members do not have a consensus position on the price per unit approach for spent fuel. Some operators consider that £/tHM (heavy metal) would be a more appropriate unit for spent fuel pricing as it is consistent with practice elsewhere in the UK and has the advantage of creating an incentive to minimise the disposal volumes. Other operators believe that there are benefits in simplicity and transparency in the use of a pence per kilowatt basis.

Chapter 5: Updated estimates of the costs for decommissioning, waste management and waste disposal

6 Do the updated cost estimates represent a credible range of estimates of the likely costs for decommissioning, waste management and waste disposal for a new nuclear power station?

Yes we believe these figures represent a realistic range of values, however it is unclear what is included within the decommissioning costs and whether this also incorporates the costs of long term waste storage, encapsulation and transport.

**Nuclear Industry Association
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