Response by NuGeneration Limited

Thank you for the opportunity to respond to DECC's consultation. Please find, as an attachment to this letter, a response submitted on behalf of NuGeneration Limited (NuGen), a consortium of GDF Suez, Iberdrola and SSE, who have an interest in developing new nuclear power generation at a designated NNB site in West Cumbria.

We wish to offer one or two comments and suggestions which do not readily fall within the scope of the questions you have asked.

The December 2010 consultation document includes references to earlier consultation and we feel that this creates some uncertainty in the proposals. We would welcome a re-working of the document to capture all of the "active" proposals as they presently stand. Such a re-statement may make greater use of defined terms to help pin-down proposals to a single line of text. An outline time-line may also be helpful.

On considering how these proposals would operate in practice, we took the opportunity to consider the potential impacts of a number of operators who might have different Deferral Periods, Caps and Risk Fees. One of the consequences could be that different operators have materially different outcomes. This may not be in the interests of the market or consumers.

The possibility of different outcomes for different operators may also introduce additional issues for the Government in delivery of the regulations.

An alternative may be to have a set of parameters in all relevant Waste Agreements, but whose values and terms are common to all operators within a certain "class" of nuclear new build. This might include a single "underlying" Deferral Period, a single value for the Cap and Risk Fee (subject to indexation).

Individual operators may decide to move away from these common terms by fixing their Final Price within the Deferral Period (as presently proposed). The fact that they might then have different terms from other operators would then have been a result of their own choice, and not an accident of the timing of their project.

To achieve a single Deferral Period, it may be necessary to fix the starting date to a single event, such as the approval of the first Funded Decommissioning Programme amongst the class of operators covered by these terms. Similarly there may be a common end-date for the Deferral Period and this might be tied to the expected time-line of relevant projects. This may mean that the earliest projects have somewhat longer Deferral Periods, but it also means that no project is at risk of being unduly disadvantaged (compared to their peers) as a result of the timing of their project.

In our response, we have offered two possible ways to make the Deferral Period more flexible. If there was a decision to extend the Deferral Period (rather than invoke the Default Pricing Mechanism), this could be available to all operators at that time who still operate within the Expected Price mechanism. Similarly, if the

Government achieves a Site Specific Cost Estimate by a given date, earlier Final Price setting could be available to all operators who operate under the Expected Price mechanism from that time.

We hope you will find the above comments to be of interest. If you have any questions regarding this submission, please do not hesitate to contact me using the contact details below.

Yours sincerely,
[Olivier Carret
Chief Operating Director]

Respondent Details	
Name:	NuGeneration Limited

Consultation questions	
1	Do you agree or disagree that the level of the Waste Transfer Price should be subject to a Cap and that in return for setting a Cap the Government should charge a Risk Fee? What are your reasons?
Response	We understand the main changes from the previous proposals include a Cap and Risk Fee, plus (in effect) a mandatory Deferral Period of 30 years. The principle of the Cap and a Risk Fee is acceptable in consideration of risk allocation. We welcome the initiative Government has taken in proposing a Cap to address investor concerns mentioned in earlier consultations, although we have some comments on detailed points below. We understand the Cap and Risk Fee will be evaluated and, if agreed, will be incorporated into a Waste Contract. The method of indexation will need to be included with the values established at that time.
2	Do you agree or disagree that the Deferral Period should be set at 30 years after the start of electricity generation, in order to enable uncertainty over waste disposal costs to be reduced? What are your reasons?
Response	With regard to the sequence of events leading to the establishment of a Deferral Period, we understand the Waste Contract will be a condition for approval of a proposed FDP, and that the approval of the FDP will be a condition of a nuclear site licence. It would be helpful if each of the main requirements and any interdependency is set out in a re-stated guidance document, including a diagrammatic "time-line". A Waste Contract will more exactly define the Deferral Period in relation to each operator. A period of 30 years is an acceptable duration for the Deferral Period, although we believe there may be benefits in allowing some flexibility within the definition. Once the Government has established a Site Specific Cost Estimate, it may be advantageous to make available to operators the provisions for setting a Final Price with effect from that time (including recourse to the Disputes

	Procedure). This would not be an obligation as some operators may wish to set their Final Price when it is available, but others may wish to wait for the expiry of entire Deferral Period . Equally where the consultation recognises the possibility of invoking the Default Pricing Mechanism (no Site Specific Cost Estimate at the end of the full Deferral Period). It would be worth considering whether there are any principles which may be added to the proposals which, in the right
3	Do you have any comments on the updated Waste Transfer Pricing Methodology? Comments are sought in particular on the proposed approach to setting an Expected Price and a Risk Fee.
Response	With regard to the Cap and Risk Fee: The P99 level is at the extreme end of a modelled cost distribution at the time the Waste Contract is agreed. The extreme end of the distribution will carry the greatest uncertainty from modelling analysis and there is no information to support a view on the shape of the "tail". Given the degree of uncertainty, we would prefer to reserve our position until we have more clarity over what is being proposed in practice. As these parameters will be established in a procedure leading to an agreed Waste Contract, we would anticipate much more detailed discussion during the preparation of such a contract. We do not believe it will be in the interest of those discussions to place constraints around uncertain outcomes at this stage. The Cap is subject to a projected Risk Premium plus an Optimism Bias Uplift plus a Contingency Allowance. The three items all seek to address the possibility that the modelled distribution could under-estimate out-turn cost. Their combination could therefore over-state the Cap for the same underlying risk and this becomes a more acute issue as higher "P-values" are adopted by the methodology. We do not believe it is in anybody's interest to inflate the Cap to an unjustifiably high level and more consideration is required to the question of double-counting risk. The expression (Probability x Cost Consequence) in the Risk Fee appears to be a measure linked to the distribution-weighted-average cost above the P99 level. We acknowledge that this may not be easy to calculate given the modelling and data uncertainties at the more extreme ends of the distribution mentioned above. However we would be reluctant to accept a proposal that the Cost Consequence may be taken from the maximum value obtained from a set of model runs. This is similarly uncertain in its outcome and it may not be helpful to future discussions to accept such a principle at this stage. It may be better to address this matter during the preparation of the Waste Contract when agreement between Government and operators will encourage both to make specific proposals. With regard to the proposed Mark-up on the Risk Fee, we can see the rationale for including a mark-up on an underlying cost. However the

	proposed level of 50% on a highly uncertain value of (Probability x Cost Consequence) has no attendant justification in the consultation document. Finally, justification is required for the proposal to round-up results as it is clear that this can produced a disproportionate increases in price. The worked example shows an ILW unit cost being raised from £0.04 to £0.1 /m3. With regard to the Expected Price: We understand the Expected Price will be derived from a cost modelling exercise, although not necessarily the “NDA Parametric Cost Model” referred to in the consultation document. The consultation document also refers to an “NDA base estimate” and a “projected Risk Premium”, although there is no obvious linkage between the two items, or the specific "NDA Parametric Cost Model". We anticipate these detailed points will be more clearly defined in a Waste Contract. The Expected Price is subject to a projected Risk Premium plus an Optimism Bias Uplift. To repeat an earlier concern, the Optimism Bias adjustment seeks to address the possibility that modelling optimism could result in under-estimation of the Expected Price and therefore the Fund Target Value. However the “expected Risk Premium” plays a similar role and their combination could therefore over-state the Expected Price for the same underlying risk. This becomes a more acute issue as higher "P-values" are adopted by the methodology. We also wish to invite more consideration of the possibility that the Expected Price may undergo significant change following a periodic review. This could place sudden and extreme changes in operators' immediate funding requirements. The methodology ought to consider further principles to afford operators more protection against this type of event. With regard to the Final Price We understand there is no Optimism Bias applicable to a Final Price determined from a Site Specific Cost Estimate, as the risk of modelling optimism is no longer relevant. With regard to the general Cost Estimating Methodology: It is proposed that the Cost Estimating Methodology will be set out in the Waste Contract, and the methods will be open and transparent. We understand these are points of detail which will be agreed and incorporated into a Waste Contract in due course. The Cost Estimating Methodology in the Waste Contract may be refined during the operation of the Waste Contract. We anticipate the terms of the Waste Contract will ensure such refinements may only be made by mutual agreement.

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

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