

Response from Horizon Nuclear Power Services Ltd

General

1. Horizon Nuclear Power Services Ltd ("Horizon") welcomes the opportunity to comment on the updated Waste Transfer Pricing methodology for the disposal of higher activity waste from new nuclear power stations.

2. We believe that the Government needs to outline its next steps in considerably more detail than is provided in the Consultation document: in particular it must explain the timetable and actions leading up to the first draft of a Waste Contract and when we will be provided with a draft. Greater clarity would also be welcomed on the degree to which agreed Waste Contracts are expected to be made public.

3. As expressed in Horizon's response to the Funded Decommissioning Programme draft Guidance consultation, which accompanies our response to this consultation, there remains a lot of detail to be discussed between an operator, DECC, the Nuclear Liabilities Financing Assurance Board (NLFAB) and the regulators before an acceptable waste transfer price and associated contract can be put in place alongside an agreed FDP and there is sufficient investment certainty for nuclear new build projects to go ahead in practice.

Question 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?

4. Horizon agrees with the principle that the factors that would affect cost escalation relating to waste disposal are not controllable by the operators, and therefore it is fair to provide a limit to the liability they would face. In principle it is also fair in this situation that a risk fee should be charged, and that this fee should be set at a fair market rate for the service being provided.

Question 2

Do you agree or disagree that the Deferral Period should be 30 years after start of electricity generation, in order to enable uncertainty over waste disposal costs to be reduced? What are your reasons?

5. Horizon continues to believe that deferral should be linked to significant progress in the Managing Radioactive Waste Safely (MRWS) programme in order to achieve maximum utility from the deferral option; however, we welcome the 30-year proposal as a significant improvement over previous proposals and the Government's recognition that 10 years is likely to be insufficient to deliver greater certainty over disposal costs.

Question 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.

6. In its Waste Contract with Government, an operator should not be required to accept terms that may have been agreed between other Operators and Government where that operator had not been given the opportunity to engage with the detail, or development, of those terms. As noted above, Horizon would appreciate further clarity on Government's intentions as regards the Waste Contract, in particular, whether it is intended that there will be a standard contract for all operators and if so, how that contract will be developed.

Independent scrutiny

7. As Horizon stated in its response to the March 2010 consultation on the Fixed Unit Price methodology,¹ given that we have only had access to relatively limited information, we are concerned that we cannot meaningfully comment on the details of the cost modelling process itself. As we stated at the time, however, from what we have seen we disagree with the probability level proposed to be applied in the methodology set out in the worked example. Furthermore, we would be grateful for confirmation from DECC that potential operators will be allowed to audit the cost model themselves, and for details as soon as is possible as to how and when this will happen.

8. Where the Government has provided numbers “for the purposes of illustration” (e.g. optimism bias uplift of 66% in paragraph 4.3.10 and elsewhere; the percentile of the cap in paragraph 1.16) Horizon requires clarity on how these numbers will be proposed and scrutinised prior to a Waste Contract being agreed, and whether all applicants for a waste transfer price will be given the same numbers or be able to negotiate their own terms. If the first applicant for a price is to negotiate and set the numbers which will then be used for all subsequent applicants, the negotiation process must be transparent and publicised to allow interested parties to take part in the discussions. Government must also make clear how those numbers would develop over time and how, for example, the optimism bias would be expected to decrease in line with milestones in the GDF project and reflected in the Final Price.

9. The consultation also refers to “provisions for transparency and independent scrutiny of the Government’s cost estimates”². While we strongly agree with this in principle, we require more detail on the independent scrutiny that is envisaged, how such scrutiny will be procured, on what timescales, and how the Government will be bound by any views expressed by the organisation(s) undertaking the independent scrutiny.

Encapsulation and disposal packages

10. The encapsulation process and timing will be entirely defined by the Government’s requirements for the GDF: this is not something that the operators are able to specify in their FDPs or accompanying submissions to other regulatory bodies.

11. Under the “Early Transfer” proposal³, responsibility for the site, and any other new build sites, will have transferred to the Government before construction of the encapsulation facilities. We assume that the Nuclear Decommissioning Authority (NDA), or successor bodies, will take over responsibility for the waste and spent fuel.

12. The encapsulation facilities will therefore be constructed by the Government to a specification required by the Government’s GDF. As such the risks attached to this aspect of the waste management cycle are not manageable by an operator.

13. In the March 2010 Fixed Unit Price consultation the Government stated that costs were uncertain and that the level of uncertainty around those costs is “considerable, particularly around the costs of encapsulation”, and hence the “additional risk premium would be large”⁴. It went on to confirm that “Government does not propose to expand the scope of the Fixed Unit Price beyond the estimated cost of geological disposal”. However, the uncertainty of costs for encapsulation is entirely under the Government’s control, and this is also true for intermediate level waste (ILW).

¹ URN 10D/577, March 2010

² Paragraph 3.3.11

³ See sections 2b.33-2b.39 of Consultation on revised FDP Guidance for New Nuclear Power Stations

⁴ “Consultation on a fixed unit price methodology and updated cost estimates”, paragraph 3.2.28

14. Consequently, Horizon is of the view that the capital and operational costs of any facilities required for preparing the waste for disposal (including packages) should be incorporated into the Waste Transfer Price methodology (i.e. the £/tU SF and £/m³ ILW calculations) and included in the capped price that the Government offers to Operators.

Discount rate

15. Increased clarity will be required on the discount rate to be applied at Early Transfer. Without this there is a risk that the payment that the operator will have to make can be adjusted by governmental mechanisms, and any certainty that fixed prices or time periods bring is diminished by allowing variation to the discount rate. The Government should be prepared to agree the mechanism through which a discount rate will be calculated in the Government /operator Waste Contract that is envisaged alongside the FDP, even though it cannot agree to a value for the discount rate at this stage. Such a mechanism would be expected to include consideration of recent metrics, such as recent average Gilt rates over a period, which would allow the operator and Fund to estimate the expected discount rate in the period running up to Early Transfer.

Expected Price

16. Horizon needs clarity on what the dispute resolution procedures⁵ will be and how it will function and, in particular, how the Government and operator would be impacted and bound by any such dispute resolution outcome.

17. In general, Horizon is concerned about the level of the cap and expected price calculated in the examples. In the absence of the ability to analyse the cost model ourselves, and without independent scrutiny, we cannot be sure that this price represents a fair share of waste disposal costs.

Risk Fee

18. It is unclear if the figures proposed for the mark-up are illustrative, as in the remainder of the consultation, or proposed, and to be set at this level following responses to this consultation (i.e. not subject to subsequent negotiation). Horizon would expect the level of this fee to be subject to negotiation between the contracting parties.

Rounding up

19. Government should avoid rounding up for the perceived sake of “simplicity”, as it has suggested in paragraph 3.3.108. Where it is absolutely necessary, the rounding should apply to similar degrees of accuracy: for example, it is proposed that the risk fee for spent fuel is rounded up to the nearest £1k/tU, and the nearest £0.1k/m³ for ILW, a ratio of 1:10, despite the fact that the tU:m³ ILW ratio is in the region of 1:2⁵.

⁵ As mentioned in paragraph 3.3.11