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United Kingdom

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Dear Consultee,

Consultation on the methodology to determine the Initial Weighted Average Cost of Capital in the proposed Economic Licence for SZC

1 Scope of this consultation

1.1 The Nuclear Energy (Financing) Act was passed in 2022 ("**NEFA**"), introducing a statutory framework for a new RAB financing model intended to support private investment into nuclear companies which are designing, constructing and operating new nuclear plants and which have been designated by the Secretary of State in accordance with section 2 of NEFA. The cost of finance is one of the main drivers of overall cost of delivering the project and the use of the RAB framework can reduce the cost of financing, leading to better value for money for consumers over the lifetime of a nuclear project. On 28 November 2022, the Secretary of State designated Sizewell C Limited ("**SZC**") as a designated nuclear company under the powers included in NEFA. This designation allows the Secretary of State to modify the terms and conditions of SZC's electricity generation licence to put in place the Regulated Asset Base ("**RAB**") financing model for SZC.

1.2 On 6 November 2023, the Government launched a consultation (the "**Economic Licence Consultation**") seeking views on the proposed modifications to SZC's electricity generation licence. These modifications are to be made through the introduction of specific "special conditions" (the "**Economic Licence**"). The Economic Licence Consultation has now closed and the Government is in the process of analysing the responses to the consultation. A response to the consultation will be published and a final draft of the Economic Licence will be made available to Bidders who have been invited to participate in Phase 2 of the Bidding Process in due course.

1.3 There were three elements of the Economic Licence which the Secretary of State will need to set in the final set of licence modifications. The Secretary of State is now consulting on its proposed methodology to determine those three elements. These are (i) the Initial Weighted Average Cost of Capital (the "**IWACC**"); (ii) the Cost of Debt Adjustment ("**CDA**"); and (iii) the Lower Regulatory Threshold ("**LRT**") and the Higher Regulatory Threshold ("**HRT**"). The Secretary of State is not required to and does not intend to consult on the actual numbers but only on the methodology adopted by the Secretary of State in setting those numbers.

1.4 The Secretary of State considers it appropriate to consult:

1.4.1 the following statutory consultees under NEFA: Gas and Electricity Markets Authority (Ofgem's governing body), the Office for Nuclear Regulation (ONR), the Environment Agency (EA), Sizewell C Limited (SZC); and

1.4.2 having considered carefully whether it would be appropriate to consult any other person, as permitted by section 8(1)(h) of NEFA, will also consult:

(i) EDF as an existing shareholder in the designated nuclear company;

(ii) investors who have been invited to participate in Phase 2 of the ongoing equity raise process (the "**Equity Raise Process**"); and

(iii) Citizens Advice (on behalf of consumers in England and Wales) and Consumer Scotland (on behalf of consumers in Scotland).

1.5 Other than with respect to the investors who are being consulted, the consultees are the same as those consulted on the Economic Licence Consultation for the same reasons given in that consultation. The reason that a smaller pool of potential investors are being consulted on these methodologies than those who were consulted on the Economic Licence consultation is that the not all investors who pre-qualified for the Equity Raise Process have been invited to participate in Phase 2 and therefore the Secretary of State only considers it necessary to consult those investors who remain in the Equity Raise Process.

1.6 The Secretary of State is aware that the Stop Sizewell campaign group sent in a response to the Economic Licence consultation, even though they were neither a statutory consultee nor a party whom the Secretary of State had decided to consult. The Secretary of State has further considered (in the light of the comments which were received from the campaign group suggesting that they should have been consulted) whether or not to involve such groups or similar groups in this consultation and has determined not to do so for the reasons originally given in the Economic Licence consultation and because the detail of the Economic Licence is a matter for consumer groups more widely (hence the inclusion of Citizens Advice and Consumer Scotland). The decision around the siting of the new nuclear plant at its location in Suffolk is a matter which has already been adjudicated on through the siting and planning processes during which processes local campaign groups were consulted and fully engaged.

2 IWACC

2.1 The IWACC is an important component in the Economic Licence used to calculate the Return on Capital building block (or where applicable, the Additional Return on Capital and Liquidity building blocks) which form part of SZC's "Allowed Revenue" during the period prior to the Post Construction Review ("**PCR**"), defined in the Economic Licence as the "**Pre-PCR Phase**". The Pre-PCR Phase primarily covers construction and commissioning and includes a 3-year period following the Commercial Operations Date (as defined in the Economic Licence).

2.2 As set out in the Economic Licence, the "Allowed Revenue" represents the revenue which SZC is entitled to receive under the RAB financing model and it comprises of a number of building blocks. During the Pre-PCR Phase, the Allowed Revenue would be funded by electricity suppliers (who would be expected to pass these costs onto consumers through their electricity bills). Once the Sizewell C project (the "**Project**") commences power generation (i.e., during commissioning and thereafter), the Allowed Revenue would be funded through market revenues that SZC receives, with a top-up from electricity suppliers where such market revenues are insufficient to fund the Allowed Revenue. Where market revenues are greater than the Allowed Revenue the negative difference payment would be paid back to electricity suppliers.

2.3 After the Pre-PCR Phase, during the operations phase of the Project, the Regulated WACC ("**RWACC**") would apply to determine the rate of return for equity investors and lenders. The RWACC is not within the scope of this consultation and will be determined by Ofgem, initially at the PCR and thereafter at each periodic review (according to a 5-yearly price control process), drawing on the approach taken by Ofgem in relation to other assets (such as regulated networks) and the principles set out in the guidance on Ofgem's approach to the economic regulation of SZC (the "**Economic Guidance**").

2.4 The Secretary of State has responsibility for setting the IWACC. Where there is adequate competition the Secretary of State will take into consideration information received through the price discovery process as part of the Equity Raise Process and the process for selecting commercial banks (on competitive price and tenor) to provide financing [redacted] by SZC to be in place at Revenue Commencement. In each case this is likely to provide helpful market data.

2.5 In considering how to set the IWACC, the Secretary of State has considered a range of possible approaches, with the key options summarised below. Based on its assessment of the relative merits of these approaches, and assuming the Secretary of State has bid data from the sufficient competitive processes which are being run for the Cost of Equity [redacted] and/or Private Debt (as such terms are defined in paragraph 5.16 below) , the Secretary of State is considering adopting Option 2 (in respect of setting the Cost of Equity as set out in paragraph 4 below), and the approach on the Cost of Debt and the gearing as set out below in paragraphs 5 and 6, subject to any feedback received in this consultation process. The purpose of this consultation is to seek consultees' views on this to help inform the Secretary of State's decision on the optimal approach. 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.

2.6 The IWACC sets out the rate of return for equity investors and lenders during the Project's Pre-PCR Phase and is used to determine the:

2.6.1 return on capital for investors pursuant to Special Conditions 31 (Return on Capital Building Block during the Pre-PCR Phase) and 32 (Additional Return on Capital Building Block during the Pre PCR Phase);

2.6.2 adjustments for the time value of money during the Pre-PCR Phase pursuant to Special Condition 30 (Allowed Revenue during the Pre-PCR Phase); and

2.6.3 (where the Project includes Private Debt, as such term is defined in paragraph 5.16 below) the returns on forecast incremental increases to the RAB to compensate SZC for the cost of drawing-down funding in advance of expenditure to meet liquidity requirements, pursuant to Special Condition 36 (Liquidity Building Block).

2.7 The IWACC would be fixed in real terms at Revenue Commencement and apply throughout the Pre-PCR Phase. A key exception to this (set out in the proposed Economic Licence) is where the Project enters into a delay. In such a scenario the IWACC will be reduced for the period of the delay by a pre-agreed formula set out in Special Condition 41 (Timely Achievement of COD) (the "**Delay WACC**").

2.8 There may be some further exceptions to this depending on the approach which is ultimately followed to set the IWACC (in particular, see option 3 below which contemplate adjustments for indexation to certain component(s) of the IWACC during the Pre-PCR Phase). The quantum of the Delay WACC, and the mechanism and circumstances in which it applies formed part of the Economic Licence Consultation and is not the subject of this consultation.

3 Components of a WACC

3.1 The weighted average cost of capital ("**WACC**") is generally determined using three key components, as referenced in the formula set out below:

3.1.1 the cost of equity ("**Cost of Equity**" or "**Ke**");

3.1.2 the cost of debt ("**Cost of Debt**" or "**Kd**"); and

3.1.3 the notional gearing.

$$WACC = Gearing \times K_d + (1 - Gearing) \times K_e$$

3.2 The Secretary of State has considered each of these components in turn and has set out below its key considerations in respect of setting each of these components in the context of determining the IWACC for the Economic Licence.

3.3 The Secretary of State has considered three possible options for setting the Ke:

3.3.1 Option 1 – using the CAPM Methodology.

3.3.2 Option 2 – using bid data obtained from the Equity Raise Process.

3.3.3 Option 3 – using bid data from the Equity Raise Process with adjustments for movements in the RFR.

3.4 The Secretary of State has considered various options to introduce a competitive element on either the Cost of Equity as a whole or on certain components of the Cost of Equity (while including protections for investors for changes to certain other components of the Cost of Equity). The options are described below together with some observations the relative merits of each.

3.5 If and to the extent that consultees consider that there are other options for setting the Ke, please outline such alternative options and why the consultee considers that such options should be considered by the Secretary of State.

4 Cost of Equity

Option 1: Using the CAPM methodology

4.1 CAPM methodology is a method to estimate investors' required returns. It is a forward-looking assessment of the opportunity cost for investors. Calculating an appropriate cost of equity involves an assessment of the risks being taken by investors in the relevant company and the associated level of return required to compensate for those risks. UK Regulatory Networks Guidance 2023 ("**UKRN**") recommendation 2 suggests that because the cost of equity is not directly observable, it must be estimated using a widely accepted method. The recommendation is that regulators should continue to use the Capital Asset Pricing Model ("**CAPM**") as their primary approach for estimating the cost of equity.

4.2 Use of the CAPM as the primary tool for estimating the cost of equity is well established in regulatory, finance and investment practice, and is in line with the RIIO price control methodology which Ofgem currently uses for electricity and gas networks. According to the CAPM methodology, the Cost of Equity can be further broken down into three key components, as referenced in the formula set out below:

4.2.1 the risk-free rate ("**RFR**");

4.2.2 the equity beta ("**β**"); and

4.2.3 the total market return ("**TMR**").

$$\boldsymbol{K_e = RFR + \beta \times (TMR - RFR)}$$

4.3 Absent a sufficiently competitive process for the Cost of Equity, the Secretary of State would use the CAPM methodology to set the Cost of Equity for SZC during the Pre-PCR Phase using an approach which would be in line with regulatory precedent. The Secretary of State would need to determine how to set all three elements of the CAPM model and identify the most relevant comparators that are available which may include a mixture of large multi-contractor construction projects and regulated entities both in the UK and internationally and weighted towards the most appropriate.

4.4 However, where there is a competitive process to determine the Cost of Equity (or part of its components as per the CAPM methodology) it could be appropriate in addition for the Secretary of State to take into consideration data of a "market-based" Cost of Equity which is discoverable through that process.

Option 2: Bid Fixed Cost of Equity

4.5 Under this option, equity investors participating in phase 2 of the Equity Raise Process would be asked to bid a fixed real Cost of Equity for the entire Pre-PCR Phase. The IWACC would then be set by reference to (i) a Cost of Equity which is discoverable by this process cross checked against appropriate market data; (ii) and a Cost of Debt and gearing which would be specified by the Secretary of State as described further in this consultation document. This is similar to the approach adopted by Ofgem as regulator in respect of the

competitive processes which it runs for OFTO assets where it is the competition for the assets, rather than the CAPM model which sets the equity return. This is also similar to the approach which was adopted by Ofwat, as the water industry regulator in the Thames Tideway Tunnel structure, where potential investors in that case bid the whole of the WACC

4.6 A key advantage of this approach is its simplicity relative to other options as well as providing clear market driven information obtained under competition. This option would be capable of delivering a fixed Cost of Equity (subject to any adjustments to the overall IWACC in a delay scenario as noted above) which translates to delivering certainty and stability in investor returns (in real terms) during the Pre-PCR Phase as well as certainty for consumers as to the costs which they would be funding. This would mean that returns for the company would move only with inflation and additions to the RAB (during the Pre-PCR Phase), any additional compensation made through the CDA mechanism (as set out below) and as a consequence of delays as noted above. This certainty of the basis on which returns form part of the regulated return is considered to be a key feature of any RAB based funding model which is expected to enhance the financeability of the Project, attract non-governmental equity and stabilise the cost to consumers over the Pre-PCR Phase.

4.7 This approach is likely to be most familiar to investors who will be used to participating in equity raise processes where they are providing their bids on their Cost of Equity as a whole (based on their own individual long term views on potential movements in each of the components of the Cost of Equity). The simplicity and familiarity of this approach are therefore expected to be positive from an investability point of view which may ultimately drive stronger competition and better value for money for consumers. Equally, from a consumer point of view, consumers' bills will be insulated from variations in the macro-economic environment, unlike option 3 below which would see returns adjusted for changes in the macro-economic data.

4.8 The fact that investors may evaluate their Cost of Equity without using the CAPM methodology does not prejudice consumers. The competitive Equity Raise Process has been designed so that investors who take a significantly different view on the risk and returns for the Project and, therefore, bid a very high Cost of Equity are likely to lose out on their competitive advantage relative to other bidders, which in turn will drive the Cost of Equity down for consumers.

4.9 This option would not protect investors from movements in the individual components of the CAPM Cost of Equity (such as the RFR). This could potentially lead to investors effectively assuming a high RFR for the duration of the Pre-PCR Phase (which could move up and down). If investors price in a premium in their Cost of Equity to reflect uncertainty of the RFR this would push the Cost of Equity up, although this risk is, to some extent, mitigated through a competitive Equity Raise Process. On balance, the Secretary of State considers that the perceived benefits of this option 2 outweigh the drawbacks.

Option 3 – Bid Cost of Equity with RFR protection

4.10 Under this option, equity investors participating in phase 2 of the Equity Raise Process would be asked to bid a Cost of Equity (as a whole), taking account of an assumed RFR specified by the Secretary of State. The IWACC would then be set by reference to: (i) a Cost of Equity which is discoverable by this process cross checked against appropriate market data; (ii) adjustments to the RFR specified by the Secretary of State and (iii) a Cost of Debt and gearing specified by the Secretary of State (as described below).

4.11 Under this option, during the Pre-PCR Phase, the IWACC would not be fully fixed as adjustments would be made on a periodic basis to reflect changes to the RFR adjusted appropriately in a manner similar to that which Ofgem use for network companies. While this option increases the complexity of the IWACC, it means equity investors would have their returns adjusted for changes to the RFR and would therefore obviate the need for investors to take a long term view in relation to the RFR. From a consumer point of view, whilst this shifts the macroeconomic risk of a varying RFR on to the consumers, investors would no longer price in their perception of changes to the RFR during the Pre-PCR Phase in their Cost of Equity bids, and therefore, this option may reduce the likelihood of any priced in "premiums". Consumers would also benefit from any decrease in the RFR from that assumed at Revenue Commencement.

4.12 Although this may militate towards a lower Cost of Equity at Revenue Commencement, this must be balanced against the uncertainty this gives rise to in terms of returns and cashflows which could in turn have the opposite effect given the impact on the level of committed equity that investors would be required to provide.

Were investors to price in a premium for this uncertainty this would have a negative impact on value for money for consumers.

4.13 As set out in the Economic Licence Consultation, the role of the Economic Regulator is designed to be more limited during the Pre-PCR Phase. However, this option would necessarily place greater emphasis on the Economic Regulator during this period as it would be responsible for calculating adjustments to the RFR component of the IWACC, unless it was linked to an observable index, such as the gilt rate. If the Secretary of State chose to fix the RFR by reference to an observable index rather than allowing the Economic Regulator to set the RFR on a periodic basis, they would also need to determine the appropriate proxy for the RFR (as it is not possible to measure the RFR directly).

4.14 It is noted that there are some challenges involved in this given the limited number of suitable comparators during the Pre-PCR Phase. Additionally, as changes for inflation are separately accounted for in determining the investor returns under the Economic Licence, any RFR which is selected may need further adjustments in order to be in real CPIH terms. These factors would add to the complexity of this option.

4.15 The RFR is, in theory, the rate of return required to invest at zero risk. In practice, no investment is truly risk-free, so this hypothetical risk-free rate of return must be estimated. It is common practice to use the yield (i.e. annual rate of return to maturity) on extremely low-risk investment instruments as a proxy for the RFR. Previous price controls and appeals to the CMA have considered which low-risk instrument or instruments provide the best proxy for the RFR, and whether further adjustments would lead to a more accurate estimate. UKRN recommendation 3 states that regulators should use recent yields on the index-linked gilts (ILG), with a maturity which matches the assumed investment horizon for their sector to estimate the RFR. There have been a few CMA appeals in respect of using the ILGs as a proxy for the risk free rate, but the most recent appeal on RIIO GD&T-2 did conclude that the regulator was not wrong in adopting this approach. Therefore, if the Secretary of State was minded to ask the Phase 2 bidders to bid a Cost of Equity with an indexed-linked risk free rate, they would be likely to conclude that the appropriate RFR would be to link it to ILGs.

Proposal in relation to the Cost of Equity

4.16 Based on the Secretary of State's assessment of the various options outlined above, they are considering determining the Cost of Equity (and consequently the IWACC) using Option 2 providing that there is sufficient competition. Of the options considered by the Secretary of State to date, it is considered that Option 2 strikes a reasonable balance between the financeability of SZC and protecting consumer/ taxpayer interests whilst removing uncertainty for both investors and consumers.

4.17 If, however, there is insufficient bid data arising out of a sufficiently competitive Equity Raise Process, the Secretary of State would need to give further consideration to setting an administrative Cost of Equity for the Pre-PCR Phase) on the basis of the CAPM informed by costs associated with any appropriate and suitable comparable projects which may have similar risk profiles, taking into account any relevant information (including any information or feedback received through Phase 2 of the Equity Raise Process and this consultation). In such a scenario the Secretary of State would use Option 1, taking into consideration any relevant bid data received in Phase 2 of the Equity Raise Process.

4.18 In such a scenario, the Secretary of State may also take into account expert analysis which may be conducted by economic consultants using the CAPM methodology.

5 Cost of Debt (IWACC allowance)

5.1 The Project is expected to be funded by debt as well as equity. Under the Economic Licence, SZC will receive an allowance for its cost of debt through the IWACC, as this may effectively be adjusted by the Cost of Debt Adjustment (see below).

5.2 Given the unique nature of the SZC financing (and in particular its size, the sector it operates within, and the first of a kind nature for the adoption of a RAB based model to finance construction of a project within that sector) there are no readily available comparators. Traditionally there has been a lack of private sector financing within the nuclear sectors and most projects have either proceeded without debt financing, with subsidised government financing or with equity funding from state funded utilities. In some cases private

sector lenders have provided debt finance with credit enhancement from export credit agencies at the commencement of the construction process.

5.3 The Secretary of State is considering whether they should adopt an approach which is consistent with UKRN's 2023 guidance. UKRN notes that the Cost of Debt is an area where it is reasonable for regulators to take different approaches, but a balance needs to be struck between minimising interest cost and managing risk. As part of this, UKRN has flagged that when using an index to benchmark the allowed Cost of Debt, one should be cognisant of how well the index characteristics aligns with the features of the notional company and actual issuance, and an adjustment to the index may sometimes be justified. Finally, the UKRN notes that where a real Cost of Debt is required, regulators should carefully consider the inflation assumption required to deflate nominal yields, because outturn inflation above or below the regulatory assumption could result in companies receiving windfall gains due to 'forecasting error'.

5.4 If the Secretary of State were to adopt this approach, they would need to consider the following methodological choices to consider when estimating the Cost of Debt for SZC:

5.4.1 Treatment of market data, including (i) choice of market index (ii) averaging period applicable to the market index and (iii) how to deflate nominal yields of the market index to real terms; and

5.4.2 Whether or not there is justification for augmenting the yields implied by the market index to more closely resemble what could be achieved by SZC.

5.5 It has become commonplace for UK infrastructure regulators to rely on iBoxx market indices when determining the allowed Cost of Debt, irrespective of whether each regulator sets a fixed or varying allowance. The following table summarises the market indices which have been considered in recent GB regulatory precedent.

Precedent	Averaging period of relevant market index
CMA RP3 (NATS)	iBoxx £ Non-Financials A 10-15 iBoxx £ Non-Financials A 15+
Ofgem RIIO-2	iBoxx £ Utilities 10+
CMA PR19	iBoxx £ Non-Financials A 10+ iBoxx £ Non-Financials BBB 10+
CAA H7 (Heathrow)	iBoxx £ Non-Financials BBB 10+
UR GD23	iBoxx £ Non-Financials BBB 10+

5.6 Amongst regulators there is a broad consensus that it is appropriate to consider investment grade market indices with reasonably long maturities, to reflect the long investment cycles of the business that they regulate. We note that most regulators rely on the iBoxx £ Non-Financials index, whereas at RIIO-2 Ofgem instead chose to rely on the Utilities index.

5.7 If the Secretary of State was to use the UKRN approach, the assumption would be that the Cost of Debt allowance provided to SZC should provide a reasonable allowance for the entirety of SZC's debt over time. As such, the relevant averaging period over which to consider iBoxx evidence would change over time given that SZC's capex would be building up sharply over the Pre-PCR Phase from the Day 1 RAB (which incorporates development expenditure) to the full capex spend on or around the commercial operations date. On that basis the Secretary of State could set the Cost of Debt allowance for the first year to reflect iBoxx evidence on the Cost of Debt for that first year only, since this will be reflective of SZC's likely Cost of Debt in that year. In the second year, it will be necessary to consider iBoxx evidence over both the first and second years, assuming that debt is issued over time and hence the portfolio of debt held by SZC will reflect the market rates over both years.

5.8 The Secretary of State could conclude that SZC's Cost of Debt should be set annually based on a weighted average of iBoxx averaged over time using an averaging window that extends over time, (i.e. averaged over one year for the first year of operation, over two years for the second year, and over n years in the nth year

and subsequent years, where n is set to reflect the expected tenor of debt issued by the company). If simplicity is valued, then a simple average could be used. If the intention is to more closely match the profile of issuance, then the weightings could be varied to reflect the actual quantum of issuance in each year. This approach would guard against debt market volatility, by ensuring the allowance reflects the evolution of debt market conditions over time.

5.9 As SZC will be operating under a price control which is set in real CPIH terms and the yields provided by the market index are in nominal terms, it may be necessary to deflate these nominal yields to provide a real Cost of Debt allowance. One option would be for the Secretary of State to rely on market implied breakeven inflation to deflate nominal the iBoxx series for use in the average described above. Breakeven inflation is the difference between the nominal yield on a fixed-rate investment and the real yield (fixed spread) on an inflation-linked investment of similar maturity and credit quality.

5.10 The great majority of index linked debt instruments are still indexed to RPI, not CPI (or CPIH). As such, breakeven inflation provides an estimate of long term RPI inflation (albeit the planned phasing out of RPI from 2030 adds further practical complications). When deflating, it may also be necessary to take account of the long run wedge between RPI and CPI, in order to adjust RPI breakeven inflation onto a CPI basis.

5.11 Setting the Cost of Debt for SZC with reference to a market index implies that SZC is able to issue debt at the same rate as the constituents within the chosen market index. However, it may be the case that nuclear generation embeds unique risks that may not be fully captured by Ratings Agency methodologies. Further analysis would need to be undertaken to ascertain whether entities operating existing nuclear plant have been able to issue debt at a discount or a premium to the chosen iBoxx benchmark.

5.12 Whilst this option is regularly used by regulators when considering cohort regulation, SZC at the time of setting the Cost of Debt at Revenue Commencement would not be within a cohort of similarly regulated companies. Indeed, SZC will be the first designated nuclear company to be offered a RAB licence. There would be no history of a company with a similar regulatory structure accessing the market for debt. It is not currently known whether the company would be in a position to issue debt at or around a chosen iBoxx benchmark or at a premium or a discount to other companies who are issuing debt in businesses which may have been regulated for many years.

5.13 In order to decide the Cost of Debt, potentially informed by an appropriate iBoxx benchmark, the intention is that the Secretary of State will work with their advisers [redacted] to establish a basis for pricing. [redacted]

5.14 In considering its approach, the Secretary of State is cognisant of the fact that Ofgem as the Economic Regulator may adopt such an approach in the operations period for the issuance of new debt, whilst taking into account the embedded debt which is raised in the Pre-PCR Phase. However, by the time of the PCR SZC may have issued additional debt and in this case the Economic Regulator may have been able to observe the pricing achieved in the market.

5.15 In this case where the Secretary of State [redacted] may be providing part of the debt, it may be appropriate to consider that the regulated licensee is not in a position to influence the cost at which the debt is provided. If this were to be the case, it may be appropriate for the cost of debt allowance to recover the actual cost of debt charged in respect of any governmental loan, with an incentive on any Private Debt lent to the company mimicking the typical networks approach where the allowance is delinked from the actual cost of debt.

5.16 Should the Secretary of State instruct the Revenue Collection Counterparty to enter into a revenue collection agreement, at Revenue Commencement, subject to ministerial decision and subsidy control, SZC may have several different primary sources of debt to enable the relevant nuclear licensee company to fund the cost of the project. These could include:

5.16.1 A term loan from the Secretary of State [redacted] (the "**HMG Loan**") to fund part of the capital cost of the project;

5.16.2 An export credit agency covered facility from commercial lenders to finance that portion of the construction costs which are being contracted to contractors from the corresponding jurisdiction to the export credit agency (the "**ECA Loan**");

5.16.3 A contingent financing facility which may provided by the Secretary of State and is capable of being drawn in the event that the Secretary of State were to grant an increase in allowed revenue (an "**IAR**") under the terms of NEFA (the "**CFF**");

5.16.4 A government liquidity facility may be provided by the Secretary of State which is capable of being drawn after the commercial operations date in respect of the refinancing of principal (the "**GLF**"); and

5.16.5 Debt from private sector banks, private placement or the public bond markets (together defined as "**Private Debt**").

5.17 The exact size of any of these facilities is not yet known, although an ECA Loan, if any, is naturally capped by a proportion of the amount of content from contractors from the relevant jurisdiction. No decisions have been taken as to whether an ECA Loan will be included nor has any export credit agency confirmed their willingness to provide such facility. No decision will be taken on the inclusion of the ECA Loan within the financing for SZC until the overall pricing has been determined through a competitive process with potential banks with adequate price discovery. However, for the purposes of this consultation we have assumed that the ECA Loan may form part of the sources of debt for SZC.

5.18 It is also possible that some of the debt in the capital structure will be fixed price debt and that there may be additional costs associated with hedging and, if and to the extent that any debt is raised in non-GBP currency that there may in addition be foreign exchange rate hedging.

5.19 The Cost of Debt will be determined by the Secretary of State under their powers under NEFA as at the Revenue Commencement Date. To address the risk that the Cost of Debt set at Revenue Commencement diverges from the actual cost of debt, the licence will include a Cost of Debt Adjustment (see below).

5.20 The Secretary of State will need to consider the extent to which all of the arrangement fees and commitment fees are included when setting the Cost of Debt Allowance, as well as likely interest costs are included in allowance. Where such fees are known at Revenue Commencement and the use of the facility is not contingent, it may be prudent to include them in the Cost of Debt Allowance. Where such fees are not yet known or the use of the facility is contingent, it may be prudent not to include them in the Cost of Debt Allowance. In either case, the Secretary of State will need to ensure that the approach taken is consistent with the manner in which the Cost of Debt Adjustment mechanism works (see below). Simply put that the comparison between the Cost of Debt set at Revenue Commencement and the annual Cost of Debt can be appropriately calculated when applying the Cost of Debt Adjustment mechanism so as to compensate the licensee from the movement in the market cost of debt. The principle of this mechanism was proposed in the Economic Licence on which the Secretary of State has already consulted and further detail on how this mechanism would work is included in this consultation in paragraph 7 below.

5.21 The intention is that the ECA Loan will be priced at a market cost of debt. SZC is running a competition for banks to participate in the ECA Loan with oversight from the Secretary of State. If and to the extent that there is sufficient competition in that process, the Secretary of State may be satisfied that the cost of debt is a market cost of debt for a package which includes the credit enhancement offered to banks by the export credit agency. The cost of debt for the ECA Loan may be priced on a fixed or floating basis. To the extent that it is priced on a fixed basis the additional cost of any related hedging or rate stabilisation mechanism may form part of the overall cost of the debt. To the extent that it is floating rate debt, movement in the floating rate may be picked up by the Cost of Debt Adjustment (see below). As is common practice for debt which is supported by export credit agencies there are a set of principles (the "**OECD principles**") which also set a framework for the pricing of any fees which relate to the policy protection which is provided by the export credit agencies. It is expected that these principles will be followed. It is likely that the Secretary of State would include the all in price of the ECA Loan in the Cost of Debt, if such ECA Loan were to be entered into at Revenue Commencement as the fees associated with the ECA Loan would be known.

5.22 The CFF is likely to be a facility which would only be drawn in very specific circumstances, such as if and to the extent that SZC applied for an IAR under NEFA and such request was granted by the Secretary of State. In such a scenario the Secretary of State would charge an interest rate on any sums drawn under that facility at a market rate of interest plus a premium to encourage the company to seek private sector debt rather than to rely on government sources of debt. However, as at Revenue Commencement it is not intended that this facility would be drawn and it is fully contingent. Therefore, it would not be appropriate to include in the Cost of Debt allowance set by the Secretary of State as at Revenue Commencement any sum for interest on the CFF. A market based cost of commitment and arrangement fees may be charged by the Secretary of State to SZC and such commitment and arrangement fees may be included in the Cost of Debt as at Revenue Commencement. Alternatively, any commitment fees and/or arrangement fees may not be priced in at Revenue Commencement and could just be recovered in the CDA mechanism if and to the extent that the facility is actually drawn. This may be better value for money for consumers as they would only be paying the costs of this facility if and to the extent that it was drawn.

5.23 The GLF is likely to be a facility which would only be drawn in very specific circumstances, such as if and to the extent that after the GLF becomes available SZC has insufficient funds to refinance maturing principal. In such a scenario the Secretary of State would charge an interest rate on any sums drawn under that facility at a market rate plus a premium. However, as at Revenue Commencement it is not intended that this facility would be drawn and it is fully contingent. As a fully contingent facility it is likely that the approach taken to inclusion in the Cost of Debt at Revenue Commencement will be the same as for the CFF.

5.24 If and to the extent that SZC enters into any Private Debt as at Revenue Commencement, the Secretary of State would make an economic and efficient allowance for the interest costs, hedging costs (if fixed rate), commitment fees and arrangement fees applicable to such Private Debt providing such Private Debt was entered into on competitive market terms, It is not expected that such debt would be raised in foreign currency and so no cost would be included for FX hedging.

5.25 When setting the Cost of Debt at Revenue Commencement, the Secretary of State will therefore calculate on a weighted basis the overall aggregate Cost of Debt:

5.25.1 including interest costs and ECA fees;

5.25.2 excluding any premium on the CFF and the GLF;

5.25.3 taking into account the proportion of the relevant debt within the overall capital stack.

5.26 Whether or not commitment fees and arrangement fees are included in the Cost of Debt allowance at Revenue Commencement will be determined on the extent to which such commitment fees are known and payable at Revenue Commencement or whether they are contingent and how the Cost of Debt Adjustment mechanism operates.

6 Gearing

6.1 In considering the appropriate gearing to set in setting the IWACC, the Secretary of State has considered recommendation 9 of the UKRN Guidance which states that the notional gearing assumption should reflect the regulator's assessment of the balance of risks facing the regulated company, a wide range of benchmarks on gearing levels and overall regulatory policy objectives - not just the gearing level of the actual company (or companies) in question. Regulators when setting a notional gearing for a cohort of companies are able to consider the wide range of companies within the cohort. However, in the case of SZC, it will be the first company to become a relevant nuclear licensee company and therefore there is no cohort of companies from which the Secretary of State can determine what the appropriate gearing should be.

6.2 The Secretary of State has considered a wider range of regulatory precedents across the range of regulated energy companies which Ofgem set in the most recent RIIO-2 process, which Ofgem has confirmed would be its starting point for RIIO-3 in its most recent sector specific methodology. The relevant table of notional gearing levels applied in RIIO-2 is reproduced below alongside the proposed notional gearings in other regulated sectors set over time.

RAB Licences	Current Notional Gearing

SHET	55%
SPTL	55%
NGET	55%
NGGT	60%
Cadent	60%
Northern	60%
Scotland	60%
Southern	60%
Wales & West	60%
Water Companies (PR14)	62.5%
Water Companies (PR19)	60%
Water Companies (PR24)	55%
NERL (following CMA appeal)	30%
Heathrow (H7)	60%

6.3 The Secretary of State observes that the current notional gearing within the regulated sector is within a range of between 30-60%, and recognises that the bulk of the gearing levels within the sector as a whole is around 55-60% with the 30% at NERL as an outlier and the 62.5% in PR14 as having been adjusted in PR19 and subsequently in PR24. The Secretary of State notes that it would also be appropriate to take into consideration the anticipated pace and quantum of investment, market commentary [redacted] and the availability of equity versus debt capital when setting a notional gearing.

6.4 In the case of SZC, the Secretary of State notes that the anticipated pace of investment is very different from the network companies. The Day 1 RAB will be set by reference to the development expenditure which has already been incurred by the company prior to Revenue Commencement, but that the pace and size of the construction costs post Revenue Commencement will far exceed anything which is likely to be incurred on an existing network business. Furthermore, the quantum of investment over the length of the Pre-PCR Phase is likely to be significant.

6.5 In particular, the Secretary of State has considered the likely availability of equity as opposed to debt capital given the overall quantum of the capital expenditure. The availability of equity is likely to be more limited given the size of the overall investment and the novelty of using a RAB based model for a generation asset. If the notional gearing level were to be set too low then not only would this mean that there would be a need for a very significant equity cheque, but that SZC would need raise such a significant amount of capital that it could find that the bid cost of equity to achieve the necessary equity cheque would push up the cost of capital. It is for this reason that the Secretary of State is running an Equity Raise Process in which it is inviting offers for a certain percentage of the equity. The Secretary of State has indicated that it may be willing to accept offers of more equity investment but only if the Cost of Equity is bid at a price which represents value for money for customers as a whole.

6.6 In setting the notional gearing the Secretary of State will also take into consideration the impact on consumers. It is likely that the Cost of Debt will be lower than the Cost of Equity. Setting a notional gearing which is too low is likely to result in a higher cost to consumers of that proportion of the IWACC which relates to the Cost of Equity. However, it is also in consumers' interests that the relevant nuclear licensee company is financially resilient and therefore having sufficient equity is an important consideration. So, the Secretary of State will need to consider the appropriate balance between cost and resilience when considering the impact on consumers.

6.7 The Secretary of State has also considered the rating metrics [redacted]. In considering the overall financeability of the designated nuclear company, the Secretary of State considers it would be prudent for SZC to be able to secure an investment grade credit rating [redacted] to ensure that SZC is in a position to raise Private Debt and to refinance any HMG Loans and ECA Loans which may have been put in place at Revenue Commencement. Evidence [redacted] suggests that both the notional gearing of the company as well as its actual gearing, and the level of its ratios in both normal and stressed scenarios will have an impact on the strength of the credit rating.

6.8 The Secretary of State has also taken cognizance of the Economic Regulator's view of the likely notional gearing of SZC in operations, as indicated in its Economic Guidance. Whilst it is still open to the Secretary of State to choose a gearing level which is higher or lower than that set by the Economic Regulator, the Secretary of State will take into consideration that were it to set a notional gearing above that which is likely to be set by the Economic Regulator, there would need to be a glide path to enable additional equity to be injected into the relevant nuclear licensee company to bring the actual gearing in line with the notional gearing. Setting gearing at a higher level would result in higher levels of depreciation in the operations phase which would also have impacts on consumers.

6.9 For the reasons set out above, the Secretary of State is considering ████████████████ for the notional gearing in the designated nuclear company.

6.10 The Secretary of State will also set a gearing cap in the government support package which is commensurate with the notional gearing level set at Revenue Commencement.

7 Cost of Debt Adjustment mechanism

7.1 The proposed Economic Licence is expected to include protection for SZC against movements in the market cost of debt through the Cost of Debt Adjustment ("**CDA**") (see Special Condition 39 (Cost of Debt Adjustment) of the Economic Licence). The CDA is designed to:

7.1.1 protect SZC from deviations during the Pre-PCR Phase between the actual cost of debt and the Cost of Debt assumed in the IWACC due to changes in the market cost of debt; and

7.1.2 to incentivise SZC to manage its debt costs and raise any Private Debt efficiently.

7.2 In other words, the CDA would give SZC compensation for the cost of the debt instruments to be provided by HMG ███████████████ and any ECA Loan put in place as at Revenue Commencement on the basis that the mechanism for setting such costs would be a market cost of debt or a proxy for the market for the reasons set out above.

In respect of any Private Debt issued or incurred at or after the Revenue Commencement the CDA would compensate SZC for any movement in the applicable Benchmark Index at Revenue Commencement and the time of drawing Private Debt. To incentivise SZC to raise this debt efficiently SZC would be exposed to a proportion of risk arising from its actual Private Debt costs relative to the Benchmark Index. The part of the CDA that relates to the Private Debt would only be relevant if and to the extent SZC puts such Private Debt in place.

7.3 Post COD, SZC may also have a government liquidity facility provided by HMG (the "**GLF**"). If SZC draws the GLF, the CDA would give SZC an adjustment for the cost of the debt of the GLF (excluding the margin premium (the "**GLF Premium**") which is applied on top of the relevant interest rate) on the basis that this cost is unlikely to have been included in the Cost of Debt as at Revenue Commencement. Similarly, to the extent SZC draws on its CFF the CDA would account for the cost of this debt after deducting any applicable premium charged to disincentivise the use of such facility.

7.4 It is proposed that the CDA would be calculated in accordance with the following formula:

$$CDA_t = ((Kd_{t-1} - BKd\ \ ) \cdot MIN(Op\text{-}Debt_{t-1};\ Gearing\ Cap \cdot OP\text{-}RAB_{t-1}))\ /PI_{t-1} \cdot (1 + IWACC)\hat{}1$$

Where:

Kd_{t-1}	means the annual aggregate cost of debt for Charging Year$_{t-1}$ which will be calculated in accordance with the formula in Annual Cost of Debt section below
BKd_{t-1}	means the benchmark cost of debt assumed at Revenue Commencement for the purposes of the IWACC calibrated to include an allowance for the cost of debt components described in the IWACC formula including any fees which are included in such formula as at Revenue Commencement
$Op\text{-}Debt_{t-1}$	means the total opening balance of all outstanding Debt for Charging Year$_{t-1}$

Gearing Cap	means the maximum gearing level that will be supported by the CDA, to be set at Revenue Commencement and which is currently expected to be ■■■■ of the Op-RAB for the relevant Charging Year plus the aggregate amount of any outstanding GLF debt which has been drawn for the purposes of funding general corporate and working capital purposes (as further discussed in the Gearing Cap section below)
Op-RAB$_{t-1}$	means the total opening balance of the RAB for Charging Year$_{t-1}$ (in base year prices) as calculated in accordance with Special Condition 27 of the Economic Licence
PI$_{t-1}$	means the Applicable CPIH Price Index Adjustment Factor for the relevant Charging Year
IWACC	will have the meaning given to it in the Economic Licence and is used to adjust the cost of debt for the time value of money (as described in Time Value of Money section below)

7.5 It is proposed that the Annual Cost of Debt would be calculated in accordance with the following formula:

$$Kd_{t-1} = \left(\frac{HMG\ IP_{t-1} + HMG\ Fees_{t-1} + \blacksquare\ IP_{t-1} + \blacksquare\ Fees_{t-1} + Adj\text{-}PD_{t-1} + Adj\text{-}GLF\ IP_{t-1} + GLF\ Fees_{t-1} + AdjCFF\ IP_{t-1} + CFF\ Fees_{t-1}}{Op\text{-}Debt_{t-1}}\right) \cdot 100$$

Where:

Kd$_{t-1}$ means the cost of debt for Charging Year$_{t-1}$

HMG IP$_{t-1}$ means the aggregate of all interest payments in relation to the opening balance of all outstanding debt provided by HMG■■■ in Charging Year$_{t-1}$

HMG Fees$_{t-1}$ means the aggregate of all arrangement fees and commitment fees paid to ■■■HMG in Charging Year$_{t-1}$to the extent that such fees have not been included in the IWACC at Revenue Commencement

■■ *IP*$_{t-1}$ means the aggregate of all interest payments in relation to the opening balance of all outstanding debt provided by the ■■■■ covered lenders in Charging Year$_{t-1}$

■■ *Fees*$_{t-1}$ means the aggregate of all ■■■■ premium, arrangement fees and commitment fees paid to the ■■■■ covered lenders and/or ■■■■ in Charging Year$_{t-1}$ to the extent that such fees have not been included in the IWACC at Revenue Commencement

Adj-PD $_{t-1}$ means the aggregate of all interest payments and fees in relation to the opening balance of all outstanding Private Debt in Charging Year$_{t-1}$ after the application of the incentivisation on the sharing of premia on Private Debt (as set out in section 7.9 below)

Adj-GLF IP$_{t-1}$ means the aggregate of all interest payments in relation to the opening balance of all outstanding debt under the GLF in Charging Year$_{t-1}$ after adjustment to exclude the application of the GLF Premium

GLF Fees$_{t-1}$ means the aggregate of all arrangement fees and commitment fees paid in relation to the GLF in Charging Year$_{t-1}$ to the extent that such fees have not been included in the IWACC at Revenue Commencement

Adj-CFF IP$_{t-1}$ means the aggregate of all interest payments in relation to the opening balance of all outstanding debt under the CFA in Charging Year$_{t-1}$ after adjustment to exclude the application of the CFA Premium,

CFF Fees$_{t-1}$ means the aggregate of all arrangement fees and commitment fees paid in relation to the CFA in Charging Year$_{t-1}$ to the extent that such fees have not been included in the IWACC at Revenue Commencement

Op-Debt$_{t-1}$ means the total opening balance of all outstanding Debt for Charging Year$_{t-1}$

7.6 **Gearing Cap**: As far as possible, the CDA will replicate SZC's actual gearing on the assumption that SZC's aggregate debt does not exceed a maximum threshold of the opening RAB value for the relevant Charging Year. The maximum gearing level is expected to be set at ■■■■ of the RAB value. If, and to the extent, there is a breach of this gearing covenant, the CDA would only apply to ■■■■ of the debt which is assumed in the notional gearing set by the Secretary of State. The proposed formulation would apply pro rata across all existing debt (irrespective of the point in time it was incurred).

7.7 **Time value of money:** As noted above, the CDA would initially be calculated and included in the Allowed Revenue calculation in Charging Year$_t$ for debt drawn/issued in Charging Year$_{t-1}$ (i.e. on a one year lag basis). As some actuals data which is relevant to the calculation will not be available, the adjustment would be calculated on the basis of the best available data at the time and subject to a further reconciliation in Charging Year t+1. The CDA calculation includes an adjustment determined by reference to the IWACC to provide an allowance for the time value of money given the costs are accounted for in the Allowed Revenue in the Charging Year after they are incurred (i.e. there is a 1 year time lag).

7.8 **Incentives on Private Debt**: As noted above, SZC will be incentivised to raise Private Debt at an efficient cost. The proportion of the costs incurred in connection with Private Debt incurred in given Charging Year will depend on the level of premium increase as compared to the applicable market index. More specifically:

7.8.1 **Step 1**: calculate the Original Reference Point for the Charging Year in which the debt is first issued by taking the difference between SZC's actual cost for the relevant tranche of Private Debt for that Charging Year compared to the applicable market index yield in that Charging Year. The actual cost for the relevant tranche will be calculated on an "all-in" basis, i.e. covering both interest and fees;

7.8.2 **Step 2**: calculate the Adjusted Reference Point by taking the difference between SZC's actual cost on the relevant tranche of Private Debt in Charging Year$_t$ compared to the applicable market index yield in Charging Year$_t$. The actual cost for the relevant tranche will be calculated on an "all-in" basis, i.e. covering both interest and fees;

7.8.3 **Step 3**: calculate the Differential Cost Amount between the Original Reference Point and the Adjusted Reference Point;

7.8.4 **Step 4**: calculate the Incentivisation Adjustment Amount by applying the equity sharing percentage to the Differential Cost Amount (see below for indicative figures);

7.8.5 **Step 5**: calculate the Adjusted Interest Rate by deducting the Incentivisation Adjustment Amount from SZC's actual interest rate on the relevant tranche of Private Debt in Charging Year$_t$;

7.8.6 **Step 6**: calculate the $Adj\text{-}PD\ IP_{t-1}$ which is included in the CDA calculation by determining the interest payment in the way defined in the relevant tranche's term sheet, but applying the Adjusted Interest Rate instead of the actual interest rate.

7.9 The consumer/equity sharing bands are currently expected to be initially set in accordance with the following bands:

	Recoverable in the AR (consumer share)	Not recoverable in the AR (equity share)
Up to [redacted] bps:	[redacted]	[redacted]
Between [redacted] bps	[redacted]	[redacted]
Greater than [redacted] bps:	[redacted]	[redacted]

7.10 The sharing bands have been calibrated taking into account investors' overall exposure to various downside risks and penalties in the proposed Economic Licence (including incentives on the delay and cost overruns), including the need to bound the impact on returns within a relatively narrow range in order to promote investability.

7.11 Ofgem may recalibrate the sharing bands depending on the market conditions at the time of the first Private Debt raise and thereafter at 4 year intervals.

7.12 Ofgem will also have the ability to recalibrate the Original Reference Point periodically throughout the Pre-PCR phase, if required. In considering any recalibration, Economic Guidance will set out that Ofgem would expect to consider: (i) the need for an efficient relevant nuclear licensee company to continue to finance its regulated activities; and (ii) the need for there to be sufficient incentives on SZC to raise finance efficiently.

7.13 Ofgem further note that it expects its approach to interpreting this data would evolve at each recalibration point to determine the Original Reference Point that it considers would allow Ofgem to discharge its statutory duties. Ofgem's approach will be based on the relevant circumstances at the time and a consideration of the views of SZC and relevant stakeholders. Ofgem expressly recognises that the CDA mechanism is designed around creating a regime that allows Ofgem to discharge its financeability duty effectively.

7.14 **CDA Calculation Model**: The CDA Calculation Model will be in a digital format and show or permit to be derived SZC's:

7.14.1 cost of borrowing; and

7.14.2 value of the payments due to or from SZC via the Cost of Debt Adjustment Building Block.

7.15 As noted in the draft Economic Licence, the CDA Calculation Model will be treated as forming part of the licence terms.

7.16 **Reporting**: The CDA will be calculated in accordance with the approach described above using the CDA Calculation Model. To support this calculation, SZC will be required to provide Ofgem with a copy of its financing plan (no later than 1 November in each Charging Year$_{t-1}$) during the Pre-PCR Phase. Amongst other things, this should set out SZC's hedging strategy.

8 Methodology for setting the LRT and the HRT

8.1 As noted in the draft Economic Licence the Secretary of State will also need to set the Lower Regulatory Threshold ("**LRT**") and the Higher Regulatory Threshold ("**HRT**"). These thresholds set not only the boundaries for the application of the Capex Incentive in the Economic Licence, but the HRT also sets the threshold at which the relevant nuclear licensee company would have to apply to the Secretary of State for an Increase in Allowed Revenue ("**IAR**"). Applications to the Secretary of State for an IAR must be made in accordance with the provisions of NEFA and the IAR Statement published in accordance with NEFA.

8.2 SZC will provide the Secretary of State with a Point Estimate which is a best case estimate based on detailed analysis but excluding risk and uncertainty. It represents a bottom-up assessment of the total construction and delivery costs and is derived from best observed supply chain data from Hinkley Point C and other European Pressurised Reactor projects.

8.3 The Lower Regulatory Threshold will be determined by HMG and represents HMG's judgement of a realistic outturn position for the project – informed by risk and uncertainty analysis by SZC Co which indicates the level of contingency.

8.4 The Higher Regulatory Threshold is also determined by HMG and represents a judgement of a severe outturn position – informed by risk and uncertainty analysis aligned to a much higher confidence level.

8.5 In reaching its determination the Secretary of State may take into consideration scenario modelling, Monte Carlo analysis, Estimating Uncertainty and Reference Class Forecasting (RFC) methodology. In addition, the Secretary of State will also set the HRT, which may be more conservative than the management view, so as to ensure that the probability of any need for the company to make an application for an IAR sufficiently remote.

8.6 The relevant nuclear site licensee company will be incentivised to achieve and beat the LRT, as in such cases it would share in any savings with customers, thereby increasing the returns for investors. Between the LRT and the HRT, the company continues to be heavily incentivised to manage costs as for every £1 spent above the LRT the company is only entitled to log ███ onto the RAB.

8.7 The LRT and the HRT numbers will be finally set by the Secretary of State at Revenue Commencement so as to ensure that the most up to date information is included.

9 Consultation questions

9.1 The Secretary of State is seeking input from consultees on the particular areas of discussion highlighted below. However, consultees are not limited to these questions and, as noted above, further comments and evidence are also welcome.

1. ***In terms of the approach to setting the cost of equity, do consultees consider that the Option 2 strikes a reasonable balance between the need to support the financeability of SZC and safeguarding consumer interests?***
2. ***In terms of the approach to the setting the cost of debt, do consultees agree that the range of considerations being considered by the Secretary of State are appropriate in order to support the financeability of SZC and safeguarding the consumer interest.***
3. ***In terms of the approach to the setting the notional gearing level, do consultees consider that proposed approach strikes a reasonable balance between the need to support the financeability of SZC and safeguarding the consumer interest.***
4. ***In terms of the approach to determining the cost of debt adjustment, do consultees consider that the proposal strikes a reasonable balance between the need to support the financeability of SZC and safeguarding the consumer interest?***
5. ***In terms of the approach to incentivising future Private Debt raises through cost of debt adjustment, do consultees consider that this strikes a reasonable balance between the need to support the financeability of SZC and safeguarding consumer interests?***
6. ***Do consultees have any comments on the manner in which the Secretary of State is proposing to set the LRT and HRT thresholds in the Economic Licence?***

10 Further Consultation – details

10.1 **Issued**: 20 March 2024

10.2 **Respond by**: 17 April 2024

10.3 **Enquiries and respond to**: either email RABconsultation@energysecurity.gov.uk; or write to

Nuclear Projects and Development
Department for Energy Security and Net Zero
3-8 Whitehall Place
London
SW1A 2AW

10.4 **Audiences**:

Statutory consultees under the Nuclear Energy Financing Act 2022. These are the Gas and Electricity Markets Authority (Ofgem's governing body), the Office for Nuclear Regulation (ONR), the Environment Agency (EA), Sizewell C Limited.

Other persons whom the Secretary of State has determined should also be consulted, namely EDF, investors who have been invited to participate in Phase 2 of the equity raise process, Citizens Advice on behalf of consumers in England and Wales and Consumer Scotland on behalf of consumers in Scotland. The rationale for the above-mentioned consultees is detailed in the below sections. This is not a public consultation.

10.5 **Territorial extent**:

The RAB funding model will impact consumers in Great Britain.

10.6 **How to respond:**

When responding, please state the organisation or persons you are responding on behalf of or representing the views of.

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.

Respond online at: https://beisgovuk.citizenspace.com/clean-electricity/regulated-asset-base-licence

or

Email to: RABconsultation@energysecurity.gov.uk

Write to:

Nuclear Projects and Development
Department for Energy Security and Net Zero

3-8 Whitehall Place

London

SW1A 2AW

10.7 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 we 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. As the equity raise process is a confidential process, any responses received by potential equity investors in Sizewell C Limited will be treated as confidential and appropriate redactions will be made when publishing any consultation response.

We will process your personal data in accordance with all applicable data protection laws. See our privacy policy.

We will summarise all responses and publish this summary on GOV.UK. The summary will include a list of organisations that responded, but not people's personal names, addresses or other contact details.

10.8 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: bru@energysecurity.gov.uk.

Please do not hesitate to contact us with any questions or concerns you may have.

Yours sincerely,

Department for Energy Security and Net Zero