

Subsidy Advice Unit Report on the proposed Sizewell C Development Expenditure scheme

Referred by the Department for Energy Security
and Net Zero

17 June 2024

Subsidy Advice Unit

Part of the Competition and Markets Authority



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1. Introduction

- 1.1 This report is an evaluation prepared by the Subsidy Advice Unit (SAU), part of the Competition and Markets Authority, under section 59 of the Subsidy Control Act 2022 (the Act).
- 1.2 The SAU has evaluated the Department for Energy Security and Net Zero's (DESNZ) assessment of compliance of the Development Expenditure Scheme (the Devex Scheme), with the requirements of Chapters 1 and 2 of Part 2 of the Act (the Assessment).¹
- 1.3 This report is based on the information provided to the SAU by DESNZ in its Assessment and evidence submitted relevant to that Assessment. The SAU has also received and considered two third-party submissions.
- 1.4 This report is provided as non-binding advice to DESNZ. The purpose of the SAU's report is not to make a recommendation on whether the Devex scheme should be implemented, or directly assess whether it complies with the subsidy control requirements. DESNZ is ultimately responsible for making the scheme, based on its own assessment, having the benefit of the SAU's evaluation.
- 1.5 A summary of our observations is set out at section 2 of this report.

The referred scheme

- 1.6 DESNZ has referred to the SAU two separate schemes in relation to SZC, the Devex Scheme, and, with the UK Infrastructure Bank, the SZC Final Investment Decision (FID) scheme (the FID Scheme), which will support the construction, operation and decommissioning of SZC after the FID.² This report relates to the Devex Scheme only. Financial support has previously been provided to SZC under a legacy scheme called the SZC Investment Funding Scheme.
- 1.7 DESNZ is proposing to create a subsidy scheme valued at [§<]³ [in the £hundreds of millions]⁴ that will enable the support of the proposed new nuclear plant Sizewell

¹ Chapter 1 of Part 2 of the Act requires a public authority to consider the subsidy control principles and energy and environment principles before deciding to give a subsidy. The public authority must not award the subsidy unless it is of the view that it is consistent with those principles. Chapter 2 of Part 2 of the Act prohibits the giving of certain kinds of subsidies and, in relation to certain other categories of subsidy creates a number of requirements with which public authorities must comply.

² Details of the FID Scheme and the SAU's report are available at [Referral of the proposed Sizewell C Final Investment Decision \(FID\) scheme by the Department for Energy Security and Net Zero \(DESNZ\) and UK Infrastructure Bank \(UKIB\)](#)

³ The SAU has excluded from the published version of the report information which it considers should be excluded having regard to the three considerations set out in section 244 of the Enterprise Act 2002 (specified information: considerations relevant to disclosure). The omission is indicated by [§<].

⁴ The SAU has expressed the valuation of the scheme in a broad range. The valuation lies within this range, but the range does not in any way constitute a maximum or minimum valuation of the scheme itself and the Devex Scheme shares its overall valuation with the FID Scheme (which was referred to the SAU separately) meaning that if payments in excess of the initial valuation need to be made ahead of FID for project development, they would be made through this Devex Scheme but the valuation of the FID Scheme would reduce by a corresponding amount.

C (SZC), a proposed two-unit 3.2 Gigawatt (GW) nuclear power station, by funding the development expenditure until the FID can be reached. This Devex Scheme would provide funding for activities such as ongoing design work, site preparation, the placement of orders on the supply chain and building of staff capability. The Devex Scheme will support the SZC project to reach FID and thereby ultimately operation.

- 1.8 The main beneficiary of the Devex Scheme will be Sizewell C Limited (SZC GenCo). The scheme will be comprised of equity injections by the UK Government (UKG).
- 1.9 However, the Devex Scheme also provides for additional support to the project through other mechanisms should these prove necessary, subject to appropriate value for money assessments. This potentially includes (i) letters of credit - through which UKG provides a parent company guarantee to electricity suppliers or to Sizewell B against any potential damage caused by construction, (ii) indemnities - by providing funds and/or means for SZC GenCo to be able to give indemnities in contracts for liabilities eg nuclear liability, and (iii) guarantees – providing a guarantee to SZC GenCo for indemnifying Sizewell B in case of Sizewell B’s potential loss as a result of actions undertaken by SZC GenCo during the construction of the plant.
- 1.10 DESNZ has explained that the overall budget for support to the SZC project is split across both the Devex and FID schemes as they fund the same project sequentially (with the Devex Scheme running until a FID is reached, at which point the FID Scheme will take effect). The Assessment notes that the timing of FID will influence how the total budget is divided across the two schemes.
- 1.11 In valuing the Devex Scheme, DESNZ used an estimate of development costs to be incurred in getting to the projected FID date which, at the time of referral, was targeted to be completed before the end of the last Parliamentary period.
- 1.12 This referral was made prior to the 22 May 2024 announcement of the General Election (to be held on 4 July 2024) and the subsequent dissolution of Parliament. It is not clear what, if any, impact this will have on the FID and therefore on the duration and valuation of the Devex Scheme. We expect that the Assessment will need to be updated for best estimates of timing and budget costs to reflect the extent of any such impact.

SAU referral process

- 1.13 On 29 April 2024, DESNZ requested a report from the SAU in relation to its proposed Devex Scheme.

- 1.14 DESNZ explained⁵ that the Devex scheme is a Scheme of Particular Interest because it allows for the provision of one or more Subsidies of Particular Interest to be given.⁶ In particular, the Assessment explains that the main beneficiary, SZC GenCo, will receive subsidies in excess of £10 million within a three-year period of making the scheme.
- 1.15 The SAU notified DESNZ on 3 May 2024 that it would prepare and publish a report within 30 working days (ie on or before 17 June 2024).⁷ The SAU published details of the referral on 7 May 2024.⁸

⁵ In the information provided under section 52(2) of the Act.

⁶ Within the meaning of regulation 3 of [The Subsidy Control \(Subsidies and Schemes of Interest or Particular Interest\) Regulations 2022](#) which sets out the conditions under which a subsidy or scheme is considered to be of particular interest.

⁷ Sections 53(1) and 53(2) of the Act.

⁸ <https://www.gov.uk/cma-cases/referral-of-the-proposed-sizewell-c-devex-scheme-by-the-department-for-energy-security-and-net-zero-desnz>

2. Summary of the SAU's observations

- 2.1 The Assessment uses the four-step structure described in the Statutory Guidance for the United Kingdom Subsidy Control Regime (the [Statutory Guidance](#)) and as reflected in the SAU's Guidance on the operation of the subsidy control functions of the Subsidy Advice Unit (the [SAU Guidance](#)).
- 2.2 We consider that DESNZ has carefully considered the Scheme's compliance with the subsidy control principles and that the policy objective(s) of the Devex Scheme are clearly articulated and supported with reasoning and relevant evidence. The negative externalities of carbon emissions as well as the positive externalities of system security and firm power generation that the Devex Scheme will address are also well explained.
- 2.3 However, we consider that the Assessment would be improved as follows:
- (a) In relation to Principle B, the Assessment should set out further detail on the checks that UKG plan to carry out, in the event of further funding being required, to ensure that funding is limited to what is needed.
 - (b) In relation to Principle E, the Assessment should include further description of how the potential subsidy components are specifically appropriate to the Devex Scheme.
 - (c) In addition, the Assessment should consider non-subsidy alternatives such as those set out in paragraph 3.55 of the Statutory Guidance and explain why these were not appropriate.
 - (d) In relation to Principle F, the Assessment should more fully consider all potential distortions to competition, and how the scheme has been designed to mitigate these.
 - (e) In relation to Principle G, more fully consider the potential negative and distortive effects and explain why, having balanced these against the benefits, it concludes that the benefits outweigh them.
- 2.4 In our view, the broad focus of the Assessment is on the subsidy which UKG intends to make through equity stakes in SZC GenCo. Whilst recognising the difficulties associated with assessing the other potential hypothetical outcomes, such as indemnities and guarantees, the Assessment should nevertheless explain in more detail the potential scope of these measures and their likely scale and impact.
- 2.5 Our report is advisory only and does not directly assess whether the Devex Scheme complies with the subsidy control requirements.

2.6 The report does not constitute a recommendation on whether the scheme should be implemented by DESNZ. We have not considered it necessary to provide any advice about how the proposed scheme may be modified to ensure compliance with the subsidy control requirements.⁹

⁹ Section 59(3)(b) of the Act.

3. The SAU's evaluation

3.1 This section sets out our evaluation of the Assessment, following the four-step structure used by DESNZ.

Step 1: Identifying the policy objective, ensuring it addresses a market failure or equity concern, and determining whether a subsidy is the right tool to use

3.2 The first step involves an evaluation of the Assessment against:

- (a) Principle A: Subsidies should pursue a specific policy objective in order to (a) remedy an identified market failure or (b) address an equity rationale (such as local or regional disadvantage, social difficulties or distributional concerns); and
- (b) Principle E: Subsidies should be an appropriate policy instrument for achieving their specific policy objective and that objective cannot be achieved through other, less distortive, means.¹⁰

Policy objectives

3.3 The Assessment sets out that the policy objective of the Devex Scheme is the provision of support for developmental expenditure to enable the SZC project to reach a FID, and thereby ultimately reach operation, which will deliver:

- (i) generation of firm electricity,¹¹ supporting system stability and ensuring security of supply; and
- (ii) provision of low carbon electricity supporting the UK's net zero targets.

3.4 The Assessment states that analysis undertaken by UKG has identified the need for an energy mix that includes new nuclear energy in order to achieve its decarbonisation and energy security objectives.

3.5 It explains that Renewable Energy Sources (RES), particularly wind and solar, are likely to produce the majority of the UK's electricity by 2050. However, citing the Power System Optimisation¹² analysis which underpinned the Net Zero Strategy, it

¹⁰ Further information about Principles A and E can be found in the [Statutory Guidance](#) (paragraphs 3.32 to 3.56) and the [SAU Guidance](#) (paragraphs 4.7 to 4.11). Paragraph 4.8 of the SAU Guidance states 'The SAU evaluation is not intended to impinge on public authorities' discretion to define their own policy objectives, but will evaluate how the objective has been set out and what supporting evidence has been provided.'

¹¹ See paragraph 3.6.

¹² <https://www.gov.uk/government/publications/modelling-2050-electricity-system-analysis>.

describes that other forms of energy will be required to support the use of RES due to the intermittent nature of RES generation.

- 3.6 The Assessment explains that the Power System Optimisation analysis demonstrated that deploying maximum RES capacity without including other low-carbon technologies does not lead to a low-cost electricity system by 2050, as RES needs to be supported by power plants producing 'firm power' that is not dependent on the weather. Nuclear power plants provide firm power which provides reliable baseload generation to help ensure security of (low-carbon) electricity supply and reduces overall system cost.
- 3.7 The Assessment further explains that the UKG's Civil Nuclear Roadmap (roadmap),¹³ published in January 2024, sets out a high-level strategy for how nuclear projects can contribute to the 2050 Net Zero target, and it describes SZC as the most mature nuclear project available.
- 3.8 The SAU received representations from an interest group which stated that:
- (a) UKG has a target of 2035 to reduce the carbon generated by the electricity sector to net zero, marginalising and possibly eliminating entirely the contribution SZC can make to carbon reduction as SZC is unlikely to be fully deployed by then; and
 - (b) the Devex Scheme is based on the assumption that SZC will reach a FID and there is no guarantee that FID will be reached.
- 3.9 In our view, the Assessment clearly describes the policy objective(s) of the Devex Scheme, supported with reasoning and relevant evidence. It describes the need for sufficient future power generation to be low carbon, whilst ensuring system stability at lowest overall cost.
- 3.10 In relation to the third party representations, the Assessment is clear that the purpose of the Devex Scheme is to assist FID to be successfully reached and the 2035 ambition¹⁴ is not a specific policy objective of the Scheme.

Market failure and equity objective

- 3.11 The Statutory Guidance sets out that market failure occurs where market forces alone do not produce an efficient outcome.¹⁵

¹³ <https://www.gov.uk/government/publications/civil-nuclear-roadmap-to-2050>

¹⁴ Under the Climate Change Act 2008, UKG must set five-year emission reduction targets (carbon budgets). In 2021, the UK Government set a legally binding target to cut the UK's greenhouse gas emissions by 78% by 2035, compared to 1990 levels.

¹⁵ [Statutory Guidance](#), paragraphs 3.35-3.48.

- 3.12 The Assessment states that SZC would not be able to raise the scale of Devex investment which may be required to bring the project to FID, without the Devex Scheme. It argues that nuclear power plants with the capacity to generate substantial power (gigawatt scale) have very low carbon emissions and improve energy security by providing firm generating capacity, as well as providing other system benefits. However, it explains that these benefits do not translate into greater profitability, and they also have high costs and risks which make them less attractive to the market.
- 3.13 It describes a history of nuclear power projects failing to reach operational phase with significant losses borne by investors and concludes that the market would not take on the level of risk associated with financing a nuclear project at the development stage. These characteristics mean the market is likely to underinvest in new nuclear projects relative to their value to society as a whole, without the scheme.
- 3.14 The Assessment concludes that there is a market failure in that a market participant would undervalue the energy security and capacity, and low-carbon benefits of nuclear energy and, therefore, be insufficiently motivated to make the significant level of investment at risk (including pre-FID Devex funding) needed to develop a nuclear power project that would meet the policy objectives.
- 3.15 It explains that the Devex Scheme will help address the market failures by bolstering the financial viability of the project, and thereby encouraging private investment, in order to achieve a FID on terms that represent best value for money.
- 3.16 In our view the Assessment clearly describes the negative externalities of carbon emissions as well as the positive externalities of system security and firm power generation that the Devex Scheme will address. It also clearly describes the perceived risks associated with investment in nuclear power generation which may deter private investment.

Consideration of alternative policy options and why the Devex Scheme is the most appropriate and least distortive instrument

- 3.17 In order to comply with Principle E, public authorities should consider why the decision to give a subsidy is the most appropriate instrument for addressing the identified policy objective, and why other means are not appropriate for achieving the identified policy objective.¹⁶
- 3.18 The Assessment states that, as set out in the roadmap, SZC remains the most developed and viable nuclear project in the UK and is now close to reaching FID. It

¹⁶ [Statutory Guidance](#), paragraphs 3.54-3.56.

describes FID as a complex and multi-factored process which depends on the outcomes of a number of live processes, such as an ongoing equity raise which creates a risk of slippage in the FID timeline.

- 3.19 It concludes that the Devex Scheme is required to provide sufficient funding pre-FID to enable the project to continue development and early site works in anticipation of FID, and to provide contingency funding in the event of a delay to FID to mitigate the risk of costly delays to the project and limit the damage to confidence in UKG to deliver SZC.
- 3.20 The Assessment goes on to examine a range of potential alternatives to the Devex Scheme that could be pursued to achieve the same policy objectives by enabling the project to reach a FID. These include the use of grants, loans and the purchase of assets as detailed below.

Repayable and non-repayable grants

- 3.21 The Assessment explains that a repayable grant is similar to a loan but is not secured against an asset. It states that the use of a grant, paid in stages, would give UKG some control over the project through linked specified conditions and would be a way in which to provide development funding to the project. However, it goes on to explain that neither grant option (repayable or not) would fulfil all the policy objectives of the scheme.
- 3.22 This is because a repayable grant would not be secured against an asset meaning UKG would not be able to offset its exposure if the SZC project failed, resulting in disproportionate risk and exposure for taxpayers. It would further not demonstrate UKG's commitment to the project and therefore not attract private investment as part of the ongoing equity raise. As such, this could necessitate further UKG intervention for the project to reach a FID, which would reduce value for money.
- 3.23 In the case of a non-repayable grant, the Assessment argues that taxpayers would not see a return, except by improving the overall affordability of the SZC project, whereas the Devex Scheme envisages equity investments which will generate a return.

Loans

- 3.24 The Assessment also considers the potential use of loans and describes the two possible loan beneficiaries, either a direct loan to SZC GenCo, or a loan to EDF, for the full Devex Scheme amount, who in turn would input additional equity in SZC GenCo equal to the amount of the loan.
- 3.25 However, it considers that a single loan would not offer a viable solution to the identified market failure. It states that the UK has benefitted from EDF taking the

full risk of the first of a kind reference plant being built at Hinkley Point C and that EDF has been consistently clear that any further project would be for UKG and/or others to fund. The Assessment further explains that a loan would not demonstrate UKG's commitment to the project and therefore would not attract private investment as part of the ongoing equity raise or the required talent to the project.

- 3.26 In addition, a loan (either to SZC GenCo or EDF) would not be repaid unless the project attracted sufficient private investment to reach FID. Taxpayers would be exposed to the risk of non-repayment and consumers would receive less value for money as repaying the loan would increase financing costs.
- 3.27 In contrast, it explains that the Devex Scheme provides for a range of measures including equity injections and guarantees, enabling UKG to fund Devex spend in the most efficient way intended to reduce overall financing costs, increasing the likelihood of attracting private investment and thus reducing the likelihood of the project not reaching FID. It concludes that a loan would not, therefore, offer a proportionate or suitable mechanism.

Purchasing an asset

- 3.28 The Assessment also considered purchasing an asset as a means of injecting new funding into the project. It identifies several drawbacks to this option: (i) the asset would need to be of a significant value given the level of financing required to reach a FID; (ii) the asset would need to be of use to UKG or provide it with a benefit equal to the amount it was purchased for; and (iii) UKG believes that existing or new private investors would be very unlikely to agree to this approach as it would result in a high level of exposure in the SZC project.

Our evaluation

- 3.29 The Assessment concludes that the project requires a subsidy in order to reach a FID and that there is a clear need for a Government intervention of this scale and shape, as informed by market engagement/consultation.
- 3.30 In our view the Assessment demonstrates that DESNZ has considered alternatives to the scheme and explained why the chosen approach is the most appropriate by demonstrating UKG commitment to the project, incentivising private investment, reducing the risk of project failure and providing value for money for taxpayers.
- 3.31 The Assessment should include further description of how the potential subsidy components set out in paragraph 1.9 are specifically appropriate to the Devex Scheme. This could include explaining the specific scenarios in which these interventions may be used, why they are suitable to those circumstances, what

alternatives exist and why the chosen interventions are the most appropriate. The use of case studies may also be helpful.

- 3.32 In addition, the Assessment should also consider non-subsidy alternatives such as those set out in paragraph 3.55 of the [Statutory Guidance](#) and explain why these were not appropriate alternatives.

Step 2: Ensuring that the subsidy is designed to create the right incentives for the beneficiary and bring about a change

- 3.33 The second step involves an evaluation of the assessment against:
- (a) Principle C: First, subsidies should be designed to bring about a change of economic behaviour of the beneficiary. Second, that change, in relation to a subsidy, should be conducive to achieving its specific policy objective, and something that would not happen without the subsidy; and
 - (b) Principle D: Subsidies should not normally compensate for the costs the beneficiary would have funded in the absence of any subsidy.¹⁷

Counterfactual assessment

- 3.34 In assessing the counterfactual, the Statutory Guidance explains that public authorities should assess any change against a baseline of what would happen in the absence of the subsidy (the 'do nothing' scenario).¹⁸ This baseline would not necessarily be the current 'as is' situation (the 'status quo') but what would likely happen in the future – over both the long and short term – if no subsidy were awarded.
- 3.35 The Assessment sets out that for the purposes of assessing the counterfactual, it is assumed further funding is required to support the project pre-FID, but such funding is not provided by UKG.
- 3.36 The Assessment also explains that since investors have stated that they are unwilling to invest until the future of the project is more certain, FID would ultimately not be reached and the SZC project would therefore not go ahead.
- 3.37 The Assessment states that under the counterfactual, the policy objectives of securing low carbon, low-cost power by 2050 would not be achieved through the SZC project and the provision of low carbon electricity that supports delivery of net zero at a low system cost would not occur. In addition, the Assessment notes that,

¹⁷ Further information about Principles C and D can be found in the [Statutory Guidance](#) (paragraphs 3.57 to 3.71) and the [SAU Guidance](#) (paragraphs 4.12 to 4.14).

¹⁸ [Statutory Guidance](#), paragraphs 3.60-3.62.

under the counterfactual, there would be a need for increased UKG investment in alternative low carbon technologies.

- 3.38 The Assessment states that, following stakeholder engagement, investment from private investors during the development stage of a nuclear project is highly unlikely given the high risks associated with such projects and private investors would not be able to contribute resources to the development of SZC to reach a FID without financial commitments from UKG.
- 3.39 The Assessment sets out that if SZC did not go ahead then Small Modular Reactors could be pursued as an alternative. However, it notes that the Small Modular Reactors technology is unproven and there remains uncertainty over their deployment. The Assessment also explains that non-nuclear renewable energy technology would not deliver UKG's stated objectives of security of supply.
- 3.40 In our view, the Assessment is clear that the counterfactual is that SZC would not proceed in the absence of the Devex Scheme. However, we consider that the Assessment should provide additional evidence to support the position that SZC GenCo would not be able to source new private finance either from existing or new private investors. This evidence could include internal documents showing that additional private finance is not available prior to FID.

Changes in economic behaviour of the beneficiary

- 3.41 The Statutory Guidance sets out that subsidies must bring about something that would not have occurred without the subsidy.¹⁹ In demonstrating this, public authorities should consider the likely change or additional net benefit.
- 3.42 The Assessment states that the Devex Scheme will bring about a change of economic behaviour of SZC GenCo through bolstering the financial viability of the project, enabling SZC GenCo to reach FID and thereafter attract private investment so that SZC can be developed.
- 3.43 The Assessment explains that the proposed intervention will change SZC GenCo's behaviour by ensuring it continues with the project, rather than winding it down. The Assessment states that this would be the most likely route should UKG investment not be made through the Devex Scheme, which would result in FID not progressing.
- 3.44 The Assessment explains that equity provision constitutes the bulk of the Devex Scheme and that other potential measures and beneficiaries are less certain. It further states that, in light of these other measures, there could be multiple beneficiaries of the Devex Scheme - see paragraphs 1.8 and 1.9.

¹⁹ [Statutory Guidance](#), paragraph 3.64.

- 3.45 In our view the Assessment describes why the Devex Scheme is necessary to effect the change in economic behaviour of SZC GenCo, specifically with respect to attracting private finance in the future.
- 3.46 However, in our view the Assessment does not explain how the scheme might effect a change in economic behaviour for beneficiaries other than SZC GenCo if any measures described in paragraph 1.9 were deployed. We consider that the Assessment could better explain the specific scenarios in which these interventions may be used, who the potential beneficiaries may be and how the Devex Scheme would effect a change in their economic behaviour and ultimately how this change in economic behaviour enables the achievement of the policy objectives.

Additionality assessment

- 3.47 According to the Statutory Guidance, ‘additionality’ means that subsidies should not be used to finance a project or activity that the beneficiary would have undertaken in a similar form, manner, and timeframe without the subsidy.²⁰ For schemes, public authorities should, where possible and reasonable, ensure the scheme’s design can identify in advance and exclude those beneficiaries for which it can be reasonably determined would likely proceed without subsidy.²¹
- 3.48 The Assessment states that the Devex Scheme does not compensate for any costs which would have been funded in the absence of the intervention, as due to the market failure identified, SZC GenCo cannot raise the required finance via private markets prior to FID.
- 3.49 The Assessment explains that there are no relevant examples of the market delivering a GW-scale nuclear project without some form of government support or by state-owned companies which benefit from government backing. The Assessment also sets out that given the high risks associated with nuclear projects during the development stage, it is highly unlikely that a market investor would make the required investment to fund these development costs on commercial terms favourable to the consumer or the taxpayer pre-FID.
- 3.50 In our view, the Assessment summarises the additionality arising from the Devex Scheme and explains that the scheme would not fund costs which would have been funded otherwise as SZC GenCo is unable to access private finance ahead of the FID.

²⁰ [Statutory Guidance](#), paragraphs 3.63-3.67.

²¹ [Statutory Guidance](#), paragraph 3.66.

Step 3: Considering the distortive impacts that the subsidy may have and keeping them as low as possible

- 3.51 The third step involves an evaluation of the assessment against:
- (a) Principle B: Subsidies should be proportionate to their specific policy objective and limited to what is necessary to achieve it; and
 - (b) Principle F: Subsidies should be designed to achieve their specific policy objective while minimising any negative effects on competition or investment within the United Kingdom.²²

Proportionality

- 3.52 The Assessment states that a smaller intervention would not sufficiently incentivise future private investment in SZC GenCo because it would not enable the project to reach FID.
- 3.53 The Assessment explains that any funding drawn under the Devex Scheme is limited to that required to cover the costs pre-FID, including in the event FID is delayed, and that all drawdowns would be subject to value for money assessments. The Assessment also explains that the type of measure used under the scheme will be subject to checks and balances to ensure it is limited to what is necessary at any given time in the project to reach FID.
- 3.54 The Assessment states that SZC GenCo has implemented a structured assessment and governance process to focus on key front-end loading activities to minimise project execution risk through construction. Further, the Assessment explains that the lower the execution risk during construction, the greater the confidence UKG and nuclear industry players would have to make a FID on the project, and any support granted under the Devex Scheme would go towards funding costs associated with such works.
- 3.55 The Assessment sets out that there will be regular review points prior to FID and the investment under the Devex Scheme, and therefore the exposure will be staggered across periodic cash calls, reducing the potential impacts in the event of project cancellation.
- 3.56 In our view, the Assessment is clear that the level of subsidy is the minimum necessary required to reach FID, based on the current timeline, and the regular cash calls ensure that exposure is minimised in the event of project cancellation.

²² Further information about Principles B and F can be found in the [Statutory Guidance](#) (paragraphs 3.72 to 3.108) and the [SAU Guidance](#) (paragraphs 4.15 to 4.19).

3.57 However, we consider that the Assessment should set out further detail on the kind of checks UKG plan to carry out (in addition to the periodic cash calls), in the event of further funding being required, to ensure that funding is limited to what is needed, noting that while value for money assessments show that financial support will provide a net expected benefit, they do not necessarily show that these are set at the minimum necessary level of funding.

Assessment of effects on competition or investment

3.58 The Assessment states competition could potentially be distorted in two markets. Firstly, investment into large scale infrastructure projects could be distorted, for example, by potentially crowding out private investment in other nuclear assets (as a result of UKG equity injections into SZC GenCo via the Devex Scheme).

3.59 The Assessment states distortions in the market would be negligible as there are a multitude of investors interested in large-scale UK infrastructure projects, and support for one project should not affect investment potential or availability for other unsubsidised projects. It notes some of these alternate projects are also subsidised through other schemes. UKG has also committed to providing more nuclear energy capacity beyond SZC and a more diverse energy mix, which could see a number of projects in the future.

3.60 Secondly, the Assessment also states that the wholesale electricity market could potentially be distorted.

3.61 The SAU received representations from an interest group which stated that:

(a) by providing this subsidy to a single specific company, UKG is assisting one company within the nuclear industry thereby reducing competition; and

(b) the scale of investment needed to fund a project of the size of SZC would starve the market of funds to invest in other sources of cheaper low carbon electricity and storage that would help the UK meet its zero carbon targets earlier.

3.62 The Assessment acknowledges that UKG equity injections into SZC have the potential to displace private investment which could have otherwise gone into other assets. However, it could benefit from giving more detail of how the equity injections could impact all relevant alternative projects, including nuclear.

3.63 In our view, the Assessment's treatment of Principle F is quite high level and provides limited detail and explanation around how competition could be distorted, whom it could impact, or how significant those impacts could be. The Assessment would be improved by following the Statutory Guidance²³ to firstly, clearly identify

²³[Statutory Guidance](#), Annex 3.

all the relevant markets which could be distorted, and secondly, show that it has considered all the potentially impacted markets. This should include considering any relevant input markets, such as engineers, construction labour and materials, and specialist inputs in the nuclear industry.

- 3.64 The Assessment would also be improved by providing more detail on the specific distortions relevant to the Devex Scheme, for example by including relevant sections from evidence DESNZ have commissioned from external consultants to identify the potential distortions to competition that could arise due to the subsidy package for the overall SZC project.
- 3.65 The Devex Scheme is a short-term scheme intending to fund certain development costs of SZC until the FID is taken. Once SZC reaches FID stage, subsidy funding will come from a different subsidy scheme, which has also been referred to the SAU. In our view, it is therefore reasonable that this Assessment has not considered operational impacts of SZC. However, the interaction between these two schemes and their relevant competition impacts should have been explained in this Assessment, and the impacts specific to the Devex Scheme should have been considered in more detail.

Design of subsidy to minimise negative effects on competition and investment

- 3.66 The Assessment does not consider how the Devex Scheme was designed to minimise any negative effects on competition or investment. It should explicitly consider how the scheme design minimises any potential distortions, engaging with the Statutory Guidance.

Step 4: Carrying out the balancing exercise

- 3.67 The fourth step involves an evaluation of the assessment against subsidy control Principle G: subsidies' beneficial effects (in terms of achieving their specific policy objective) should outweigh any negative effects, including in particular negative effects on: (a) competition or investment within the United Kingdom; (b) international trade or investment.²⁴
- 3.68 The Assessment identifies a number of expected benefits arising from the Devex Scheme, including:
- (a) the provision of 3.2GW of electricity to power 6 million homes;
 - (b) significant savings for consumers by lowering costs of the energy system;

²⁴ See [Statutory Guidance](#) (paragraphs 3.109 to 3.117) and [SAU Guidance](#) (paragraphs 4.20 to 4.22) for further detail.

- (c) providing security of supply and economic resilience vital for energy security; and
- (d) reduction in risk of costly delays to SZC.

3.69 It goes on to explain the secondary benefits of the scheme which include:

- (a) the creation of high value jobs, including 10,000 during peak construction and 900 during operations; and
- (b) an increase in the UK's nuclear capability, thus strengthening the nuclear supply chain.

3.70 In terms of the potential negative effects, the Assessment suggests that the Devex Scheme may potentially distort investment into large-scale infrastructure projects, for example by crowding out private investment in other nuclear assets.

3.71 However, it explains that UKG has made a commitment to developing up to 24GW of nuclear power which will require more GW-scale nuclear power plants, as well as its intention to ensure a diverse mix of nuclear energy capacity by exploring projects with multiple commercial partners. It also states that UKG has committed to pursuing nuclear energy capacity from Small Modular Reactors and Advanced Modular Reactors which would diversify the energy providers even further as well as the technologies used. It further explains that UKG will give any future projects the same consideration when deciding if intervention (subsidy) is required.

3.72 The Assessment also notes that the decision to proceed with SZC potentially reduces the capacity and generation that other projects would otherwise have provided to the network, as SZC will provide on completion around 5-6% of the UK's electricity supply. It considers how this would impact other competing technologies including renewable energy supported by flexible generation and unabated gas. It explains that in the counterfactual of no further nuclear power plant development beyond Hinkley Point C, its analysis shows that, in high demand scenarios, alternative technologies are pushed to near the feasible deployment limits. It also explains that the impact of the scheme on renewable generation is mitigated to some extent by support schemes that are already in place (such as Contracts for Difference, Renewables Obligations and Feed in Tariff schemes). For unabated gas, the Assessment explains that a reduction will help facilitate the policy objectives by decarbonising the energy system.

3.73 Overall, the Assessment concludes that the benefits of the Devex Scheme for a secure, affordable and low carbon energy system outweigh the potential negative impacts by ultimately enabling FID.

3.74 In our view, the Assessment describes the main expected benefits of the Devex Scheme well (in terms of the ultimate benefits that will be realised when SZC is

completed and operational).²⁵ It also includes secondary benefits, including job creation, but which are not related to the specific policy objectives of the scheme and so are not relevant to the balancing exercise.²⁶

- 3.75 We consider that, as set out in paragraphs 3.63 to 3.66, the Assessment should more fully consider the relevant necessary potential negative and distortive effects on competition of the Devex Scheme and explain why, having balanced these against the benefits, it concludes that the benefits outweigh them.
- 3.76 The SAU received representations from an interest group that the development of SZC has the potential to cause negative impacts on the local environment, particularly during construction. We are aware that the environmental impacts of SZC have been subject to extensive assessment. In our view DESNZ should consider addressing the points raised within the balancing exercise, drawing on this evidence as relevant.
- 3.77 The Assessment should also consider the potential effects of the scheme on international trade and investment.

Other requirements of the Act

- 3.78 This step in the evaluation relates to the requirements and prohibitions set out in Chapter 2 of Part 2 of the Act, where these are applicable.²⁷
- 3.79 DESNZ has confirmed that, as the referral relates to nuclear energy, it is not required to apply the Energy and Environment Principles.²⁸
- 3.80 DESNZ has confirmed that it has not found any of the requirements of Chapter 2 to be relevant to its Assessment.

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²⁵ These benefits are also identified in relation to the FID scheme. A balancing exercise, taking account of any negative effects of the FID scheme, has been separately conducted, see [Referral of the proposed Sizewell C Final Investment Decision \(FID\) scheme by the Department for Energy Security and Net Zero \(DESNZ\) and UK Infrastructure Bank \(UKIB\)](#)

²⁶ [Statutory Guidance](#), paragraphs 3.34 and 3.112.

²⁷ [Statutory Guidance](#), chapter 5.

²⁸ Section 51 of the Act.