

Subsidy Advice Unit Report on the proposed Sizewell C Final Investment Decision scheme

Referred by the Department for Energy Security
and Net Zero and UK Infrastructure Bank

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 (DESNZ) and UK Infrastructure Bank (UKIB) assessment of compliance of the Sizewell C Final Investment Decision (FID) Scheme (the FID 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 and UKIB in their 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 and UKIB. The purpose of the SAU's report is not to make a recommendation on whether the FID Scheme should be implemented, or directly assess whether it complies with the subsidy control requirements. DESNZ and UKIB are ultimately responsible for making the FID Scheme, based on their own assessment, having the benefit of the SAU's evaluation.
- 1.5 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
- 1.6 A summary of our observations is set out at section 2 of this report.

The referred scheme

- 1.7 DESNZ and UKIB are proposing to make a subsidy scheme totalling [x<]² [£ tens of billions]³ that will enable support to be provided to the new Sizewell C nuclear power plant (SZC). The project is majority owned by the UK government (UKG), alongside Électricité de France (EDF).
- 1.8 The FID Scheme will support the construction, operation and decommissioning of SZC, a proposed two-unit 3.2 Gigawatt nuclear power station that will power 6 million homes. It will sit adjacent to the existing Sizewell B plant and the decommissioned Sizewell A plant on the east coast of Suffolk and is a near replica

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 Here and throughout 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 omissions are indicated by [x<].

³ 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.

of the UK's only under-construction nuclear plant, Hinkley Point C, deploying the same European Pressurised Reactor technology.

- 1.9 SZC is expected to take [X] to construct, and has an operational design life of 60-years, which will see the plant last until [X]. The plant has a possible 20-year life extension, so could potentially operate until [X].
- 1.10 DESNZ has referred to the SAU two separate schemes in relation to SZC, the Development Expenditure (Devex) Scheme⁴ and the FID Scheme (in conjunction with UKIB). This report relates to the FID Scheme only.
- 1.11 The main beneficiary of the FID Scheme is Sizewell C Limited (SZC GenCo). The Assessment also identifies other potential beneficiaries of direct or indirect subsidy including (i) GB electricity suppliers, (ii) investors and lenders to SZC GenCo as well as (iii) other enterprises which may indirectly benefit from the FID Scheme such as those involved in the construction/operation of SZC.
- 1.12 The FID Scheme is anticipated to consist of the following core elements:
- (a) **The Allowed Revenue:** This element of the FID Scheme is similar to the economic regulation model used in the UK for monopoly infrastructure assets (eg water, gas and electricity networks). The Nuclear Energy (Financing) Act 2022 provides for the implementation of the Nuclear Regulated Asset Base (RAB), which allows for a revenue mechanism for investors to achieve a return on (and of) investment during the construction, commissioning and operational periods, plus recovery of the operating expenses of the plant such as fuel and maintenance.

The Nuclear Regulated Asset Base Model (Revenue Collection) Regulations 2023 set out the detailed mechanics of how the revenue stream would operate under the model. For the operations phase, the Allowed Revenue will be calculated by Ofgem (the economic regulator) based on the RAB 'building blocks'⁵ and adjustments set out in the Economic Licence. The building blocks, such as operating costs, depreciation, decommissioning programme payments, financing costs and tax, will allow SZC GenCo to recover the

⁴ The Devex Scheme is subject to a separate evaluation from the SAU. For further information on that referral, see [Referral of the proposed Sizewell C Devex Scheme by the Department for Energy Security and Net Zero \(DESNZ\)](#).

⁵ These building blocks include: (i) return on capital; (ii) additional return on capital; (iii) liquidity; (iv) cost of debt adjustment; (v) k-factor; (vi) operating costs; (vii) pass-through; (viii) social benefits and communications costs; (ix) funded decommissioning programme; (x) depreciation (return of capital); (xi) incentives; and (xii) balancing costs (also referred to as 'Buyback of Power Revenue Support'). The return 'on' capital is a key building block, it will be calculated as the RAB value multiplied by the applicable weighted average cost of capital, which will be periodically set by Ofgem in the post-Post-Construction-Review phase. An Initial Weighted Average Cost of Capital (IWACC) will apply during the pre-Post-Construction-Review phase of the project. The IWACC is set by Secretary of State, informed by the debt raise and equity raise process.

construction and operating costs and to receive a return on capital. Incentive mechanisms will encourage capital savings, operating efficiencies etc.

During the operations phase, SZC GenCo revenues will be made up of market revenues plus any required top-up payments (positive Difference Payments, ie the difference between Allowed Revenues and market revenues). These are met via supplier levies and are collected by the Low Carbon Contracts Company (LCCC). If market revenue exceeds Allowed Revenue, SZC GenCo will pay electricity suppliers (negative Difference Payments). Charges to suppliers will apply during the construction phase as well as the operations phase. Charging during the construction phase is intended to reduce overall funding costs.

- (b) **Government Support Package (GSP):** these support measures are intended to cover specific high-impact, low-probability risks, that private investors would not be able or willing to finance themselves (eg changes in legislation and political stances on nuclear energy), in exchange for a fee. The exact details of the package will be determined following the equity raise process, see paragraph 1.12(c). The components of the package are:
- (i) **Government Liquidity Facility:** this is a committed liquidity facility, provided by the Secretary of State, which (broadly) can be used for refinancing if urgently required.
 - (ii) **Contingent Financing Agreement:** this measure enables the UKG to provide capital investment above the Higher Regulatory Threshold (HRT). If HRT is reached, SZC GenCo shareholders can elect to (but are not obliged to) finance costs above the HRT. Where shareholders do not provide this, the Secretary of State can provide contingent financing or discontinue the project and pay investors discontinuation compensation. The HRT represents the level above which non-UKG equity investors are not obliged to provide further finance to SZC GenCo,
 - (iii) **Supplemental Compensation Agreement:** this component will provide certain cover for a total loss of the operational plant due to a nuclear incident and provide nuclear third-party liability insurance.
 - (iv) **Discontinuation and Compensation Agreement:** this allows the Secretary of State to discontinue the project and pay compensation in certain circumstances.
 - (v) **Nuclear Administration and Statutory Transfers Agreement:** this allows for the UKG to provide support to SZC GenCo during insolvency, eg through loans, grants and indemnities where the court has granted a nuclear administrative order.

- (c) **Equity:** the UKG will be providing the main equity stake, with the remainder coming from EDF and third-party capital providers. The terms of the government equity investment will be informed by a competitive equity raise process which has been designed to attract private investment into the project. The Assessment sets out that the Government is currently the majority shareholder in the project with EDF, and the exact shareholding of the Government post-FID is subject to the outcome of the capital raise process. In addition to this, where the project exceeds the HRT, contingent equity will be made available through a Contingent Financing Agreement (see above).
- (d) **Debt:** the UKG is proposing to provide the majority of the debt needed and commercial lenders will provide the remainder, the size of which will depend on the capital raise process.⁶

1.13 In the Assessment, DESNZ and UKIB note that it is difficult to predict exactly what support the SZC project will need because of its size and scale. For this reason, in addition to the elements outlined above, the FID Scheme may also entail support measures that take the form of other mechanisms (provided that they are judged to be suitable to incentivise the ongoing development and construction of SZC and subject to a Value for Money (VfM) assessment). These other mechanisms could take the form of indemnities, shareholder guarantees, other guarantees, letters of credit and [X] with investors into the project. Any such support would be subject to an appropriate VfM assessment; and will be required to be as close to market terms as possible.

Valuation methodology

1.14 The value of the FID Scheme, as quantified by DESNZ and UKIB, is comprised of three core elements: (i) the difference payments under the RAB, estimated to be valued at [X] [£ tens of billions]⁷ (and thereby representing the vast majority of the value); (ii) various GSP measures, collectively totalling an estimated [X]; [£ hundreds of millions]⁸ and (iii) a broad category of other potential elements of the FID Scheme, which, if incurred, would be met from the overall FID Scheme budget. In calculating the value of the subsidy scheme, the Assessment assigns no value to the initial UKG equity and debt investments. This is on the basis that the value of the debt and equity investments are captured via the difference payments.

⁶ While the proportion of the debt and equity provided by UKG is still to be determined via the capital raising process, the total ratio of debt to equity will not be influenced by the capital raising process.

⁷ 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.

⁸ 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.

- 1.15 Under this approach, the value for the FID Scheme is largely an estimate of how much is likely to be charged to consumers in difference payments via energy suppliers (based on projections of costs, long run energy prices etc).

SAU referral process

- 1.16 On 29 April 2024, DESNZ and UKIB requested a report from the SAU in relation to its proposed FID Scheme.
- 1.17 DESNZ and UKIB explained⁹ that the FID Scheme is a scheme of Particular Interest because it allows for the provision of one or more Subsidies of Particular Interest to be given.¹⁰ In particular the main beneficiary, SZC GenCo, will receive subsidies in excess of £10 million within a three-year period of the making of the FID Scheme.
- 1.18 The SAU notified DESNZ and UKIB on 3 May 2024 that it would prepare and publish a report within 30 working days (ie on or before 17 June 2024).¹¹ The SAU published details of the referral on 7 May 2024.¹²

⁹ In the information provided under section 52(2) of the Act.

¹⁰ 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.

¹¹ Sections 53(1) and 53(2) of the Act.

¹² [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 \(UKIB\) - GOV.UK \(www.gov.uk\)](#)

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 and UKIB have carefully considered the Scheme's compliance with the subsidy control principles and that the policy objective(s) of the FID Scheme are clearly articulated and supported with reasoning and relevant evidence. In particular, the Assessment describes how the FID Scheme is aimed at delivering sufficient low carbon future power generation to meet needs, whilst ensuring system stability, at lowest overall cost.
- 2.3 However, we consider that the Assessment should:
- (a) In relation to Principle E, further consider alternatives to the individual components of the FID Scheme; as well as consider non-subsidy alternatives such as those set out in paragraph 3.55 of the Statutory Guidance and explain why these were not appropriate.
 - (b) In relation to Principle B, as explained further in paragraphs 3.61 to 3.65, consider whether the assessment of proportionality is impacted following the completion of the private capital raise process, and whether the expectations set out within the Assessment have been borne out.
 - (c) In relation to Principle F, consider in more detail all the relevant markets and potential distortions which could occur from the different elements of the scheme (RAB, GSP, debt and equity investments), as well as the SZC project overall. It should also consider which competition distortions are most likely to occur and how significant or material the impacts might be given the size and timeframe of the overall SZC project. It should engage systematically with Annex 3 of the Statutory Guidance and should explain how the scheme has been designed to limit any potential distortions to competition.
 - (d) Where DESNZ and UKIB have identified that categories of subsidy may be made to beneficiaries, for the purposes set out in paragraph 1.13, the terms, conditions, and eligibility criteria of which were unknown at the time of referral to the SAU, they should consider whether the assessment is impacted once they have been determined.
- 2.4 Our report is advisory only and does not directly assess whether the FID Scheme complies with the subsidy control requirements.

2.5 The report does not constitute a recommendation on whether the FID Scheme should be implemented by DESNZ and UKIB. 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.¹³

¹³ 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 and UKIB.

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.¹⁴

Policy objectives

3.3 The Assessment states that the policy objective(s) of the FID Scheme is to enable SZC to reach operation in order to deliver two complementary objectives:

- (i) generation of firm electricity, supporting system stability and ensuring security of supply; and
- (ii) provision of low carbon electricity that supports delivery of Net Zero at a low system cost.

3.4 The Assessment explains that the UK needs significant electricity generation capacity to come online over the next few years, due to the end of life of existing nuclear power plants as well as the need to be less reliant on gas and electricity imports. It explains that the increased electricity generation capacity must be of a type that is aligned with UKG decarbonisation commitments outlined in the Net Zero Strategy,¹⁵ as generation of clean electricity is a key enabler of the cost-effective transition to Net Zero.

¹⁴ 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.'

¹⁵ <https://www.gov.uk/government/publications/net-zero-strategy>

- 3.5 The Assessment goes on to explain that Renewable Energy Sources (RES), particularly wind and solar, are likely to produce the majority of the UK's electricity by 2050. However, citing Power System Optimisation analysis,¹⁶ which underpinned the Net Zero Strategy, the Assessment describes that other forms of energy will be required to support the use of RES due to the intermittent nature of RES generation. The Assessment states that the Power System Optimisation analysis demonstrates 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. It argues that this firm power ensures the market benefits from a secure, low-carbon electricity supply, and without this baseload generation the potential for blackouts and the need for management of energy supply increases.
- 3.6 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. The Power System Optimisation analysis describes that nuclear is the only form of firm, low carbon electricity generation proven at scale.
- 3.7 The Assessment then describes that the UKG Civil Nuclear Roadmap,¹⁷ published in January 2024, sets out a high-level strategy for how nuclear projects can contribute to the 2050 Net Zero target and describes SZC as the most mature nuclear project.
- 3.8 The SAU received representations from an interest group which stated that the 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.
- 3.9 In our view, the Assessment clearly describes the policy objective(s) of the FID Scheme, which is supported with reasoning and relevant evidence. In particular, the Assessment describes how the FID Scheme is aimed at delivering sufficient low carbon future power generation to meet needs, whilst ensuring system stability, at lowest overall cost.
- 3.10 In relation to the third-party representations, the Assessment is clear that the 2035 ambition¹⁸ is not a specific policy objective of the Scheme.

¹⁶ <https://www.gov.uk/government/publications/modelling-2050-electricity-system-analysis>.

¹⁷ <https://www.gov.uk/government/publications/civil-nuclear-roadmap-to-2050>

¹⁸ Under the Climate Change Act 2008, the UKG must set five-year emission reduction targets (carbon budgets). In 2021, the UKG set a legally binding target to cut the UK's greenhouse gas emissions by 78% by 2035, compared to 1990 levels.

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.¹⁹
- 3.12 The Assessment states that the FID Scheme aims to address 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 needed to develop and construct a nuclear power project that would meet the policy objectives.
- 3.13 The Assessment outlines these benefits including that Gigawatt (GW) scale nuclear power plants (such as Sizewell C) have very low carbon emissions and improve energy security by providing firm generating capacity. It explains that these benefits do not translate into greater profitability or other benefits sought by private actors.
- 3.14 It also sets out that GW-scale nuclear power plants have high costs and risks, which make them less attractive to the market. It outlines a history of nuclear projects failing to reach operational phase, with the developers losing billions of pounds of investment. It also lists historical overruns against schedule and cost, adding to the extensive costs of nuclear power station construction.
- 3.15 It concludes that these characteristics mean that the market is likely to underinvest in new nuclear projects relative to their value to society as a whole. It concludes that the project would not proceed without some form of UKG support or intervention, and that this demonstrates a clear rationale for the FID Scheme in intervening in the market to achieve the policy objectives.
- 3.16 The Assessment goes on to explain how components of the FID Scheme will contribute to overcoming these market failures. It explains that the RAB model will provide a mechanism for investors to achieve a return on investment during the construction, commissioning and the operational period, thereby addressing what it describes as the failure of longevity of exposure to market price signals, as well as to help partly address the scale of investment market failure. The Assessment explains the RAB will provide investors with more certainty on receiving a return on their investment, thereby presenting a project profile more capable of attracting private capital.
- 3.17 The Assessment explains that the GSP will address a market failure of longevity of exposure to political decisions, as well as other high-impact, low-probability risks, by reducing investor risk exposure and allowing private economic actors to invest in the SZC project. Without the GSP, it argues, investors would not be in a position

¹⁹ [Statutory Guidance](#), paragraphs 3.35-3.48.

to invest as they would be unable to finance the risks themselves or unable to finance them efficiently.

- 3.18 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 FID 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 FID Scheme is the most appropriate and least distortive instrument

- 3.19 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.²⁰
- 3.20 The Assessment states that the FID Scheme is the least distortive and most appropriate way of achieving the policy objectives. It explains that SZC is in a unique position amongst potential or proposed UK nuclear projects having reached a threshold of maturity that puts it in a position to reach FID. It states that, in the absence of Government intervention, SZC GenCo will be unable to raise the level of finance for the project to proceed, and therefore the policy objectives will ultimately not be met.
- 3.21 The Assessment then goes on to outline the alternatives to the FID Scheme which were considered. These included the following six alternatives.

The provision of 100% financing by UKG

- 3.22 The Assessment states that this would reduce the financing costs and provide a higher consumer net present value. However, this would have significant drawbacks including that the complexity of establishing a required Government Company would delay FID with subsequent impact on overall project cost, and it would not facilitate sharing of risks with the private market, nor allow the utilisation of expertise from market investors as well as more general risks related to cost control and staff turnover.

Contracts for Difference (CfD) model

- 3.23 Utilisation of a CfD model would provide a two-way mechanism that has the potential to see generators return money to consumers if electricity prices are higher than the agreed strike price. The Assessment concludes that under a CfD

²⁰ [Statutory Guidance](#), paragraphs 3.54-3.56.

approach, 100% of the project's construction risk sits with the developer, which is likely to make the project unfinanceable – as few, if any, project developers have a strong enough balance sheet to cover the cost of delivering a new nuclear project – or result in an increased cost for the consumer. It also cites NAO report recommendations that the UKG considers whether alternative funding models for future new nuclear projects could improve VfM and reduce cost to consumers.

Carbon Price Support and other tax-based support

- 3.24 The Assessment sets out that this would help increase the incentives for investment in low carbon technologies, however, it concludes this is unlikely on its own to provide the necessary certainty to attain sufficient investment to deliver the FID Scheme.

Low Carbon Obligation

- 3.25 This would be in the form of an extension to the Renewables Obligation to help boost all low carbon generation. However, the Assessment concludes that in this case, investors would be unsure of the number of certificates they will receive until SZC is built and connected to the grid, and that this approach is generally unsuitable for nuclear projects because they have long and expensive construction phases and would be exposed to significant risk until the nuclear power plant is built and the certificates received.

Capacity Market

- 3.26 The Assessment explains that this would encourage investment in new reliable electricity supplies. However, it concludes that this would not be a suitable alternative given nuclear energy projects have significantly longer timescales, which means the existing capacity market mechanism is not suitable for encouraging investment in SZC.

Feed-in Tariffs

- 3.27 These tariffs cover a long period with a guaranteed price, usually on a per MWh basis. The Assessment explains that this would solve the issue outlined for low carbon obligations, by providing price security for investors, whilst maintaining the incentive to produce electricity. However, it states that these initiatives are not yet designed for nuclear, so delays would be caused by amending this scheme.
- 3.28 The potential for Small Modular Reactors (SMRs) was also considered, see paragraph 3.38.

Our evaluation

- 3.29 Overall, the Assessment concludes that none of the alternatives explored provide enough certainty while requiring investors to take on most if not all development and construction risk, which investors have indicated would be a significant barrier to investment.
- 3.30 In our view the Assessment demonstrates that DESNZ and UKIB have given detailed consideration to alternatives to the FID Scheme overall. However, the Assessment could be improved by further consideration of alternatives to the individual components of the FID Scheme. For example, the Assessment could consider the suitability of any other approaches to addressing the high-impact, low-probability risks insured under the GSP and explaining why these were rejected.
- 3.31 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.

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

- 3.32 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.²¹

Counterfactual assessment

- 3.33 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).²² 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.

²¹ 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).

²² [Statutory Guidance](#), paragraphs 3.60-3.62.

- 3.34 The Assessment describes a counterfactual scenario in which SZC would not be built. It explains that this would result in a failure to fulfil the Government's objectives of contributing to its decarbonisation commitments to reach Net Zero by 2050 and of increasing the UK's resilience and security of the wider energy system.
- 3.35 The Assessment explains that this counterfactual scenario is due to it being unlikely that the private sector would invest in the project without government support, given the risks that surround a nuclear power plant. The Assessment sets out the reasoning for this as being:
- (a) potential investors have stated that they are unwilling to invest until the future of the project is more certain; and
 - (b) market testing to date has indicated that private investors require Government intervention in order to commit funding.
- 3.36 Further, the Assessment explains that where some private investment may be available in the absence of government support, it may be at prohibitive prices, making the overall project delivery more uncertain.
- 3.37 It notes that, without Government intervention, there are not enough suitable investors willing to commit sufficient investment into the project given the risks that surround a nuclear power plant.
- 3.38 The Assessment explains that SMRs could be used as an alternative nuclear option to achieve the policy objective of providing low carbon, secure energy. However, it explains that there is an inherent risk to pursuing an option where the technology is unproven and there remains uncertainty over its deployment. It notes that the SMR technology has yet to receive a Generic Design Assessment from the Office for Nuclear Regulation and, as a result, SMRs cannot yet be deployed at scale to provide the equivalent low carbon secure energy of SZC. In any event, we consider that deployment of SMRs would represent an alternative intervention, rather than a do nothing counterfactual scenario.
- 3.39 In our view, the Assessment clearly explains that in the counterfactual scenario, the policy objective could not be achieved due to an inability to raise sufficient finance on the private market, preventing the progression of the SZC project. It places significant weight on the view that alternative private sector finance could not be sourced and the broader uncertainty around raising finance in this sector. In our view, to strengthen the Assessment, it should provide further evidence to support the position that alternative private sector finance could not be sourced. This evidence could include UKG internal documents showing that additional private finance is not available without government support.

Changes in economic behaviour of the beneficiary

- 3.40 The Statutory Guidance sets out that subsidies must bring about something that would not have occurred without the subsidy.²³ In demonstrating this, public authorities should consider the likely change or additional net benefit.
- 3.41 The Assessment explains that the FID Scheme provides the necessary steps to change the behaviour of the beneficiary, SZC GenCo. This is because the FID Scheme allows for sufficient finance to be raised to allow it to progress SZC, which would not otherwise occur. It considers each of the elements of the FID Scheme when assessing the change in economic behaviour:
- (a) The RAB element of the FID Scheme will attract investors by allowing them to achieve a return on investment during the construction, commissioning and operational periods, and by transferring certain risks to the consumer.
 - (b) The debt and equity component will help SZC GenCo raise the scale of capital required. For example, injection of equity by UKG will reduce the amount of private investment needed (thereby making the required level attainable for private markets).
 - (c) The GSP provides insurance against the exposure to high-impact, low-probability risks and, absent these measures, investors would likely be insufficiently motivated to make the level of investment required.
- 3.42 In our view, the Assessment effectively assesses the change in economic behaviour in relation to the identified counterfactual. The Assessment benefits from providing a granular discussion of how the individual components of the FID Scheme will generate the required change in economic behaviour. The Assessment focuses on the anticipated change in economic behaviour of SZC GenCo, as the main beneficiary of the FID Scheme.
- 3.43 However, as noted at paragraph 1.11, the FID Scheme may also confer a benefit on other recipients that are eligible to receive direct/indirect subsidies pursuant to the scheme. The change in economic behaviour section of the Assessment does not discuss any beneficiaries other than SZC GenCo. The Assessment should expand its assessment of the change in economic behaviour to cover other relevant potential beneficiaries. This could be done by category of potential beneficiary where specific beneficiaries are unknown.

Additionality assessment

- 3.44 According to the Statutory Guidance, 'additionality' means that subsidies should not be used to finance a project or activity that the beneficiary would have

²³ [Statutory Guidance](#), paragraph 3.64.

undertaken in a similar form, manner, and timeframe without the subsidy.²⁴ 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.²⁵

- 3.45 The Assessment explains that the FID Scheme does not compensate for costs that the beneficiary would have funded in the absence of the intervention. It explains that the project currently finances day-to-day operating costs and has sufficient capital to finance a certain amount of pre-development construction activity (recognising that some of that funding results from a separate subsidy²⁶). On the basis of the counterfactual scenario – in which additional, necessary financing is not achieved – the SZC project would no longer continue.
- 3.46 The Assessment explains that the FID Scheme, therefore, does not compensate for costs that SZC GenCo could either have funded itself via existing capital, or capital that would have come into the project because – as discussed further in our consideration of the counterfactual and change in economic behaviour, above – the private sector would not invest at the scale and rates needed for the project to be viable.
- 3.47 We consider that the Assessment explains additionality in a manner that is consistent with the identified counterfactual scenario, as well as the anticipated change in economic behaviour arising from the FID Scheme. However, given the importance of the view that no other sources of finance were available, we consider that the Assessment should be strengthened by including some additional evidence that alternative private sector finance could not be sourced as set out at paragraph 3.39.
- 3.48 Further, in discussing additionality, the Assessment considers the FID Scheme as a whole. It would benefit from breaking this down into the component parts, ie the RAB, the equity and debt components, and the GSP, and addressing the additionality of each individual component.

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

- 3.49 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

²⁴ [Statutory Guidance](#), paragraphs 3.63-3.67.

²⁵ [Statutory Guidance](#), paragraph 3.66.

²⁶ This refers to two schemes, the Sizewell C Devex Scheme and the Sizewell C FID Scheme.

- (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.²⁷

Proportionality

- 3.50 The Assessment states that the proposed interventions under the FID Scheme are proportionate to the policy objectives. It explains that a lower level of intervention would not be sufficient to address the market failures identified.
- 3.51 The Assessment explains that a key element of the approach is that the scope of the package (which we interpret to be (i) the regulated revenue using the RAB model; (ii) the GSP; and (iii) UKG finance in the form of debt and equity) will ultimately be informed by market feedback received during the competitive equity raise process, and this process will help to ensure that the package only includes elements that are necessary to attract new private sector investment in the project at FID and thereby ultimately achieve the objectives in a way that represents value for money.
- 3.52 The Assessment describes the interventions as ‘both proportionate and necessary’ based on the following points:
- (a) a smaller intervention would fail to remedy the identified market failures;
 - (b) the intervention is reasonable and has been designed to ensure that the extent of the intervention is proportionate to the level of market failure;
 - (c) the positive effects of meeting the policy objectives are such that the FID package is considered to be a proportionate means of achieving them; and
 - (d) alternative options to achieve the policy objectives and address the market failure are either not credible or are less proportionate and may result in more subsidy.
- 3.53 The Assessment states that the value of the subsidy is ‘moderate when compared to the size and overall value of the market’ (although this is not defined). It then considers the individual elements of the FID Scheme.
- 3.54 In relation to the RAB, it explains that the proportionality will be managed by review by Ofgem when SZC is operational²⁸ as well as the influence of market prices. First, Ofgem will review the allowed revenue in the ordinary course of its price control review, which, the Assessment explains, will guarantee that the

²⁷ 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).

²⁸ Prior to this, the allowed revenue will be set by the Secretary of State.

subsidy provided by the RAB will always be the minimum necessary to lower financing costs throughout construction, commissioning and operational periods.

- 3.55 Second, the Assessment explains that the allowed revenue mechanism is responsive to market prices (ie difference payments and the corresponding subsidy will be smaller where market prices are higher). This is furthered by the obligations on SZC GenCo included in licence modifications requiring it to maximise its market revenues to ensure that the support provided through the Difference Payment mechanism is the minimum necessary to finance its obligations. Where the company achieves a higher market revenue than the allowed revenue, these differences are repaid to electricity suppliers. On this basis, the Assessment explains that the amount of subsidy will be minimised.
- 3.56 It sets out that the scope of the debt and equity package will ultimately be informed by market feedback received during the equity raise process, and this will help to ensure that the package only includes what is necessary to attract new private sector investment.
- 3.57 The Assessment also explains that the GSP is proportionate as a lesser GSP has been assessed through market testing with investors prior to the debt/equity raise (and will continue to be assessed throughout the raise) and found not to provide sufficient assurance to investors. The Assessment also explains that the GSP is designed to only provide backstop cover. While this means SZC is insulated from the un-insurability risk that other nuclear operators bear, SZC is still required to obtain insurance from the market up to the level available. The FID Scheme does not provide any backstop in relation to ordinary project level insurances.
- 3.58 In addition to the core elements of the FID Scheme, the Assessment states that other measures could be utilised at a later stage as necessary (see paragraph 1.13). However, it notes that they would be designed at the time to ensure that they best represent value for money and remain proportionate.
- 3.59 The Assessment identifies future steps which it expects will ensure that the total subsidy value is proportionate. In doing so, it places significant reliance on three key factors:
- (a) the ongoing capital raise project;
 - (b) future value for money assessments; and
 - (c) review by Ofgem.
- 3.60 In relation to (a), the ongoing capital raise project, the Assessment states that market feedback will ensure the level of public debt and equity is minimised and will be priced at, or closely to, market rates. However, we note that at the time of producing our report, the capital raise process was ongoing.

- 3.61 The Assessment explains that the valuation of the subsidy is constructed on the basis of the difference payments. The value of the difference payments is expected not to be changed by the amount of debt or equity funded by HMG, on the basis of two key assumptions.
- 3.62 It is assumed first, that UKG will provide debt or equity funding at (or close to) market rates, and second, because Ofgem will be responsible for setting the WACC, which will be suitably benchmarked and will not be a simple pass through of actual financing costs.
- 3.63 In this context, the ongoing capital raise is assumed not to impact the valuation of the subsidy and corresponding proportionality assessment, which is undertaken on the FID Scheme overall (though we note that it may have some impact on the potentially distortive impact of the subsidy, as discussed below).
- 3.64 A consequence of the difference-payment based valuation method is that a specific proportionality assessment of the initial debt/equity injections is not made, other than to explain that it seeks to ensure that they are at the minimum level necessary to generate private finance. The Assessment expects that the level of equity raised from private investors would be a meaningful stake, in the range of [X].
- 3.65 In our view DESNZ and UKIB should consider whether the assessment of proportionality is impacted following the completion of the private capital raise process, and whether the expectations set out within the Assessment have been borne out.
- 3.66 With regard to (b), future value for money assessments, we consider that whilst such assessments may be beneficial in showing that further support measures under the scheme will provide a net expected benefit, they do not necessarily demonstrate compliance with the subsidy control principles, including proportionality.
- 3.67 On (c), review by Ofgem, we consider that the Assessment should be improved by explaining why this review by Ofgem is expected to provide robust review and ensure proportionality – for example, it could describe Ofgem’s approach to regulation in more detail, eg by referencing any existing or planned work in this area by Ofgem.
- 3.68 We also note that for the period of construction, the allowed revenue will be determined by the Secretary of State (see paragraph 1.12(a)) and the Assessment would equally benefit by explaining how proportionality will be assured during this phase.

Assessment of effects on competition or investment

- 3.69 The Assessment identifies the relevant geographic area where competition distortions could occur as the UK, stating that this is in line with the scope of the relevant evidence provided. It identifies the relevant market(s) to include other projects which are currently supplying power to the grid, or have the potential either now or in the future to do so (including nuclear, other renewable technologies, unabated gas,²⁹ as well as other forms of energy generation).
- 3.70 The Assessment identifies potential distortions to competition, differentiating between the phase of the SZC project at which they might arise, in the development and construction phase, and in the operational phase.
- 3.71 The Assessment identifies the following potential distortions during the development and construction phase:
- (a) Supply chains may face less pressure to control costs than are typically faced by supply chains to other energy generating projects, due to the regulated return during construction, which could lead to displacement on other projects. However, it assesses displacement of alternative energy project supply chains to be limited.
 - (b) Debt markets could be distorted given the size of UKG debt invested in the SZC project.
 - (c) Equity markets could be distorted if equity is not provided at market rates.
 - (d) The GSP could potentially distort competition (across all phases it is active) by providing cover which may not be available to other electricity generators.
- 3.72 The Assessment identifies the following potential distortions during the operational phase:
- (a) It is inherent that generating capacity added to the system in one project will come at the expense of other projects, with the potential to distort competition and crowd out other technologies. Therefore, there is the potential that SZC could reduce capacity on the network for other providers, due to the amount of energy it is intended to produce. This could displace and/or create barriers to entry for other suppliers and alternative power generation projects.
 - (b) Increased concentration in the wholesale market, where EDF could potentially gain a dominant market position.

²⁹ Unabated gas refers to the combustion of fossil fuels without the application of carbon capture and storage (CCS) technology.

- (c) Potential that EDF could exploit its market position and withhold capacity on the network to increase its profit.
- (d) If SZC Genco is the price setter (rather than taker), there could be incentives to manipulate the price of energy.
- (e) Risk of distorted market signals, where SZC might not reduce production where additional flexibility could benefit the power system.
- (f) SZC Genco has a reduced risk exposure in the forward market and buyback support compared to competitors.
- (g) Risk that EDF as a vertically integrated supplier could limit the number of supply offers on the market.
- (h) EDF could strengthen its market position in the retail market.
- (i) Potential impacts on related markets from ancillary activities SZC GenCo may undertake.

3.73 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 net zero targets earlier.

3.74 In relation to these third-party representations, the Assessment acknowledges that UKG equity injections into SZC GenCo have the potential to displace private investment from other nuclear assets. However, the Assessment could benefit from going into more detail of how such equity injections could impact all relevant alternative projects, including nuclear. The Assessment considers there to be multiple potential beneficiaries of the subsidy. However, it does implicitly consider the impacts on relevant markets of SZC GenCo being the only company to receive the subsidy.

3.75 In our view, while the Assessment implicitly identifies the beneficiaries and relevant markets to the subsidy, it should clearly state these. Where some beneficiaries are unknown at this time, the Assessment could have more clearly explained this, and who the likely beneficiaries may be.

3.76 In our view, the Assessment has identified potential distortions to competition across all phases of the SZC project and uses some appropriate evidence to support its conclusions. However, it should provide more detail and explanation of

these distortions in the Assessment itself, much of which is further explained in the supporting evidence.

- 3.77 It could also benefit from clearly showing the potential competition distortions specific to the different elements of the project, as well as the project as a whole. For example, the Assessment could explain how the debt and equity markets may be distorted, how the RAB model may impact incentives, and how providing insurance under the GSP could impact alternative projects. This would then have facilitated the understanding of how the subsidy was designed to minimise negative effects on competition, as discussed later in the report.
- 3.78 While the Assessment explains the rationale for replicating some elements of the supply chain from Hinkley Point C (with other elements procured through a competitive tendering process) in the construction phase, it does not consider the potential distortions to competition of doing this, as opposed to competitive tendering for all the supplier contracts.
- 3.79 The Assessment also recognises that there may be competition distortions within the supply chain due to displacement from other projects, but it does not clearly explain why this distortion is expected to be minimal. It should consider in more detail all the relevant markets within the supply chain which could be impacted,³⁰ such as engineers, construction labour and materials, and special inputs in the nuclear industry, and then how large these impacts could be given the size and timeframe of the overall SZC project.
- 3.80 The Assessment does not systematically consider the significance or likelihood of the potential distortions to competition it identifies, and although it concludes distortions would not be material, it is not explained or evidenced in detail why this is the case. The Assessment should consider which distortions are the most likely to occur, and how significant they might be.
- 3.81 In our view, while the Assessment makes use of an externally commissioned report to highlight potential distortions to competition, the Assessment would benefit from clearly highlighting the scope and limitations to this report, and how the Assessment has taken forward any recommendations provided within the report. For example, in the report there are recommendations of where further analysis would be useful to understand the likelihood and materiality of potential competition distortions, including suggestions of the type of analysis which could be used. The Assessment would benefit from explaining whether it has conducted or is planning to conduct any further analysis to address these recommendations, or if not, explaining why the current analysis is sufficient given the size and potential number of distortions of the subsidy.

³⁰ [Statutory Guidance](#), Annex 3.

Design of subsidy to minimise negative effects on competition and investment

- 3.82 The Assessment states under Principle E, that it does not believe the chosen model in the FID Scheme for funding the project would be any more distortive to competition than a different funding model.
- 3.83 The Assessment identifies the following mitigations or circumstances which intend to limit any potential distortions to competition, as identified above.
- (a) The GSP is not expected to distort markets under usual trading conditions, as it intends to pick up remote events which are high-impact, but low probability, that are uninsurable and private investors would not be able or willing to finance themselves. Therefore, it will not significantly impact the behaviour of SZC GenCo or other competitors, and market distortions will be minimal.
 - (b) Impacts on the debt market should be mitigated to an extent by UKG issuing at rates consistent with a market return.
 - (c) UKG is running a competitive capital raise process for private sector equity investments. This should help obtain the market view of the equity return, helping to set the cost of public equity at market rates with UKG equity as a price-taker.
 - (d) Where the supply chain is replicated from the Hinkley Point C project, distortive impacts would be limited due to the technical market and small pool of suitable suppliers. Where it is not replicated, competitive tendering is in place.
 - (e) UKG already has schemes in place to support renewables deployment, for example through the competitive CfD auction rounds, and ambitious targets for the pace and extent of deployment. It is considered that SZC will not play a significant role in crowding out renewables investment, and where some displacement could occur, this is supported by the policy objective to ensure that a low-cost power system can be delivered.
 - (f) Distortions relating to EDF are mitigated due to their declining trajectory of market share due to decommissioning of existing nuclear capacity, as well as their stake in the SZC project being a minority [3%]. Other mitigations include the existing Regulation on Wholesale Energy Market Integrity and Transparency (REMIT) to monitor market behaviour, strategic decisions being likely to be set by SZC GenCo with governance from all its shareholders, and the design of the RAB.
 - (g) The design of the RAB Economic Licence, its conditions and the trading incentives it puts in place help mitigate against risk of potential distortions.

For example, its structure ensures SZC GenCo is still exposed to a certain level of operational risk to incentivise the operator to trade and operate effectively (and avoid any moral hazard concerns). The market price incentive ensures SZC is incentivised to capture the Baseload Market Reference Price, and the total expenditure incentives will incentivise the licensee to efficiently and economically spend capital and operating expenditure. Ofgem will be the regulator of this licence, and have the power to fine SZC if licence obligations are breached.

(h) Changes in market conditions in the future should mean SZC will not create barriers to entry to other competitors or technologies.

3.84 In our view, the Assessment does not clearly explain how the scheme has been designed to mitigate potential distortions to competition. The Assessment to some extent relies on external market factors to mitigate distortions to competition, rather than ways in which the scheme has been designed. For example, impacts being limited due to a small pool of technically suitable suppliers, other schemes already being in place for alternative technologies, and regulation already in place in the wholesale energy market. While these may be relevant factors, the Assessment should still consider how the scheme has been designed to limit any potential distortions, engaging with Annex 3 of the Statutory Guidance.

3.85 In our view, while the Assessment does provide some context that the design of the RAB licence aims to limit competition distortions, it would benefit from providing more details of this licence, as well as explaining how the conditions will work in practice and how they will limit potential distortions to competition. Nor does the Assessment specifically consider how the scheme has been designed to limit competition distortions occurring from non-RAB elements of the scheme.

Step 4: Carrying out the balancing exercise

3.86 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.³¹

3.87 The Assessment sets out the benefits of the FID Scheme and describes how these will support the achievement of the specific policy objective(s) of the FID Scheme. These include:

³¹ See [Statutory Guidance](#) (paragraphs 3.109 to 3.117) and [SAU Guidance](#) (paragraphs 4.20 to 4.22) for further detail.

- (a) reliable 3.2GW of low carbon power capacity, providing a stable baseload that complements other low carbon energy sources;
- (b) increased system stability through the deployment of 'firm' low carbon power, reducing the cost of decarbonising the electricity system; and
- (c) the ability to respond efficiently to changes in demand offering greater flexibility to the power grid where output can be adjusted to meet demand.

3.88 The Assessment also describes secondary benefits including the impact of high value jobs (supported both directly and indirectly) that contribute to wider regional and UK growth and an increased capability for the UK to build its nuclear capacity, strengthen its supply chain and reduce future risk / costs.

3.89 Finally, DESNZ and UKIB also briefly identify a net pro-competitive effect where the premia payable by SZC GenCo to UKG for nuclear specific insurances are expected to encourage expansion/ entry into such insurance provision at a higher level than the market currently allows.

3.90 In terms of negative effects, the Assessment considers that the scale, complexity and longevity of the financial support proposed is likely to result in a risk of potential negative effects of the FID Scheme. These are described below.

Nuclear supply chain

3.91 SZC is a major infrastructure project with significant capital spend that has potential to distort the nuclear supply chain. DESNZ and UKIB consider that the regulated return arising from the RAB model could reduce the pressure to control costs typically faced by supply chains to other energy generating projects, which in turn may lead to displacement and a risk of increased consumer costs.

3.92 The Assessment identifies mitigations such as the incentivisation design of the RAB mechanism, the use of competitive tenders and the application of intelligence learned from experience in Hinkley Point C intended to save costs. The Assessment considers that these mitigations ensure that the risk of distortion is low.

Debt and Equity markets

3.93 The Assessment explains that the scale of the UKG debt invested and the level of the UKG equity support risks a distortive impact on debt and equity markets which has the potential to crowd out investment within the UK and distort international investment into the UK.

3.94 It identifies mitigation in the pricing of both debt and equity at rates as consistent as possible with market returns, supplemented by use of a competitive process for

equity investment, helping to ensure that public equity in the project is priced at or close to market rates. It concludes that these mitigations help limit any potential negative effects.

Alternative power generation

- 3.95 Given that SZC is expected to provide around 5 – 6 % of the UK electricity supply once operational, the Assessment considers the potential of SZC to impact negatively on alternative power generation technologies and projects such as renewables, unabated gas, SMRs and Advanced Modular Reactors. DESNZ and UKIB consider that the impact will be mitigated due to a range of factors such as existing renewable support schemes and the relative immaturity of competing nuclear technologies such as SMRs and Advanced Modular Reactors.

Energy Markets

- 3.96 The Assessment presents a high-level summary of potential negative effects of the FID Scheme on energy markets more widely, drawing upon the evidence and analysis prepared by independent economic consultants. This analysis identifies the potential distortions in relation to:
- (a) concentration of the wholesale market;
 - (b) potential for capacity withholding;
 - (c) price manipulation;
 - (d) distortion of market signals;
 - (e) risk exposure in the forward market and buyback support;
 - (f) reduced wholesale market liquidity; and
 - (g) impacts on competition in the retail market.
- 3.97 DESNZ and UKIB told us that it has used the analysis to help inform the design of the subsidy and put in place mitigations to reduce the risk of distortion. This includes working with Ofgem in setting elements of the Allowed Revenue and ensuring that the design of the RAB Economic Licence and Licence Conditions include trading incentives and mechanisms to ensure SZC remains exposed to a certain level of operation risk. This is to incentivise the operator to trade and operate in a manner akin to that of a merchant baseload generator.
- 3.98 The Assessment concludes that the cost and potential negative effects of the FID package and measures are outweighed by the benefits of the FID Scheme.

Our evaluation

- 3.99 In our view, the Assessment clearly sets out the benefits of the FID Scheme in relation to the policy objectives and balances these against potential negative impacts, conducting a high-level balancing exercise between them in line with the Statutory Guidance. However DESNZ and UKIB may wish to consider the balancing in light of any changes they make to the Assessment having the benefit of this report. In relation to the secondary benefits identified we would note that in line with the Statutory Guidance (paragraph 3.112), the benefits considered in the balancing exercise must only be those that relate to the specific policy objectives identified under Principle A. Secondary benefits that do not relate to these specific policy objectives therefore should be considered out of scope of the balancing exercise.
- 3.100 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 and UKIB should consider addressing the points raised within the balancing exercise, drawing on this evidence as relevant.

Other requirements of the Act

- 3.101 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.³²
- 3.102 DESNZ and UKIB have confirmed that, as the referral relates to nuclear energy, it is not required to apply the Energy and Environment Principles.³³
- 3.103 DESNZ and UKIB have confirmed that none of the prohibitions or other requirements in relation to the giving of subsidies apply.

17 June 2024

³² [Statutory Guidance](#), chapter 5.

³³ Section 51 of the Act.