ANNEX 3
<u>ASSUMPTIONS</u>

This Annex sets out the assumptions in relation to the FDP that the Board has been provided by DESNZ which form the basis of the Board's Advice.

1. CONDITIONAL FDP APPROVAL ASSUMPTION

The Board has provided its Advice on the basis of the following documents being entered into in line with the assumptions set out below:

(A) The FDP Implementation Company will have been incorporated substantially in accordance with version of the FDP Implementation Company AoA listed in Annex 20 (*List of documents reviewed by the NLFAB*);

(B) The shareholders' agreement in relation to the FDP Implementation Company will have been entered into by all parties thereto substantially on the same terms as the version of the FDP Implementation Company SHA listed in Annex 20 (*List of documents reviewed by the NLFAB*);

(C) The FDP budget and services agreement will have been entered into substantially on the same terms as the version of the FDP Budget and Services Agreement listed in Annex 20 (*List of documents reviewed by the NLFAB*);

(D) The directors of the FDP Implementation Company will have approved the FAP, the DWMP, the FDP Implementation Company SHA and the FDP Implementation Company AoA;

(E) The Nuclear Site Licence issued to the Operator on 7 May 2024 will remain in full force and effect;

(F) The Operator's electricity generation licence will have been modified by the Secretary of State to incorporate the Special Conditions;

(G) The documentation in relation to the Debt Financing Platform (including the Security Trust and Intercreditor Deed and the Common Security Package) will have been entered into by the parties thereto, consistent with the principles set out in paragraph 4 below; and

(H) Any remaining assets/surplus of the FDP Implementation Company after the FDP Implementation Company ceases to have any further obligations to the Operator under the FAP shall ultimately be for the benefit of consumers.

2. SZC ECONOMIC LICENCE

The Secretary of State will modify the electricity generation licence issued to the Operator pursuant to the 2022 Act to introduce the Special Conditions to implement a RAB revenue model for Sizewell C. To the extent applicable to the review of the FAP, the Board assumes that the final terms of the SZC Economic Licence will be consistent with the following principles:

(A) The SZC Economic Licence will set out the mechanisms for the Authority to determine the regulated revenue (being the Allowed Revenue) that the Operator will be entitled to receive in exchange for the Operator performing its functions in relation to the design, construction, commissioning, operation and decommissioning of Sizewell C nuclear generation facility.

(B) Pursuant to Section 11A of the 1989 Act, modifications of the SZC Economic Licence post-revenue commencement (other than "Housekeeping Modifications" being minor changes such as renumbering paragraphs, correcting evident mistakes) will be subject to a statutory consultation period and the Secretary of State is entitled to direct the Authority not to make modifications, with which the Authority will be required to comply.

(C) The Allowed Revenue that the Operator is entitled to receive will include the FDP Allowance Building Block, a specific building block for the Contributions and payments in respect of FDP Implementation Company operating costs to be made by the Operator to the FDP Implementation Company under the FAP and the FDP Budget and Services Agreement, respectively.

(D) The FDP Allowance Building Block will be activated prior to the First Criticality Payment Date.

(E) The FDP Allowance Building Block for a Charging Year (generally 1 April – 31 March[1]) will be determined by the Authority and will be equal to the amount (the "**FDP Annual Contribution**") set out in a notice delivered by the Operator (the "**FDP Annual Contribution Notice**") plus any costs incurred (or forecast to be incurred) by the FDP Implementation Company for that Charging Year. The Authority will have no regulatory discretion in the determination of this amount.

(F) The SZC Economic Licence will provide that for a Charging Year_t, the Operator shall submit to the Authority the FDP Annual Contribution Notice for the purpose of determining the FDP Allowance Building Block for the relevant Charging Year_t, on or before 1 November of each Charging Year_{t-1}.

(G) During the commissioning and operations phases of Sizewell C, the Operator is expected to earn revenue from the sale of power to the market ("**market revenue**"). Whilst the SZC Economic Licence will set the level of Allowed Revenue, the Operator will be entitled to a Difference Payment up to its Allowed Revenue (should market revenues be insufficient) and the Operator shall be required to make a Difference Payment of any excess market revenue that it earns in excess of its Allowed Revenue.

(H) Difference Payments shall be made to or by the Operator under a Revenue Collection Contract with the Revenue Collection Counterparty.

(I) The SZC Economic Licence will require the Operator to maintain a designated account (being the FDP Account) to hold funds that it would be required to contribute pursuant to the FAP each month. The Operator shall not make any withdrawals from the FDP Account other than for the purpose of paying the Contributions under the FAP to the FDP Implementation Company.[2]

(J) In the event that an RLNC Administration Order has been issued in respect of the Operator in accordance with section 31 of the 2022 Act (being a Nuclear

[1] **Note**: In the First Charging Year, the PCR Determination Year and the Final Charging Year, different timeframes are likely to apply.

[2] **Note**: The Board notes that, pursuant to paragraph 11 (*Funded Decommissioning Programme payment obligations*), Special Condition 13 (*Funded Decommissioning Programme*) of the SZC Economic Licence, the Operator must, by no later than ten (10) Working Days prior to the end of each calendar month, pay the full amount of the Monthly Contribution for the subsequent calendar month into the FDP Account. Breach of the SZC Economic Licence would make the Operator subject to an enforcement action by the Authority under the 1989 Act.

Administration), the Operator shall continue to receive the Allowed Revenue (including the FDP Allowance Building Block) that the Operator is entitled to receive whilst it is in Nuclear Administration.

(K) Pursuant to section 56 of the 2008 Act, any security for the performance of obligations relating to the Designated Technical Matters which has been provided by a person by way of a trust or other arrangements could be considered to be "protected assets". Section 56 of the 2008 Act further provides that the manner in which, and purposes for which, the protected assets are to be applied and enforceable (whether in the event of the security providers' insolvency or otherwise) is to be determined in accordance with the trust or other arrangements and it disapplies any law (including the Insolvency Act 1986) that would prevent the protected assets from being applied in accordance with the trust or other arrangements. The FDP Allowance Building Block payments and the amounts held by the Operator in the FDP Account will be subject to the security granted in respect of the FDP and will be treated as a "protected asset" for the purposes of section 56 of the 2008 Act.

(L) The FDP Allowance Building Block will also continue to be paid during any unplanned outage (and will not be required to be repaid by the Operator).

(M) In the event of a revocation, to the extent that there remains an FDP Shortfall, such revocation will be limited to a Partial Revocation under the SZC Economic Licence unless the Secretary of State otherwise directs. If there is a Partial Revocation, the FDP Shortfall will be calculated and the Authority will determine the period of up to ten (10) years from such Partial Revocation (such period being the Partial Revocation Period) during which the FDP Shortfall amount shall be paid.

(N) Subject to early closure and revocation, the SZC Economic Licence is expected to have a Regulatory Period of sixty (60) years from the date of Scheduled COD. At the end of sixty (60) years from Scheduled COD, the Secretary of State will have the right to implement a nuclear transfer scheme under the 2004 Act to transfer the Plant (together with the Fund and the nuclear liabilities) to a publicly owned company (a Nuclear Transfer Scheme) for £1.

3. GOVERNMENT SUPPORT PACKAGE

3.1. The Operator is expected to benefit from a government support package (being the GSP) for certain high-impact but low probability risks. To the extent applicable to the review of the FAP, the Board assumes that the final terms of the GSP will be consistent with the following principles:

(A) The GSP will specify the circumstances in which Sizewell C may be discontinued and the compensation payable to debt and equity providers in each such circumstance.

(B) The GSP will include a pre-consent from the Operator for Sizewell C (including the Fund and the nuclear liabilities) to be transferred to a publicly owned company pursuant to a Nuclear Transfer Scheme in certain circumstances.

3.2. Under the terms of the NASTA (which forms part of the GSP), to the extent any FDP Shortfall exists at a time when the Secretary of State directs the Authority that it may revoke in full the special conditions of the SZC Economic Licence or the Partial Revocation Period ends following a Partial Revocation (as applicable) and, in each case, an FDP Shortfall is outstanding, unless the Secretary of State has otherwise removed from the Operator its liabilities in respect of such FDP Shortfall (including through the implementation of a Nuclear Transfer Scheme), the Secretary of State shall pay to the FDP Implementation Company or the holder of the Nuclear Site Licence (as applicable in the circumstances) an amount equal to the FDP Shortfall together with relevant costs of the FDP Implementation Company.

4. FINANCING ARRANGEMENTS

The Operator is expected to enter into a financing structure through a common covenant and security platform, comprising a common terms agreement (the "**Common Terms Agreement**") and a Security Trust and Intercreditor Deed (the "**Debt Financing Platform**"). The Board assumes that the final terms of the Debt Financing Platform will be substantially consistent with the following principles:

(A) The FDP Implementation Company will rank super-senior to other debt providers in the priority of payments which will be made pursuant to the terms of the Debt Financing Platform, and for so long as no discontinuation has occurred, payment of Contributions will rank second only to payments to the Make Safe Reserve Account and the Safety Critical Opex Reserve Account in each case up to the required balance. This priority is subject to Secretary of State determination as to whether payment of the Waste Transfer Contract debt should be paid to the Secretary of State in priority to payments to the FDP Implementation Company (as was the case in the HPC FAP).

(B) The FDP Implementation Company will be a secured creditor and share in the common security granted by the Operator and any other obligors (being, as of the date of this note, its immediate holding company).

(C) The Common Security Package will comprise of a first ranking security package in favour of a single security trustee, holding the security on behalf of all creditors of the Operator including the FDP Implementation Company, the Secretary of State and other debt providers.

(D) The FDP Account will hold amounts to be paid to the FDP Implementation Company and will be secured solely in favour of the Secretary of State/FDP Implementation Company. It is expected that such security will be granted outside of the Common Security Package under a standalone security document.

(E) The Secretary of State will be the Secured Creditor Representative for the FDP Implementation Company.

(F) The Secretary of State shall be entitled to take direct enforcement action if Contributions are not paid by the Operator, including in respect of FDP Account security, subject to the Standstill Period.

5. P80 + 25% COST ESTIMATES

The Secretary of State has obtained advice from the NDA that the derived P80 cost estimates in the DWMP meet the requirements set out in the Guidance. The Board has been instructed to assume that:

(A) the P80 cost estimates in the DWMP meet the requirements set out in the Guidance; and

(B) in the Secretary of State's opinion, the P80 cost estimates in the DWMP + 25% uplift contingency (in respect of the Costs of Decommissioning and Costs of Spent Fuel Management) are prudent and the risk of the actual Costs of Decommissioning and Costs of Spent Fuel Management exceeding such P80 cost estimates + 25% uplift contingency is remote.

6. HPC REPLICATION STRATEGY

Sizewell C is intended to be a replica of HPC and will replicate the approach to the HPC FAP where possible. As such, the Secretary of State is comfortable with the replication strategy employed between HPC and Sizewell C.

7. POST-CLOSURE INVESTMENT RISK

DESNZ, on behalf of the Secretary of State, has provided an FDP Assumption to the Board for the purposes of the Advice that prudent provision has been made for any investment risk after the closure of the Plant. This assumption is based on the protections and parameters offered by the Section 46 Agreement, including a combination of the ability to alter the Investment Rules pursuant to the Section 46 Agreement, and the flexibility to increase contingency from P80 +25% to P80+ 40% for the DWMP costs. Insofar as prudent provision has been made for post closure investment risk, DESNZ considers it remote that recourse to public funds would be required to mitigate this risk.