ANNEX 4

KEY DIFFERENCES WITH HINKLEY POINT C RELATING TO THE FAP

The Terms of Reference state that Sizewell C is intended to be a replica of HPC and will replicate the approach to its FAP. While the Board has been requested to look at the FAP in its entirety, the Terms of Reference also provide that the Board should have in mind that HMG is comfortable with the replication strategy employed between HPC and Sizewell C. As such, the Board has identified in this Annex the key differences between HPC and Sizewell C that it considers relevant to its consideration of the FAP and the provision of the Advice.

#	Subject	HPC	Sizewell C	Implications for the Board's assessment
RAB model versus CfD regime				
1.	Funding model	HPC was financed and developed under a CfD model, as outlined in the HPC Board Advice.	Sizewell C will be financed and developed under a RAB model provided for in the 2022 Act. *See Annex 10 (Legislative Background)* for more details.	*Prima facie* the RAB model reduces both the risk of the Fund Assets not reaching the End of Generation Target and the insolvency risk, relative to the CfD model.
2.	Revenue support	The Low Carbon Contracts Company Ltd provides a fixed strike price for electricity generated, which is guaranteed to the HPC Operator and paid for by consumers through suppliers. That price is only adjusted for any changes in the Operator's liabilities under the FAP in limited circumstances.	The Operator will be entitled to receive an Allowed Revenue (through a combination of market revenues and Difference Payments from electricity suppliers via the Revenue Collection Counterparty), set annually under the SZC Economic Licence, for performing its functions in relation to the design, construction, commissioning, and operation of the project. The Allowed Revenue will be sized according to various "building blocks," which will include obligations under the FDP. The FDP Allowance Building Block will adjust to match the Operator's liability under the FAP to make	See row 1. Under the RAB model, the Operator bears less risk of increases in DWMP costs or investment underperformance than under the CfD model. Consequently, this improves the

#	Subject	HPC	Sizewell C	Implications for the Board's assessment
			FDP Payments. *See Annex 11 (SZC Economic Licence)* for more details.	likelihood that the Operator will be able to make the FDP Payments.
3.	Reliance on operating revenues	HPC Operator is required to be generating and selling power to the market in order to receive revenues under the CfD and its route-to-market power purchase agreement(s).	The Operator under the RAB model will start to receive Allowed Revenue payments from the Licence Modification Date, with the FDP Allowance Building Block payments commencing at First Criticality (in line with the funding period under the FAP). It will also receive the Allowed Revenue (in full or at least relating to the FDP Allowance Building Block) during outages, insolvency or administration and Partial Revocation scenarios, even if no electricity is being generated. *See Annex 11 (SZC Economic Licence)* for more details.	See row 1 – i.e. *prima facie*, the RAB model reduces the Funding Shortfall risk compared to the CfD model.
4.	FDP payments	A CfD does not allocate specific funds for the payment of the funded decommissioning plan contributions.	Allowed Revenue under the SZC Economic Licence will include a specific building block for FDP Payments (i.e., the FDP Allowance Building Block), thus helping to ringfence decommissioning funds. *See Annex 11 (SZC Economic Licence)* for more details.	See row 1 – i.e. *prima facie*, the RAB model improves the Funding Shortfall risk position compared to the CfD model.
Extended Term				
5.	Funding Period (FAP)	The Primary Funding Period (as defined in the HPC FAP) is 37 years following First Criticality for each reactor. The Secondary Funding Period (as defined in the HPC FAP) (which is a buffer period in case the fund is not fully funded by the end of the	The Primary Funding Period is expected to be longer than HPC at 55 years, with the Secondary Funding Period starting thereafter and continuing until the expected end of the Operational Life (again, expected to be 60 years unless extended). The Allowed Revenue under the SZC Economic Licence is paid until the	The longer primary funding profile on Sizewell C (and the shorter buffer period) meant that the Board was required to

#	Subject	HPC	Sizewell C	Implications for the Board’s assessment
		Primary Funding Period) then runs until the expected end of the operational life of HPC (expected to be year 60 unless extended). The duration of the Primary Funding Period (as defined in the HPC FAP) was determined to coincide with the end of the consistent revenues ensured by the operation of the CfD.	expected end of the Operational Life (i.e., 60 years from the Scheduled COD specified in the SZC Economic Licence) unless the SZC Economic Licence is revoked earlier.	examine the Funding Shortfall risk and Operator insolvency risk over a longer period of time.
6.	Term of revenue support	The term of the CfD for HPC was 35 years from the CfD start date. The HPC Board Advice included an assumption that the relative timings of payments under the CfD and the HPC FAP would mean that, so long as the CfD remains in effect for its full 35-year term, the annual contribution to the HPC FundCo for year 37 will fall within the period covered by the CfD.	The term of the SZC Economic Licence is sixty (60) years, which aligns with the 60 years’ funding period in the FAP.	The longer revenue support period on Sizewell C and the term of the SZC Economic Licence matching the FAP funding period meant that the Board was not required on Sizewell C to make a similar assumptions about the Revenue Support aligning with the FAP funding requirements.
Role of FDP Company				
7.	Fund management	The HPC FundCo had a relatively passive role in relation to managing the fund and making investment decisions. The HPC FundCo is not consulted in relation to the	The FDP Implementation Company will play a proactive role in managing the fund, and it will be primarily responsible for the fund investment strategy and implementation. The Board understands the rationale for	The aforementioned exposure of the HPC Operator to increases in FAP funding

#	Subject	HPC	Sizewell C	Implications for the Board's assessment
		HPC fund investment strategy, the financing of HPC Operator, or any other key matters.	this approach to be that the Operator's funding obligations under the FAP (including increases to the same) are supported by the RAB model. The CfD model on HPC, however, left the HPC Operator largely exposed to increases in the funding obligations under the FAP without corresponding increases in CfD payments (except for in limited circumstances).	obligations, which is not borne by the Sizewell C Operator, means that the HPC Operator reasonably requires greater control of the investment strategy compared to the Sizewell C Operator. Whilst this explains the FDP Implementation Company's more active role in relation to the Investment Strategy, this also meant the Board has closely considered whether such active role may expose the FDP Implementation Company to greater insolvency and/or regulatory risk compared to the HPC FundCo.

#	Subject	HPC	Sizewell C	Implications for the Board's assessment
8.	HPC FundCo / FDP Implementation Company board composition	Between the FDP effective date and first criticality, the HPC FundCo board of directors is to consist of up to four (4) directors, with up to three (3) independent directors and up to one (1) operator director. From first criticality, the HPC FundCo board of directors is to consist of up to seven (7) directors, with up to five (5) independent directors and up to two (2) operator directors. Independent directors must satisfy the independence criteria and the general criteria (including any of the legal, financial, or technical/engineering sector expertise required). The articles of association for the HPC FundCo also require that on appointment of directors, the existing independent directors (who appoint the independent directors) must be mindful of the benefit of the board being balanced with individuals having appropriate expertise, including legal, financial, and technical/engineering expertise, noting the benefit of at least one (1) independent director having experience	The number of directors of the FDP Implementation Company will be as follows: • until the date falling two (2) years prior to the First Criticality Estimated Date, up to three (3) directors in total, with up to two (2) Independent Directors and one (1) Operator Director; • from the date falling two (2) years prior to the First Criticality Estimated Date until the date falling one (1) year prior to the First Criticality Estimated Date, up to five (5) directors in total, with up to four (4) Independent Directors (at least one required to have financial and/or investment expertise) and one (1) Operator Director; • from the date falling one (1) year prior to the First Criticality Estimated Date until First Criticality, up to six (6) directors in total, with up to five (5) Independent Directors (at least one required to have financial and/or investment expertise) and one (1) Operator Director; and • following First Criticality, up to seven (7) directors in total, with up to five (5) Independent Directors and two (2) Operator Directors. Independent Directors must satisfy the Independence Criteria and the General Criteria (including any of the legal, financial, or technical/engineering sector expertise).	The Board considers the relatively minor differences in terms of board composition here to be appropriate given the more active role the FDP Implementation Company is taking in managing the fund and setting the fund investment strategy and implementation.

#	Subject	HPC	Sizewell C	Implications for the Board's assessment
		in the nuclear industry or in nuclear liabilities.	The FDP Implementation Company AoA also require that on appointment of directors, the existing Independent Directors (who appoint Independent Directors) must be mindful of the benefit of the board being balanced with individuals having appropriate expertise, including industry expertise, financial and investment management expertise, and legal and regulatory expertise.	
Security				
9.	Security structure	The HPC Operator is required to grant a first-ranking qualifying floating charge in favour of the Secretary of State and the HPC FundCo, which must rank in priority to any other security granted by the HPC Operator.	The Sizewell C security package will consist of common security being granted by the Operator in favour of a single Security Trustee, which will hold the security on behalf of all creditors including the finance parties, the Secretary of State, and the FDP Implementation Company. Despite the differences in structure (and the sharing of security), the Board's view is that the FDP Implementation Company's security position is not materially inferior to that of the HPC FundCo. This is because the NASTA provides a list of "protected assets," which include market revenues and the Difference Payments received by the Operator that are equivalent to the payments which the Operator is required to make to the FDP Implementation Company in respect of the FAP as well as any amounts standing to the credit of the FDP Account. The parties to the NASTA (including the Security Trustee) expressly acknowledge that the Secretary of State has security over these protected	For the reasons set out, this has not had a material impact on the Board's assessment, other than requiring the Board to consider closely the financing enforcement proceeds waterfall and the relevant NASTA terms.

#	Subject	HPC	Sizewell C	Implications for the Board's assessment
			assets and that, notwithstanding any provision of the Common Security Documents or FDP Additional Security Documents, neither the Security Trustee nor any Secured Creditor has any security "whatsoever and howsoever" arising over the protected assets.	
10.	Intercreditor arrangements / standstill agreements	Given the HPC security package outlined in row 9 above, no intercreditor agreement was required in relation to the HPC FAP. However, the form of a standstill agreement with lenders was agreed to provide reassurance to lenders that, if certain "trigger events" occur that would normally give the Secretary of State the right to enforce their security, they will instead be required to "stand still" for a period of twelve (12) months, allowing lenders the opportunity to consider the situation and decide whether to rescue the project themselves. See the HPC Board Advice for more details. The Board's understanding as at the date of this Advice is that HPC has not yet secured any material debt financing.	The Security Trust and Intercreditor Agreement will be entered into by *inter alia* the Operator, PledgeCo, HoldCo, the Security Trustee, the FDP Implementation Company, and the secured creditors. The Security Trust and Intercreditor Agreement will contain the usual provisions to govern the relationship between the different secured creditors of the Operator, PledgeCo and HoldCo, including a Standstill Period. *See Annex 9 (Financing Arrangements)* for more details.	This is a relatively minor difference in substance, other than that the Security Trust and Intercreditor Agreement will include the financing enforcement proceeds waterfall which the Board has considered closely as noted in row 9 above.
11.	Enforcement rights	The HPC FundCo's rights to enforce the security in relation to which it is sole beneficiary for funded decommissioning plan contributions are effectively subject to the Secretary of State's decisions or	Following an automatic Standstill Period, the Secretary of State can enforce (or instruct the Security Trustee to enforce) the security, provided that such enforcement is permitted under the Security Trust and Intercreditor Agreement and a Non Contribution Trigger Event has	The difference here is not material given the equivalent restrictions in the HPC standstill agreement and the

#	Subject	HPC	Sizewell C	Implications for the Board's assessment
		actions and a standstill agreement if entered into, as noted in row 10 above. This included a 12 months' standstill period on the Secretary of State's right to enforce their security.	occurred. Similarly, subject to Standstill Period provisions, the FDP Implementation Company can enforce (or instruct the Security Trustee to enforce) the security, provided that the Secretary of State has taken an equivalent security enforcement action. Where the Standstill Period is ended early by vote of the Qualifying Secured Creditors, the Secretary of State may then take unilateral enforcement action (triggering payment of the Accelerated Decommissioning Contributions Amount).	Security Trust and Intercreditor Agreement.
12.	Proceeds of enforcement	The HPC FundCo receives all proceeds of enforcement of security to which it is sole beneficiary.	All proceeds of security enforcement must be applied in accordance with the post-enforcement waterfall, which prioritises payment of enforcement proceeds in respect of funding the Make Safe Reserve Account and Safety Critical Opex Reserve Account, followed immediately by payment of such proceeds in respect of funding the FDP Payments. This is a significant difference compared to HPC.	These priority payments meant that the Board had to closely consider the potential liability of the Operator for safety critical expenditure, the applicable "protected assets" regime in the 2008 Act, the protections provided in the GSP particularly the NASTA and the relevant terms of the SZC Economic Licence; on the other hand, the HPC Board

#	Subject	HPC	Sizewell C	Implications for the Board's assessment
				did not review the CfD and does not appear to have considered the protected assets regime.
Investment Strategy				
13.	Approach to risk	The HPC FundCo is not consulted in relation to investment strategy. The HPC FundCo is required to invest the funded decommissioning plan payments in accordance with the HPC Operator's instructions, which are given in accordance with the investment rules set out in the HPC FAP, which provide certain parameters for investing the fund assets. In particular, these investment rules required the progressive "de-risking" to be done from year 32 to year 37 (i.e. the last 5 years of the CfD tenor) so as to achieve the de-risked position (50% corporate bonds and 50% government securities) at year 37. See the HPC Board Advice for more details.	The FAP requires the FDP Implementation Company to prepare the Initial Investment Strategy and a revised Investment Strategy as part of each Quinquennial Review. The FDP Implementation Company is required to make investments in a suitably diverse portfolio of assets. During the first period (from First Criticality to two (2) years before FYE End of Primary Funding Period), the applicable investment principles are "risk on, return-seeking". During the second period (from two (2) years before FYE End of Primary Funding Period to three (3) years after FYE End of Primary Funding Period), the Investment Strategy should reflect a more balanced split between such "risk on, return-seeking" investment principles and the "de-risked and lower returning portfolio" (i.e. "Final Long Term Portfolio", with such "balanced split" being the "Initial Long Term Portfolio"). After this second period, there will be further de-risking so that the "Final Long Term Portfolio" is required at the SF Transfer Date. This de-risking to the Final Long Term Portfolio will occur from three (3) years after FYE End of Primary Funding Period to the SF Transfer Date (ie. mostly during the disbursement	The FDP Implementation Company's more active role and the more "risk on, return-seeking" investment strategy on Sizewell C meant the Board has closely considered whether these may expose the FDP Implementation Company to greater insolvency and/or regulatory risk compared to the HPC FundCo.

#	Subject	HPC	Sizewell C	Implications for the Board's assessment
			period); in other words, most of the de-risking will be done during the period when there is no RAB backing (albeit there may be flexibility for the FDP Implementation Company to de-risk earlier). This is different from HPC, where the de-risking is to be done during the last 5 years of the CfD tenor as summarised in the preceding column. *See Part B (Life Cycle of the FAP) of Annex 7 (Funded Decommissioning Programme)* for more details.	
14.	Investment Rules and implementation	There is no investment strategy referred to in the HPC FAP. Fund assets are invested in accordance with the HPC Operator's instructions, which are given in accordance with the investment rules in the HPC FAP, which provide certain parameters for investing the fund assets. Accordingly, the HPC Operator issues the investment orders, which are to be implemented by the HPC FundCo or an investment execution manager. The HPC FundCo has powers to review investment orders and consider whether the HPC FundCo is following the investment rules set out in the HPC FAP. Accordingly, the HPC FundCo may challenge an investment order from the	The FAP does not contain the full Investment Strategy; however, Schedule 7 (*Investment Rules*) to the FAP sets out the Investment Rules, which provide certain key requirements for the formulation of the Investment Strategy and parameters to which the Investment Strategy will need to adhere. The FDP Implementation Company is to prepare the first draft of the Investment Strategy by no later than nine months before the commencement of the Financial Period in which the First Criticality Payment Date is expected to occur. Subsequently, prior to the end of each Quinquennial Reporting Period, the FDP Implementation Company is required to deliver to the Operator a draft Investment Strategy and a statement setting out the reasons why it considers the draft Investment Strategy is consistent with the requirements of the Investment Rules. In particular, the Investment	The FDP Implementation Company's more active role in the investment process meant the Board has closely considered whether such active role may (i) expose the FDP Implementation Company to greater insolvency and/or regulatory risk compared to the HPC FundCo[1] and (ii) the capabilities of the members of the FDP

[1] **Note**: Given the passage of time since the HPC Board Advice, the Board has had the benefit of further materials, consultations and frameworks, particularly those developed in the pensions sector in relation to long term investments that would be relevant to the Investment Strategy of the FDP Implementation Company.

#	Subject	HPC	Sizewell C	Implications for the Board's assessment
		HPC Operator if implementing the order would constitute a prohibited practice (as set out in the investment rules).	Rules require the FDP Implementation Company to demonstrate how its proposed Investment Strategy is appropriate in light of "best practice for funding of long-term liabilities from a closed-end fund". The FDP Implementation Company is to issue Investment Orders to be implemented by an Investment Execution Manager. It is also required to ensure that all investments are undertaken in compliance with the Investment Rules and that all investments are made under Investment Orders (such that neither the FDP Implementation Company nor the Operator deal directly with the Fund assets). The Operator has powers to review Investment Orders and consider whether the FDP Implementation Company is following the Investment Rules. Accordingly, the Operator may prevent the FDP Implementation Company from making certain investments which the Operator considers (acting reasonably) constitute a prohibited practice (as set out in Schedule 7 (*Investment Rules*) to the FAP).	Implementation Company board, particularly in relation to investment expertise.
15.	Long-Term Discount Rate	The "Long Term Discount Rate" in the HPC FAP is defined as (a) before 30 June 2056, a fixed real rate of 1.5 per cent. per annum and (b) 20 Year Gilt Rate after 30 June 2056 (with some flexibilities to use an "Alternative Long Term Discount Rate" in certain circumstances).	The Long Term Discount Rate is defined as being equal to the expected return from the Investment Strategy. This in short means a higher Long Term Discount Rate compared to HPC (i.e., the rate on HPC is essentially at the gilt (risk-free) rate, whereas the rate on Sizewell C will be at the expected investment return based on a	The significantly higher Long Term Discount Rate on Sizewell C compared to HPC is one of the most material issues that the Board has considered in this

#	Subject	HPC	Sizewell C	Implications for the Board's assessment
		The Long Term Discount Rate is used to determine the End of Generation Target.	higher risk (and higher return) investment strategy compared to HPC).	Advice. See further discussion in paragraph 8.2(A) of the Main Report.
16.	Gearing covenant	The HPC FAP contained a gearing covenant which prevented the HPC Operator from paying dividends or borrowing further for so long as it exceeds its permitted gearing level.	There is no gearing covenant in the FAP. However, the Discontinuation and Compensation Agreement includes a "GSP Leverage Cap", which is not a gearing cap but nonetheless, operates to reduce the risk of the Operator being over-leveraged (see paragraph 2.4 (*Gearing restrictions*) of Part B (*Operator Insolvency*) of Annex 13 (*Insolvency Remoteness Analysis*)).	In light of the gearing provisions in the Discontinuation and Compensation Agreement and the backing of the FDP Allowance Building Block under the SZC Economic Licence (see row 1 above), the lack of a gearing covenant in the FAP has not been a material issue for the Board.