

ANNEX 5

RISK MATRIX IDENTIFYING KEY POTENTIAL RISKS TO SHORTFALL IN FUNDING FOR THE COST OF FDP LIABILITIES

This Annex sets out the key risks identified by the Board in relation to the FAP, together with the Board's analysis of mitigants and its assessment of the risk of a Funding Shortfall¹ due to each relevant risk event. The key risks have been categorised as follows by reference to type of risk:

1. **Risk Category A:** The End of Generation Target is insufficient to meet estimated DWMP costs (before post-closure inflation or investment return considerations).
2. **Risk Category B:** Period up to Plant closure: The Fund has not reached the End of Generation Target.
3. **Risk Category C:** Period post-closure: Having met the End of Generation Target at closure, the Fund is ultimately insufficient to meet all DWMP costs when required (and therefore further funding is required from the taxpayer).
4. **Risk Category D:** Post Nuclear Transfer to HMG.

The categorisation of risks has been made in light of the legislative background as set out in Annex 10 (*Legislative Background*), the Guidance and the Terms of Reference. The Board's analysis and assessment in this Annex have been made in accordance with its Terms of Reference, the FDP Assumptions and the parameters with respect to the Board's assessment of "remoteness" as discussed in paragraph 3 of Annex 10 (*Legislative Background*).

#	FAP Ref	Funding Shortfall Risk Event	Mitigation Analysis	Risk of Funding Shortfall
Risk Category A: The End of Generation Target is insufficient to meet estimated DWMP costs (before post-closure inflation or investment return considerations)				
A.1	Recital (A)(i)(iv), (C)(d)(ii); Clauses 20, 39	The End of Generation Target, as determined in accordance with the FAP and DWMP, is insufficient to meet the total decommissioning costs (assuming that post-closure investment returns are	<ul style="list-style-type: none"> • P80 Methodology: <ul style="list-style-type: none"> ○ The funding provision in the DWMP is equal to a derived (rather than statistical) P80 cost estimate plus a 25% contingency. The 25% contingency is applied in respect of pre-closure planning, decommissioning and fuel management costs, but is not applied to 	N/A on the basis that the Board is not to opine on the prudence of the P80 + 25% contingency

¹ **Note:** As defined in Annex 21 (*Definitions*), a Funding Shortfall means the Fund Assets being insufficient to meet the costs in relation to the Technical Matters.

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		sufficient to meet the impact of cost inflation).	<p>estimates of ILW disposal and Spent Fuel disposal because the Operator's costs in respect of ILW disposal and Spent Fuel disposal are determined pursuant to the terms of the Waste Transfer Contracts with the Secretary of State. Please refer to Annex 17 (<i>P80 Methodology</i>) for further analysis.</p> <ul style="list-style-type: none"> ○ The Quinquennial Review Process is intended to modify the approach to calculation of the derived P80 value and this is contemplated in the explanatory notes to paragraph 1.4 of schedule 9 (<i>Quinquennial Review Programme</i>) of the FAP, noting that the FAP requires calculation of an appropriate P value to be derived from a probability distribution produced by a statistical model on and from the first Quinquennial Review. The scope of possible modifications to the P80 calculation methodology is not clearly defined and changes may result in a material impact on DWMP cost estimates. See paragraph 3 of Annex 17 (<i>P80 Methodology</i>) for a further discussion on how the P80 value will be calculated for Sizewell C. ● Periodic Review: The Board notes that the P80 + 25% contingency only models costs to the extent that these are captured within the DWMP, and there is therefore a risk that not all Costs of Decommissioning and Costs of Spent Fuel Management are captured in the DWMP. In mitigation of this risk, the DWMP and Funding Path (which includes the End of Generation Target) are reviewed every five (5) years prior to Plant closure in accordance with Schedule 9 (<i>Quinquennial Review Programme</i>) of the FAP to adjust for evolving parameters that would impact decommissioning costs during the Operational Period. ● Terms of Reference: Paragraph 17 of the Terms of Reference requires the Board (i) to assume that the Secretary of State is satisfied with the terms of the DWMP and (ii) not to advise in relation to the DWMP. The Board has also been instructed to assume that the P80 + 25% contingency costing in the DWMP is prudent in the opinion of the Secretary of State (please refer to paragraph 5(B) of Annex 3 (<i>Assumptions</i>)). The Secretary of State should satisfy themselves on the basis of separate advice in relation to this assumption. 	costing in the DWMP pursuant to the FDP Assumptions

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			<ul style="list-style-type: none"> • NDA Review: The NDA has considered the DWMP in the NDA Report and the NDA Letter and has concluded that the DWMP is consistent with the Guidance and contains realistic, clearly defined and achievable plans for decommissioning and waste management with any technology or gaps identified. The Board has relied solely on the NDA's review of the DWMP in relation to this issue (see Annex 15 (<i>Decommissioning and Waste Management Plan (DWMP) Analysis</i>)). • Independent Financial Verification <ul style="list-style-type: none"> ○ Certain key determinations relevant to Fund Contribution levels and the End of Generation Target in accordance with the FAP are to be verified by the "Independent Financial Verifier", which the Board understands is intended to be a professional services firm with expertise in providing institutional investment advice. However, in some cases (for example the determination of the Funding Path at each Quinquennial Review) the same Independent Financial Verifier is also responsible for those determinations, raising concerns as to the impartiality of its independent verification process. ○ After extensive discussions with DESNZ in relation to this concern, the Board understands that DESNZ is comfortable with the approach to financial verification on the basis that the determination in question is anticipated to be a straightforward process capable of being verified by a suitably qualified professional (irrespective of whether the same institution has prepared the underlying documentation to be verified). See also row 2.5 (<i>Verification</i>) of Annex 6 (<i>Guidance Analysis</i>). 	
A.2	Section G	The DWMP is modified during the Operational Period resulting in an increase to decommissioning and/or waste management costs.	<ul style="list-style-type: none"> • DWMP Review under the FAP: Quinquennial Reviews of the DWMP and Funding Path mitigate the risks arising from a higher cost of decommissioning and fuel management strategy being identified pre-Plant closure (where a sufficient Spreading Period remains – see further below). Increases (or decreases) in the estimated cost of delivering the DWMP (including risk allowances at P80 + 25%) will result in an increase (or 	<p>The residual risks of Funding Shortfall remaining in this row A.2 are:</p> <p>(1) Where an increase in the Costs of</p>

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			<p>decrease) in the End of Generation Target and a commensurate increase (or decrease) in the Contributions.</p> <ul style="list-style-type: none"> In addition, the Costs of Spent Fuel Disposal and Costs of ILW Disposal used in the calculation of the End of Generation Target will respond to the final Waste Transfer Price determined under the Waste Transfer Contracts (through limb (c) of the definitions of SF Transfer Price and ILW Transfer Price respectively) in order to ensure that the DWMP and End of Generation Target are updated to reflect the Waste Transfer Price determined under the Waste Transfer Contracts. This is further discussed in row C.7 below. RAB support: The FDP Allowance Building Block within the SZC Economic Licence is variably sized to cover amounts owed to the FDP Implementation Company in accordance with any Approved Contributions Notice. Therefore, increased Contributions would continue to be covered by the FDP Allowance Building Block provided the relevant Contribution Notices are approved by Secretary of State and otherwise prepared and submitted in accordance with the FDP prior to the final Quinquennial Review scheduled to be held during the Initial Regulatory Period of the SZC Economic Licence in the Financial Period following FYE EPFP + 3 (which should be year 58 from First Criticality). Despite the Quinquennial Review process as noted above, if there is an increase in the Costs of Decommissioning occurring very late in the Secondary Funding Period, there is <i>prima facie</i> a risk of losing the RAB support given the SZC Economic Licence is expressed to expire at the end of the Regulatory Period (generally at year 60 from First Criticality). This risk is well-mitigated because where there is an FDP Shortfall outstanding, any expiry of the SZC Economic Licence at the end of the Regulatory Period is suspended, and any such expiry will be limited to a Partial Revocation (see the summary of the Partial Revocation regime in paragraph 4 of Annex 11 (<i>SZC Economic Licence</i>)).² The remaining risk is that the FAP itself will need to respond to this at the relevant point, and if this were to occur post FYE EPFP + 3 (year 58 following First Criticality), the FAP would likely need to be modified (as there would be no further Quinquennial Reviews during the 	<p>Decommissioning occurs following FYE EPFP + 3 (i.e. year 58), there will be no more Quinquennial Reviews to recalibrate the Funding Path, meaning that the FAP will likely need to be modified; and</p> <p>(2) Where an increase in the Costs of Decommissioning occurs towards the end of the life of the Plant, it may be that a substantial increase in the FDP Allowance Building Block at this point to fund any FDP Shortfall during the relatively short period of time left is politically unpalatable.</p> <p>The likelihood of the event identified in (1) above occurring in the last</p>

² **Note:** The Board notes that this clarification was made upon the Board's recommendation – see paragraph 3.5(l) of Annex 2 (*The Board's Role and Scrutiny of the FAP*).

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			<p>Secondary Funding Period that can respond). The Board notes that pursuant to the Section 46 Agreement, changes to estimates of DTM Costs is a "Foreseen Event", meaning that FDP modification at the relevant time may not be a viable path in relation to this risk in the absence of an Unplanned Permanent Shutdown. Nevertheless, the Operator, DESNZ and the Secretary of State may cooperate in such an event to modify the FAP so that it responds to the relevant cost increase and the consequent longer funding profile.</p> <ul style="list-style-type: none"> Another significant risk is political in nature. A significant increase in the Costs of Decommissioning towards the end of the Operational Period may result in relatively large lump sum Contributions given there would be insufficient time to smooth out the increased payments (and these would in all likelihood be required to be passed on to consumers). There is a risk that a substantial increase in the FDP Allowance Building Block in these circumstances may be politically unpalatable such that the Secretary of State "otherwise" directs" (e.g. to limit the quantum of the FDP Allowance Building Block) or pays the FDP Final Amount from public funds. This is, however, within the Secretary of State's control. 	<p>two years of the Plant's life is not negligible. The Board however considers the risk of Funding Shortfall caused by such event to be remote given the regular recalibrations throughout the life of the Plant up to that point, the HPC replication strategy which will give Sizewell C the benefit of the HPC DWMP towards the end of HPC's life.</p> <p>The risk in (2) above is within the control of the Secretary of State.</p>
Risk Category B: Period up to Plant closure: The Fund has not reached the End of Generation Target				
B.1	Clause 31.1; Schedule 21	<p>The Operator has insufficient funds to meet:</p> <ul style="list-style-type: none"> Safety Critical Expenditure (or funds are drawn to pay Safety Critical Expenditure not included in the original provision, such as by way of Emergency DTM Payments); and the Contributions, 	<ul style="list-style-type: none"> RAB coverage: The Allowed Revenue is calculated in the first instance, and explicitly, to meet all of the Operator's costs including Safety Critical Expenditure and Contributions (pursuant to the Opex Building Block and Totex Building Block (as applicable)). The Board understands that DESNZ is comfortable that the Totex Building Block and the relevant reserving requirements should be more than sufficient to cover Safety Critical Expenditure, thus making it unnecessary for any part of the FDP Allowance Building Block to be applied to Safety 	<p>The residual risks of Funding Shortfall remaining in this row B.1 are:</p> <p>(1) Significant Safety Critical Expenditure being</p>

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		<p>such that there is a Funding Shortfall, considering that:</p> <ul style="list-style-type: none"> Safety Critical Expenditure is broadly defined (please refer to Annex 16 (<i>Safety Critical Expenditure</i>)) and ranks ahead of payments to the FDP Implementation Company in the contractual waterfall in the Finance Documents and in accordance with clause 31.1 (<i>Payments in relation to Safety Critical Expenditure</i>) of the FAP; and the Operator may draw on the Fund Assets by requiring Emergency DTM Payments from the FDP Implementation Company in respect of Safety Critical Expenditure incurred following a Shutdown Notice where operational revenues, any liquidity support and reserves are insufficient in accordance with clause 38.2 (<i>Drawdown of funds prior to the Actual Decommissioning Start Date</i>) of the FAP. <p>The risk is particularly acute later in the life of the Plant. For example, unforeseen issues relating to safety may arise towards the end of the Plant's life (or after closure of the Plant), which could result in an extension in the time taken to shut down</p>	<p>Critical Expenditure. If this is correct, clause 31.1 (<i>Payments in relation to Safety Critical Expenditure</i>) of the FAP may be effectively redundant, though this is not in itself an issue that would materially impact the prudence of the FAP.</p> <ul style="list-style-type: none"> In addition, the terms of Special Condition 13 (<i>Funded Decommissioning Programme</i>) of the SZC Economic Licence essentially require the FDP Allowance Building Block to be used only for the purposes of paying amounts owed to the FDP Implementation Company pursuant to a Contributions Notice. As such, the terms of the SZC Economic Licence do not allow the Operator to apply the FDP Allowance Building Block to payment of Safety Critical Expenditure. In any event, the Board expects the Operator will prioritise its compliance with the FAP (and therefore prioritise its compliance with clause 31.1 (<i>Payments in relation to Safety Critical Expenditure</i>) of the FAP over Special Condition 13 (<i>Funded Decommissioning Programme</i>) of the SZC Economic Licence). Reserve for Safety Critical Expenditure: Pursuant to the SZC Economic Licence, the Operator is required to maintain a reserve to fund safety critical operating expenses in the Safety Critical Opex Reserve Account.³ As discussed in paragraph 2 of Annex 16 (<i>Safety Critical Expenditure</i>), the Board expects such reserve to be sufficient to discharge one month's Safety Critical Expenditure. Quinquennial Review Process: If the Operator applies revenues attributable to the FDP Allowance Building Block to meet Safety Critical Expenditure in priority to making Contributions in accordance with clause 31.1 (<i>Payments in relation to Safety Critical Expenditure</i>) of the FAP, the Quinquennial Review Process will use the actual value of the Fund Assets at the next review and will therefore adjust for any unpaid Contributions through payment of Correction Contributions over the next Spreading Period (which will be matched by a corresponding increase in the FDP Allowance Building Block). This protection will however only continue up to the last Quinquennial Review during the Operational Period, given such 	<p>incurred after year 58, such that the Quinquennial Review process is unable to pick up any deficit in the Fund Assets caused by any Safety Critical Expenditure previously funded by the FDP Allowance Building Block; and</p> <p>(2) Emergency DTM Payments being drawn following a Shutdown Notice and after the modification of the FAP to take account of the early closure of the Plant.</p>

³ **Note:** See paragraph 2 of Annex 16 (*Safety Critical Expenditure*). As noted therein, whilst it is not fully clear, the Board has assumed that the make safe reserve requirement in the Finance Documents will be one and the same as the "safety critical opex reserve" requirement in the SZC Economic Licence.

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		and/or decommission the Plant, thereby increasing Safety Critical Expenditure.	<p>adjustments via the Quinquennial Review will no longer be made after then and Correction Contributions (and any backing by way of the FDP Allowance Building Block) will cease at the end of the Operational Period. Therefore, ultimately the only residual risk not addressed by this Quinquennial Review process is that the actual Safety Critical Expenditure incurred after the last Quinquennial Review during the Operational Period (i.e. after FYE EPFP + 3, which should be year 58 from First Criticality) exceeds the estimated expenditure determined at the Quinquennial Review.</p> <ul style="list-style-type: none"> • Emergency DTM Payments: Prima facie, the drawing on the Fund Assets to make Emergency DTM Payments in respect of Safety Critical Expenditure could result in a real shortfall in the Fund Assets for decommissioning and waste management costs. However, the Board considers the risk of shortfall to be well-mitigated for the following reasons. • The Emergency DTM Payments may only be drawn during the period between the point at which the Operator issues a Shutdown Notice (i.e. either an Unplanned Permanent Shutdown or a Single Reactor Early Shutdown) and the Actual Decommissioning Start Date. The Shutdown Notice is to be issued when the Operator becomes aware that a shutdown is likely to occur, which could be before or at the time of shutdown. • Following a Shutdown Notice, the Safety Critical Expenditure are funded first from operational revenues, second from reserves and third from Emergency DTM Payments. In other words, the Safety Critical Expenditure must exceed operational revenues and reserves in order for the Emergency DTM Payments to be utilised. • Emergency DTM Payments can only be requested by the Operator for up to two financial periods (i.e. two annual periods) following the Shutdown Notice, and not all at once the Actual Decommissioning Start Date has occurred (which is essentially the date when the Operator and the Secretary of State agree the reactor is permanently shut down). The Board understands that the maximum amount that would be drawn as Emergency DTM Payments would be £90 million per year (or £180 million in total). As noted in paragraph 4 of Annex 16 (<i>Safety Critical Expenditure</i>), the Board considers that this amount seems a relatively small amount compared to 	<p>The Board considers the risk in (1) to be remote. This is because of the protections provided by the reserves, the Opex Building Block, the Totex Building Block, periodic recalibrations by way of the Quinquennial Review process until year 58 and the HPC replication strategy which would likely provide an early warning to Sizewell C with respect to any unexpected Safety Critical Expenditure towards the end of the Plant's life.</p> <p>The Board also considers the risk in (2) to be remote given the low likelihood of an</p>

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			<p>the expected size of the Fund Assets (unless the closure of the Plant occurs very early in its life).</p> <ul style="list-style-type: none"> As per clause 33 of the FAP and SC 13(23) of the Economic Licence, the Operator is to propose a modification to the FDP (being the FAP and the DWMP) in an early closure scenario. As indicated in row B.6 below, SC12(6) of the SZC Economic Licence then provides that the Authority may only issue a "Revocation Notice" implementing a Partial Revocation following the determination of the FDP Final Amount (i.e. the amount to be funded by the FDP Allowance Building Block during the Partial Revocation Period), which in turn can only be determined once the FDP has been modified and approved by the Secretary of State. The Allowed Revenue continues to be calculated and paid in full as long as the SZC Economic Licence is in effect and the Partial Revocation has not yet been implemented (as per SC 24, 30 and 48). Following modification and update of the DWMP, the FDP Shortfall will be calculated ahead of the Partial Revocation of the SZC Economic Licence, noting that the FDP Shortfall will take account of (i) the Fund Assets at the point of the calculation (therefore taking account of any prior drawdowns of Emergency DTM Payments) and (ii) the revised future costs of the DWMP. Therefore, to the extent the Emergency DTM Payments are drawn prior to this modification of the FDP, the amounts so drawn will have been accounted for in the FDP modification (and therefore captured by the FDP Final Amount and funded by the RAB payments). In that case, the drawing on the Fund Assets to make Emergency DTM Payments will not result in a Funding Shortfall. The only gap is where such Emergency DTM Payments are drawn after the modification of the FDP, such amounts drawn will not be included in the FDP Final Amount (and therefore not funded by the FDP Allowance Building Block). This would only occur if the modified DWMP does not include such costs. Given the P80 + 25% contingency built into the DWMP costing and that the DWMP will be modified at the relevant time to take account of the early closure, the likelihood of the Emergency DTM Payments being drawn in this way seems remote. 	<p>early shutdown, the expected quantum of such Emergency DTM Payments, the likely process of the FDP modification post-closure and the other protections already noted with respect to the risk in (1) above.</p>

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			<ul style="list-style-type: none"> This view is supported by the expectation that the modification of the FDP post-closure will likely be a lengthy and comprehensive process, which would presumably carefully consider all relevant factors including the possibility of additional Safety Critical Expenditure being required in relation to the decommissioning of the Plant and any learnings from HPC and other EPR stations that are older than Sizewell C. See also paragraph 4 of Annex 16 (<i>Safety Critical Expenditure</i>). For completeness, the Board notes that it had recommended that the Emergency DTM Payments concept should either be removed from the FAP or that the SZC Economic Licence should be amended to ensure the FDP Final Amount includes such Emergency DTM Payments. This recommendation was not accepted by DESNZ and the Operator; however, as noted above, the Board ultimately considers the relevant risk as unlikely to occur. Regulatory Change or SZC Economic Licence Modification: A risk of shortfall in payment of the Contributions could arise where a regulatory change or modification to the SZC Economic Licence requires additional amounts to be reserved for or applied to Safety Critical Expenditure (beyond what is provided for in the in the Allowed Revenue). This risk is, however, well mitigated – see row B.8 for further information. 	
B.2	General	Funding shortfall at the Revenue Collection Counterparty or another issue with the Revenue Collection Counterparty paying the Operator which results in the Operator not receiving all or part of any Allowed Revenue.	<ul style="list-style-type: none"> FAP Provisions: Clause 47.3.2(a) (<i>Compliance Events not causing breach</i>) of the FAP provides that there will not be a payment breach under the FAP where the Operator fails to fund the FDP Implementation Company due to a failure by the Revenue Collection Counterparty to pay amounts under the Revenue Collection Contract. The analysis here should consider the potential frequency, duration and quantum of such failure by the Revenue Collection Counterparty. This risk is mitigated on the basis that (i) payments to the FDP Implementation Company rank second in seniority in the payments waterfall (and therefore any shortfall in Revenue Collection Counterparty collection would only have an impact if it were significant, especially noting that during the Operational Period, the Operator should have significant income from the market revenue), and (ii) any such shortfall is likely to be short-lived and therefore, the FAP construct will automatically 	N/A on the basis of the FDP Assumptions

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			<p>provide for temporary shortfalls in Contributions to be recovered over future quinquennial periods.</p> <ul style="list-style-type: none"> • FDP Assumptions: The FDP Assumptions state that the Difference Payments shall be made to or by the Operator under the Revenue Collection Contract with the Revenue Collection Counterparty. As such, the FDP Assumptions require the Board to assume that there will never be any revenue collection risks, or that if they do occur, the missed payments will be subsequently recovered. The Secretary of State should satisfy himself on the basis of separate advice in relation to this assumption 	
		<p>Negative pricing event means that the Operator incurs a loss by selling power under its route-to-market PPA(s) and the Difference Payment does not cover such loss.</p>	<ul style="list-style-type: none"> • FDP Assumptions: The FDP Assumptions define Difference Payments as the difference between revenue the Operator “earns” from the sale of power to the market and its Allowed Revenues. As such, the FDP Assumptions require the Board to assume that the Operator will, subject to the Revenue Support Cap, always receive its Allowed Revenue (either through the revenue it receives (e.g., electricity revenue) or, where such revenue is forecast to be less than the Allowed Revenue amount, by a top-up to Allowed Revenue provided by the Difference Payments). • SZC Economic Licence: Difference Payment under the SZC Economic Licence is effectively defined as the difference between the revenue the Operator earns from the Actual Market Revenue and its Allowed Revenues (Special Condition 25 (<i>Difference Payments</i>)). It is possible to read the definition of this “Actual Market Revenue” as meaning that it only includes revenues “received” by the Operator for the sale of its electrical output (rather than accounting for net revenues after any amounts paid by the Operator for such electrical output), such that the definition of Difference Payment effectively disregards any negative price paid by the Operator for selling power. Although the revenue is looked at over the whole Charging Year, any period of negative pricing would result in cash outflows from the Operator such that its effective net revenue (after deducting the negative price paid) would be lower than the amount of revenue “received” for the purposes of the definition of Actual Market Revenue, resulting in a lower Difference Payment than actually required. However, this should not be an issue provided that any costs of negative pricing paid by the Operator are allowed to be included in the Totex Building Block in accordance with 	<p>N/A on the basis of the FDP Assumptions</p>

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			Special Condition 54 (<i>Totex Building Block</i>) of the SZC Economic Licence. Also, the Board understands the Operator is likely to be trading season ahead, such that a significant negative pricing impacting the Operator's revenues should be unlikely. As such, the Board considers that the likelihood of this risk event resulting in a Funding Shortfall is remote.	
		Where payments are based on a market reference price (not the actual market price Sizewell C achieves), there is a risk of there being a difference between the reference price payment and the actual payment.	<ul style="list-style-type: none"> • Market Price Adjustment: The structure of the Market Price Adjustment Building Block in Special Condition 55 (<i>Market Price Adjustment Building Block</i>) of the SZC Economic Licence financially incentivises the Operator to capture the applicable Reference Price (the baseload market reference price calculated by EMR Settlements Limited or such other reference specified by the Authority in accordance with the SZC Economic Licence). This incentive works by sharing any under/out-performance between the average price achieved and the Applicable Reference Price. However, the aggregate impact of the incentive (together with the totex incentive) is capped at +/-150 basis points on the Operator's return on equity (i.e., ODI Incentive Cap / ODI Incentive Floor). There is also a revenue floor provided through the Operational Incentives Adjustment which effectively ensures that the Operator will, subject to the Revenue Support Cap (which the Board understands from DESNZ has been calibrated to provide a significant level of support based on benchmarking analysis against comparable reactors – see row B.10 below), receive at least 75% of its Allowed Revenue (disregarding any revenue support amounts) in a year. 	In the Board's opinion, the risk identified in this row B.2 in respect of such difference between the Indexed payment and the actual payment is remote. This is on the basis that the impact of the Market Price Adjustment Building Block is bounded and subject to the OIA Floor.
B.3	General	Breach of the FDP including failure by the Operator to submit an Approved Contributions Notice to the Authority or pay the FDP Implementation Company.	<ul style="list-style-type: none"> • Consequences of Operator Failure to comply with the FDP <ul style="list-style-type: none"> ○ Failure to comply with the FDP is a criminal offence under Section 57 of the 2008 Act. Further, pursuant to Section 58 of the 2008 Act, the Secretary of State may direct the Operator when it is in breach of the FDP to take steps which the Secretary of State considers necessary to comply with the obligation or remedy the effects of the unlawful conduct. ○ A failure by the Operator to pay the FDP Implementation Company would be an event of default under the Finance Documents while the financing is in place. 	<p>The residual risks of Funding Shortfall remaining in this row B.3 are:</p> <p>(1) the risk that the Operator breaches the FDP for any reason even where such breach is not</p>

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			<ul style="list-style-type: none"> ○ If the Operator fails to submit an Approved Contributions Notice to the Authority prior to 1 November of the relevant Charging Year (other than where there is a dispute under the FAP or delay due to the length of the Quinquennial Review) the Annual Contribution (used to calculate the FDP Allowance Building Block) shall be deemed to be zero (0). In addition to criminal liability for breach of the FAP, as identified above, failure to provide an Approved Contributions Notice would also constitute a "Process Initiation Right" under clause 6.1.5 of the Section 46 Agreement which, if unremedied, would enable the Secretary of State to propose modifications to the FDP in order to address the failure. • Exclusions under the FAP <ul style="list-style-type: none"> ○ Clauses 2.4 (<i>The First Criticality Payment and Payment of Contributions</i>) and 47.3.2 (<i>Compliance Events not causing breach</i>) of the FAP operate to provide limited circumstances where the Operator will not be in breach of the FAP for failing to fund the FDP Implementation Company. These circumstances are as follows: <ul style="list-style-type: none"> (a) any failure by the Revenue Collection Counterparty to pay amounts under the Revenue Collection Contract; (b) a continuing payment default by the Secretary of State under clause 5.6 of the NASTA; or (c) non-payment or reduced payment to the Operator under the Revenue Collection Contract which arises as a result of the operation of the pay when paid mechanism implemented under the 2022 Act due to a systematic failure of the electricity market. ○ As such, it is possible that the Operator may fail to pay the FDP Implementation Company whilst not being in breach of the FDP. To mitigate against this risk, clause 2.4 (<i>The First Criticality Payment and Payment of Contributions</i>) of the FAP includes a catch-up mechanic which requires the Operator to pay the FDP Implementation Company 	<p>excused by the terms of the FAP; and</p> <p>(2) the risk that clause 47.3.2 of the FAP operates to excuse the Operator's failure to fund the FDP Implementation Company,</p> <p>in each case, to the extent that such failure causes a Funding Shortfall.</p> <p>The Board considers the risk in (1) above to be remote, on the basis of criminal liability for breach and process initiation right under the Section 46 Agreement.</p> <p>The Board also considers the risk in (2) above to be</p>

#	FAP Ref	Funding Shortfall Risk Event	Mitigation Analysis	Risk of Funding Shortfall
			<p>the amounts of any Contributions delayed due to the lack of receipts (as per the example of the Revenue Collection Counterparty above) upon the Operator receiving such delayed receipts. This is further mitigated by the Quinquennial Review Process which will use the actual value of the Fund Assets and therefore adjust for any unpaid Contributions through payment of Correction Contributions over the next Spreading Period.</p> <ul style="list-style-type: none"> ○ In any event, paragraphs (a) and (c) above are covered by the FDP Assumptions as already noted in row B.2 above. Paragraph (b) above is within the control of the Secretary of State. 	<p>remote, on the basis that the FAP contains various catch-up and correction mechanisms to make up for any such failure to fund, and that the circumstances set out in clause 47.3.2 of the FAP are either covered by the FDP Assumptions (such that the Board is not expressing a view on the likelihood of their occurrence) or within the control of the Secretary of State.</p>
B.4	Schedules 3, 7 and 9	Investment returns prior to Plant closure are lower than expected and Fund Assets do not grow to match the End of Generation Target. Causes include rising DWMP estimates, higher DWMP cost inflation expectations and/or investment returns are lower than expected when setting Contributions.	<ul style="list-style-type: none"> • Expected inflation of the DWMP costs is taken into account prior to Plant closure in the calculation of the End of Generation Decommissioning Target and updated at each Quinquennial Review. The updated forecasts (in current money values) of Costs of Decommissioning and waste and spent fuel management are inflated at a rate allowing for the forecast Nuclear Inflation Premium and accumulated on an annual compound basis to the Financial Period in which the cost is expected to be incurred to determine the End of Generation Decommissioning Target and the End of Generation Management Target. The End of Generation ILW Disposal Target and the End of Generation Spent Fuel Disposal Target are similarly updated, although in these cases the Nuclear Inflation Premium is not applicable due to the way the transfer payments liabilities are calculated under the WTCs. Further, the FDP Allowance Building Block amounts are updated 	<p>The Board considers that the residual risk of a Funding Shortfall identified in this row B.4 is low on the basis of the FDP Allowance Building Block in the SZC Economic Licence and the review process in the FAP, with any residual</p>

#	FAP Ref	Funding Shortfall Risk Event	Mitigation Analysis	Risk of Funding Shortfall
			<p>periodically through the Quinquennial Reviews up to the end of the Secondary Funding Period.</p> <ul style="list-style-type: none"> The SZC Economic Licence and FAP structure provide for full compensation (through increased FDP Allowance Building Block) for changing inflation expectations up until the final Quinquennial Review during the Operational Period. The risk on investment returns is mitigated through the ability to adjust the Contributions and the FDP Allowance Building Block at each Quinquennial Review to compensate for investment returns being below expectation (note that this only applies until the last Quinquennial Review following FYE EPFP + 3 during the Secondary Funding Period). As such, similar to the risks described in row B.1 above, there remains a risk that the investment returns are lower than anticipated in the last Quinquennial Review during the Operational Period (i.e. such shortfall occurring after FYE EPFP + 3, which should be year 58 from First Criticality), such that there is a Funding Shortfall. This is somewhat mitigated by the gradual de-risking of the investment fund prior to this date and should be viewed in light of the continuing investment risk after year 60 (i.e. meeting the end of generation funding target does not guarantee sufficiency of funds when required to meet the DWMP liabilities because the fund will continue to be exposed to a degree of investment risk and volatility after that date). The risk of such lower investment returns post-Plant closure is discussed in row C.5 below. There is also a potential risk that a substantial increase in the FDP Allowance Building Block, and the consequent impact on end consumers, may be politically unpalatable such that the Secretary of State and the Authority seek to amend the SZC Economic Licence to limit the quantum of the FDP Allowance Building Block. This is, however, within the Secretary of State's control, and is additionally mitigated by the requirement (under the current legislative regime) for the Authority to act in accordance with its statutory duties (in particular, the need to secure that licence holders are able to finance their relevant activities) when seeking a modification to the SZC Economic Licence and the Operator's ability to appeal a decision by 	<p>risk being within the control of the Secretary of State.</p> <p>The Board refers to row C.5 below with respect to the risk of investment returns after the last Quinquennial Review during the Operational Period.</p>

#	FAP Ref	Funding Shortfall Risk Event	Mitigation Analysis	Risk of Funding Shortfall
			the Authority to modify the SZC Economic Licence to the Competition and Markets Authority, including on the basis that it has failed to have due regard to the relevant matters (such as financeability) to which it must have regard when making a licence modification decision.	
B.5	Clauses 62.1, 62, 63, 64, 65 Schedule 21	<p>FDP Implementation Company / Operator Insolvency:</p> <p>Pursuant to Guiding Factor 7(d), the FDP should set out a fund structure that is “insolvency remote”. Insolvency remoteness in the Guidance is construed as meaning that (a) the prospects of the FDP Implementation Company becoming insolvent are remote and (b) the Fund Assets must be protected from the Operator’s creditors in the event the Operator (or an associated company) goes insolvent.</p>	<ul style="list-style-type: none"> The Board has conducted a detailed assessment of the criteria it has considered for determining whether (i) the prospects of the FDP Implementation Company becoming insolvent are remote; and (ii) the Fund Assets are protected in the event of the Operator’s insolvency – see further analysis in Annex 13 (<i>Insolvency Remoteness Analysis</i>). The Board received analysis from Ernst & Young via an email from DESNZ on 10 September 2024 confirming that the FDP Implementation Company should never owe more to the Operator than can be recovered by selling / liquidating the investments and as such, from an accounting perspective, it can never be “balance sheet” insolvent due to the decommissioning liabilities owed to the Operator. 	The risk of Funding Shortfall from this event is remote for the reasons set out in Annex 13 (<i>Insolvency Remoteness Analysis</i>).
B.6	General	<p>Early Closure: Permanent Plant Shutdown</p> <ul style="list-style-type: none"> Discontinuation following a request by the Operator on the occurrence of a: <ul style="list-style-type: none"> Political Shutdown Event; National Security Shutdown Event; Insurance Shutdown Event; Nationalisation Event; or SoS Failure Event. 	<ul style="list-style-type: none"> Orderly shutdown <ul style="list-style-type: none"> If the early closure date is identified well in advance: <ol style="list-style-type: none"> the FAP will be modified to require increase in the Contributions such that the target Fund Assets Value is re-calculated to ensure that the expected DWMP costs are fully funded by the revised FYE End of Generation (clause 33.1.2 (<i>Early Permanent Shutdown Decision and Partial Revocation</i>) of the FAP).⁴ A substantial increase in Contributions would create some political risk that imposition of the increased Contributions on end consumers are deemed politically unacceptable at the time, although this would be within the control of the Secretary of State; 	The Board considers that the risk of early closure events discussed in this row B.6 occurring to cause a Funding Shortfall is remote, on the basis of the Partial Revocation process under the SZC Economic Licence, Nuclear Administration and

⁴ **Note:** Early closure immediately triggers review of the Contributions; however, note that there may be a time lag on the increase in payments to allow for the modification process.

#	FAP Ref	Funding Shortfall Risk Event	Mitigation Analysis	Risk of Funding Shortfall
		<ul style="list-style-type: none"> HMG exercises right to Discontinue where: <ul style="list-style-type: none"> supplemental compensation provided under the Supplemental Compensation Agreement is greater than the Discontinuation Trigger Threshold; supplemental compensation is provided under the Supplemental Compensation Agreement in event of a Significant Unavailability Event; predicted construction cost overrun, in various circumstances; or in circumstances of an overrun, HMG, taking into consideration their obligations under section 6(4) of the 2022 Act, acting in its statutory capacity, no longer assesses that the support provided by consumers under the SZC Economic Licence and the Revenue Collection Contract provides value for money and (following consultation with the Authority and the ONR) concludes that to Discontinue 	<ol style="list-style-type: none"> the FAP may be amended to adjust the Investment Strategy such that investment risk is consistent with the reduced period of FDP Contributions; the economic regime will continue until shutdown (or beyond if needed to make up the FDP Shortfall); and the FDP Allowance Building Block will adjust to match the revised Contributions, <p>and, therefore, the FDP should be fully funded. See further consideration of the Partial Revocation regime below.</p> <ul style="list-style-type: none"> Disorderly shutdown <ul style="list-style-type: none"> If the shutdown is immediate or with short notice, there is likely to be an FDP Shortfall which would be covered by the FDP Final Amount. This could then be recovered pursuant to the Partial Revocation regime under the SZC Economic Licence⁵ – see further consideration of the Partial Revocation regime below. Should the Secretary of State exercise their discretion under the SZC Economic Licence to otherwise permit full revocation prior to the payment of the FDP Final Amount, then this amount would become a Secretary of State liability pursuant to the NASTA (but that decision is in the control of the SoS). Partial Revocation under the SZC Economic Licence <ul style="list-style-type: none"> In the event of Discontinuation, if there is an FDP Shortfall, the Authority will be entitled to Partially Revoke the SZC Economic Licence pursuant to Special Condition 12 (<i>Revocation</i>) in accordance with the Partial Revocation regime as described in paragraph 4 of Annex 11 (<i>SZC Economic Licence</i>). 	Nuclear Transfer Scheme and FAP modification process followed by the FDP Allowance Building Block adjustments, with any residual risk within the control of the Secretary of State.

⁵ **Note:** This is other than potentially to the extent that any Safety Critical Expenditure is drawn from the Fund Assets including by way of Emergency DTM Payments, as discussed in row B.1 above.

#	FAP Ref	Funding Shortfall Risk Event	Mitigation Analysis	Risk of Funding Shortfall
		<p>is the most appropriate course of action in the circumstances.</p> <p>Unplanned Permanent Shutdown</p> <ul style="list-style-type: none"> The Operator considers both Reactors will Permanently Cease to Generate Electricity 	<ul style="list-style-type: none"> On receipt of the Partial Revocation notice, the Operator must propose a modification to the FDP and the Funding Path to ensure there is no FDP Shortfall at the end of the Partial Revocation Period. The Partial Revocation Period may only take effect once the FDP modification has taken place, which limits the risk of an unsuccessful or delayed modification process (as the full Allowed Revenue will remain payable prior to the Partial Revocation taking effect). The Partial Revocation regime is subject to the Secretary of State's right to elect for the FDP Shortfall and any FDP Implementation Company costs to be funded by taxpayers pursuant to the NASTA.⁶ Nuclear Administration: <ul style="list-style-type: none"> Post-shutdown and on determination of Discontinuation: <ol style="list-style-type: none"> The Lenders and the shareholders are paid predetermined compensation (c. RAB in aggregate) under the Discontinuation and Compensation Agreement if the Discontinuation trigger occurred prior to the occurrence (or likelihood) of an Insolvency Event occurring. Such compensation will not be available to the FDP Implementation Company pursuant to the post-Discontinuation waterfall set out in the Financing Heads of Terms; and The Operator and/or Operator's assets shall transfer to HMG ownership pursuant to the NTS. <p>Pursuant to clause 5.5 (<i>Nuclear Administration</i>) of the NASTA, if the Operator is subject to a RLNC Administration Order, the Operator is required to make all required payments as determined in accordance with the Contribution Notices under the FAP and as determined by the Authority</p>	

⁶ **Note:** In the recent Ofgem response to the consultation regarding the proposed special conditions there was some resistance to the RAB payments continuing in an early closure scenario. In particular they stated: "We would welcome a commitment from the Secretary of State prior to these licence modifications coming into force that, should early closure occur, they would consider all funding options available before making any final decisions on recovering any potential shortfall from consumers".

#	FAP Ref	Funding Shortfall Risk Event	Mitigation Analysis	Risk of Funding Shortfall
			<p>under the SZC Economic Licence in respect of the FDP Allowance Building Block.</p> <p>See Annex 12 (<i>Nuclear Administration and Nuclear Transfer Schemes</i>) for further discussion of these arrangements.</p> <ul style="list-style-type: none"> • Discontinuation and Compensation Agreement: discontinuation plan <p>Additionally, under the Discontinuation and Compensation Agreement, if Sizewell C is Discontinued there is a requirement for the Operator to agree a discontinuation plan with the Secretary of State and the Authority (taking into consideration input from the ONR and the Environmental Agency). As part of the process to agree the discontinuation plan, the parties need to agree the amount of money (expressed in Sterling) that the Operator would require to, <i>inter alia</i>, carry out and complete the make safe activities (the “Required Make Safe Reserve Amount”). Under the terms of the Discontinuation and Compensation Agreement, if there is any shortfall in the amounts standing to the credit of the Make Safe Reserve Account as against the Required Make Safe Reserve Amount, an amount equal to the shortfall in the amounts standing to the credit of the Make Safe Reserve Account will be deducted from the discontinuation compensation that would otherwise be due to the Operator’s shareholders and paid into the Make Safe Reserve Account (though noting such amount will not be applied to fund any outstanding FDP liabilities or activities to be funded by the FDP).</p>	
B.7	General	<p>Plant Life Extension / Extension of the Post-Closure Period</p> <p>The life of the Plant is extended beyond sixty (60) years, such that there is insufficient provision for the life extension capital expenditure and/or the Costs of Decommissioning.</p> <p>There is a risk of unforeseen issues relating to safety arising towards the end of the</p>	<ul style="list-style-type: none"> • Extension Approval <ul style="list-style-type: none"> ○ The Operator would need to consult with the ONR should it wish to extend the life of the Plant. In the event that the ONR was satisfied on technical nuclear grounds, the Operator would need to apply through the business case process to the Authority for funding under the SZC Economic Licence. ○ Extension of life beyond the Initial Regulatory Period is at the discretion of the Secretary of State (paragraph 12 (<i>Revocation and transfer</i>) of Special Condition 12 (<i>Revocation</i>) of SZC Economic Licence). The 	<p>The risks discussed in this row B.7 are within the control of the Secretary of State to extend the Initial Regulatory Period and to modify the FAP accordingly.</p>

#	FAP Ref	Funding Shortfall Risk Event	Mitigation Analysis	Risk of Funding Shortfall
		Plant's life which prevent Decommissioning and therefore result in an extension of the period prior to the start of Decommissioning.	<p>Authority would consult the Secretary of State at least six (6) months prior to the expiry of the Initial Regulatory Period or proposed revocation of all or part of the Special Conditions of the SZC Economic Licence. As part of any consultation, the Secretary of State may notify the Authority, in their absolute discretion: (a) if they intend to implement a Nuclear Transfer Scheme to transfer some or all of the property, rights and liabilities of the licensee; and/or (b) if they intend to extend the term of the Special Conditions. If there is an extension, the Secretary of State would agree to the terms of any such extension at such time with the Authority and the Operator. This would include any extensions in relation life extension capital expenditure (if any).</p> <ul style="list-style-type: none"> • Extension of the SZC Economic Licence <ul style="list-style-type: none"> ○ If an extension were approved, the SZC Economic Licence would also be extended, albeit on new terms. If this were the case, whilst not automatic, the FDP Allowance Building Block would be expected to continue to apply and any additional Costs of Decommissioning arising out of the Plant extension would need to be factored into a modification to the FDP (which would be subject to approval by the Secretary of State). The risk of unfunded DWMP liabilities arising as a result of these circumstances is, therefore, in the control of the Secretary of State ○ If the SZC Economic Licence is so extended, the FDP mechanics in the SZC Economic Licence would be expected to continue to work in the same way in that it would adjust accordingly at a Quinquennial Review to ensure that the revised Costs of Decommissioning (as set out in the DWMP) are met by the end of the Primary Funding Period, which should be adjusted to meet the new Plant Operational Life by way of a FAP modification. 	
B.8	General	Economic regulatory framework, SZC Economic Licence or the FDP is changed to reduce the likelihood of the Operator	<ul style="list-style-type: none"> • Regulatory Framework: Overall, considering that the SZC Economic Licence can only be amended by the Secretary of State or by the Authority with the implicit consent of the Secretary of State (as the Secretary of State possesses a veto over any such amendments), the Board has not considered the risk of prejudicial change to the regulatory framework. See 	Within the control of the Secretary of State / HMG of the day.

#	FAP Ref	Funding Shortfall Risk Event	Mitigation Analysis	Risk of Funding Shortfall
		receiving sufficient income to make the Contributions.	<p>paragraph 3 of Annex 10 (<i>Legislative Background</i>) in relation to the Board's consideration of risks that are within the control of the Secretary of State.</p> <ul style="list-style-type: none"> Licence Modification by the Authority under the 1989 Act <ul style="list-style-type: none"> The SZC Economic Licence can be modified by the Authority pursuant to the mechanisms under the 1989 Act, noting this is subject to a Secretary of State veto (which therefore limits the regulatory risk).⁷ The Secretary of State veto right is unencumbered. Under the 1989 Act, to modify the SZC Economic Licence, the Authority must issue a notice providing an opportunity for the Secretary of State, the Operator and certain other parties (such as Citizens Advice) to make representations which the Authority must consider before making the relevant modifications. In addition, the Secretary of State has the right to veto modifications under Section 11(A)(5) of the 1989 Act. Licence Modification by Secretary of State under the 2022 Act <ul style="list-style-type: none"> Under the 2022 Act, the Secretary of State can modify the SZC Economic Licence in three circumstances: <ul style="list-style-type: none"> 1. prior to the award of a revenue collection agreement where a nuclear company has been designated in relation to a nuclear energy generation project pursuant to section 2(1) of the 2022 Act (Section 6 of the 2022 Act) – this modification power is not relevant as it occurs prior to revenue commencement; 2. where the nuclear licensee company is in Nuclear Administration (Section 35 of the 2022 Act) – see Annex 12 (<i>Nuclear Administration and Nuclear Transfer Schemes</i>) for further information. Any modifications in these circumstances adverse to the ability of the FDP Implementation Company to meet its 	

⁷ **Note:** The Authority may also make certain "Housekeeping Modifications" (i.e., minor changes such as renumbering paragraphs, corrections of evident mistakes etc.).

#	FAP Ref	Funding Shortfall Risk Event	Mitigation Analysis	Risk of Funding Shortfall
			<p>obligations under the FAP would be within the control of the Secretary of State; or</p> <p>3. where the construction cost is in excess of the financing cap (Section 7 of the 2022 Act). This is not relevant to the FDP as it is limited to construction costs incurred, whereas the Contributions arise after First Criticality.</p> <ul style="list-style-type: none"> ○ Any challenge to such a modification can only be brought through judicial review proceedings. <ul style="list-style-type: none"> • FDP Modification <ul style="list-style-type: none"> ○ As further analysed in paragraph 4 (<i>Modification of the FDP</i>) of Annex 10 (<i>Legislative Background</i>), the Secretary of State, the Operator, or any other person with obligations under the programme may propose modifications to the FDP; however, the Secretary of State is responsible for deciding whether to make a proposed modification pursuant to Section 49 of the 2008 Act. The risk of modification to the FDP is therefore within the control of the Secretary of State. ○ In addition, clause 7.3 (<i>Limitations for the benefit of the FDP Company</i>) of the Section 46 Agreement provides that, in no circumstances (including following expiry of the Section 46 Agreement), may certain modifications to the FDP be made, including those which (i) adversely affect the FDP Implementation Company's access to the Fund Assets in the event that the Operator does not provide funding to the FDP Implementation Company or (ii) impose additional obligations on the FDP Implementation Company without such rights as are reasonably necessary to enable the FDP Company to carry out those obligations or which the FDP Implementation Company could not otherwise reasonably be expected to fulfil. • Change in Law relief 	

#	FAP Ref	Funding Shortfall Risk Event	Mitigation Analysis	Risk of Funding Shortfall
			<ul style="list-style-type: none"> ○ In addition, the Operator is entitled to Change in Law relief in certain circumstances as described in paragraph 2 of Annex 11 (SZC <i>Economic Licence</i>). 	
B.9	General	Temporary extended Plant outage reducing availability below target per SZC Economic Licence	<ul style="list-style-type: none"> • Impact on FDP Payments <ul style="list-style-type: none"> ○ Pursuant to the FDP Assumption at paragraph 2.1(L) of Annex 3 (<i>Assumptions</i>), the Board is required to assume that in the event of an unplanned outage, the FDP Allowance Building Block will continue to be paid (and will not be required to be repaid by the Operator). This is consistent with the structure of the SZC Economic Licence, which would reduce the Allowed Revenue by operation of the Availability Incentive (see further information below) rather than effect a reduction in the FDP Allowance Building Block. ○ In the event that the Availability Incentive reduces the Allowed Revenue, then, although the FDP Allowance Building Block itself is not reduced, the aggregate Allowed Revenue received by the Operator may be insufficient to pay the Contributions if the Availability Incentive charge is sufficiently large. While the Operational Incentives Adjustment provides a floor to the Allowed Revenue at 75% of the Base Revenue (i.e., the Allowed Revenue before accounting for incentives and adjustments) as set out in paragraph 3 of Annex 11 (SZC <i>Economic Licence</i>) the OIA Floor remains subject to the Revenue Support Cap (see below), and would cease to apply, if exceeded. ○ However, considering the priority of Safety Critical Expenditure (please refer to row B.1 above) over Contribution payments, an extended outage which necessitates Safety Critical Expenditure could result in amounts received by the Operator in respect of the FDP Allowance Building Block being applied to satisfy Safety Critical Expenditure, <i>prima facie</i> leading to a Funding Shortfall. However, as discussed in row B.1 above, any such shortfall prior to the last Quinquennial Review during the Operational Period will ultimately be picked up in the five-yearly recalibrations of the Funding Path, and accordingly funded by the corresponding increase in the FDP Allowance Building Block. 	The Board considers that any residual risks of Funding Shortfall identified in this row B.9 are remote on the basis of the FDP Allowance Building Block under the SZC Economic Licence and the FDP Assumptions.

#	FAP Ref	Funding Shortfall Risk Event	Mitigation Analysis	Risk of Funding Shortfall
			<ul style="list-style-type: none"> • Revenue and Liquidity Support under the SZC Economic Licence: <ul style="list-style-type: none"> ○ If a Significant Unavailability Event occurs or is forecast to occur during the Charging Year, the Operator may submit an application to request: (i) in-year Significant Unavailability Revenue Support (by an adjustment to its Difference Payment amount); and/ or (ii) Buyback of Power Revenue Support either in the year in which the Significant Unavailability Event occurs (for an in-year adjustment to its Revenue Amount before Power), or in year t+1 (for an adjustment to the Allowed Revenue in year t+2). ○ Significant Unavailability Revenue Support is in an amount up to eighty per cent (80%) of Base Revenue plus Tax in a Charging Year and does not need to be directly repaid, although the Operator would still suffer unavailability deductions on a two year lag and would therefore lose money (which may lead to the provision of support via the Operational Incentives Adjustment). The Buyback of Power Revenue Support is 100% repayable and is subject to the Revenue Support Cap (see below). ○ In addition, the Operator may receive liquidity support through the Operational Incentives Adjustment. The Operational Incentives Adjustment is an adjustment made to the Allowed Revenue payable in the Operations Phase to ensure that (subject to the Revenue Support Cap) the Operator always receives revenue equal to the OIA Floor for any Charging Year, in each case as further described in paragraph 3.5 of Annex 11 (<i>SZC Economic Licence</i>). This support is 100% repayable. <p><u>The Revenue Support Cap caps</u></p> <ul style="list-style-type: none"> ○ The Liquidity Support Amount (being the amount of Buyback of Power Revenue Support and Operational Incentives Adjustment support outstanding for repayment) is capped at fifty per cent (50%) of a rolling three (3) years' Base Revenue plus Tax. Liquidity Support Amount repayments are sized to be the lower of: (a) the total Liquidity Support Amount, and (b) 25% of Base Revenue plus Tax for that Charging Year 	

#	FAP Ref	Funding Shortfall Risk Event	Mitigation Analysis	Risk of Funding Shortfall
			<p>until all Liquidity Support Amounts are fully repaid. In this respect, the Board understands that the Operator has undertaken benchmarking analysis against comparable water pressurized reactors in relation to the probability and likely duration of a single or twin Reactor outage in order to appropriately calibrate the level of the Revenue Support Cap.</p> <ul style="list-style-type: none"> ○ The Liquidity Support Amount may be accelerated in certain circumstances (such as Operator insolvency) and may then be deducted from the Allowed Revenue (without any ring-fencing for the FDP Allowance Building Block). ○ If the Revenue Support Cap is breached and the lack of further liquidity support results in the Operator becoming insolvent, then Nuclear Administration and Nuclear Transfer Scheme would apply. Please refer to row D.1 below and Annex 12 (<i>Nuclear Administration and Nuclear Transfer Schemes</i>) for further information. 	
B.10	General	Plant unavailability or inability to sell power that is not compensated through the SZC Economic Licence per above (e.g., Curtailment).	<ul style="list-style-type: none"> • Curtailment <ul style="list-style-type: none"> ○ If the Plant's output is curtailed by the NESO, the Operator may be entitled to certain compensation in accordance with the relevant industry documents. ○ There is also a relief from Curtailment⁸ for the purposes of the Availability Incentive under the SZC Economic Licence, as Curtailment does not reduce the Operator's Capable Energy Generation value used to calculate the Plant's actual availability (see Special Condition 57 (<i>Availability Incentive</i>) of the SZC Economic Licence). 	The Board considers that any residual risks of Funding Shortfall identified in this row B.10 are remote on the basis of the FDP Allowance Building Block, available compensation for Curtailment under the BSC and the

⁸ **Note:** This is defined in the SZC Economic Licence as: "in respect of any period, the prevention or restriction by, or on the instruction of, or as a result of the requirements (including requirements for balancing services involving an acceptance or deemed acceptance) of, the NESO of the export from the Plant to the national electricity transmission system of all or a proportion of the electricity which the Plant is otherwise able to generate and export during the relevant period, provided that there will be no Curtailment to the extent that the export of electricity from the Plant is so prevented or restricted as a direct result of: (a) a breach or default by the licensee of this licence or any Legal Requirement; (b) a failure by the licensee to act in accordance with Good Industry Practice; or (c) any matter relating to health, safety, security or environment at or with respect to the Plant (but not any such matter at or with respect to the transmission system) to the extent that such matter is a direct result of the licensee's fault or negligence."

#	FAP Ref	Funding Shortfall Risk Event	Mitigation Analysis	Risk of Funding Shortfall
			<ul style="list-style-type: none"> ○ If the Plant experiences Curtailment due to issues affecting the ability of the Plant to export power (such as a transmission line issue) then Curtailment compensation would not be expected under the current NESO regulatory regime. The Operator would continue to receive the Opex Building Block or Totex Building Block (as applicable) and the FDP Allowance Building Block, and therefore would be expected to be in a position to continue to pay FDP Secured Liabilities falling due. In addition, the Operator is not treated as unavailable for the purposes of the Availability Incentive during periods of unavailability due to Curtailment. • Planned Outage: Planned Energy Loss (which is the energy that is forecasted not to be generated as a result of any Planned Outage or Planned Capacity Reduction as determined by Authority based on the Operator's Operation and Maintenance Plan) is accounted for in the Target UCF for a Charging Year. As a result, where there is a Planned Energy Loss, the Availability Incentive will not penalise the Operator provided that the relevant planned maintenance falls within the Planned Energy Allowance determined by the Authority. • In the highly unlikely event that a sustained period of Curtailment gives rise to an Operator insolvency, this would be mitigated by protection under the Nuclear Administration regime as further described in Annex 12 (<i>Nuclear Administration and Nuclear Transfer Schemes</i>). Pursuant to paragraph 7 (<i>Revocation events</i>) of Special Condition 12 (<i>Revocation</i>) of the SZC Economic Licence, all of the Allowed Revenue (not just the FDP Allowance Building Block) continues in the event the nuclear licensee company is in Nuclear Administration. Pursuant to clause 5.5 (<i>Nuclear Administration</i>) of the NASTA, if the Operator is subject to a RLNC Administration Order, the Operator is required to make all required payments as determined in accordance with the Contribution Notices under the FAP and as determined by the Authority under the SZC Economic Licence in respect of the FDP Allowance Building Block. 	SZC Economic Licence and the Nuclear Administration regime.

#	FAP Ref	Funding Shortfall Risk Event	Mitigation Analysis	Risk of Funding Shortfall
B.11	Clause 38.2	<p>Partial Closure / Single Reactor Early Closure or Permanent Reduction in Capacity of a Reactor:</p> <p>If one Reactor closes much earlier than the other, there would be a risk as to how the Costs of Decommissioning would be met. The closed Reactor may be decommissioned before the other Reactor, or it may be closed and only decommissioned later with the other Reactor. Early Decommissioning of one Reactor would raise questions as to how it can be done safely (and funded) while the other Reactor continues to generate power. Later Decommissioning of the closed Reactor would raise questions as to how the costs of care and maintenance and defueling would be funded for the closed Reactor. Also, the partial closure of the Plant would mean the availability drops and may not be taken into account when the Authority determines Target UCF for the next Control Period. In such a scenario, there would be uncertainty as to how the Funding Path in the FAP would need to be changed to ensure there is no Funding Shortfall.</p>	<ul style="list-style-type: none"> • Single Reactor Early Closure Scenarios <ul style="list-style-type: none"> ○ The affected Reactor would likely be defueled in such a scenario, and then either: (a) decommissioned or (b) placed into some form of “care and maintenance” (and decommissioned after the FYE End of Generation) depending on the rationale for the Single Reactor Early Shutdown. ○ The funding required to discharge the Decommissioning liabilities would depend on the approach adopted – for instance, depending on the Plant risk and conditions, it may be sensible to draw down funds from the FDP Implementation Company as Emergency DTM Payments but only (on a limited basis) to maintain the shutdown Reactor in a care and maintenance state until the other Reactor reaches the FYE End of Generation (also, if one of the Reactors were to close early, there would be a cost “reduction” in the estimated Costs of Spent Fuel Disposal corresponding to the number of years that the Plant had not operated). However, the costs of maintaining the shutdown Reactor in a care and maintenance state would be more likely to be funded by the Opex Building Block and Totex Building Block (as applicable) and any reserves for Safety Critical Expenditure. ○ Given the shared infrastructure between the two (2) Reactors, decommissioning one Reactor ahead of the other is seen as unlikely by the Operator. The Operator’s preference is likely to be to maintain the Reactor until the Actual Decommissioning Start Date (which aligns with clause 38 (<i>Release of Funds Following an Unplanned Permanent Shutdown or Single Reactor Early Shutdown</i>) of the FAP). • Reserve Accounts: As referred to in row B.1, pursuant to part E (<i>Safety Critical Opex Reserve Account</i>) of Special Condition 18 (<i>Asset Management Plans</i>) of the SZC Economic Licence, the Operator must maintain a reserve to fund safety critical operating expenses up to 1/12 of the Safety Critical Opex Reserve Accrual Amount. To the extent there was a Single Reactor Early Shutdown and the Opex Building Block and Totex Building Block (as applicable) are insufficient to fund the Safety Critical 	<p>The Board considers that any residual risks of Funding Shortfall identified in this row B.11 are remote on the basis that the SZC Economic Licence should respond in the ordinary course, with the residual risk relying on FDP modification which is within the control of the Secretary of State if the Operator fails to propose a modification to the FAP (noting that pending such modification, the Allowed Revenue including the FDP Allowance Building Block would continue to be received).</p>

#	FAP Ref	Funding Shortfall Risk Event	Mitigation Analysis	Risk of Funding Shortfall
			<p>Expenditure for the single Reactor, the amounts in the Safety Critical Opex Reserve Account could be used for Safety Critical Expenditure for the single Reactor, limiting the risk of such expenditure being funded by the FDP Allowance Building Block.</p> <ul style="list-style-type: none"> FDP Modification: <ul style="list-style-type: none"> The FDP mechanics may need to be modified in the event of a Single Reactor Early Shutdown to ensure that appropriate provisions are made for the early Decommissioning of one (1) Reactor, for example, where the anticipated decommissioning costs exceed the current value of the Fund Assets (likely to be a modification to the DWMP and FAP, with a corresponding adjustment to the FDP Allowance Building Block). Clause 6.1.12 (<i>Conditions for Process Initiation Right</i>) of the Section 46 Agreement enables the Secretary of State to propose (and approve) a modification to the FAP in event of a Single Reactor Early Shutdown where the Operator has failed to do so when required by the FAP; however, the Board notes that the terms of the FAP do not expressly require the Operator to propose an FDP modification following a Single Reactor Early Shutdown unless this e.g. falls within the force majeure provisions of the FAP (see row B.12 below). The key risk is therefore whether an FDP modification will occur to adequately change the FAP to account for the significantly higher cost of the FDP Allowance Building Block per MWh of energy produced. Pending modification, the Authority would not be entitled to revoke the SZC Economic Licence and Allowed Revenue including the FDP Allowance Building Block would continue to be received. 	
B.12	Clause 49, clause 2.4	Prolonged Force Majeure Event resulting in FDP not being funded.	<ul style="list-style-type: none"> Force Majeure Event under the FAP: <ul style="list-style-type: none"> Where a Force Majeure Event occurs under the FAP, pursuant to clause 49.1 (<i>Suspension of obligations for a Force Majeure Event</i>) of the FAP, the Operator's obligation to make Contributions to the FDP Implementation Company may be suspended subject to the conditions 	The Board considers that any residual risks of Funding Shortfall identified in this row B.12 are remote on the basis that

#	FAP Ref	Funding Shortfall Risk Event	Mitigation Analysis	Risk of Funding Shortfall
			<p>set out in clause 49.1 (namely that the Force Majeure Event prevents, hinders or delays its ability to do so), including that the Operator shall use reasonable endeavours to mitigate the effects of such suspension and resume the performance of the suspended obligations as soon as reasonably practicable. While there is no express catch-up mechanic in respect of force majeure suspension in the FAP, the Quinquennial Review Process will use the actual value of the Fund Assets and therefore adjust for any unpaid Contributions through payment of Correction Contribution over the next Spreading Period.</p> <ul style="list-style-type: none"> ○ Payments under the SZC Economic Licence, including the FDP Allowance Building Block, would continue during the occurrence of a Force Majeure Event. Therefore, it seems likely that a Force Majeure Event would not suspend the Operator's obligation to make Contributions given it would not necessarily prevent, hinder or delay its ability to do so. ○ A Force Majeure Event does not entitle a suspension of Difference Payments to the Operator pursuant to the SZC Economic Licence. Please refer to paragraph 5 of Annex 11 (<i>SZC Economic Licence</i>) for further analysis. 	<p>payments under the SZC Economic Licence should continue even in a Force Majeure scenario and therefore the FDP should continue to be funded.</p>
B.13	General	Event of default under Security Trust and Intercreditor Deed	<ul style="list-style-type: none"> • A Standstill Period will commence following the occurrence of any Event of Default (which includes non-payment under the Debt Financing Platform, non-payment under the GSP Package or non-payment of any Contributions). During a Standstill Period, no secured creditors may take, or may instruct the Security Trustee to take, any enforcement or acceleration action and Contribution payments would be unaffected. The Standstill Period will terminate following an insolvency event of the Operator, full discharge of the secured debt, the remedy or waiver of the relevant Event of Default, or following a vote of Qualifying Secured Creditors in respect of Class A Financing Debt. • If the finance parties were to accelerate repayment of their loans following the expiry of a Standstill Period, the Contributions (and the Safety Critical Expenditure) would continue because they are senior in the contractual waterfall in the Finance Documents. Furthermore, as the SZC Economic 	<p>The Board considers that any residual risks of Funding Shortfall identified in this row B.13 are remote on the basis of the Partial Revocation regime in the SZC Economic Licence, the prior ranking of FDP payments in the waterfall and the acceleration of decommissioning</p>

#	FAP Ref	Funding Shortfall Risk Event	Mitigation Analysis	Risk of Funding Shortfall
			<p>Licence cannot be terminated while an FDP Shortfall remains, the SZC Economic Licence would also continue (and payments made thereunder) even after the lenders have been paid out following acceleration of their loans (or the payment of Senior Debt Compensation under the Continuation Compensation Agreement) by way of the Partial Revocation regime. Although WTCs Debt is expressed to rank senior to Contributions (see clause 26.4.3 of the FAP), the WTCs Debt in such a scenario is sized by reference to the amount of the Fund Assets reserved to meet WTC liabilities (pursuant to the terms of the Waste Transfer Contracts).</p> <ul style="list-style-type: none"> The Financing Heads of Terms include express provisions that “[FDP Implementation Company] will rank super-senior in the Payment Priorities and [FDP Implementation Company] will be a Secured Creditor and share in the security granted by the Obligor”. The Secretary of State (as the secured representative of the FDP Implementation Company) may direct the Security Trustee to take enforcement action if a Non Contribution Trigger Event has occurred and is continuing (subject to the Standstill Period). If the Secretary of State does direct such enforcement action (or if enforcement action is otherwise taken by the Security Trustee on the instructions of the lenders), this will lead to the occurrence of a Security Trigger Event Action, which requires the payment of the Accelerated Decommissioning Contributions Amount to the FDP Implementation Company in accordance with the post-enforcement waterfall under the Finance Documents. Refer to Annex 9 (<i>Financing Arrangements</i>) for further analysis. 	funding upon enforcement by the Security Trustee.
Risk Category C: Period Post-closure: Having met the End of Generation Funding Target at closure, the Fund is ultimately insufficient to meet all costs when required (and therefore further funding is required from the taxpayer).				
C.1	Clause 45.2;	Material Affiliate Contracts:	<ul style="list-style-type: none"> Untendered Contracts 	The Board considers that any residual risks of

#	FAP Ref	Funding Shortfall Risk Event	Mitigation Analysis	Risk of Funding Shortfall
	clause 45.6.2	<p>During the Decommissioning Period, the SZC Economic Licence and terms of the financing (which otherwise may have regulated the terms and any entry into any Material Affiliate Contracts) would no longer be on foot. As such, there is greater risk of leakage during the Decommissioning Period via Material Affiliate Contracts which may not be on competitive terms. The risk is that the assessment of P80 does not take into account the potential cost non-market based contracts, which would therefore erode the contingency available for known risks.</p> <p>The risk may be enhanced in a change of control scenario; that is, the Operator during the Decommissioning Period may be owned by decommissioning operators that may try to extract unreasonable value.</p>	<ul style="list-style-type: none"> ○ Pursuant to clause 45.2 (<i>Material Affiliate Contracts must be referred for review by the Operator</i>) of the FAP, the Operator must send a copy of any Material Affiliate Contract it intends to enter into, but has not tendered such contract on a competitive basis, to the FDP Implementation Company and the Independent Technical Verifier for review before entering into such contract. In this regard, the FAP provides that (a) a tender comprising solely of Affiliates of the Operator is not a competitive tender and (b) the tender must be publicly announced and open for a reasonable amount of time. ○ The FDP Implementation Company shall use its reasonable endeavours to procure that the Independent Technical Verifier reviews the Material Affiliate Contract and issues a Contract Verification Report to ensure it does not give rise to Disallowable Costs and that the Material Affiliate Contract is on arm's length terms (clause 45.3 (<i>Verification that Allowable Costs will be incurred under the contract</i>) of the FAP). ○ If the Contract Verification Report identifies that the Material Affiliate Contract is not on arm's length terms or gives rise to a Disallowable Cost, the Operator shall refer the matter to an Independent Expert for determination or amend the Material Affiliate Contract such that it is on arm's length terms or removes the scope giving rise to a Disallowable Cost (and the Independent Technical Verifier must confirm the amended contract is on arm's length terms). 	Funding Shortfall identified in this row C.1 are remote on the basis that the FAP requires Material Affiliate Contracts to either be tendered on a competitive basis or be verified by the Independent Technical Verifier as being on arm's length terms and not giving rise to Disallowable Costs.
C.2	Schedules 5 and 6	<p>Disbursement Period Covenants: Breadth of the scope of permitted activities of the Operator is such that there is risk of Operator incurring additional liabilities, the cost of which erodes the contingency available for known risks or causes insolvency of the Operator.</p>	<ul style="list-style-type: none"> • The SZC Economic Licence requires the Operator to carry on only Regulated Activities and/or the Regulated Business and restricts Indebtedness. See further paragraph 6 of Annex 11 (<i>SZC Economic Licence</i>). • However, the FAP provides for a broader range of permitted activities in schedule 5 (<i>Operator Business</i>), primarily the operation of non-nuclear low carbon energy facilities, including on an unrestricted basis during the Decommissioning Period. 	The Board considers that any residual risks of Funding Shortfall identified in this row C.2 are low, on the basis that the FAP requires the Fund Assets to be applied to only fund

#	FAP Ref	Funding Shortfall Risk Event	Mitigation Analysis	Risk of Funding Shortfall
			<ul style="list-style-type: none"> The Board had recommended that the Approved Operator Business Scope be aligned with the permitted activities under the SZC Economic Licence, particularly as only the FAP will be in effect during the Decommissioning Period. However, the Board's recommendation was not accepted by the Operator and DESNZ. As such, there is a risk that any liabilities incurred by the Operator (including taxes, which are an Allowable Cost under the FAP – please see row C.6 below) in connection with such other non-nuclear permitted activities during the Decommissioning Period may deplete the Operator's assets and divert resources which would otherwise be available for decommissioning / as a buffer to the use of the Fund Assets or increase the risk of Operator insolvency. The Board however considers the risk of this causing a Funding Shortfall to be remote for the following reasons. <ul style="list-style-type: none"> Even if the Operator were to engage in other activities, the Fund Assets will only be able to be drawn to fund the Allowable Costs, which are predominantly the costs of decommissioning and waste management other than (possibly) tax liabilities associated with the Operator's non-nuclear activities during the Decommissioning Period. If the Operator incurs tax liabilities from its non-nuclear activities during the Decommissioning Period, that would imply that such activities are profitable (and therefore the directors of the Operator would be expected to prudently provide for discharging the tax liabilities from such profits). The possibility of the Operator, with all its liabilities and regulatory obligations as the operator of a nuclear site in a decommissioning phase, engaging in significant activities outside of the decommissioning of the Plant so as to incur significant liabilities and jeopardise its ability to fund the decommissioning and waste management costs would be unlikely in practice. 	<p>Allowable Costs and that the Operator would be unlikely in practice to engage in significant extraneous activities during the Decommissioning Period that may jeopardise its ability to fund the costs in relation to Technical Matters. The Operator will continue to be constrained by the FAP in relation to Permitted Loans as well.</p>

#	FAP Ref	Funding Shortfall Risk Event	Mitigation Analysis	Risk of Funding Shortfall
C.3	General	Unforeseen safety issues arising after the Plant closure which could result in a delay in decommissioning and a cost that is not provided for in the P80 + 25% assessment.	<ul style="list-style-type: none"> There are two (2) primary risks in relation to unforeseen safety risks during Plant closure: <ul style="list-style-type: none"> the DWMP becomes inexecutable due to unforeseen conditions discovered following Plant closure; or the costs of executing the DWMP exceed the estimates. The DWMP is reviewed every five (5) years prior to Plant closure in accordance with schedule 9 (<i>Quinquennial Review Programme</i>) of the FAP to adjust for evolving parameters that would impact decommissioning and waste management costs (including any Safety Critical Expenditure), which should mitigate against unforeseen issues. In addition, the EPR design used for Sizewell C is not a new technology and there will be other existing projects that are ahead of Sizewell C in terms of life cycle (including HPC), and the information to be obtained from those projects will make such unforeseen issues less likely. As mentioned in row B.1, pursuant to part E (<i>Safety Critical Opex Reserve Account</i>) of Special Condition 18 (<i>Asset Management Plans</i>) of the SZC Economic Licence, the Operator must maintain a reserve to fund safety critical operating expenses up to the Monthly Safety Critical Opex Reserve Accrual Amount. To the extent there was an unforeseen safety issue arising that delays the decommissioning, the Monthly Safety Critical Opex Reserve Accrual Amount could be used for Safety Critical Expenditure. The Board has been instructed to assume that the P80 + 25% contingency cost in the DWMP is prudent in the opinion of the Secretary of State (please refer to paragraph 5.1(B) of Annex 3 (<i>Assumptions</i>)). The Secretary of State should satisfy himself on the basis of separate advice in relation to this assumption. 	N/A on the basis that the Board is not to opine on the prudence of the P80 + 25% contingency costing in the DWMP pursuant to the FDP Assumption.
C.4	General	Post-Plant Closure changes in regulation.	<ul style="list-style-type: none"> Changes in regulation applicable to the Plant post-closure are not mitigated within the SZC Economic Licence or FAP framework but would be within the control of a future Secretary of State. 	Within the Control of the Secretary of State.

#	FAP Ref	Funding Shortfall Risk Event	Mitigation Analysis	Risk of Funding Shortfall
			<ul style="list-style-type: none"> The Board has also been instructed to assume that the P80 + 25% contingency costing in the DWMP is prudent in the opinion of the Secretary of State, and the Board understands that the 25% contingency should also factor in such change in law risk. 	
C.5	General; Schedule 7	Investment returns Post-Plant closure do not adequately compensate for increases in DWMP costs due to cost inflation being higher than expected and/or investment returns being lower than expected.	<ul style="list-style-type: none"> There is a risk that DWMP cost inflation turns out to be higher than expected at the last Quinquennial Review during the Operational Period (i.e. FYE EPFP + 3, which should be year 58 from First Criticality). This could result in a Funding Shortfall if the Investment Strategy does not provide adequate correlation with nuclear cost inflation. Even if the Investment Strategy provides some hedge against CPI risk, the difference between nuclear cost inflation and CPI may be higher than expected. This risk is somewhat mitigated by the P80 + 25% contingency costing in the DWMP, which the Board has been instructed to assume is prudent in the opinion of the Secretary of State, noting that any draw on this contingency to cover investment risk would reduce the amount that has been provided to cover the risk that the cost of delivering the DWMP is greater than expected. There is also a risk that investment returns are insufficient to increase the size of the Fund to compensate for anticipated post-closure inflation of decommissioning and waste management costs and meet all such costs when required. This could arise for a range of reasons including: <ul style="list-style-type: none"> return on fund assets is lower than had been anticipated in the Long Term Discount Rate (a greater risk for higher risk investments such as equities);⁹ credit risk (investment counterparties cannot pay); and foreign exchange risk. The FAP includes the following mitigants against this risk: 	<p>The residual risks of Funding Shortfall remaining in this row C.5 are:</p> <p>(1) post-Plant closure increase in DWMP costs causing a Funding Shortfall; and</p> <p>(2) post-Plant closure investment returns being lower than expected and resulting in a Funding Shortfall.</p> <p>The risk in (1) above is mitigated by incorporation of the Nuclear Inflation Premium</p>

⁹ **Note:** Please see paragraph 8.2(A) of the Main Report in relation to the Board's views on the Long Term Discount Rate on Sizewell C ultimately resulting in a lower End of Generation Target compared to HPC.

#	FAP Ref	Funding Shortfall Risk Event	Mitigation Analysis	Risk of Funding Shortfall
			<ul style="list-style-type: none"> the Funding Outcomes Report regime (see paragraph 5.6 (<i>Post-Closure Investment Risk</i>) of Part B (<i>Life Cycle of the FAP</i>) of Annex 7 (<i>Funded Decommissioning Programme</i>)), which is intended to function as an early warnings measure to assess any such risk during the Operational Period subject to the limits and qualifications set out in this paragraph 5.6; the Investment Rules require the FDP Implementation Company to consider (in developing the Investment Strategy) the best practice for funding long-term liabilities from a closed-end fund; the Investment Rules allow the Investment Strategy to be revised mid-Quinquennial Review Period in extraordinary market conditions; and the Quinquennial Review process will continue into the Decommissioning Period. <p>Please refer to paragraph 8.2(A) of the Main Report and paragraph 5 of Part B (<i>FAP Lifecycle</i>) of Annex 7 (<i>Funded Decommissioning Programme</i>) for a more detailed analysis of the risks and mitigants.</p>	<p>into the calculation of the End of Generation Target as well as the P80 + 25% contingency costing in the DWMP, which the Board is not opining on in accordance with the FDP Assumptions.</p> <p>The risk in (2) above is discussed further in paragraph 8.2(A) of the Main Report. As discussed therein, this risk is N/A on the basis of the FDP Assumptions.</p>
C.6	Schedule 7	Tax risk Post-Plant Closure	<p>Following receipt of the tax analysis paper from Herbert Smith Freehills LLP dated 4 February 2025, it appears that some tax liabilities will be incurred by the FDP Implementation Company (e.g., receipt of interest or crystallisation of capital gains) on its Fund Assets during the operations and decommissioning phases and potentially by the Operator in relation to the FDP liabilities.</p> <p>The Board notes that the definition of Allowable Costs in the FAP includes “any Taxes payable by the Operator [in respect of any Financial period within the Disbursements Period]”. This is not limited to the Operator’s tax liabilities relating to the operation and decommissioning of the Plant – for example, this could</p>	<p>The Board considers that any residual risks of Funding Shortfall identified in this row C.6 are remote on the basis that the funding of the relevant tax liabilities are provided for in the</p>

#	FAP Ref	Funding Shortfall Risk Event	Mitigation Analysis	Risk of Funding Shortfall
			<p>include tax liabilities relating to unrelated activities carried out by the Operator (for example, an onshore wind farm owned and operated by the Operator). However, to the extent any such tax liabilities arise, this would imply that the relevant extraneous activities are profitable, which should require the directors of the Operator to prudently provide for such tax liabilities in any event. see the Board's view on this risk is discussed further in row C.2 above.</p> <p>See paragraph 11 of Part B (<i>Life Cycle of the FAP</i>) of Annex 7 (<i>Funded Decommissioning Programme</i>) for a summary of the position in the FDP in relation to tax liabilities.</p>	FAP and tax assessments being carried out as a part of the Quinquennial Review process (although such tax assessments will only assess Tax liabilities of the Operator that are likely to arise in connection with activities undertaken pursuant to limb (a) of the definition of Approved Business Scope in the FAP.
C.7	General	The provision for the Costs of Spent Fuel Management, the Costs of Spent Fuel Disposal and the Costs of ILW Disposal in the End of Generation Target in the FAP is inconsistent with the relevant amounts due under the Waste Transfer Contracts, thereby causing a Funding Shortfall.	<p>Paragraph 17 of the Terms of Reference requires the Board (i) to assume that the Secretary of State is satisfied with the terms of the DWMP and the Waste Transfer Contracts and (ii) not to advise in relation to the DWMP or the Waste Transfer Contracts. As such, the Board is not in a position to advise on potential inconsistencies between the provision for the Costs of Spent Fuel Management, the Costs of Spent Fuel Disposal and the Costs of ILW Disposal in the End of Generation Target in the FAP on the one hand and the relevant amounts due under the Waste Transfer Contracts on the other. The Secretary of State should satisfy themselves on the basis of separate advice in relation to this assumption. Nonetheless, the Board has summarised below the relevant provisions from its perspective for consideration by the Secretary of State.</p> <p>The End of Generation Target is calculated by adding (i) 125% of the End of Generation Decommissioning Target, (ii) 125% of the End of Generation Management Target, (iii) the End of Generation ILW Disposal Target and (iv) the End of Generation Spent Fuel Disposal Target.</p>	N/A on the basis of the Terms of Reference.

#	FAP Ref	Funding Shortfall Risk Event	Mitigation Analysis	Risk of Funding Shortfall
			<ul style="list-style-type: none"> The End of Generation Decommissioning Target includes the cash flows from the Draft DWMP relating to the Costs of Decommissioning which would include the cost of management of ILW and Spent Fuel before the Site End Date (but excluding the Costs of ILW Disposal, Costs of Spent Fuel Disposal and the Costs of Spent Fuel Management). The End of Generation Management Target is the Transfer Date Management Target, inflated by the Nuclear Inflation Premium from the first day of the Quinquennial Review Year and discounted on an annual compound basis at one plus the Long Term Discount Rate less the Projected Inflation Rate from the SF Transfer Date to FYE End of Generation. The Transfer Date Management Target is the sum of the cash flows relating to the Costs of Spent Fuel Management, discounted on an annual compound basis at one plus the SFTC Discount Rate from the first day of the Financial Period during which the relevant amount is to be incurred to the SF Transfer Date. The End of Generation ILW Disposal Target is the amount of cash flows from the Draft DWMP which relate to the aggregate of the ILW Transfer Payments (i.e. the CPI indexed ILW Transfer Price multiplied by the projected volumes (at P80) of the ILW Waste as set out in the Draft DWMP), discounted on an annual compound basis at one plus the Long Term Discount Rate less the Projected Inflation Rate from the first day of the Financial Period during which the relevant amount is to be incurred to FYE End of Generation. <p>In light of the above, whilst the ILW Transfer Price is indexed by reference to CPI to work out the ILW Transfer Payments, the FAP then applies the Projected Inflation Rate to index the ILW Transfer Payments. The Board has asked DESNZ and SZC whether this methodology is consistent with how the Waste Transfer Price is inflated or indexed pursuant to the ILW Transfer Contract by reference to CPI.</p> <p>As for when the Waste Transfer Price will be fixed pursuant to the ILW Transfer Contract, the process for setting such price is outlined in clauses 10 and 12 of the ILW Transfer Contract, which refers to a number of detailed</p>	

#	FAP Ref	Funding Shortfall Risk Event	Mitigation Analysis	Risk of Funding Shortfall
			<p>pricing methodology schedules depending on whether, for example, a GDF Site Selection Delay has occurred as expected or if a major change to the intention to use the geological disposal facility (a Contract Assumption Deviation) has occurred. In short, the timing for fixing the Waste Transfer Price pursuant to the ILW Transfer Contract can vary significantly depending on a number of factors, including whether the Operator applies for an early determination of the price under clause 10 of the ILW Transfer Contract.</p> <p>Given the ILW Transfer Payments are discounted by reference to the Long Term Discount Rate to determine the End of Generation ILW Disposal Target in the FAP, the NLFAB is not clear whether the time at which the Waste Transfer Price will be fixed pursuant to the ILW Transfer Contract is consistent with the operation of such discounting arrangements pursuant to the FAP. The Board has also raised this with DESNZ and the Operator.</p> <ul style="list-style-type: none"> • The End of Generation Spent Fuel Disposal Target is the SF Transfer Payment discounted on an annual compounded basis at one plus the Long Term Discount Rate less the Projected Inflation Rate from the from the SF Transfer Date to FYE End of Generation. The SF Transfer Payment is the CPI indexed SF Transfer Price multiplied by the projected tU (at P80) of SF Waste as set out in the Draft DWMP as cash flows, provided that for each amount of such projected tU, a discount is to apply on an annual compound basis at one plus the SFTC Discount Rate (i.e., the Discount Rate under the SF Transfer Contract) from the first day of the Financial Period during which the relevant amount is to be incurred (as scheduled in the Draft DWMP) to the SF Transfer Date. <p>The Board has raised similar questions as above with DESNZ and the Operator in relation to whether the indexation methodologies applied in the FAP to determine the End of Generation Spent Fuel Disposal Target are consistent with how the Waste Transfer Price is inflated or indexed pursuant to the SF Transfer Contract by reference to CPI and whether the application of the discounts in the FAP to determine the End of Generation Spent Fuel Disposal Target will work so as to be consistent with the time at which the Waste Transfer Price will be fixed pursuant to the SF Transfer Contract. The position in the SF Transfer Contract in relation to when the Waste Transfer</p>	

#	FAP Ref	Funding Shortfall Risk Event	Mitigation Analysis	Risk of Funding Shortfall
			Price will be fixed is similar to that under the ILW Transfer Contract – that is, such timing could vary significantly depending on a number of factors.	
Risk Category D: Post Nuclear Transfer to HMG				
D.1	Section G	<p>Shares or assets and liabilities of the Operator or the FDP Implementation Company are transferred to the NDA or another HMG-owned entity and:</p> <ul style="list-style-type: none"> NDA or another HMG-owned entity cannot decommission Sizewell C in accordance with the DWMP and the actual costs of decommissioning and waste management are higher; and/or the FDP Implementation Company does not remain intact with the Fund Assets ring-fenced to be applied to funding the decommissioning and waste management costs. <p>Also, Operator change of control (pre-Plant Closure) may lead to a change of decommissioning strategy which increases the relevant costs by: (i) a change of strategy and contracting; (ii) delay in implementation extending hotel costs / delay in decommissioning (such as delays in station de-manning); or (iii) an acceleration of Decommissioning which means there is a Funding Shortfall.</p>	<ul style="list-style-type: none"> Nuclear Transfer Scheme: The FAP is drafted to contemplate that the Operator will continue to carry out the defueling and the Decommissioning. However, the Secretary of State has an option to effect a transfer of Decommissioning responsibilities to a publicly owned company or the NDA using the Nuclear Transfer Scheme. The Secretary of State has a number of options when effecting a Nuclear Transfer Scheme, which include a transfer of shares only in the Operator and FDP Implementation Company (which would leave the Fund Assets within the FDP Implementation Company and the existing FAP in place) or an asset transfer which would likely lead to termination of the existing FAP and, as explained in paragraph 2.3 of Annex 12 (<i>Nuclear Administration and Nuclear Transfer Schemes</i>), would require a replacement FDP structure. As summarised in Annex 12 (<i>Nuclear Administration and Nuclear Transfer Schemes</i>), clause 9 of the NASTA contains provisions designed to promote the continued independence and segregation of the Fund Assets (for the decommissioning of Sizewell C following a transfer pursuant to a Nuclear Transfer Scheme), albeit the restrictions are not absolute and do not fetter the Secretary of State's discretion to approve alternative arrangements in relation to the FDP. This is however a risk within the control of the Secretary of State. Subject to the approach adopted by the Secretary of State, in a Nuclear Transfer Scheme scenario, the decommissioning liabilities would be met by: <ul style="list-style-type: none"> the Fund Assets. Clause 32 (<i>Fund Assets to be used for Funding the Designated Technical Matters despite Insolvency of the Operator or Transfer</i>) of the FAP requires the Operator and FDP Implementation Company to cooperate with the NDA or other publicly owned company 	Within the Control of the Secretary of State.

#	FAP Ref	Funding Shortfall Risk Event	Mitigation Analysis	Risk of Funding Shortfall
			<p>(if relevant) and the Secretary of State to procure that the Fund Assets can be used to discharge the costs relating to the Designated Technical Matters while the Operator remains the licensee of the Site;</p> <ul style="list-style-type: none"> ○ consumers, if the SZC Economic Licence remains partially in force until the FDP Shortfall is fully funded in accordance with Special Condition 12 (<i>Revocation</i>) of the SZC Economic Licence (subject to the Secretary of State's discretion to direct otherwise as noted below); and/or ○ the Secretary of State, if the Special Conditions of the SZC Economic Licence have been revoked in full at the direction of the Secretary of State (pursuant to paragraph 5(b) (<i>Revocation events</i>) of Special Condition 12 (<i>Revocation</i>) of the SZC Economic Licence) and the Secretary of State has not otherwise removed the FDP Shortfall through the NTS or if FDP Final Amount is not sufficient to address all decommissioning liabilities. HMG's ability to transfer the Fund Assets to a publicly owned company would require the approval of a new FDP, which (subject to changes in applicable law and regulation, which are within HMG's control) would involve the same set of approvals by the Secretary of State with respect to prudence and keeping the risk of recourse to public funds remote at the relevant time (although the structure of the FDP and any replacement to the FAP may diverge from the currently proposed arrangements). • Fund Surplus: Clause 71.2 (<i>Winding-up of the FDP Implementation Company</i>) of the FAP and Article 33.4 (<i>The Non-Voting Operator Share</i>) of the FDP Implementation Company's AoA provide that any surplus assets upon the winding up of the FDP Implementation Company will be transferred to the Operator. It is not clear to the Board how a fund surplus, so due to the Operator, might be dealt with in relation to a transfer pursuant to a Nuclear Administration or Nuclear Transfer Scheme. Nevertheless, as per paragraph 1(H) of the FDP Assumptions, the Board has assumed that such surplus will ultimately be for the benefit of consumers. • Cooperation Agreement: Operator change of control risk pursuant to a Nuclear Transfer Scheme would be mitigated by a cooperation agreement 	

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			between the Operator and the NDA or another publicly owned company to drive continuity and smooth transition as with the decommissioning process for AGRs. Clause 23.3 (<i>Cooperation Agreement</i>) of the FAP contains an obligation for the Operator to use reasonable endeavours to enter into a cooperation agreement with the NDA (or other relevant publicly owned nuclear decommissioning body at the time) prior to the Decommissioning Period (or, if later, the date on which the Operator receives notice from the Secretary of State of their intention to effect an asset transfer pursuant to a Nuclear Transfer Scheme).	