Subsidy Advice Unit Report on the proposed Subsidy to EDF Energy Nuclear Generation Limited

Referred by the Department for Energy Security and Net Zero

3 September 2026

Subsidy Advice Unit

Part of the Competition and Markets Authority

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CONTENTS

1. The Referral 3
Summary 3
The referred Subsidy 4
2. The SAU's Evaluation 7
Step 1: Identifying the policy objective, ensuring it addresses a market failure or equity concern, and determining whether a subsidy is the right tool to use 7
Step 2: Ensuring that the Subsidy is designed to create the right incentives for the beneficiary and bring about a change 10
Step 3: Considering the distortive impacts that the Subsidy may have and keeping them as low as possible 12
Step 4: Carrying out the balancing exercise 18
Other Requirements of the Act 19

1. The Referral

1.1 On 16 July 2026, the Department for Energy Security and Net Zero (DESNZ) requested a report from the Subsidy Advice Unit (the SAU)[1] in relation to its proposed subsidy to EDF Energy Nuclear Generation Limited (the Subsidy) under section 52 of the Subsidy Control Act 2022 (the Act).[2]

1.2 This report evaluates DESNZ's assessment of compliance (the Assessment) of the Subsidy with the requirements of Chapters 1 and 2 of the Act.[3] It is based on the information and evidence included in the Assessment.

1.3 This report is provided as non-binding advice to DESNZ. It does not consider whether the Subsidy should be given or directly assess whether it complies with the subsidy control requirements.

Summary

1.4 The Assessment uses the four-step structure described in the Statutory Guidance for the United Kingdom Subsidy Control Regime (the Statutory Guidance) and as reflected in the SAU's Guidance on the operation of the subsidy control functions of the Subsidy Advice Unit (the SAU Guidance).

1.5 In our view, DESNZ has considered in detail the compliance of the Subsidy with the subsidy control principles. In particular, the Assessment:

(a) clearly explains and evidences how the Subsidy would change the beneficiary's economic behaviour and that the subsidy brings about changes that would not occur absent the Subsidy (Principle D);

(b) clearly and thoroughly demonstrates and evidences how the potential effects of the Subsidy on competition and investment have been identified and assessed, and how the design of the Subsidy minimises resulting distortions (Principle F); and

(c) sets out the positive effects of the Subsidy in relation to the policy objectives, its geographic impacts, as well as potential negative impacts, and conducts a

[1] The SAU is part of the Competition and Markets Authority.
[2] Referral of the proposed subsidy to EDF Energy Nuclear Generation Ltd by the Department for Energy Security and Net Zero - GOV.UK.
[3] Chapter 1 of Part 2 of the Act requires a public authority to consider the subsidy control principles and energy and environment principles before deciding to give a subsidy. The public authority must not award the subsidy unless it is of the view that it is consistent with those principles. Chapter 2 of Part 2 of the Act prohibits the giving of certain kinds of subsidies and, in relation to certain other categories of subsidy creates a number of requirements with which public authorities must comply.

balancing exercise between them in line with the Statutory Guidance (Principle G).

1.6 However, we have identified the following areas for improvement. The Assessment should:

(a) explain in greater detail why alternatives to subsidy were rejected, including by outlining whether any less distortive means were considered to achieve the Subsidy's policy objectives, including options that did not involve Sizewell B, and why they were not considered appropriate (Principle E);

(b) consider in more detail the extent to which the policy objectives could be achieved in the counterfactual scenario (Principle C); and

(c) more clearly explain, when assessing the proportionality of the Subsidy, how the level of financial protection included in the Subsidy to cover curtailment events (see paragraph 1.11(b)) is the minimum necessary (Principle B).

1.7 We discuss these areas below, along with other areas where, in our view, the Assessment could provide more explanation and detail, for consideration by DESNZ in finalising its assessment.

The referred Subsidy

1.8 DESNZ is proposing to award a subsidy to enable the long-term operation (LTO) of the Sizewell B nuclear power plant in Suffolk through a bespoke Contract for Difference (CfD) arrangement with EDF Energy Nuclear Generation Limited (ENGL), the plant's owner and operator.[4] Sizewell B commenced operation in 1995 and is capable of supplying around 3% of the UK's entire electricity needs, the equivalent of powering 2.5 million homes with electricity.

1.9 Absent the Subsidy, Sizewell B would be expected to cease operations in 2035, in line with the lifespan agreed at the start of its construction. The Subsidy is intended to provide ENGL with sufficient revenue certainty to undertake the investment required[5] for Sizewell B to continue providing 1.2 GW[6] of nuclear capacity during a 20-year lifetime extension period from 2035 to 2055 (the LTO works). The estimated total value of the Subsidy, which is dependent on future

[4] ENGL is 80% owned by EDF Energy and 20% owned by Centrica. Its portfolio includes the rest of the UK operating nuclear fleet.
[5] Such activities consist largely of maintenance, replacement, and upgrade activities rather than large-scale civil works, including the replacement of pipework, valves and pumps, a new environmental monitoring system, and new automated plant monitoring systems. For more information see: Milestone moment for Sizewell B life extension agreement | EDF.
[6] The National Electricity System Operator (NESO) anticipates that between 10.9 and 21.6GW of nuclear power will be needed in 2050: Future Energy Scenarios 2025: Pathways to Net Zero, page 45. The UK's four other operational nuclear power stations are currently scheduled to end generation between 2028 and 2030, whilst the two new nuclear power plants under construction, Hinkley Point C and Sizewell C, are not scheduled to come online until the 2030s and will provide 6.5GW.

electricity prices, is [£1-5 billion].[7] The Assessment explains that there is considerable uncertainty around the future development of the electricity generation market, meaning that the actual value of the Subsidy could be significantly lower or higher.

1.10 DESNZ explained that extending the operational life of existing nuclear power stations, such as Sizewell B, is more cost-effective than both new nuclear construction and other forms of new-build generation, and that extending Sizewell B's lifetime will reduce overall system costs relative to a low-carbon counterfactual without the project.[8] The Subsidy is intended to contribute to government objectives, including security of supply as Sizewell B can provide low-carbon, firm, baseload[9] electricity that is not dependent on weather conditions. DESNZ expects the life extension of Sizewell B to support jobs and the wider economy by sustaining a highly skilled workforce and the UK nuclear supply chain.

1.11 The proposed CfD is a bespoke arrangement which will provide a guaranteed revenue stream for electricity generated by Sizewell B during the 20-year contract period. The main features are:

(a) ENGL will receive revenue support from the CfD counterparty, the Low Carbon Contracts Company (LCCC), funded by a levy on electricity suppliers and linked to the difference between an agreed strike price of £70.50/MWh (2025 prices) and an estimate of the market price for electricity called the baseload market reference price. The CfD will be bidirectional, meaning that ENGL will have to pay the LCCC when the reference price exceeds the strike price.

(b) The CfD will allow for compensation to be provided in the event of qualifying curtailment events[10] where the plant is prevented from generating to its full capacity. Compensation in respect of each qualifying curtailment event will be capped. DESNZ considers the probability of qualifying curtailment events occurring to be low.

[7] The SAU has excluded from this published version of the report information which it considers should be excluded having regard to the three considerations set out in section 244 of the Enterprise Act 2002 (specified information: considerations relevant to disclosure). The omissions are indicated by [✂]. Some numbers have been replaced by a range, which are shown in square brackets.
[8] DESNZ states that Sizewell B is more technologically suitable for a multi-decade life extension than the UK's other operational nuclear power stations, as Sizewell B is a pressurised water reactor station whilst the other nuclear power stations are advanced gas-cooled reactor stations.
[9] Power plants that run continuously over extended periods of time without variation in generation levels represent firm, baseload generation.
[10] Including, for example, in the event of an unplanned transmission system outage which directly affect the Generator's ability to export electricity.

(c) There will be two forms of two-way reopeners[11] to review fuel costs and operations expenditure (Opex) costs.

(d) A capital expenditure (Capex) cost gain share has been agreed to ensure consumers can benefit where Capex savings are realised by ENGL against the LTO works set out in the original base case financial model.

1.12 DESNZ explained that the Subsidy is a Subsidy of Particular Interest because the beneficiary, ENGL, will receive a subsidy in excess of £5 million which impacts the sensitive sector of electricity generation.

[11] Contractual agreements that allow upwards or downwards modifications to the strike price to reflect differences between actual costs and the costs assumed in the original base case financial model.

2. The SAU's Evaluation

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

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

2.2 Under Step 1, public authorities should consider compliance of a subsidy with:

(a) Principle A: Subsidies should pursue a specific policy objective in order to remedy an identified market failure or address an equity rationale (such as local or regional disadvantage, social difficulties or distributional concerns); and

(b) Principle E: Subsidies should be an appropriate policy instrument for achieving their specific policy objective and that objective cannot be achieved through other, less distortive, means.[12]

Policy objectives

2.3 The Assessment states that the policy objectives of the Subsidy are:

(a) the generation of firm electricity, supporting system stability and ensuring security of supply; and

(b) the provision of low carbon electricity that supports delivery of Net Zero[13] at a low system cost.

2.4 The Assessment sets out that these policy objectives are part of the wider government goal to affordably decarbonise the energy system and achieve Net Zero.

2.5 The Assessment explains that nuclear energy provides security of supply[14] by providing firm, domestically produced power, as well as system stability[15] by producing reliable baseload generation.[16] It sets out that the transition to renewables such as wind and solar poses issues regarding system stability as

[12] See Statutory Guidance, paragraphs 3.33–3.59 and the SAU Guidance, paragraphs 3.6–3.10 for further detail.
[13] Net Zero means that total greenhouse gas emissions are equal to emissions removed from the atmosphere.
[14] The Assessment defines security of supply as the ability of the electricity supply to cover peak demand, including during periods of stress such as unplanned outages.
[15] The Assessment defines system stability as ensuring the technical limitations of the system are managed such as frequency changes from sudden movements in supply and demand.
[16] See paragraph 1.10.

they are intermittent sources of generation, and that renewables will need to be supported by firm sources of power such as nuclear energy that are not weather-dependent and produce reliable baseload generation. The Assessment outlines that the baseload capacity of 1.2 GW, which the Subsidy will enable Sizewell B to provide between 2035 and 2055, will help the electricity system to provide an uninterrupted supply of electricity through fluctuations in demand and supply, whilst reducing overall system costs.

2.6 The Assessment explains that the UK needs increased, low-carbon electricity generation capacity to replace fossil fuels to support the commitment to reach Net Zero in 2050. It notes that nuclear power produces lower lifetime emissions than alternative low-carbon sources and represents a less costly approach to meeting the 2050 Net Zero target than alternative generation options which maximise the use of renewable energy sources. The Assessment explains that this is due to factors such as timing of generation, reliability, location and ability to balance the electricity system, which mean that nuclear power produces electricity at a lower system cost than alternatives.

2.7 In our view, the Assessment clearly describes and evidences the specific policy objectives of the Subsidy.

Market failure

2.8 Market failures arise where market forces alone do not produce an efficient outcome. When this arises, businesses may make investments that are financially rational for themselves, but not socially desirable.[17]

2.9 The Assessment describes the following market failures:

(a) Public good: The Assessment sets out that security of energy supply is a public good which the market and investors undervalue and are not incentivised to deliver. It explains that as a domestically generated source of firm power, nuclear energy provides reliable baseload generation to help ensure security of low-carbon electricity supply and reduce the UK's exposure to energy imports, whilst maintaining system stability.

(b) Negative externalities: The Assessment explains that carbon emissions represent a negative externality as the social cost of emissions may not be borne by the organisation responsible for them. It outlines that this means that investors are not fully incentivised to invest in low-carbon generation instead of fossil fuels, including nuclear power which produces lower lifetime emissions than alternative low-carbon sources.

[17] Statutory Guidance, paragraphs 3.36–3.51.

2.10 The Assessment states that factors such as high Capex costs and revenue uncertainty due to electricity price volatility and energy transition mean that the market is likely to underinvest in nuclear projects such as the LTO works relative to the value of the system benefits they provide. It explains that the Subsidy will address the market failures by providing price certainty through a guaranteed price for the sale of electricity which will provide EDF[18] with sufficient confidence of a return on their investment to proceed with the Sizewell B LTO works.

2.11 In our view, the Assessment clearly describes and evidences the market failures that the Subsidy seeks to remedy. However, given that supporting system stability forms part of the policy objective of the Subsidy, the Assessment could more clearly separate the description and explanation of the undervalued benefits of system stability from those of security of supply and describe the former in more detail.

Appropriateness

2.12 Public authorities must determine whether a subsidy is the most appropriate instrument for achieving the policy objective. As part of this, they should consider other ways of addressing the market failure or equity issue.[19]

2.13 The Assessment explains that DESNZ considered a range of options for achieving the policy objective, including both subsidy and non-subsidy interventions. It explains why a 'do-nothing option', where no subsidy is provided, presents a risk to security of supply and net zero targets, as DESNZ consider that Sizewell B will not continue generating beyond 2035 in this scenario. The Assessment further explains that loans or equity investments on commercial terms would not overcome the barriers to investment and that a regulatory approach was discounted because it would require the development of novel and untested arrangements, as well as primary legislation. It outlines that government ownership of Sizewell B was considered and discounted because this option would require significant capital funding and operational capability, making it a less practical option than the Subsidy.

2.14 In addition to these non-subsidy options, the Assessment outlines that a bespoke capacity market agreement, a cap and floor mechanism and a regulated asset base model were considered as alternative subsidy design choices. It explains why each of these options was considered less suitable than the Subsidy by setting out the risks associated with each option (see paragraph 2.39).

[18] See footnote 4.
[19] Statutory Guidance, paragraphs 3.57–3.59.

2.15 The Assessment concludes that the Subsidy is the most appropriate policy instrument because it addresses the identified market failures and investment barriers within the required timeframe, while providing a more targeted and practical intervention than the alternative options considered.

2.16 In our view, the Assessment demonstrates that DESNZ has considered a range of alternative means to extend Sizewell B's lifetime in order to achieve its policy objective and explains why these options are not appropriate. However, the Assessment focuses mainly on why alternative subsidy designs were not considered appropriate. It should explain in greater detail why alternatives to subsidy were rejected, such as by further outlining the risks associated with these options, as this is more relevant to demonstrating compliance with Principle E.

2.17 In addition, the Assessment should set out whether any less distortive means were considered to achieve the Subsidy's policy objectives that did not involve Sizewell B and why they were not considered appropriate. In doing so, the Assessment could also consider how the Subsidy interacts with, and complements, other ongoing policy interventions aimed at achieving the policy objectives such as Net Zero and why those would not be expected to deliver the objectives on their own.

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

2.18 Under Step 2, public authorities should consider compliance of a subsidy with:

(a) Principle C: Subsidies should be designed to bring about a change of economic behaviour of the beneficiary. That change should be something that would not happen without the Subsidy and be conducive to achieving its specific policy objective; and

(b) Principle D: Subsidies should not normally compensate for the costs the beneficiary would have funded in the absence of any subsidy.[20]

Counterfactual

2.19 In assessing the counterfactual, public authorities should consider what would likely happen in the future – over both the long and short term – if no subsidy were awarded (the 'do nothing' scenario).[21]

2.20 The Assessment sets out a counterfactual scenario where, absent the Subsidy, the LTO works will not take place. It explains that EDF[22] has informed DESNZ that

[20] See Statutory Guidance, paragraphs 3.60–3.74 and the SAU Guidance, paragraphs 3.11–3.13 for further detail.
[21] Statutory Guidance, paragraphs 3.63–3.65.
[22] See footnote 4.

it would not invest in the LTO works without government support. The Assessment outlines that DESNZ believes that this is a credible claim, drawing on DESNZ's analysis of EDF's financial position and modelling of the expected costs and revenues associated with the project.

2.21 The Assessment explains that, in the absence of the Subsidy, Sizewell B would rely entirely on revenue from wholesale and capacity markets. It outlines that DESNZ's modelling of projected costs and revenues indicates that the project's internal rate of return (IRR) could fall below the hurdle rate in some scenarios. The Assessment further explains that DESNZ benchmarked the hurdle rate against comparable nuclear generation projects to assess whether the rate was reasonable.

2.22 The Assessment acknowledges that, while there are scenarios in which higher wholesale prices could make the LTO works viable without the Subsidy, the risk of low wholesale prices is sufficient to deter investment. It also notes that Sizewell B explored securing long-term power purchase agreements with third parties to provide price certainty, but minimal interest was received.[23] The Assessment therefore concludes that the LTO works will not be undertaken absent the Subsidy and Sizewell B would enter decommissioning in 2035.

2.23 In our view, the Assessment clearly describes and evidences what would likely happen if the Subsidy was not awarded. However, while the Assessment clearly explains why ENGL would not undertake the LTO works in the absence of the Subsidy, it should consider in more detail the extent to which the policy objectives could be achieved in this counterfactual scenario. To do this, it could set out within Step 2 whether alternative sources of low-carbon generation or other market developments could offset the loss of Sizewell B's output and the implications this would have for security of supply, system stability and system cost, which form part of the policy objectives.

Changes in economic behaviour of the beneficiary and additionality

2.24 Subsidies must bring about something that would not have occurred without the Subsidy.[24] They should not be used to finance a project or activity that the beneficiary would have undertaken in a similar form, manner, and timeframe without the Subsidy ('additionality').[25]

[23] DESNZ attributes this partly to the scale of Sizewell B's output, which would be significantly larger than other renewable projects financed through power purchase agreements, and to the limited number of potential offtakers able to manage the power volume and associated credit risk.
[24] Statutory Guidance, paragraph 3.67.
[25] Statutory Guidance, paragraphs 3.66–3.70.

2.25 The Assessment outlines that the Subsidy will change ENGL's economic behaviour by reducing exposure to uncertainty in future wholesale electricity prices, thereby enabling investment in the LTO works. It states that the Subsidy, which provides revenue support, would not compensate for costs that the beneficiary would have funded in the absence of the Subsidy, as DESNZ considers that the LTO works would not proceed and Sizewell B would enter decommissioning in that scenario.

2.26 The Assessment explains that the Subsidy will only come into effect when the LTO works are completed. It also explains that there is not a risk of ENGL being over-compensated by the Subsidy because the structure of the CfD is such that where firms earn returns above the strike price, these are paid back to consumers.

2.27 In our view, the Assessment clearly explains and evidences how the Subsidy would change the beneficiary's economic behaviour and that the subsidy brings about changes that would not occur absent the Subsidy.

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

2.28 Under Step 3, public authorities should consider compliance of a subsidy with:

(a) Principle B: Subsidies should be proportionate to their specific policy objective and limited to what is necessary to achieve it; and

(b) Principle F: Subsidies should be designed to achieve their specific policy objective while minimising any negative effects on competition or investment within the United Kingdom.[26]

Proportionality

2.29 The Assessment states that the Subsidy is the minimum necessary to achieve its policy objectives and specifically to achieve the life extension of Sizewell B.

2.30 The Assessment explains that, as a bidirectional CfD, the precise subsidy amount will vary with the future wholesale energy price. It estimates a total subsidy value of [£1-5 billion] (2025 prices, discounted to 2026), depending on future electricity prices. The Assessment explains that, under this estimate, the Subsidy represents [✂] % of the beneficiary's costs and [less than 5%] of the electricity wholesale market by revenue.

2.31 The Assessment sets out that the strike price of £70.50/MWh comprises:

[26] See Statutory Guidance, paragraphs 3.75–3.112 and the SAU Guidance, paragraphs 3.14–3.18 for further detail.

(a) the Opex and Capex costs of extending Sizewell B's life and running it for that extended period;

(b) residual market risks; and

(c) fuel costs.

2.32 The Assessment explains in detail how this strike price was negotiated. In particular, it explains that the market risk component was negotiated down by DESNZ by:

(a) modifying the process for future adjustments to the reference prices the strike price is to be compared against;

(b) adding curtailment protection;

(c) adding a two-way contractual reopener by which the strike price can be renegotiated if Sizewell B's Opex requirements are materially different [✂] years into the subsidy term (subject to alignment with a reference class of plants); and

(d) a Capex gain share mechanism (see paragraph 1.11(d)).

2.33 The Assessment also explains that there is an additional contractual reopener in [✂] if fuel costs differ materially from their negotiated value in the strike price, subject to alignment with a reference class of plants.[27]

2.34 The Assessment further explains that the allowed Opex and Capex reflected in the strike price was subject to due diligence by an independent technical expert. It outlines that this process resulted in certain Capex items being deemed to be non-essential and removed from scope. The Assessment notes that, while the allowed Opex is higher than Sizewell B's historical average, this reflects the minimum necessary due to expected upwards cost pressures, for example from reduced economies of scale as ENGL decommissions its other plants.

2.35 The Assessment states that the IRR reflects that the project will receive a 0% return on Opex and a return on additional Capex required for the lifetime extension. It explains that the ultimate IRR is dependent on a range of factors, including plant performance and the extent of any overruns on the Capex requirement. The Assessment explains that the allowed rate of return lies within the 7-12% range for the IRR identified by an independent due diligence process that considered similar projects. The Assessment notes this is lower than the 11.4% rate of return allowed for Hinkley Point C and the approximately 10% rate of

[27] See paragraph 1.11 for further detail on the features of the Subsidy outlined in paragraphs 2.32 and 2.33.

return on offshore wind projects. It further notes that the overall resulting strike price of £70.50/MWh is lower than several comparable projects in 2025 prices, such as Hinkley Point C (c.£127/MWh), AR7 offshore fixed-bottom wind power projects (c.£94/MWh) and the Drax power plant (£158/MWh).

2.36 Beyond the agreed strike price, the Assessment explains that the terms of the Subsidy further include compensation for ENGL if Sizewell B is curtailed. It outlines that this compensation, in respect of each qualifying curtailment, is capped at the equivalent of [✂] of lost generation revenue. The Assessment explains that there is a very low probability of curtailment but acknowledges that the curtailment protection provided is greater than DESNZ's estimate of its value.

2.37 In our view, the Assessment clearly demonstrates and evidences that the agreed strike price is proportionate and limited to the minimum necessary to achieve its specific policy objectives, in line with the Statutory Guidance. However, the Assessment should more clearly explain how the overall package for curtailment protection is the minimum necessary, [✂].

Design of Subsidy to minimise negative effects on competition and investment

2.38 The Assessment explains why it is considered that a bidirectional CfD is the appropriate form of subsidy to provide long-term certainty to investments in electricity generation.

2.39 In reaching this conclusion, the Assessment considers, and discounts, the following alternative forms of Subsidy:

(a) A bespoke capacity market mechanism. The Assessment explains that this option was discounted because it would require a new model and primary legislation, making it unlikely to be deliverable within the required timeframe. It also states that there was uncertainty as to whether it would provide sufficient support to incentivise the investment.

(b) A cap and floor mechanism under which revenues would be constrained within agreed upper and lower limits. The Assessment explains that this option was discounted because it would require a novel funding model and was not considered feasible within the required timetable, despite being considered capable of supporting the investment.

(c) Regulated asset base model similar to the model being used to support Sizewell C. The Assessment explains that this option was rejected because it was unlikely to be deliverable within the required timetable, given the complexity of the model and the fact that the existing framework was developed for new-build projects rather than lifetime extensions.

2.40 The Assessment addresses the design characteristics identified in the Statutory Guidance as relevant to minimising the negative effects on competition, including the following:

(a) Timespan. The Assessment explains that the Subsidy's duration of 20 years matches the technically feasible life extension of Sizewell B.

(b) Breadth of beneficiaries. The Assessment explains that as the Subsidy is a life extension of a plant with an existing operator (ENGL), a competitive process to choose who would operate the plant, and so receive the Subsidy, was not appropriate.

(c) Nature of costs. The Assessment explains that the Subsidy covers both fixed costs for the Capex to refurbish the plant to extend its life and its ongoing operational costs over that extended life. It explains that only covering the Capex requirements would not provide the revenue stability required.

(d) Performance criteria. The Assessment explains that the Subsidy's endpoint is set at 2055 and that if ENGL does not complete the works to extend Sizewell B's life by 2035, it will lose that period of delay from the Subsidy's effective duration and, after a certain period of extended delay, the Subsidy may be terminated. It also explains that CfDs only provide funding for electricity provided and that the Subsidy contains certain clawback mechanisms.

(e) Ringfencing. The Assessment outlines that the Subsidy is effectively ring-fenced for extending Sizewell B's life as ENGL is structurally separated from its shareholders and, by the Subsidy's commencement, Sizewell B will be ENGL's only operational asset.

(f) Monitoring and evaluation. The Assessment explains that the Subsidy will fall within Ofgem's and the LCCC's existing monitoring of CfDs. Additionally, the Assessment states that DESNZ has a monitoring and evaluation plan in place to assess whether the Subsidy meets its objectives, such as the quantity of electricity output from Sizewell B. It further notes that there are periodic review points in the form of reopeners within the Subsidy's contractual terms.

2.41 In our view, the Assessment clearly and thoroughly demonstrates and evidences how design features of the Subsidy contribute to minimising any negative effects of the Subsidy on competition and investment within the United Kingdom, including by addressing those design features set out in Annex 3 of the Statutory Guidance.

Assessment of effects on competition or investment

2.42 The Assessment identifies and assesses a series of potential impacts on competition or investment from the Subsidy. For each impact, it identifies the potential parties which could be impacted, the relevant geographic market and the elements of the Subsidy's design which reduce the likelihood and magnitude of any negative effects. It concludes that there is a low likelihood of negative impact and that any negative effects would be limited.

2.43 The Assessment identifies the relevant product market as the wholesale electricity market, covering all energy sources. It cites previous European Commission merger decisions as precedent for not dividing the market by energy sources. The Assessment identifies the relevant geographic market as Great Britain (excluding Northern Ireland, which participates in the Integrated Single Electricity Market instead).

2.44 The Assessment considers that there is a low risk of the Subsidy distorting competition in the wholesale market because the market share of EDF, the principal shareholder in ENGL, is expected to remain below 15%; and Centrica, the minority shareholder in ENGL, does not have a significant market share. Further, the Assessment explains that Sizewell B only represents [✂] % of the wholesale market by revenue.

2.45 The Assessment notes that, despite its low market share, EDF may have the ability to distort competition by withholding capacity at a time when its plants' generation is indispensable to meet demand. However, it considers EDF will not have the incentive to do this because, under the Subsidy, Sizewell B's strike price is predetermined and therefore such behaviour would not increase EDF's revenue from Sizewell B. It explains that Sizewell B is not designed for its output to be varied; and such behaviour would be subject to scrutiny by Ofgem.

2.46 The Assessment notes that the Subsidy could distort investment in alternative nuclear and non-nuclear generation projects and so future competition. Specifically, the Assessment identifies that, in the counterfactual of Sizewell B being decommissioned, other projects not led by ENGL would be required to replace its lost capacity and may benefit from the private financing supporting Sizewell B's life extension. However, it considers that the risk of negative effects on other projects is small. For other nuclear projects, it notes that there are a number of separate policies in place to encourage investment in nuclear energy in Great Britain, including in the form of small modular reactors. Additionally, it explains that Sizewell B is the only nuclear plant whose life could be extended. For non-nuclear projects, the Assessment notes that the Subsidy is small relative to the overall market, and relative to the greater capacity from other energy sources required to meet Net Zero objectives.

2.47 As both of ENGL's shareholders are vertically integrated into the retail electricity market, the Assessment further considers the potential for the Subsidy to distort competition in the Great Britain retail electricity market. It considers that there is a low risk of distortion. First, it explains that EDF's share of the retail market is around 10% (2026 data) and that this small share and the fact that the Subsidy does not add new capacity mean that the Subsidy is unlikely to incentivise EDF to self-preference to its retail competitors' detriment and that any such self-preferencing would have a small impact. Second, the Assessment explains that while Centrica's share is larger at around 20% (2026 data), it cannot control Sizewell B's trading strategy and receives no preferential access to Sizewell B's output.

2.48 Beyond the wholesale and retail markets, the Assessment considers the potential for distortive effects in a number of input markets, including:

(a) The supply chain for nuclear infrastructure. The Assessment identifies that Sizewell B's life extension will generate demand in input markets for nuclear infrastructure such as nuclear engineering services and safety critical components. It further identifies that there is effectively only a single choice of supplier for some inputs and that for these input markets, the Subsidy will not change their competitive conditions. For input labour markets in particular, the Assessment considers that, by upskilling the UK's workforce, Sizewell B's life extension will positively impact these markets.

(b) The supply chain for non-nuclear infrastructure. The Assessment identifies that certain inputs to the Sizewell B life extension are used across a range of non-nuclear infrastructure markets. However, it considers that these markets will not be materially distorted because the overlapping inputs are not subject to capacity constraints and the markets for them are shaped primarily by overarching policy frameworks, rather than individual projects.

(c) Nuclear fuel markets. The Assessment identifies that the market for nuclear fuels is global and that Sizewell B represents only 208 tonnes of raw uranium compared to global demand of around 68,920 tonnes. It therefore concludes that the risk of distortion from the Subsidy is very low.

2.49 In our view, the Assessment clearly considers and evidences the effect of the Subsidy on competition and investment, in line with Annex 3 of the Statutory Guidance. In particular, the Assessment is comprehensive and systematic in identifying the relevant markets and assessing the potential for distortive impacts on competition and investment, including by calculating market shares, considering the mechanisms through which those impacts might be realised and analysing the implications of the vertical integration of ENGL's shareholders.

Step 4: Carrying out the balancing exercise

2.50 Under step 4 (principle G), public authorities should establish that the benefits of the Subsidy (in relation to the specific policy objective) outweigh its negative effects, in particular negative effects on competition or investment within the United Kingdom and on international trade or investment.[28]

2.51 The Assessment identifies several benefits of achieving the policy objectives through the Subsidy. These include maintaining 1.2 GW of firm, low-carbon baseload generation; supporting system stability and security of supply; reducing reliance on imported energy and exposure to volatile international gas markets; supporting delivery of Net Zero at low system cost; reducing delivery risks associated with meeting Net Zero objectives; and generating electricity at a scale equivalent to the annual electricity needs of around 2.5 million homes. The Assessment also identifies secondary benefits arising from the Subsidy which, it states, indirectly support the policy objectives by developing the skills needed for the future energy system.[29]

2.52 The Assessment further states that extending the operational life of Sizewell B would support delivery of a low-carbon electricity system at lower cost than alternative options. It refers to modelling which estimates that extending the operational life of Sizewell B would generate a positive net present value relative to a Net Zero-compliant counterfactual. The Assessment explains that, in this counterfactual, Sizewell B is decommissioned and its generation is replaced by alternative low-carbon generation capacity required to meet Net Zero objectives. It concludes that extending the life of Sizewell B is less costly than constructing replacement low-carbon generation capacity.

2.53 The Assessment considers a range of potential negative effects of the Subsidy. In relation to competition and investment, the Assessment considers the potential impacts on wholesale and retail electricity markets, alternative generation projects, supply chain and international trade and explains why these impacts are expected to be limited (see paragraphs 2.42 to 2.48). The Assessment also considers local impacts arising from refurbishment activity and concludes that any disruption is likely to be limited given the works will take place at an existing nuclear site and largely during planned outage periods.

2.54 The Assessment recognises that the Subsidy could increase consumer bills when the strike price exceeds wholesale prices, as any levy payments are recovered through electricity bills. However, it states that extending Sizewell B's lifetime is expected to reduce overall electricity system costs relative to the counterfactual

[28] See Statutory Guidance, paragraphs 3.113–3.121 and the SAU Guidance, paragraphs 3.19–3.21 for further detail.

[29] These benefits include supporting approximately 800 high-value jobs and preserving specialist nuclear capability for future nuclear projects.

and therefore result in lower consumer bills than would otherwise arise. The Assessment also notes that support mechanisms exist for some energy-intensive businesses, wider reforms to the funding of energy policy costs are being considered, and that DESNZ has considered the impact of the Subsidy on groups with protected characteristics.

2.55 The Assessment concludes that the identified negative impacts are limited and outweighed by the benefits of the Subsidy. It states that the Subsidy will enable investment in the Sizewell B LTO works and represents the best value for money option for taxpayers and consumers when compared with alternative options and models.

2.56 In our view, the Assessment sets out the positive effects of the Subsidy in relation to the policy objectives, its geographic impacts, as well as potential negative impacts, and conducts a balancing exercise between them in line with the Statutory Guidance.

Other Requirements of the Act

2.57 DESNZ has confirmed that, as the referral relates to nuclear energy, it is not required to apply the Energy and Environment Principles.[30]

2.58 DESNZ confirmed that no other requirements or prohibitions set out in Chapter 2 of Part 2 of the Act apply to the Subsidy.

3 September 2026

[30] Section 51(1) of the Act.