SONE

Supporters of Nuclear Energy

Newsletter

No 214 July 2016

HINKLEY - NOW THE UK HESITATES

Within hours of this month's announcement that the EDF Board had given the go ahead for investment in the £18 billion Hinkley Point C power station project in Somerset the UK Government announced that it needed more time to consider the scheme. The general reaction to this totally unexpected news among the other players in this long-running saga was a mixture of astonishment, frustration and not a little annoyance.

A bare two weeks before the Government's extraordinary move the new Chancellor of the Exchequer, Philip Hammond, was adamant that the project must go ahead. He described it as a "prerequisite" for the UK developing a fully modern and functioning power and supply system. Mind you, the Chancellor also said that there was "obviously an atmosphere of uncertainty" around the £18 billion Hinkley scheme, because of the change of ministers following the Brexit referendum. How right he was.

The most important change of ministers was, of course, the enthronement of Theresa May as Prime Minister. Mrs. May is a politician with a reputation for making decisions for herself and only after a thorough examination of the facts. In her previous role as Home Secretary she would not have been deeply involved in discussions on energy and climate change. Nevertheless, as a member of the Cameron Cabinet she would be aware that the Hinkley scheme was extremely expensive and a potential political and social minefield.

NATIONAL SECURITY CONCERNS

The government's last minute intervention wrong-footed EDF which had just announced that its Board of Directors had made the final investment decision at long last. It had given the company's President the authority to go ahead to sign all the contracts and agreements needed to build the two EPR reactors planned for Hinkley. UK Government support was thought to be already in the bag, a mere formality.

There is considerable speculation about the real reason for the delay. Most commentators put it down to the influence of Nick Timothy, a special adviser to the Prime Minister, who expressed concern about the involvement of the "hostile" Chinese in such a key UK infrastructure project nine months ago. Others suggested that Mrs. May, no fan of the previous Chancellor, George Osborne, felt that in his eagerness to get more business from the Chinese in other business areas Mr. Osborne had not studied the small print of the Hinkley Point C nuclear deal carefully enough.

Whatever the reason for delay, the Government has now told us to expect a decision on behalf of the UK "in the early autumn." Whichever way that decision goes - and if I was a betting man I would put the odds of the scheme now going ahead as no better than evens - it will be an historic decision, the merits of which will be debated for years to come.

Within hours of the EDF Board giving the project the go ahead on behalf of the French - on a split vote of 10 votes to seven, with one dissenting director resigning before it was taken - Greg Clark, the new Business and Energy Secretary, tried to explain why the UK needed more time to think about the ramifications of a scheme which has been nearly a decade in the making.

The term "perfidious Albion" comes to mind as a description of how the French must have felt when they read Mr. Clark's less than persuasive statement, rushed out via the internet. Despite its public protestations that it understood the UK's decision "loss of face" was probably the reaction of the State-owned China General Nuclear Power Corporation (CGN), which agreed last year to take a one-third investment interest in the project.

NOT A U-TURN?

Mr. Clark must have felt embarrassed at being put in a position where he had to make that "hold your horses" statement. A week earlier he had said that he looked forward to the outcome of the EDF Board meeting and seemed to be raring to go.

"New nuclear is an essential part of our plan for a secure, clean and affordable energy system that will power the economy throughout this century," the Minister said then. "It's clear that we are open for business as we come closer to sealing the deal on this major investment in British infrastructure and British jobs."

It would seem that the French Government and EDF were not warned that the UK was thinking about a delay any more than Mr. Clark was, although the French President may have been tipped off by our Prime Minister, somewhat belatedly. French Government officials and EDF directors had arranged for media interviews to take place the day after the EDF Board met. They were left with egg on their faces and so was most of the media, which had been running stories for days that the French and the British were about to sign up for the Hinkley Point C project.

Now the UK Government is having to play down suggestions that there has been a U-turn, insisting that it was natural that the new Prime Minister would want to take time to review the project “before approving it.“ (Or not approving it, presumably). If delay was “natural“(and therefore to be expected) why wasn’t something said before the French stuck their necks out? Why were Chinese representatives , including the CGN Chairman, allowed to set off for Somerset to join in planned celebrations? The probable explanation is that the Prime Minister felt that if she said too much too early the EDF Board would not have approved the investment deal and would be able to blame the UK for scuppering it.

What happens next is anyone’s guess. Maybe it is all a negotiating ploy, an attempt to get the “strike price” agreed by the Government, long considered to be too high, reduced. The strike price is a guaranteed price for the electricity generated by Hinkley Point C of £92.50 a megawatt hour for 35 years, more than twice the cost of existing wholesale electricity prices. The strike price would reduce slightly if a second power station using EPR reactors went ahead.

If UK concern really centres on the involvement in the Hinkley project of the Chinese State-owned CGN company, which took a 33% stake in the venture a year ago, then the logic seems to be that EDF should be asked to look elsewhere for investment support, which is essential. The chances of it finding a new external source of funding is extremely remote, however, and the French Government, which effectively owns EDF, is most unlikely to come to the rescue. So is the UK Government.

DECOUPLING THE DEAL

As it is French State holdings in a wide range of non-nuclear industries are currently being sold off in an attempt to raise funds to protect and assist two nuclear groups, EDF and Areva, both of which are involved in the Hinkley project. Equally, it would be an enormous step for the UK Government and the taxpayer to buy into the scheme and I cannot see that happening. The Government has always said that electricity consumers must pay for any new nuclear power stations not taxpayers.

Another manoeuvre which is thought to be a possibility is for the UK to press for the agreement now on the table to be “decoupled.” It currently provides for Chinese investment in new nuclear power stations in Suffolk and Essex. EDF and the China General Nuclear Power Corporation have agreed a partnership for the development of plants at Sizewell and Bradwell under which the

Chinese would have a 66.5% controlling stake in a new Bradwell plant, a prospect which alarms some Whitehall officials.

It had long been thought that it was the French who might pull the plug on the Hinkley scheme not the UK. EDF's decision to invest in it has been postponed time and time again for a whole raft of reasons, unnerving some of SONE's members, EDF's own employees and, possibly, Britain's new Prime Minister.

There have been rising cost estimates and doubts about the Areva technology and materials incorporated in the two EPR reactors planned for Hinkley which are meant to provide 7% of the UK's electricity. Serious roblems with the construction of similar reactors at Flamanville in France and in Finland have not been encouraging.

The most recent opposition to the Hinkley project has come from EDF's powerful French trade unions, which are represented on the EDF Board. They argued that the project could affect the EDF Group's financial stability and threaten the jobs of their own members in France.

A "BONKERS" DECISION SAY UK UNIONS

The UK unions, on the other hand, fully support the project and one union leader called the government's decision to delay the scheme "bonkers." The construction of Hinkley Point C will create an estimated 25,000 jobs, with completion scheduled for 2025 and the two EPR reactors at the plant would provide 7% of Britain's electricity. Some £2 billion plus has already been spent on site preparation and abandoning the project would inevitably lead to legal wrangles about who should pay for that work.

Until now the UK Government has been steadfast in its support for Hinkley despite the doubts about its costs which have been expressed, most recently by two of its own watchdog organisations. With impeccably good or bad timing, depending on your viewpoint, they spoke out a couple of weeks before the EDF decision was taken.

The National Audit Office was particularly critical, warning that the project could cost energy consumers £30 billion in "top up payments" because of falling wholesale power prices, a claim dismissed by EDF. "Short term changes in today's wholesale energy prices do not change the long-term case for Hinkley Point C," the company insisted. The second watchdog, the Infrastructure and Projects Authority, argued that the potential cost of Hinkley could be as high as £37 billion but that estimate was pooh-poohed, too.

The UK Government's delaying tactic is not going down well in Japan, any more than it is in France and China. Britain's indecision is seen there as "disrespectful" by politicians and executives in Tokyo. Greg Clark has tried to reassure the Japanese that the UK government is totally committed to Hitachi's new nuclear project in Anglesey and Toshiba's in Cumbria.

One cannot help but feel sorry for EDF and the French Government. As though they did not have enough problems the European Commission has decided to investigate a badly needed restructuring programme involving EDF and Areva.

One of the reasons why a majority of the British people voted to leave the European Union was the feeling that the UK should take its own decisions, not leave them for a bunch of Brussels bureaucrat to take, impose and monitor. That being so the French Government, which effectively owns the country's nuclear industry and, indirectly, the UK's nuclear industry as well through its majority shareholding in EDF, must be wondering why France doesn't take a spot of French Leave.

FRENCH LEAVE FOR THE FRENCH?

One definition of the term French Leave is "a departure without ceremony, permission or notice" and in French the equivalent phrase is filer a l'anglais - "to leave English style." The EU is clearly concerned that the English style Brexit which the UK is pursuing might become a template for other departures. This is not being considered by the French as far as I am aware, although an ex-pat friend tells me that some of the natives are becoming decidedly restless.

I found myself pondering over one of the latest pieces of bureaucratic nonsense from Brussels this month when it was announced that the European Commission was to launch an investigation to determine whether the French Government's contribution of €4 billion towards the financing of the badly needed restructuring of Areva meets EU rules on State aid.

Twelve months ago EDF (84% State owned) and Areva (in which the French State has an 86.5% stake) announced tbhat they had signed a memorandum of understanding setting out the principal terms and conditions for EDF to take a majority share in Areva's struggling reactor business, Areva NP.

Areva, which has been in financial difficulties for at least the last five years, plans to create a new group later this year which will bring together all its fuel cycle operations - mining, chemistry, enrichment, recycling, dismantling, logistics and related engineering. Three months ago France notified the European Commission that it had developed a restructuring plan aimed at restoring the Areva Group's competitiveness and improve its financial position

The plan includes State aid in the form of a public capital injection of €4.4 billion and, among other things, it will involve Areva NP, the subsidiary that produces nuclear reactors (notably the EPR) being sold to nuclear operator EDF.

Given Areva's technical problems it is difficult to imagine other companies within the EU queuing up to buy all or part of Areva in competition within EDF although some sort of cherry picking raid might be possible I suppose.

In any event, the European guidelines on State aid for rescuing companies in difficulty specify that aid to such companies can only be granted for up to six months. Beyond this period aid must either be reimbursed (in other words State funds must be returned to the State, a sort of bureaucratic sleight of hand) or a revised restructuring plan must be approved by the European Commission.

This plan must ensure that the long-term viability of a company is restored without further State support, that the distortions of competition caused by the State aid are addressed by specific measures and that the company (owned by the State remember) contributes to the cost of restructuring. Restructuring may only be granted once over a period of ten years.

Margrethe Vestager, the Danish politician who is the commissioner responsible for competition policy within the EC (Denmark decided 30 yers ago not to build any new nuclear power stations incidentally) had this to say about the investigation she has called for:

"Given the size and importance of the restructuring of Areva, the commission has to carefully assess that the restructuring plan is sound and that the State aid does not unduly distort competition in the Single Market. Our aim is to ensure a sustainable future for Areva without the need for further Government support." I guess the French government has much the same objective.

NOW FOR SOME POSITIVE NEWS

It is particularly unfortunate that the UK Government should put a spanner in the works, casting doubt about its commitment to new build nuclear projects, just as a UK parliamentary committee looking into the future of nuclear power in Wales has concluded that Horizon Nuclear Power's proposed Wylfa Newydd plant in Anglesey can deliver value for money.

More than that it says the Trawsfynydd site in Wales is a "stand out candidate" for locating a first of its kind small modular reactor (SMR) in the UK.

The Commons Select Committee on Welsh Affairs launched its inquiry into nuclear energy's future in Wales at the beginning of the year. Since then six evidence sessions have been held, hearing from 33 witnesses - among them SONE's Chairman, Sir William McAlpine, committee member Neville

Chamberlain and Professor Wade Allison, the SONE member who is to be the main speaker at this year's annual meeting.

The Welsh Affairs Committee has done a thorough job. Members visited the two main nuclear sites in Wales - Wylfa and Trawsfynydd and considered a wide range of important issues - the decommissioning of shut down plants, the construction of the new plant at Wylfa and the UK government's plans for the development of SMR among them.

The report has some important points to make about the "conflicting evidence" it received from witnesses on the potential cost of new nuclear build - and Wylfa Newydd in particular - and on the track record in Japan of the Advanced Boiling Water Reactor which will be used at Wylfa.

On the cost of nuclear new build the report has this to say: "Whilst nuclear power may not be the cheapest source of energy available it does have the added benefit of providing value for money for a secure and reliable source of low-carbon power. We are also reassured that the taxpayer will be protected from excessive costs, as the risk of the investment is placed on the developer."

The committee says that energy policy in the UK should balance cost against energy security and environmental concerns. It recommends that the government negotiate a strike price for Wylfa Newydd below that agreed for Hinkley Point C and seek a price that would be competitive with renewable sources, such as on-shore wind. The committee also says that the government should not continue with the project if the price is too high - an attitude which the government is obviously grappling with in relation to the Hinkley C project - but accepts that deciding what is too high is no easy task.

"Energy pricing is often difficult to understand and can seem opaque to experts, let alone the general public," the Select Committee report says. "Without access to all the necessary information it is difficult to compare and to critique decisions that have been taken. We recommend that the Government provide a clear and comprensible explanation of how the lifetime cost of energy sources are compared.

"In particular, the government should show how it compares new nuclear with renewable alternatives. The Government should also be transparent about all the costs related to new nuclear build, including the eventual cost of decommissioning and waste disposal."

The other area of "conflicting evidence" which the Committee remarks upon is the differing views it received on the track record in Japan of the Advanced Boiling Water Reactor which will be used at Wylfa Newydd.

"We received evidence to explain why lower than expected levels of output were seen in Japan, but it seems likely to us that Horizon Nuclear Power will be able to achieve a load factor similar to its commercial assumptions in the diffferent operating conditions in the UK," the report says.

Over-all the Committee's report is generally bullish. "We believe that Wylfa Newydd can deliver value for money and deliver a significant portion of the country's future energy needs," it says. "To achieve this the developers and the Government will need to manage delays and bottlenecks, to keep costs down and the project on schedule.

"The nuclear industry has made a major contribution to the economy of North Wales and Wylfa Newydd would make a strong contribution in the future. Without the nuclear power industry there is little prospect of many high-quality, well-paid jobs in the area, which will negatively affect the local economy."

SMR ENTHUSIASM

The Committee is similarly supportive of the Government's plans to invest at least £250 million over the next five years in an ambitious nuclear research and development programme to include a competition to identify the best value Small Modular Reactor (SMR) design for the UK.

"It is clear that Trawsfynydd would be an ideal site for a first-of-a-kind SMR," the Committee report says. "The availability of cooling water and the grid connections mean it would meet the technical requirements and its history as a nuclear site and its ownership by the Government mean that it would be easy to designate it as a site for SMR development. The presence of a skilled workforce, which is strongly in favour of the project, would also be a major boost to SMR development."

HAROLD BOLTER
SONE SECRETARY

Published by: Supporters of Nuclear Energy, c/o 9 Drayton Grove, Timperley, Altrincham, Cheshire WA15 7PZ *Tel:* 0161 980 0861

Web site: www.sone.org.uk *E-mail:* sec@sone.org.uk