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Dear Dr Wolff,

Thank you for your further letter dated 22 July to Chris Huhne about nuclear subsidies. Your letter has been passed to the DECC Correspondence Unit and I have been asked to reply, I apologise for the lengthy delay.

The Government is committed to removing unnecessary obstacles to investment in new nuclear power, alongside other forms of low-carbon generation. As the Coalition Agreement makes clear, however, there will be no public subsidy for new nuclear power.

The Government does not consider that the areas you have raised constitute a subsidy for new nuclear power, for the reasons set out below:

Limitations on liabilities

The Government recognises the importance of ensuring adequate and fair compensation in the unlikely event of a nuclear accident. And it believes the best way to secure this is through the UK's participation in the Paris Convention on nuclear third party liability and the Brussels Supplementary Convention. The

Comment [J G1]: This is a transcript of a letter from DECC to Gerry Wolff in response to an earlier letter from Gerry Wolff to Chris Huhne that may be downloaded from www.mng.org.uk/gw_ch_2010-07-22. The whole correspondence may be seen near the top of the page on www.energyfair.org.uk/government. The comments are by Gerry Wolff.

Some general comments:

- A major problem in this area is the way that subsidies for nuclear power are concealed within complex arrangements.
- Taxpayers and voters have a right to insist on simplicity and transparency in the arrangements so that costs and liabilities can be clearly seen.
- In general, that simplicity and transparency can be achieved as follows:
 - In each of the seven areas described in Section 2 of the *Nuclear Subsidies* report (www.mng.org.uk/nsubsidies.pdf), the operators of nuclear plants should be required to pay all their costs in a simple and transparent manner.
 - Where there is uncertainty about future costs, the operators of nuclear plants should be required to take out insurance to cover the risks.

Comment [J G2]: This is an extraordinary statement in view of the evidence presented in the *Nuclear Subsidies* report (www.mng.org.uk/nsubsidies.pdf). The reasons given in support of the statement are far from adequate.

Comment [J G3]: See Section 2.1 of *Nuclear Subsidies*, www.mng.org.uk/nsubsidies.pdf.

Comment [J G4]: This is the nub of the limitations on liabilities issue. Under the present arrangements, the operators of nuclear plants pay only a small fraction of the cost of insuring fully against a Chernobyl-style accident or worse. There is evidence (given in *Nuclear Subsidies*) that, without that subsidy, nuclear electricity in France would cost 3 times what it does now. We have calculated that, without that one subsidy, nuclear power would cost about 20 US cents per kWh, much higher than is claimed by the industry and much higher than most other sources of power.

Government does not therefore intend to withdraw from these Conventions.

The Conventions establish an internationally agreed framework for compensating victims of a nuclear incident. The Government will continue to follow the principles established in that framework. It is clear that, although the Conventions permit the limitation of operator liability, they also impose on operators more onerous obligations regarding the provision of compensation than those to which operators would be subject under the ordinary law. In addition, operators are required to meet the exacting safety standards of the regulatory authorities to prevent an accident occurring in the first place.

The Government is committed to implementing into UK law the changes that were made to the Conventions in 2004. These changes upgrade the existing regime and are intended to ensure that, in the event of a nuclear incident, an increased amount of compensation will be available to a larger number of victims in respect of a broader range of damage including damage related to the environment. The Government is in the process of introducing these changes into the Nuclear Installations Act 1965 and intends to issue a public consultation on this later this year.

In terms of the suggestion that victims outside the UK should be able to make claims, the Conventions have always allowed victims of other Paris Convention countries to make claims. The revised Conventions of 2004 go even further and extend the geographical scope to cover claims

Comment [J G5]: The Government cannot say that there will be “no public subsidy for new nuclear power” and, at the same time, refuse to take the steps needed to ensure that the ‘limitations on liabilities’ subsidy is removed.

Comment [J G6]: It appears that the operators of nuclear plants are paying less than 2% of the cost of insuring fully against a Chernobyl-style accident or worse. It is very unlikely that this is a more onerous obligation than would apply under ‘ordinary law’ when, normally, people and businesses are expected to provide full restitution for any damage they may cause to other people or businesses.

Legal advice that I have received is that, if this statement means anything at all, it is that the cap on liabilities under the Paris/Brussels conventions is less tight than it was before the conventions were created. In other words, nuclear operators have been excused from paying their full insurance costs for a long time.

Comment [J G7]: No system is fool proof. That is why full insurance against the risks is essential.

Comment [J G8]: It is unlikely that these changes will do more than make a small dent in the ‘limitations of liabilities’ subsidy.

for damage incurred in non-Convention countries with no nuclear installations and those with reciprocal arrangements.

Comment [J G9]: In general, there should be no restrictions on who can claim compensation for damage caused by a nuclear accident.

Underwriting of commercial risk

Comment [J G10]: See Section 2.2 of *Nuclear Subsidies*, www.mng.org.uk/nsubsidies.pdf.

As is the case with all nationally significant industries, the Government would need to consider the wider public interest case for intervention if a new nuclear power station operator should fail – although there is no indication that this would be necessary for any of the companies currently planning to invest in new nuclear in the UK.

Comment [J G11]: The key point here is that the nuclear industry is only ‘nationally significant’ because of the risks that arise if a nuclear operator fails. There is no equivalent risk with renewables and there are more than enough of them to meet our needs (see www.energyfair.org.uk/pren). To maintain a level playing field for different sources of power, the operators of nuclear power plants should be required to insure fully against the risks of commercial failure.

Protection against terrorist attack

Comment [J G12]: See Section 2.3 of *Nuclear Subsidies*, www.mng.org.uk/nsubsidies.pdf.

Under the Nuclear Industries Security Regulations 2003, the civil nuclear industry is required to have in place a range of security measures (including physical measures, armed policing on sites where this is required, measures to protect nuclear material while it is being transported, information and IT security, and vetting of staff). The civil nuclear industry pays for these measures.

There are, however, some security threats that the civil nuclear industry cannot be expected to protect against, especially where a national response is needed. In these instances, the civil nuclear industry would receive protection from terrorist attack by UK security forces – in the same way as other businesses and citizens.

Comment [J G13]: This is disingenuous. Terrorists are much more likely to attack a nuclear power plant, or trains and ships carrying nuclear materials, than they are to attack a wind farm or a sweet shop. The nuclear industry should be required to pay for all the security costs that are created by its activities.

Under the Paris and Brussels Conventions on nuclear third party liability operators are liable for damage caused by radioactive releases as a result of a

terrorist attack and they are required to put in place insurance or other financial security to cover this liability.

Costs of decommissioning, waste management and waste disposal

Under powers in the Energy Act 2008, the Government is putting in place a framework to ensure that new nuclear operators have arrangements in place to meet the full costs of decommissioning and their full share of waste management costs. This framework will ensure that funds put aside by operators for these purposes are available even in the event of the insolvency of the operator.

The Nuclear Liabilities Financing Assurance Board is an independent expert body that has been set up specifically to advise the Secretary of State on the adequacy of new nuclear operators' Funded Decommissioning Programmes, which must be approved before construction can begin.

The Government's policy is that the price paid by operators of new nuclear power stations for the disposal of their higher activity radioactive wastes should be sufficient to meet their full share of waste disposal costs. The precise details of this scheme are still under consideration.

Institutional support

Whilst the Government supports a range of organizations involved in the nuclear sector more broadly, this does not involve the provision of public subsidy to potential operators of new nuclear power stations.

The Office for Nuclear Development (OND) in the of Energy and Climate Change (DECC) is taking forward a

Comment [J G14]: Since nuclear operators are paying much less than the full cost of insuring against a Chernobyl-style accident or worse (see above), it is unlikely that they are paying the full cost of the liabilities mentioned here.

Comment [J G15]: See Sections 2.4, 2.5 and 2.6 of *Nuclear Subsidies*, www.mng.org.uk/nsubsidies.pdf.

Comment [J G16]: This is highly misleading:

- Detailed analysis by Greenpeace shows that, under the proposed new arrangements, the operators of nuclear plants would be protected from the risk of cost overruns in the disposal of nuclear waste and in decommissioning of nuclear plants (see the two Greenpeace responses to the Governments consultation on these issues which may be downloaded via links from www.energyfair.org.uk/government). The only satisfactory solution to this problem is for the operators of nuclear plants to be required to pay for insurance against the risk of cost overruns.
- Section 2.4 of *Nuclear Subsidies* contains evidence that the operators of nuclear plants are paying much less than the full cost of disposing of nuclear waste on short-to-medium timescales.
- There is no satisfactory way of covering the long-term costs of disposing of nuclear waste (see Section 2.5 of *Nuclear Subsidies*). In effect, many generations of people who are not yet born will be paying a subsidy to nuclear operators of today.
- Section 2.6 of *Nuclear Subsidies* provides evidence that it is impossible to predict the cost of decommissioning of nuclear plants. The only satisfactory way of protecting the public purse is to require the operators of nuclear plants to take out full commercial insurance against the risk of cost overruns in decommissioning.

Comment [J G17]: With simple transparent arrangements, this kind of thing is not necessary.

Comment [J G18]: A complicated scheme is not necessary. All that is required is for the operators of nuclear plants to make financial provision for the disposal of nuclear waste and to take out insurance against the risk of cost over-runs in the disposal of nuclear waste.

Comment [J G19]: See Section 2.7 of *Nuclear Subsidies*, www.mng.org.uk/nsubsidies.pdf.

Comment [J G20]: Our concerns are not limited to the operators of new nuclear power stations. The evidence that we have obtained to date suggests that the operators of existing nuclear power stations benefit substantially from staff time and institutional support and that the same is likely to be true for the operators of any new nuclear power stations that may be built.

What is required is a detailed analysis of all tax-payer provided staff (full time equivalents) and facilities, either within the Government or in quangos and other non-government bodies, plus all costs, including grants, tax breaks and the like, that provide support for the nuclear industry.

Since these staff and facilities are provided by taxpayers, the onus should be on the Government to provide this information. It could be the subject of a Parliamentary question or a request under the Freedom of Information Act.

programme of facilitative actions to remove any unnecessary obstacles to investment in new nuclear power. This work is focused on the regulatory and planning framework. OND is mirrored in DECC by the Office for on Renewable Energy Deployment and the Office of Carbon Capture and Storage.

Consistent with its broader industrial policy, the Government believes it is important to continue to support wider activity which enables supply chain and skills development in the nuclear sector. Within Government this work is carried out by the OND in close partnership with the Department for Business, Innovation and Skills, and has included providing financial support to initiatives such as the Nuclear Advanced Manufacturing Research Centre and the strengthening of the Manufacturing Advisory Service, to ensure that the widest set of UK companies is able to benefit from any expansion in the industry in the UK and globally.

The National Nuclear Laboratory undertakes contract research for which sponsors are willing to pay. Its main work is currently research into decommissioning under contract to the Nuclear Decommissioning Authority. The Nuclear Legacy Advisory Forum is a local Government group, funded by local authorities who have an interest in nuclear legacy issues and want to be better informed and have a voice at a national level. None of the activities of these organisations could be considered as Government subsidy to potential operators of new nuclear power stations.

The Government will also continue to meet its international commitments and obligations in the nuclear sector. This includes its subscription as one of 151 Member States to the International Atomic Energy Agency, which promotes the safe use of nuclear technology, including medical and environmental uses and safeguards and safety activities, including inspections.

Operators pay for the independent assessments into the safety, security and environmental aspects of new nuclear power stations that they receive from the Health and Safety Executive (including the Nuclear Installations Inspectorate, UK Safeguards Office and Office for Civil Nuclear Security) and the Environment Agency, including Generic Design Assessment and site-specific permits. Operators also pay for the advice they have commissioned from the Nuclear Decommissioning Authority regarding disposability of spent fuel from new reactors.

The Government will continue to provide funding to the Nuclear Decommissioning Authority to ensure the efficient and effective clean-up of the UK's CIVIL, public-sector legacy nuclear facilities. To ensure future decommissioning costs are understood from the outset, and fully funded by new operators, the Government is putting in place a framework to ensure that new nuclear operators have arrangements in place to meet the full costs of decommissioning and their full share of waste management costs.

The Nuclear Institute receives no public income. The Institute's income is from individual membership surplus from events and

Comment [J G21]: As described above, it is very unlikely that the proposed new arrangements will protect taxpayers from substantial risks and costs.

sales of journals and journal advertising and some occasional donations. No public funding is currently allocated directly to support Energus (formerly referred to as the Nuclear Academy).

I hope this is helpful.

Yours sincerely,

Darwin McIntosh

DECC Correspondence Unit