



14 June 2010

To: decomguidance@decc.gsi.gov.uk

www.nuleaf.org.uk

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Dear Sir/Madam,

FIXED UNIT PRICE METHODOLOGY AND UPDATED COST ESTIMATES

I write on behalf of NuLeAF, which is a Special Interest Group of the Local Government Association that seeks to represent the views of its member local authorities in England and Wales on nuclear legacy management issues and developments that may impact upon that management. Further information on NuLeAF may be found at www.nuleaf.org.uk.

As an organisation, NuLeAF does not take a view on whether new nuclear power stations should be built. However, it does consider the implications of developments that could impact on nuclear legacy management, including the funding arrangements to meet the costs of decommissioning and radioactive waste management associated with new build. As such, NuLeAF has previously commented on proposals for the Funded Decommissioning Programme for new build and on subsequent pre-consultation discussion papers on the establishment of a Fixed Unit Price for disposal to a Geological Disposal Facility (GDF).

Before responding to the specific questions in the current consultation, we would like to comment further on a number of the issues raised in our earlier comments:

- First, on the positive side, we welcome the fact that current proposals address a number of our early concerns, for example, that funding arrangements should not be premised on commitment to a binding schedule for GDF development and that they should provide for the possibility that a second GDF may be required for new build higher activity wastes.
- Second, we note that reference is made to possible contributions towards a GDF Community Benefits package when discussing the level of an 'optimism bias' adjustment for determining a Fixed Unit Price (FUP) to cover the costs of disposal. Although this limited reference is a step



in the right direction, we still consider that there should be an explicit requirement that the FUP and/or an operator's approvable Funded Decommissioning Programme (FDP) should cover the costs that a new build operator might be expected to contribute to Community Benefit packages associated with a GDF and, where applicable, to other facilities, for example, on-site interim storage facilities for spent fuel that span several decades.

On the specific consultation questions:

1 Potential Deferral of the Setting of a FUP

In view of the large scale uncertainties and associated risks to the taxpayer in setting a FUP at the time of approval of a FDP, there would seem to be a number of advantages in deferral, and utilising an 'expected FUP' (eFUP) that would be subject to review and revision in the interim period. These advantages are three-fold:

- Deferral would enable progress (or otherwise) in GDF siting to be taken more fully into account. If progress is made in accordance with current expectations, then deferral to around 2030 should allow much more detailed and accurate cost estimation, based on understanding of a specific site's geology and the appropriate final disposal concept. If progress is not being made, the level of uncertainty can be reflected in the risk premium adopted in the deferred FUP.
- Deferral would also allow clarity to be achieved around whether a second GDF would be required for new build wastes. The flexibility that deferral provides would be necessary if Government is to pursue its preferred approach to taking account of the risk that a second GDF will be needed when setting a FUP.
- In opting for an eFUP, which is subject to change over time, an operator would be accepting more risk, and the taxpayer would be taking less risk. An operator would also be accepting the risk that a FUP set at a later date could be higher than the price on offer prior to reactor construction.

In the light of these advantages, we would suggest that there is a case for Government to adopt the deferred approach as a *requirement*, rather than as an option.

The deferral limit of 10 years after commencement of new build operation seems reasonable. This should help mitigate the risk that there will be insufficient years of operation left to make up any shortfall in the operator's fund if the FUP has to be fixed at a higher price than the eFUP.

2 Schedule for the Government to take title and liability

The consultation document (CD) argues that because of the lengthy timescales involved in interim storage and encapsulation of higher activity waste and spent fuel after reactor decommissioning, but prior to disposal in the GDF, Government would be better placed than an operator to manage cost risks. As such, it proposes that Government take title and liability at the end of decommissioning.

Given that the financial health and even existence of the operators cannot be guaranteed over such timescales, it appears to make sense for the Government to take title and

schedule as proposed, *as long as* adequate arrangements are put in place to recoup the additional costs and risks to the taxpayer are minimised.

In this case, Government does not propose to include the costs in the FUP mechanism, but to recoup them through the other fund payments that are to be made by operators to meet the costs of decommissioning and waste management prior to geological disposal. These monies are to be transferred to Government on title transfer.

In NuLeAF's view, insufficient explanation is provided in the CD about the pros and cons of the two potential funding approaches to enable a clear view to be formed on the preferred approach. If the Government ultimately decides to go down the proposed route, it should provide a clearer explanation of the advantages compared to using the FUP mechanism. It should also require FDPs to include adequate premiums to cover the risks of increases in the costs of interim storage and encapsulation, so that the risk to taxpayers is minimised.

3 Proposed FUP methodology

The CD asks whether consultees agree or disagree that the proposed methodology to determine a FUP strikes the right balance in protecting the taxpayer, by taking a prudent and conservative approach to cost estimation, while facilitating new nuclear build by providing certainty to operators?

In accordance with its terms of reference, NuLeAF does not wish to express a view on whether the right balance has been struck. Its primary interest is in whether the taxpayer is adequately protected, not in whether sufficient certainty will be provided to new build operators. On the former question, we have made a number of comments in response to questions 1 and 2 which we would request be taken into account by Government.

In addition, we would make the point that Government should take a robust approach to the way cost estimates are adjusted for uncertainty, including a prudent and conservative approach to 'optimism bias' and 'contingency allowances' to ensure protection of the taxpayer and that new build operators pay their full share of any cost-overruns.

4 Determining an operator's contribution to the fixed costs of a GDF

NuLeAF agrees that the operator's contribution to the fixed costs of a GDF should be in proportion to the use it makes of the GDF's capacity. It seems reasonable to calculate that proportional contribution to fixed costs through an operator's share of variable cost, as this takes into account the quantity and nature of the wastes involved.

We also welcome the explicit consideration that is given to the potential need for a second GDF for new build wastes and the acknowledgement that unit costs would be higher in that case as total fixed costs would be spread solely across the new build fleet.

In addition, we wish to highlight (as noted in response to Q1), that the Government's preferred approach to taking account of the risk that a second GDF will be needed requires the flexibility that the deferred approach to setting a FUP will provide.

5 Deciding the 'units' for the FUP

The proposal that the units for the FUP are pence per kWh for spent fuel and cubic metres of packaged volume for ILW appears reasonable. It is important to use units that have a clear relationship with the costs of disposal. In the case of spent fuel, the output-based unit takes account of fuel burn-up and heat load.

6 Updated cost estimates

We are not in a position to comment on whether the updated estimates represent a credible range of costs for decommissioning, waste management and waste disposal. However, it is clear that the process of updating estimates highlights the need for conservatism, given the scale of uncertainties, and the importance of regular review and updating. It is essential that the Government's approach to cost estimation provides a robust benchmark against which to closely scrutinise future operator estimates.

Yours sincerely,

Fred Barker

Fred Barker
Executive Director