

**Unite the Union response to the  
Department for Business, Energy &  
Industrial Strategy consultation  
RAB Model For Nuclear**



## **1 Introduction**

- 1.1 This submission is made by Unite, the UK and Ireland's largest trade union with over 1.3 million members across all sectors of the economy including manufacturing, financial services, transport, food and agriculture, construction, energy and utilities, information technology, service industries, health, local government and the not for profit sector. Unite also organises in the community, enabling those who are not in employment to be part of our union. This response is sent on behalf of our members who work in the energy sector.
- 1.2 The subject matter is of special relevance to Unite given its membership in the energy industry where we have a significant presence. Unite supports a balanced energy policy which includes nuclear energy generation.
- 1.3 In the advent of a no deal Brexit, the UK would be hit by the need to be as energy efficient as possible especially given our current use of interconnectors.
- 1.4 Nuclear provides dependable low carbon energy into the network to not just supply the traditional markets but also the transition away from fossil fuels in transport. Nuclear can also form part of an Energy hub to produce hydrogen in large quantities.
- 1.5 The benefits of a Regulated Asset Base (RAB) funding model for nuclear are clear provided there is the oversight to ensure that the RAB is not used to benefit the investors at the expense of the consumers and large energy users

## **2 Consultation Questions**

*Question 1: Have we identified a model which could raise capital to build a new nuclear power station and deliver value for money for consumers and taxpayers?*

- 2.1 Unite favours a policy of state ownership of the energy sector but recognises the benefits of a RAB model. The various options as set out each have their advantages and disadvantages. Given the current political environment, the provisions of the substantial funds required to build the fleet of new nuclear stations needed to achieve net zero emissions by 2050 would be challenging at

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best. For that reason Unite supports the use of a RAB model to raise the capital required.

- 2.2 The RAB model is flexible and can accommodate different options – on or off the public sector balance sheet, with or without Government investment, involvement of private capital from the start of construction or from a later date, different approaches to an incentive regime. Unite believes that whatever else, the need for an agreed structure is ever more pressing, so we can take the time limited opportunity to construct new Nuclear Power stations to realise the costs savings of replication offers.
- 2.3 There is political support for the RAB mechanism as a vehicle which can flex to suit different agendas and is very important to getting Sizewell C started quickly and maximising the opportunity for UK companies and workers to move from Hinckley Point C to Sizewell C, and create jobs in the south east of England;

*Question 2: Do you have any comments on the components of the Economic Regulatory Regime as described?*

- 2.4 Unite has some concerns with the premise of incentivising and providing private investors to share in the low risk profit benefits of investing in the new fleet of nuclear power stations. As stated above, however, Unite understands the realities of the current financial climate and can see the substantial advantages to the government finances.
- 2.5 The RAB model will need an experienced economic regulator to be in place if the model is to be used to fund the construction of Sizewell C and to do so as soon as possible. For this reason we need the economic regulator to be Ofgem as the time taken to establish a new regulator would introduce additional delay..
- 2.6 Ofgem could approve cost estimates in advance and rely on investor pain share and an additional incentive regime to align interests in the cost outturn. Ofgem could scrutinise actual costs incurred after the event, leaving risk with investors that costs incurred are not reimbursed. An ‘ex post’ regulation would be seen as more risky, so tend to increase the cost of capital and therefore increase the risk of the cost of electricity to consumers being hit hard. The greater certainty of an ex-ante arrangement would benefit the interaction of the project with its supply chain, which should lead to a contracting structure that works best for all of the project, the supply chain and customers.

*Question 3: Do you have views on how consumer interests are protected under the proposed approach? What else should be considered to protect consumer interests?*

- 2.7 Unite is very concerned that the plans suggest that the cost of overruns will be borne by the consumer. If this is the case the relative price point for wind, solar, tidal and even geothermal becomes far more attractive and the future for a

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nuclear fleet, becomes less so. Unite can see no reason why the overrun costs are absorbed under a government supported loan arrangement to be cleared out of future profits. This would prevent the high energy industrial consumer from looking elsewhere in the world with cheaper energy and a less stringent environmental cost base.

- 2.8 What pension investors want is a good spread of investment opportunities from low cost low reward to high risk high reward options. Investment into a nation’s vital infrastructure is seen as a low risk option and hence Unite believes that the rewards to investors should reflect that risk.

*Question 4: Do you agree that consumer risk sharing could be value for money for consumers if it achieves a lower expected overall cost for consumers compared to a Contract for Difference model?*

- 2.9 Unite has not witnessed many construction projects that have stuck to budget or come in under budget unless corners are cut or plans reduced in scale. Unite represents may thousands of construction workers and we would not wish to see one injury to any one worker if it was caused by the additional pressure of deadlines. In the unlikely event that the fleet is achieved under budget, Unite believes that the saved funds should be reinvested into the next project or the development of a hydrolysis facility to liberate hydrogen from water in order for the facility to be in a position to more closely follow the grid demand for power.
- 2.10 A way of ensuring that the project is achieved under budget is by using a team who has built that design of project in the recent past and use the economies of scale to reduce overheads further. Obviously the sooner the construction of Sizewell C is commenced the more likely it will be for the workforce from Hinkley Point C, who have learnt the lessons from Hinkley Point C.
- 2.11 The guaranteed long term returns provided by the RAB model opens up new pathways for pension pot investors that have made new infrastructure projects viable. Whilst the risk sharing of consumers will act as a major incentive for investment houses that would be far better than that achieved through a contract for difference model, this risk has to be managed. That said, Unite recognises that unless government itself is willing and able to make the funds available to be able to get Sizewell C started as soon as possible, it is important to have a structure which can attract financial investors.

*Question 5: Do you have views on the potential way to design the revenue stream for a nuclear RAB model that we describe, and are there alternative models we should consider?*

- 2.12 As stated Unite believes that instead of the consumer being charged or receiving the benefits of construction overruns or savings, the costs should be met by creating a loan system where the additional costs are bankrolled out of

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government borrowing with an agreed percentage of profits used to clear the debt.

- 2.13 Unlike other activities, the provision of power at a reasonable cost has widespread implications, not just for the high energy users and manufacturing industries in the UK, and increased costs to the consumer will place more families into fuel poverty where they need to choose between heating and eating. Such is the impact on the health of the poorest in the UK that adding additional financial costs may result in additional costs for the NHS as they treat the illnesses that will arise.

*Question 6: Do you have views on our proposed approach to assessing a new nuclear project under a nuclear RAB model and determining whether it is value for money for consumers and taxpayers?*

- 2.14 The Government has consulted on a broader approach to value for money than was used for Hinkley Point C and this is welcome as it allows as well as an assessment of the value of Sizewell C to electricity consumers, the evaluation of wider benefits to the UK of the project such as benefit to industrial strategy, education and skills, local economy, including a focus on a ‘just transition’. Unite believes these benefits should be recognised and comprise an important component of the value for money assessment of the project.

### **3 Conclusion**

- 3.1 Unite believes that a properly designed RAB model to raise the much needed capital to support a fleet of new nuclear power stations is vital. It is also vital that these new power stations come on stream as soon as possible with the minimum risk of cost overruns or a financial hit to consumers, industrial or domestic. Equally, the balance must be drawn to attract pension pot and other investors to provide them with a secure guaranteed income that is generous enough to get them interested but not too generous as to deprive the nation of the money needed for future projects.
- 3.2 For obvious reasons if net zero can be achieved sooner than 2050 the better it will be for the global population and a key step in achieving this goal is the creation of a fleet of new nuclear stations producing vast quantities of very low carbon energy. By utilising the skilled and experienced workforce currently employed to construct Hinkley Point C to build a replica design at Sizewell will mean that the workforce can employ the solutions learnt the first time around that could reduce risk and realise cost savings.
- 3.3 Ofgem has the knowledge and experience of the energy market and for that reason Unite would support Ofgem (with a suitable increase in staffing levels) becoming the economic regulator of the returns from investments. Unite firmly

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believes that the construction of Sizewell C needs to start now to achieve net zero by 2050. With the scientific evidence building for a much lower tipping point than the agreed 2°C limit agreed with the Paris accord, it is ever more important that action is taken now leaving little if any time to create a new regulator.

- 3.4 Unite’s concern with the use of a RAB model is the potential for the less wealthy consumers to be hit where they cannot afford to be hit, in their wallets and purses. Equally, passing the cost to the major industrial consumers of energy may cause them to shut up shop and cause financial impacts. It is for that reason that it is vital that an experienced regulator is used to ensure protection of those most vunrable groups of consumers and businesses

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