Jonathon Porritt, Tom Burke, Tony Juniper, Charles Secrett

9 Imperial Square
Cheltenham
GL50 1QB
01242 266777
JPOffice@forumforthefuture.org

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The Rt Hon David Cameron MP
Prime Minister
10 Downing Street
London
SW1A 2AA

Dear Prime Minister

You may recall that on 13th March last year we wrote to you and your Cabinet colleagues warning that there was a significant risk of policy failure with respect to the Coalition's commitment to the building of new nuclear power stations in Britain. We urged you then, in view of that risk, to require DECC to develop an exit strategy from this policy.

Our letter detailed the following risks:

- that EDF would seek to transfer most of the financial risk to British consumers and taxpayers, especially in the light of the competing pressures on its capital;
- that the high profile of the Coalition's commitment to new nuclear build would lead to EDF adopting a very aggressive bargaining position on the transfer of risk;
- that EDF was likely to require a guarantee from the British government for the borrowing needed to construct the stations;
- that this would transfer to Paris too much power over Britain's energy policy;
- that only EDF would have the balance sheet strength to proceed and, in particular, that Centrica would withdraw;
- that EDF would require a very long contract period for a CfD in order to cover their revenue risk thus introducing long term rigidity into the operation of the electricity market and suppressing innovation;
- that there was no reason to assume that EDF could build new nuclear power stations in Britain on time and to budget
- that the requirement to subsidise EDF would directly contradict the imperative to drive wholesale electricity prices down;
- that the policy chosen in the Energy Bill to subsidise EDF by CfDs would effectively put an end to a liberalised electricity market in England and Wales;
- that there was a significant risk that these proposals would fall foul of EU state aids policies.

In your reply to us on the 31st of May 2012 you chose not to address any of the 10 particular risks that we raised. Instead, you confirmed our fears about the strength of EDF's bargaining position by saying that the Government was committed '..to ensuring that nuclear continues to play a central role in a balanced, low carbon mix of energy source..'

Since that time it has become clear that our concerns were well founded as more details have emerged as to what would be required to obtain a final investment decision from EDF. It is has now become apparent:

- that EDF will require a strike price of close to £100/MWh in order to proceed, this would represent a doubling of the current wholesale price of electricity;
- that for Hinkley C alone this would generate a transfer, over the life of a CfD, of between £30 billion and £50 billion to EDF from British householders and businesses, depending on whether the contract ran for 30 or 40 years;
- that should Sizewell C go ahead on similar terms these amounts would double;
- that in a recent statement in Paris the CEO of EDF made clear that they will not proceed with Hinkley unless the British government can 'guarantee the profitability' of the investment;
- that both of the EPR reactors currently under construction in Europe are even more delayed and over budget than they were when we wrote;
- that Centrica have decided not to take up their option to 20% of the EDF proposal and both EoN and RWE have abandoned their proposals for new nuclear build in Britain ;
- there are a number of reasons including other government policies, reductions in demand , the rapidly falling price of renewables and the emergence of shale gas to believe that the wholesale price of electricity may not rise as much as forecast by DECC, if at all;
- that the overall financial position of EDF has deteriorated considerably over the past twelve months increasing their need to transfer risk from themselves to British householders and businesses;
- that the Government will have to be the counter-party to a CfD thus de-liberalising the electricity market.

This means that of the 10 specific risks we detailed in our previous letter events have shown that we were right to raise nine of them. On the tenth, states aids considerations, recent reports suggest that the current confidence of DECC in the acceptability of the level and form of the subsidies now required to secure EDF investment may be misplaced, not the least because of the insistence of investors that there be a single, public counterparty to the contracts for difference.

Since we wrote doubts have been raised in Parliament as to whether your nuclear policy represents value for money. Public concern about rising energy bills has also grown considerably not the least in view of some foreign owned energy companies posting large dividends to their parent companies while also raising prices well above inflation. Furthermore, it is not clear what, if any, risk assessment DECC has carried out into the proposal to sign an investment contract with EDF prior to the enactment of the Energy Bill.

The risk of policy failure has grown considerably since we wrote last year. The likelihood of Britain attracting sufficient investment to have 16GW of new nuclear operating by 2025 is now very low. This has significant implications for the achievement of the decarbonised electricity generation system needed to comply with the carbon budgets.

We believe that the Coalition's current policy amounts to a £50 -100 billion[1] bet that EDF and Areva will be able to deliver on time and to budget. It also amounts to betting that the Government's efforts to drive down wholesale electricity prices will fail. Should wholesale electricity prices in fact fall the use of a CfD would mean the size of the subsidy to EDF would increase thus, perversely,

[1] If Sizewell C is included on similar terms.

negating the benefit of that fall. There are inevitably doubts about whether a commitment now to expenditure of this magnitude for so long on a single project represents good value for money.

The very high level of public expenditure and the longevity of the commitments involved in new nuclear build expose the British economy to exceptional levels of risk. In order to secure the £14 billion capital required to build Hinkley C any investment contract would need to be unbreakable. On the basis of material so far made public we have no reason to believe that the risks of such a binding commitment have been robustly and transparently assessed.

In our view it would, therefore, be irresponsible for the government to enter into an investment contract with EDF until such time as DECC has made public a comprehensive register of those risks and a detailed plan as to how it proposes to mitigate and manage them. In our view, public confidence in the integrity of this risk analysis would be greatly enhanced if it were to be reviewed by the National Audit Office prior to signature of any contracts.

We believe that accelerating the deployment of the energy efficiency measures, demand response, demand reduction and distributed generation policies, and renewable technologies would help drive wholesale electricity costs down and deliver more value for money as a pathway to decarbonising electricity generation.

Yours faithfully

Jonathon Porritt

Tom Burke

Tony Juniper

Charles Secrett

cc

- The Rt Hon Nick Clegg MP, Deputy Prime Minister
- The Rt Hon George Osborne MP, Chancellor of the Exchequer
- The Rt Hon Edward Davey MP, Secretary of State for Energy and Climate Change
- The Rt Hon Vince Cable MP, Secretary of State for Business, Innovation and Skills
- Sir Jeremy Heywood, Cabinet Secretary
- the media