

The sale of the Government's interest in British Energy

Methodology

JANUARY 2010

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This report examined whether the Government obtained good value for its stake in British Energy, taking into account the Government's hierarchy of objectives for the sale. The Government's primary objective was to ensure that nuclear operators were able to build and operate new nuclear power stations from the earliest possible date, to the widest possible extent, with no public subsidy, and with all unnecessary obstacles removed. We also examined the management of the sale and the proceeds raised.

The main elements of our fieldwork, which took place between April and July 2009, were:

Method	Purpose
<p>1 Review of Key documents</p> <p>We examined papers on the sale of the Government's interest in British Energy prepared by the Shareholder Executive, the Department for Business, Enterprise and Regulatory Reform (responsible for Energy Policy until October 2008) and the Department of Energy and Climate Change.</p>	<p>To identify:</p> <ul style="list-style-type: none"> ● the Government's objectives for the sale of its stake in British Energy, critical success factors, and options considered; ● the governance and management structures and processes that applied to the sale; ● the result of discussions between the Shareholder Executive and relevant stakeholders; ● financial and risk monitoring and management arrangements; and ● the adequacy of records retention and management.
<p>We reviewed minutes of meetings of the Nuclear Sites Steering Group.</p>	<ul style="list-style-type: none"> ● to understand how the governance and management processes worked in practice; ● to understand the discussions that the Shareholder Executive had with relevant stakeholders on the sale and fit with wider energy policy objectives; and ● to understand how financial and risk monitoring and management arrangements worked in practice.

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<p>2 Financial analysis</p> <p>We reviewed the two valuations prepared by UBS for the Shareholder Executive. Using in-house knowledge and advice from an expert panel, we examined the inputs, data sources and economic assumptions underpinning the valuation of the Government's stake in British Energy and the value to the Nuclear Liabilities Fund of the cash sweep. We checked for evidence of appropriate sensitivity analysis, taking into account the impact of varying assumptions about electricity prices, the output of British Energy's existing power stations and the building of new nuclear reactors on its sites.</p> <p>We analysed share price trends of British Energy plc from the restructuring to date.</p>	<p>To understand:</p> <ul style="list-style-type: none"> ● whether the Shareholder Executive and its advisors made sensible use of data from credible sources; ● whether the economic assumptions underpinning the analysis were reasonable and took account of the strategic value of British Energy to EDF; and ● the level of uncertainty in the valuation and the implications for value for money. <ul style="list-style-type: none"> ● the reaction of the market to events.
<p>3 Semi-structured interviews</p> <p>We conducted semi-structured interviews with staff at the Shareholder Executive (responsible for managing the Government's stake in British Energy), the Department for Business, Innovation and Skills and the Department of Energy and Climate Change. We used the results in conjunction with our review of key documents.</p> <p>We interviewed officials from:</p> <ul style="list-style-type: none"> ● Other Public Stakeholders, including the Nuclear Liabilities Fund, the Nuclear Installations Inspectorate, Ofgem and HM Treasury. ● British Energy and its financial advisors ● British Energy's main private shareholder (Invesco Perpetual) ● EDF ● The Shareholder Executive's financial and legal advisors ● National Grid ● Potential Bidders 	<p>To assess:</p> <ul style="list-style-type: none"> ● the priority attached to each of the sale objectives; ● the dynamics of negotiations with EDF, other potential buyers and institutional investors; ● the management of information flows and relationships between the main stakeholders; and ● ongoing risk management arrangements. <p>To understand:</p> <ul style="list-style-type: none"> ● the reasons behind the sale; ● future issues affecting the UK electricity market; ● key influences on bidding and the sale process; ● EDF's interest in the acquisition, its ambitions for building new nuclear power stations and the management of nuclear liabilities; ● the changes to the British Energy Group after the sale; ● the interaction with the Shareholder Executive; and ● the advice the advisors gave and its limitations and to identify the way in which this advice was intended to be used.

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<p>4 Use of Expert Panel</p> <ul style="list-style-type: none"> ● We established an expert panel comprising individuals who, together, had expert knowledge of the energy and nuclear industry, and experience of mergers and acquisitions. ● The members of the panel were: <ul style="list-style-type: none"> ● Richard Morse, Greenhill & Co International. ● Adrian Olsen, Bank of Ireland ● Johnny Reed, Wilmington Capital ● Clare Spottiswoode, Office of the Policyholder Advocate 	<p>To understand:</p> <ul style="list-style-type: none"> ● the industry view of the quality of the sale team in the Shareholder Executive, and its understanding of the market for the Government's interest in British Energy; ● best practice in acquisitions, such as in liaising with shareholders and remunerating advisors; ● the analysis of the methods, data and assumptions used in the Shareholder Executive's valuation and assessment of the value for money of EDF's offer; and ● the effectiveness of the Shareholder Executive's management of the sale.
<p>5 Literature Review</p> <p>We reviewed relevant published reports including:</p> <ul style="list-style-type: none"> ● previous reports of the Committee of Public Accounts on British Energy; ● previous reports of the National Audit Office on British Energy, asset sales and privatisations; ● Government's Energy White Papers; ● Brokers reports; ● Trade press articles; ● the Takeover Code. 	<p>To understand:</p> <ul style="list-style-type: none"> ● the importance of risk management and monitoring; ● the Government's wider energy policies; ● the mechanics of a sale; and ● the UK electricity market.