**NAO Podcast on Hinkly Point C Transcript**

**Hello and welcome to the National Audit Office Podcast,**

**Hinkley Point C is due to be the first nuclear power plant built in the United Kingdom since Sizewell B, which was completed in 1995. The UK government has agreed the key commercial terms for a deal with EDF Group, the project promoters, including the price that it will receive for the power generated by the plant over 35 years from the date of its commissioning. The NAO have published a report looking into Hinkley Point and I’m joined today by Simon Bittlestone, the Audit Manager who worked on the report.**

**Firstly Simon, this is a very detailed report and nuclear power can be an emotive issue, so I’d like to start by asking you what this report ISN’T.**

The NAO’s role is to assess the implementation of Government policy, we don’t question policy decisions. So in this case we have not concluded on whether it was the right decision for the Government to go ahead with the Hinkley Point deal – ultimately that is a policy decision for ministers. We also haven’t assessed the national security, environmental or safety aspects of the deal – there are other government bodies that are better placed to assess the deal from those perspectives.

What we have done with this report is to look at the various government departments, particularly BEIS, that’s the Department for Business, Energy and Industrial Strategy, and how they assessed the value for money and strategic case for proceeding with the deal. We looked at the how the Department outlined to decision makers the potential benefits and risks of the deal. We also looked at what arrangements BEIS has in place now to oversee the project now construction is beginning.

**And as a bit more of background information, this has been going on for quite a while? So it was originally the remit of the Department of Energy and Climate Change, DECC but now it’s BEIS correct?**

That’s right, the Government first began negotiating the deal for Hinkley Point C in 2012 and at that point it was the Department of Energy and Climate Change that was leading the Governments negotiations. Last year that department moved into being part of BEIS, so it was BEIS who were responsible for signing off the deal last September. There are other parts of Government that have been involved during the negotiations, most notably the Treasury, which reviewed the deal on a number of occasions given its importance and the potential financial impact that it will have on electricity bill payers.

**How large an investment are we talking about? How much is this going to cost?**

There are a number of ways you can look at the cost. EDF, which is the main investor in the project expects it will cost around £18 billion to build Hinkley Point C over the next eight or so years. The structure of the Government’s deal means, ultimately, those costs will be passed on to electricity bill payers and the Government has agreed something that is called a “contract for difference”. This guarantees the price that consumers have to pay for Hinkley Point C’s electricity at £92.50 per megawatt hour for 35 years and that amount is linked to inflation. What that means is that electricity bill payers will need to pay top-up payments if the market price for electricity is below that set level. The current estimate is that the cost of those top-up payments is £30 billion over the 35 year contract. However the exact costs are very uncertain because no-one can be sure what the electricity market price will be that far into the future. BEIS, in its calculations, estimate that those top-up payments equate to between £10 and £15 on each annual electricity bill in the late 2020’s.

**As this is one of the largest infrastructure projects the country is facing, how well did the Department consider the costs and risks of it deal for consumers?**

Our view is that BEIS did not sufficiently consider the risks of the deal for consumers. In particular we think BEIS should have done more to consider alternative options for structuring the deal, which may have achieved better value for money for consumers. The current deal structure means that consumers are protected from the risks that project goes over budget, because consumers only pay for Hinkley Point C when it starts generating electricity. This approach is in keeping with the way that the Government has supported other low carbon technologies like wind and solar power and means consumers won’t pay more if Hinkley Point’s costs overrun. There are downsides to this approach. It means that the developer is bearing all of the biggest risk on the project, and construction is very risky due to its size, its length and the reactor technology being used which we know has faced problems in other projects around the world.

Investors typically need to be recompensed for carrying large amounts of risk and Hinkley Point C really is no different; the investors required rate of return at 9% is a key factor which determines the contract for difference price, that’s the £92.50 I mentioned earlier, therefore the value of the top-up payments that consumers will need to pay. So what we say in our report is that BEIS should have done more to consider alternative approaches to finance the deal, such as the government sharing more of the risk in the early stages of the project, which may have brought down the cost for consumers significantly, although exposing them more to that construction risk. In any case, we highlight in our report there are several examples of previous government projects where the intention was for the risks to be borne by the private sector for only some of them to come back to government and tax-payers where things have subsequently gone wrong.

We also looked at how BEIS appraised the affordability of the deal once it decided on how to finance it and we think they could have done more in this area too. For example, BEIS only assessed the impact of Hinkley Point C on people’s bills up to 2030, whereas the expectation of the deal is for the contract to last until 2060. Finally, when they confirmed the deal last September, BEIS didn’t conclude whether those top- up payments expected through the deal would be affordable for consumers. It’s worth remember those top-up payments which are currently forecast to be around £30 billion – that figure is considerable higher than what was expected when BEIS agreed the key terms of the deal in 2013 – at that time they were expected to be more like £6bn. Now this increase is primarily because the forecast for electricity prices has come down as a result of falling fossil fuel costs, and that does mean overall bills are expected to be lower than they were, but the Hinkley contract means that consumers will benefit less from the falls than they would have done otherwise.

**So the most important question is: Is this value for money?**

Well it won’t be known for several decades whether this will be value for money. That depends on many factors that are subject to deep uncertainty, such as the course of future energy prices and how alternate energy generating technologies change and develop. But we do not think that BEIS did everything it could have done to maximise its chances that the deal will be value for money for consumers, particularly through its lack of consideration for alternative approaches to financing the project.

Even going by BEIS’s own analysis, the value for money case for proceeding last September was finely balanced, and indeed more so than when the key terms of the deal were agreed in 2013. Now this is because of a number of factors, most notably, the quicker than expected falls in the cost of alternative low carbon generating sources, such as Wind and Solar Power. But as the case for proceeding became more finely balanced, BEIS increasingly relied on unquantified strategic reasons for going ahead, and this includes things like the impact the deal would have on increasing the confidence of investors to build other nuclear power stations in the UK.

**This is a big one off project, are there any lessons that the government can learn from this?**

Well firstly there are some things the government needs to make sure it does on the Hinkley Point project itself. In particular we recommend in our report that BEIS ensures it has robust oversight arrangements in place for the project so that it can find out early on if things are not going to plan. It would then need to, potentially, trigger alternative options to ensure that there is enough electricity if Hinkley is running late. At present, BEIS “Plan B” would be to commission more gas fired power stations or to extend the lives of existing power stations.

The deal also includes clauses which mean consumers will share the benefit if construction costs are less than expected or if Hinkley’s investors make a higher return than expected, so the government needs to ensure it has the right oversight arrangements to trigger these clauses if needed.

In terms of the wider lessons we’ve drawn, we think that this deal demonstrates that more needs to be done to consider the costs and risks from a consumer perspective in instances like this, where the burden falls on bill payers rather than taxpayers. We also think that Departments should do more to consider different approaches to structuring deals, even if they fall outside of the prevailing policy choice. Our view is that it is important that decision makers are made aware of the cost implications of their chosen approach, to make a fully informed decision, particularly when such large sums of money are involved.

**Thank you for your insight Simon**

**If you would like to find out more about this report, the full report and an executive summary are available on our website,** [**www.nao.org.uk**](http://www.nao.org.uk)**. Or you can follow us on twitter @NAOorguk or on Facebook www.facebook.com/NAOorguk/**

**Thank you for listening**