



Department for  
Energy Security  
& Net Zero

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Dear Dr Cuthbert,

Thank you for your letter of 14 October to the Secretary of State regarding the use of the Regulated Asset Base (RAB) model for new nuclear projects. I am responding as this matter falls under my Ministerial portfolio.

I am grateful to you and your co-signatories for sharing your perspective on the RAB model. In your correspondence, you raised a number of important points regarding approaches to assessing value for money, and the issue of potential impacts on consumers of using the RAB model for nuclear.

Please be assured that achieving value for money outcomes in developing and deploying new electricity generation infrastructure is a priority for the Government. The RAB model for new nuclear projects is a tool which I believe can support this objective. The evidence base for this begins with the National Audit Office's assessment of the Contract for Difference (CfD) struck for Hinkley Point C – which found that models like RAB could have resulted in better value for money – as well as the Government's own analysis of the application of the RAB model for nuclear projects. This was undertaken through consultation on the application of the RAB model and the development of the Nuclear Energy (Financing) Act 2022 (NEFA) as the statutory basis for RAB's use to fund new nuclear projects.

As set out in the Impact Assessment for the NEFA, which you cited, the main anticipated advantage of RAB over the CfD is expected to be a reduction in the cost of financing, which is one of the biggest drivers of new nuclear project costs. The impact of financing costs on total new nuclear project cost estimates is recognised by authorities such as the OECD's Nuclear Energy Agency, whose 2020 report on Unlocking Reductions in the Construction Costs of Nuclear indicated that financing costs could represent 67% of the levelised cost of new nuclear,<sup>1</sup> as well as analysis undertaken by a working group on new build cost reduction convened under the Nuclear Sector Deal, which found that financing costs and risk premium made up two thirds of the Hinkley Point C strike price.<sup>2</sup>

As you also noted, the main function of the RAB model is providing an allowed revenue during construction, which is expected to be passed on from electricity suppliers to consumers' electricity bills. This revenue can be used during construction to pay back financing costs,

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<sup>1</sup> [https://www.oecd-ilibrary.org/nuclear-energy/unlocking-reductions-in-the-construction-costs-of-nuclear\\_33ba86e1-en](https://www.oecd-ilibrary.org/nuclear-energy/unlocking-reductions-in-the-construction-costs-of-nuclear_33ba86e1-en), p. 30.

<sup>2</sup> <https://www.niauk.org/wp-content/uploads/2022/01/New-Build-Cost-Reduction-Sector-Deal-Working-Group.pdf>

meaning that investors in the project could accept a lower-rate of return than under the CfD, where a revenue is only received once a plant begins to operate. As was set out during the passage of the NEFA, the Department's estimate of the impact of RAB levies on a typical dual fuel household bill is on average approximately £1 a month during the construction period of a generic large-scale nuclear power station. It was this assessment that the Department's Permanent Secretary referred to in his testimony to the Public Accounts Committee which you have quoted. This analysis was based on the NEFA Impact Assessment, and was calculated using assumptions – taken at the time of publication of the Impact Assessment – from the Department's Electricity Prices and Bills modelling, applied to all households, consistent with the Net Zero power sector scenarios in the Energy and Emissions Projections.<sup>3</sup>

It is important for me to stress that whilst – as the Permanent Secretary said – we expect these levies to have a low impact on household bills, we would not agree with the characterisation of these remarks as suggesting the Government views these levies as “trivial”. We fully appreciate the pressures that households and businesses have been and continue to experience as electricity prices fluctuate. However, it is for this very reason that we are progressing with new nuclear projects. These projects will work alongside expanded renewables to achieve an electricity system which is more reliable, low-carbon and, lower-cost (compared to Net Zero compliant power systems without further nuclear capacity), and considering delivery models like RAB which could deliver better value for money.

In developing the framework for the use of the RAB model for nuclear we have implemented multiple mechanisms to help protect the interests of consumers. The legislation requires projects to demonstrate that they are sufficiently advanced and likely to result in value for money before being designated to benefit from the RAB model, and any investment decisions for nuclear projects are subject to robust due diligence and assessment in line with HM Treasury Green Book Guidance. RAB-funded nuclear projects will be regulated by Ofgem, whose statutory principal objective in carrying out certain key functions is to protect the interests of current and future consumers in relation to electricity conveyed by distribution and transmission systems. Moreover, RAB licences will be structured to incentivise the project to manage down costs, as set out in more detail below.

These measures are currently being applied to the Sizewell C project as this progresses to the point of a final investment decision. An interim value for money assessment was published when the Secretary of State designated the project to be eligible to benefit from the RAB model, setting out how the project is estimated to result in value for money by reducing the cost of the electricity system (compared to Net Zero compliant power systems without further nuclear capacity) and improving security of supply.<sup>4</sup>

We have also undertaken consultations on Sizewell C's economic licence,<sup>5</sup> and a separate consultation on the methodology to determine specific elements of the licence, including a Lower Regulatory Threshold (LRT) and Higher Regulatory Threshold (HRT).<sup>6</sup> These thresholds – which are determined by the Government – will respectively set out a realistic project outturn (by which we mean project cost and construction schedule) and a severe outturn position where cost and schedule are significantly higher, informed by risk and uncertainty analysis aligned to a much higher confidence level. The project and its shareholders will be incentivised to deliver to or below the LRT and would receive increasingly high penalties the closer the project's cost and schedule get to the HRT. The project will also be incentivised to prevent delays to

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<sup>3</sup> <https://www.gov.uk/government/statistical-data-sets/annual-domestic-energy-price-statistics>;  
<https://www.gov.uk/government/publications/updated-energy-and-emissions-projections-2019>

<sup>4</sup> <https://assets.publishing.service.gov.uk/media/6384b1a6d3bf7f7eb0dbb206/szc-designation-document.pdf>

<sup>5</sup> <https://www.gov.uk/government/consultations/modifications-to-the-sizewell-c-regulated-asset-base-licence>

<sup>6</sup> <https://www.gov.uk/government/publications/methodology-for-specific-elements-in-the-proposed-economic-licence-for-sizewell-c>

construction, and once the plant is generating electricity there will be incentives to encourage efficient operations. I would note too that in both consultations we sought the views of Citizens Advice and Consumer Scotland, to gain their insights and views on these proposals from a consumer perspective.

With this context in mind I would like to address the specific points you raise, particularly relating to the National Infrastructure Commission's (NIC) comparison of using RAB and CfD for new nuclear, potential length of nuclear project construction times, the issue of potential opportunity costs for consumers.

On the specific question of the impact of the length of construction period, as you note for the NEFA Impact Assessment we used a larger range for this variable than the NIC, of 13 to 17 years. This range was derived from the estimated construction period for Hinkley Point C, adjusted for optimism bias based on data from the NIC relating to other nuclear projects. Our assessment of potential impacts on consumer bills, of approximately £1 a month on average during construction for a typical household, is consistent across this range of construction periods.

Regarding the NIC's report comparing RAB and the CfD, this has been considered as we progress value for money assessments for Sizewell C as part of the project's business case process. We have tested the applicability of this analysis – including their assessment of a potential opportunity cost – against HM Treasury Green Book guidance. Our conclusion, reached in conjunction with HM Treasury's Green Book team, was that standard appraisal techniques and discounting approaches were sufficient to assess the project's value for money. We have ensured that the approach we have taken and will continue to take is in line with the Green Book.

Value for money assessments of Sizewell C draw on the latest available information for the project's construction schedule. Details of these estimates are commercially sensitive as project development work and negotiations within the Sizewell C equity raise process continues. However, as noted above the interim value for money assessment published as part of the reasons for Sizewell C's designation to be eligible to benefit from RAB revenues shows that progressing with the project is likely to result in value for money.<sup>7</sup> A final value for money assessment would also be published at the point of the project entering a revenue collection contract for RAB levies, as committed during passage of the NEFA.

As confirmed in the recent Autumn Statement, a Final Investment Decision on whether to proceed with the project will be taken in Phase 2 of the Spending Review, expected in late-spring 2025.

Thank you again, to you and your co-signatories, for contacting us on these important issues – I hope you find this reply helpful.

Yours sincerely,



**RT HON LORD HUNT OF KINGS HEATH OBE**  
Minister for Energy Security and Net Zero

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<sup>7</sup> <https://assets.publishing.service.gov.uk/media/6384b1a6d3bf7f7eb0dbb206/szc-designation-document.pdf>