

ADDRESS BY MR TOM BURKE CBE

**THE CHALLENGES FOR NUCLEAR NEW
BUILD: INVESTMENT, ENGINEERING AND
THE PLANNING SYSTEM**

**WESTMINSTER ENERGY, ENVIRONMENT & TRANSPORT
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Thank you. Good morning.

It's my job this morning to rain somewhat on the parade. I am increasingly impressed by the extraordinary capacity the nuclear industry has to turn true believers in the efficacy of markets into quasi Marxist interventionists.

I can understand why. If you look at what we have actually got in front of us as an issue this morning, the prospect of 16 gigawatts of new nuclear in Britain, that's about 120 billion pounds worth of investment, which is betting on Government keeping its promises. Well those of you who have just witnessed what the Government did to all those people who believed in the promises on the Carbon Reduction Commitment will pause for thought. As you listen to this debate, something else to bear in minds is that people who are project developers are ferociously enthusiastic about their project right up until the time they decide not to do it. We just saw that with E.ON on Kingsnorth. They were ferociously enthusiastic right up until the time last week they decided they didn't want to do it after all.

Now there's a pervasive delusion in the nuclear industry that the reason why it hasn't got further over the last several decades is because the planning system is wrong and the regulators are wrong and get in the way, or environmentalists mess things up, or even that Governments can't get their policy act together. The reality is, the reason nuclear hasn't got any further is because it's economics are lousy and it fails to deliver on its promises to build to time and to budget. And by the way Paul, the announcement you may have missed in Bloomberg this morning was that the Flamanville delay has now gone to three years, and the reality on the EDF's nuclear building programme is that construction times did not go down at all. So be careful about the promises about learning.

But I was entertained to hear you repeat Vincent de Rivaz's call for a level playing field. I have worked enough one way and another with business to know that when I hear somebody calling for a level playing field, I immediately look for the hand that's tilting it because actually that's what businessmen do and it's perfectly understandable that that's what businessmen do. When I heard that call for the first time I wondered what Vincent was talking

about. Was he proposing that EDF be privatised? Well that would certainly create a level playing field with all the small local generators and I am sure they would welcome that very much. Was he proposing that as much effort be put by the Government into supporting and promoting and delivering the renewables target as is being put in to delivering nuclear? I'm afraid I woke up from that dream quite soon.

Now I come to the question we are going to hear a great deal about. We have already heard a great deal about it and we will hear more - the question of subsidies. It is a very emphatic demand, repeated all the time, that there will be no subsidies. Well, it really depends on what you think a subsidy is and we are going to have a great debate about that. Let me list six things which I think are going to be part of that debate of what's a subsidy.

First of all the third party liability, I was interested to hear the last speaker draw attention to this. The fixed price of the proposal - a cap on the price of waste disposal will be interesting to see how the Government's new prescriptions on public accounts and transparency in public accounts will require those liabilities to be accounted for in the public accounts. Currently they are not accounted for. The floor price for carbon which we have heard several mentions of already this morning. Let me be clear about what a floor price for carbon is. It is a tax on British businesses and British consumers in order to generate, what actually in this case will be a very pretty hefty 350 million a year windfall profit for EDF on the basis of their existing nuclear stations, let alone what they might do otherwise. There is a very interesting subsidy that nobody pays attention to which is the fact that because you are building very big reactors, we are going to have to have more spinning reserve and that the renewables industry is therefore going to be subsidising the nuclear industry in order to pay for that additional spinning reserve. We have heard about the low carbon obligation, we have heard about capacity payments, they are both arguably subsidies. It really depends on what you think a subsidy is.

Now Mr. Huhne has been very clear, no subsidy, and then you saw his announcement last week, no subsidy now is qualified, this typical piece of Whitehall manipulation, unless 'similar support elsewhere'. Then, if you read on a bit further it said the

Government doesn't rule out taking on risks and liabilities. Well there are certainly plenty of them for a Government to take on should it wish. And then right at the end there was a bit talking about no subsidy should be interpreted in the light of 'proportionality and materiality'. In other words a subsidy is whatever we call a subsidy, and non-subsidy is whatever we call a non-subsidy.

The reality is there was a nod and a wink to the industry that you are going to get whatever you ask for and we are going to bend over backwards, forwards and sideways to get you what you want. The problem is that Governments make those promises and they also unmake those promises and it's a very big bet to take for 60 years that they will not bend the other way, backwards, forwards and sideways, should the pressures change.

I think the reality of investment in new nuclear is it is much more questionable than people think. EDF and AREVA are having a pretty torrid time between them at the moment. There is considerable doubt inside their own industry. The French President asked a former Chairman of EDF to write a report to him because of the problems they are facing. There are real problems about whether their private shareholders will be prepared to take on the same kind of risks as EDF and AREVA might be as publicly owned institutions.

E.ON and RWE have now got somewhere else to play in the light of the Merkel decision to extend the life of their stations. There is a really interesting question about whether they now want to take on the kind of risks that'll be here when they have got much better bets elsewhere. And doing all of that in a context in which the costs of nuclear are going to go up, predictably about 7% a year as they have done all the time, and the cost of renewables are going to go down. And you are looking at a world which is going to be quite capital constrained for a long time to come, in which the cost to capital is going to be very big.

So I am not sure that all of that huge investment will actually transpire. It doesn't seem to me it's quite as open and shut a case as has been presented. Fortunately it doesn't matter if it doesn't. The lights are not going to go out. Mr. Huhne has been pretty clear about that. There never was any prospect other than in the headlines of the lights going out, and there are much better ways

to get our emissions down. What I am actually worried about is all those people who are putting an enormous amount of honest and genuine effort into what they are being sold as a nuclear renaissance, but which in practice may well turn out, as it did before, to be a nuclear chimera.