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The Government and British Energy: Fiddling with Failure

The Greenpeace critique of the bail out options

Introduction

For a company so deeply dependent on nuclear power generation it is not surprising that British Energy is in severe financial difficulties.

- The privatisation of electricity production and liberalisation of the markets has publicly exposed the economic failure of nuclear power. Firstly BNFL, now British Energy.
- Inherent technical and safety problems of nuclear power have resulted in a history of shutdowns and closures, most recently at Torness, which provides 13% of British Energy's capacity.

A bail out strategy is not inevitable and the comparisons with Railtrack are misleading. British Energy is not a monopoly and the lights will not go out if the company goes under.

Greenpeace believes any further Government subsidies and bail outs on failed nuclear power stations will be more money down the drain, a distortion of the electricity markets, and based on dubious legality.

In a free market and with renewable alternatives gaining popularity, nuclear power has gone beyond the point of no return. If the government is willing to spend money on energy, then it should invest in something that the public actually wants. It is time for the government to promote secure and diverse supplies of electricity which include putting its weight behind plans to provide 25% of the UK's electricity from offshore wind farms off the coast of East Anglia by 2020.

In a recent MORI poll, 72% said that they would rather get their electricity from renewable energy than nuclear power.

The Big Myth

Contrary to what British Energy imply, the lights are not going to go out even if all British Energy's nuclear power stations were closed down. In submissions to the Government at the end of last year the National Grid company stated that over capacity on the grid was approaching 30%. The Government's Energy Review experts also say that we can make a 30% saving in energy by adopting practical energy efficiency measures.

British Energy Bargaining Ploys

BE's strategy seems to be to argue that it is being discriminated against in various ways and therefore is entitled to changes in a number of areas. In fact, it is basically trying every route it can to get extra subsidy from the taxpayer and the electricity consumer, despite the fact that previous subsidies have failed to make it competitive.

1. Changes to New Electricity Trading Agreements (NETA)

NETA has been one of the factors bringing down wholesale energy prices recently. This has forced prices at least 20% below those at which British Energy can make money. So not surprisingly they want the rules changed to force up the price they receive.

Following full debate and consultation within the industry, NETA was brought in to try and end the distortion in the way electricity was bought and sold (in the old 'Pool') which artificially kept up prices.

Some commentators have pointed out that companies with an element of vertical integration are less affected by low wholesale prices as they can sell the energy onto themselves at lower prices but keep profits up by raising retail margins. This may be true to a degree, but it should have been clear to all energy players that it would be helpful to have a supply arm in a NETA world. British Energy bought up SWALEC, only to sell it on shortly afterwards, leaving them without a supply operation. To bail out this particular company and its shareholders because its management made the wrong decisions would be a misuse of public money.

More practically, any proposed changes would have to start with an extensive consultation with OFGEM and the other generators and it would take a minimum of 6 months, more likely 12, to implement any change.

Additionally, if Government imposed changes are made to NETA which purposefully give British Energy a competitive advantage over other electricity generators this would breach EU competition laws.

Ironically, compared to some other forms of electricity generation like renewable energy, British Energy has been a beneficiary, not a loser, from NETA.

Greenpeace believes that any change in NETA would be extremely controversial with both OFGEM and other electricity generators. Changes that simply raised the general wholesale electricity price in order to bail out one company would be scandalous. NETA needs to be reformed but not to save nuclear power which has had enough government leg-ups in its time but so that renewables and smaller generators have a level playing field to operate in.

2. Leasing the Magnox stations from BNFL

Essentially, if British Energy were contracted to take over the operation of some of BNFL's magnox stations, they would be inheriting a cash cow while the UK taxpayer foots the bill. British Energy would get the revenue while the taxpayer continues to pay for all the expensive parts of the operation such as the reprocessing of spent magnox fuel, managing nuclear waste and decommissioning. This would represent a hugely unfair subsidy and should be resisted.

Additionally, if the magnox contracts are not put out to tender then this move could be a breach of EU and UK procurement regulations as other companies would not have a chance to bid for the contracts.

Greenpeace believes that the ageing, unsafe and uneconomic Magnox nuclear power stations should be closed down immediately.

3. Climate Change Levy (CCL) exemption

Despite its name, the CCL is an *energy* tax not a carbon tax. Notwithstanding vociferous lobbying from the nuclear industry the government rejected the case for exempting nuclear from the CCL on the basis of its carbon content following its consultation in 1999, a decision which Greenpeace supported. Only renewables and 'good quality' CHP are exempted from the tax. This is a sensible approach: there is a broad consensus around the need to increase their contribution to energy generation. To tear this up now simply because a private sector company is in financial problems would be deeply embarrassing for the Government and in particular for the keepers of the policy, the Treasury.

There are a number of large negative financial and competitive impacts that nuclear exemption from the CCL would have:

- **It would impact on Government finances.** It could reduce receipts from the electricity sector in the CCL by up to 28%. To recoup this revenue Government would have either to increase the Levy on other energy sources or increase national insurance (which has been cut to make the CCL fiscally neutral), or raise other taxes or cut expenditure.
- **It would disrupt competition between generators.** BNFL, British Energy & EDF would be able to charge more for the electricity they generate, because they would receive valuable Levy Exemption Certificates. Moreover since they own the only sites where new nuclear facilities could conceivably be constructed, they are the only generators who could ever have access to this subsidy. A basic analysis of wholesale prices suggests that these companies could be in a position to increase their cash flow on electricity sales from UK nuclear supply by between 10-20%. This would almost certainly increase their return on existing investment and might decrease the return on investment for gas and coal competitors.
- **It could undermine industrial electricity users' focus on energy efficiency and renewable energy.** Because nuclear power currently contributes 28% of electricity generation its exemption would swamp the market for levy exempt electricity and weaken the energy efficiency signal to industrial users of electricity.
- **Under EC State Aid rules the climate change levy has been cleared by the European Commission.** If it were proposed that nuclear power be exempted, the decision would have to be re-submitted to the EC for clearance that it does not represent an illegal state aid.

The main reason for rejecting a nuclear exemption, however, is not economic but environmental. It would give the wholly unjustifiable impression that nuclear power is environmentally benign, when in fact it is deeply destructive. It might be rationally argued that in an ideal world it would be optimal to have a climate change levy and a separate radioactive waste/emissions levy to internalise the external costs of these impacts. But until the latter is actually introduced, it makes sense simply to continue to include nuclear power within the scope of the CCL. And if it were introduced at a sensible rate then there would be no financial benefit to BE from CCL exemption.

Greenpeace believes that if the Government feels the need to respond to the nuclear industry's lobbying on the CCL it should simply rename the Levy and explain that its purpose is to discourage all environmentally damaging forms of energy production.

4. Business rates

British Energy's case on business rates is based on the premise that they are higher than other energy producers.

Local authorities are under enough pressure, especially in view of them taking on the responsibility for emergency planning in the event of an accident at a nuclear power station.

Greenpeace believes no proper case has been made for a reduction in BE's business rates and that the revenues lost would simply have to be made up elsewhere.

5. Government to take on pre-privatisation liabilities

This is the most outrageous suggestion of all and it would be difficult to see how the Government could even consider it. When British Energy was privatised they picked up all the AGR nuclear stations and the PWR at Sizewell for less than the cost of building Sizewell alone. In the price were the costs of its future liabilities that are now around £9 billion, of which £3.7bn has been accrued in their accounts.

Greenpeace believes that this bargaining ploy is only being used to try and make its other demands seem less outrageous by comparison.

6. Re-negotiating reprocessing contracts with BNFL

The Government has to accept its share of the blame as these contracts cost British Energy up to £250 million each year and could and should have been cancelled years ago. Reprocessing spent nuclear fuel is both an environmental menace and an economic nonsense. Nuclear reprocessing at Sellafield is the main cause of nuclear pollution in the Irish Sea and causes huge additional volumes of radioactive waste.

It is fair to say that British Energy has been making the point that it is cheaper to store than reprocess spent nuclear fuel for some time, but BNFL and the Government did not want to see this happen.

Greenpeace calls on the DTI to cancel the spent nuclear fuel reprocessing without any further delay. In any event, Greenpeace wants to see an end to reprocessing, with above-ground storage used instead, and paid for by the polluter.

Conclusion

Excluding cancellation of spent nuclear fuel reprocessing, Greenpeace believes that none of British Energy's bargaining ploys are either acceptable or can effectively deal with the underlying causes of the failure of its nuclear business.

- Under NETA the current wholesale price of electricity would have to increase by at least 25% before nuclear power could break even.
- New nuclear power stations cannot compete since even the nuclear industry admits the capital and operating costs make them even more uneconomic. (and they would

have to build their own nuclear power stations this time, rather than get them at a knockdown price).

British Energy's finances will only recover when they end the lives of their loss making nuclear reactors and diversify into other forms of modern and secure long-term renewable energy.

Greenpeace believes that none of British Energy's ploys can deal with the underlying problems of nuclear power – it is uneconomic, unreliable, unsafe and unnecessary.