



Tom Burke
Political commentary

Nuclear companies open new front in fight for government subsidies

Beware of calls from the nuclear industry for a 'level playing field': What it wants is anything but.

Tony Benn, when he was energy secretary, used to warn about people who came to you with a problem in one hand and a solution in their back pocket. He had learned this from the nuclear industry.

Then, as now, people in the sector were deeply concerned that the lights might go out. Then, as now, they just happened to have a handy solution in their back pocket.

Then, as now, they were also less than forthcoming about what it would cost. Chris Huhne, Mr Benn's successor, has already had one unpleasant experience with nuclear cost shock. All those radioactive waste management costs, so casually discounted away in the economic analyses underpinning Britain's first nuclear programme, have now turned up as a several billion-pound hole in his department's current budget. There are more holes to come.

Mr Huhne has at least had the wit to knock the fantasy about the lights going out on the head. There was no foundation for this claim despite its frequent repetition by politicians and journalists alike. The unusual clarity and brevity of Mr Huhne's emphatic statement that the lights are not going out is refreshing. It is also correct.

But there are other fantasies coming his way. Npower chief executive Volker Beckers has recently echoed EDF's Vincent de Rivaz's call for a 'level playing field' for nuclear power in Britain. Business leaders are frequently heard calling for level playing fields. They are even more frequently to be found tilting every playing field in sight their way.

When I first heard this call I tried to imagine what it could mean. Was EDF proposing it be fully privatised to remove the implicit French government guarantee for its balance sheet? This would certainly create a more level playing field for all the British companies competing to produce renewable electricity.

Were the big, vertically integrated, mostly foreign-owned utilities proposing that they be broken up? This would certainly produce a more level playing field for all the British independent power producers. Perhaps they meant that the government should now provide as much subsidy for renewables as has been provided for nuclear over the past 50 years.

So much for my fantasies. Of course this is not what they mean. What the nuclear industry actually wants is to turn the renewables obligation into a low-carbon obligation in which all its already subsidised size and balance sheet strengths will give it a huge extra competitive advantage. Nice try.

The coalition's position is crystal clear. There will be no public subsidies for new nuclear power. No one will be stopped from

building a nuclear power station if they pay for it themselves. This is not only clear, it is also not new. This was the position of both Conservative and Labour parties before the election. The difference is that with the coalition now in power, cheating on this commitment will be very much harder.

The Concise Oxford English Dictionary defines a subsidy as "money contributed by the state to expenses of commercial undertaking". The nuclear industry itself is on record that no nuclear power station has ever been built without subsidy. The challenge the industry now faces is either to do something that has never been done before, or to so transform the idea of a subsidy as to conjure away the money that must actually flow from the public purse to build any new nuclear capacity.

Without the political weight now attached to the issue of subsidies this would have been easy. A blizzard of words would have been generated to conceal it from view. The media would have quickly become bored with the technicalities and let the issue drop below the political horizon. Now everybody will be watching.

There will be plenty to see. The government already subsidises nuclear power by effectively insuring the industry against the bulk of its third-party liabilities in the event of a nuclear accident. As we have seen in the Gulf of Mexico, the low probability of an accident does nothing to reduce the scale of the consequences should it occur.

The government has also promised to cap the cost of managing the industry's waste. The industry will be charged a fixed amount by the government to take waste off its hands. Since we have yet to build any of the facilities needed to handle this waste, this promise amounts to a blank cheque. Any difference between the charge set and what it actually costs will be a delayed subsidy ambushing a successor to Mr Huhne.

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But this is nowhere near enough subsidy to make new nuclear attractive to investors. There will also need to be a floor price for carbon. Strange how little faith there now is in markets. Imagine the outcry about economic distortion if you argued that there should be a floor price for any other traded commodity.

A floor price for carbon is essentially a unilateral tax on British consumers and businesses to artificially raise the price of electricity to boost the revenues of the predominantly foreign-owned nuclear suppliers. It is very difficult to see how this would not be "money contributed by the state".

But even this will not be enough to make nuclear economically attractive. Hence the call for a level playing field. This is the starting gun on the battle over reforming the electricity market. This 'level playing field' really means that the mature nuclear industry should compete for the same subsidy as the emerging renewables industry. Thus the renewables obligation would be turned into a low-carbon obligation that would be a fourth subsidy to new nuclear build.

This is not a prospectus for a smart transition by Britain to a low-carbon future. It is simply a return to the inefficiencies and deferred bills of the last Conservative government's Non-Fossil Fuel Obligation, which saw more than 90% of the subsidy – for that's what it was – go to the nuclear industry. ■

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