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can you hear me Major Tom ?

Doug Parr

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This week Chancellor George Osborne told Parliament that the power from the planned Hinkley C nuclear plant would be cheaper than onshore wind, writes Doug Parr. That could be true on Planet Zog - but here on Earth the reverse is the case. Exactly what are Osborne and his Treasury mandarins smoking ?

It is disturbing to see Osborne coming out with complete nonsense during parliamentary evidence. If the conception of the world inside the Treasury is so distant from reality, we all have good reason to worried.

There is an increased air of unreality about what is going on in UK Government on energy policy, and what is visible to the rest of the real world.

Nowhere is this clearer than their continued bullishness on the proposed [Hinkley Point nuclear power station](#).

On the one hand, earlier today the *Financial Times* joined environmental campaigners in [saying that](#)

[the project should be abandoned](#).

That's become almost normal, given that the energy minister who last gave the go ahead to new nuclear power in the UK (David Howell, now Lord Howell) has withdrawn his support.

But the reason the *Financial Times* offers for its view is interesting, as they argue that "*the cost of alternative low carbon sources, such as solar, and better battery technology, is falling fast.*"

Readers will be familiar with this line of argument as the green movement and academics have been saying this for some years. It feels a bit different when Europe's premier financial newspaper says the same.

Other media outlets like [The Times](#) are being critical of the Hinkley project as Chatham House calculate subsidies as being £40 billion over the lifetime of the project. Others put it as [high as €108 billion](#) (£78.6 billion).

Support for the nuclear industry even [seems to be ebbing in its French heartlands](#) - a new law, adopted in July 2015, will requires the share of nuclear power in France's energy mix to fall from 75% today to 50% by 2025, with the gap being filled mainly by wind and solar.

Meanwhile in Parliament ...

Away from all this, UK Government set its course a decade ago. And the fact that the world has changed completely doesn't seem to have any bearing on their thinking.

This was beautifully illustrated by the UK's Chancellor George Osborne, who in stark contrast has claimed that the country's first new nuclear power station is the cheapest form of low-carbon generation available - cheaper even than onshore wind.

He [made the astonishing claim](#) as he [appeared in front of the House of Lords Economic Affairs Committee](#) in their 'annual evidence session' on Tuesday to be grilled by Lord Turnbull, who was Permanent Secretary to the Treasury from 1998 to 2002.

"Shouldn't we really go back to the drawing board, rather than plumping for what I think will be a kind of bottomless pit and a big white elephant?" Turnbull asked.

To which Osborne replied that the agreed 'strike price' of £92.50 per MWh (in 2013 money) is still "subject to final negotiation", adding : "*It is still substantially cheaper than other low-carbon technology like offshore wind or onshore wind.*"

Video : *George Osborne's evidence to the House of Lords Economic Affairs Committee. Hinkley C Evidence begins around 16.34.*

He also suggested that the UK taxpayer doesn't really bear any of the risk should the reactor design used by French state owned builders, Areva, turn out to be a dud. "*I'm not bearing the construction risk or the design risk*", he insisted.

Both are fairly clear claims but - as at least the first is revealed by the *Financial Times* analysis - they aren't true.

The UK's £17 billion guarantee for Hinkley construction finance

It's important to be clear that we are not talking about the relative costs of nuclear and renewables in various economic models - but the actual costs of particular projects.

Hinkley has been christened by the FT the "*biggest and most controversial infrastructure project in Europe*". It has also been named as the "[*most expensive object ever built*](#)" - at least on planet Earth as it appears the International Space Station is more costly.

It is therefore rather disturbing to see Osborne coming out with seemingly complete nonsense during parliamentary evidence. If the conception of the world inside the Treasury is so distant from reality, we all have good reason to be worried.

First his suggestion that UK taxpayers "*don't bear the risk - it's for EDF and its shareholders*" and later that UK is "*not bearing construction risk or design risk*".

It's true that we are not bearing all of the risk - some does lie with EDF through its subsidiary New Nuclear Power (NNP). But **the UK is substantially underwriting the project through the government's Infrastructure Guarantee Scheme which may be offered, for example, to Chinese state investors who don't want to take a risk.**

The National Audit Office said earlier this year that UK infrastructure guarantees are "[up to £17 billion for Hinkley Point C nuclear power plant](#)" out of a total construction [reported by the EU Commission at £24.5 billion](#).

Under some circumstances if the Hinkley project is started but abandoned, or doesn't work when completed, then UK citizens will be required to come up with that £17 billion, just over two thirds of the projected cost. That, after all, is the point of a guarantee.

Which is the cheapest of them all ?

Secondly the Chancellor said Hinkley was "*substantially cheaper than any other low carbon technology*", going on to clarify that it was cheaper than both offshore and onshore wind.

He may be 50% right - about offshore wind. Its costs by the mid-2020's are hard to gauge and may well be higher. Still, bear in mind that EDF said last week that Hinkley C won't be finished in 2023 as originally planned, and gave no new completion date.

So by the time Hinkley C begins putting power into the grid, if indeed it ever does, offshore wind could very well be cheaper. And it's a racing certainty that it will become a lot cheaper over Hinkley C's 35-year index-linked subsidy lifetime.

But Osborne really is quite wrong when it comes to onshore. IRENA, the International Renewable Energy Agency, has already done a [UK-specific calculation on this \(see Fig 2.10 p42\)](#) which finds the cost of onshore wind to be far lower (see chart, above right).

The chart shows onshore wind coming in at well under £80 per MWh even after all the costs of managing intermittency are included. The caption also notes that the integration costs are "*estimated conservatively*", based on a 30-40% wind power penetration of national electricity supply. "*For lower shares integration costs would be much less.*"

But leaving models aside any casual inspection of what UK Government is actually doing would show his statement to be untrue. Onshore wind and ground-based solar projects have bid and been [awarded UK Government contracts](#) at a price of around £80 per MWh, but the 'strike price' for Hinkley is £92.50 per MWh.

Which planet is the Treasury on ?

As Osborne told the Lords Committee the final price is "*still subject to final negotiation*" - but given [the problems the EPR design](#) for Hinkley has been encountering in construction in France and Finland

it seems very unlikely the costs will be going down.

Estimated costs at France's Flamanville EPR have more than trebled from €3.3 billion to €10.5 billion, even as construction times has doubled from six to 12 years. That's so long as the metallurgically-flawed reactor vessel doesn't need replacement (we should know that next month). If it does, all bets are off.

Essentially the Chancellor would appear to be either misleading a Parliamentary Committee, or has a very poor grasp of the facts and figures in relation to the single biggest contract his Government is likely to sign.

Given that the negotiation is in secret, it would appear that UK energy consumers will be on the hook for a £80 billion contract - and only afterwards will we find out what Government have assumed before signing it.

On the basis of the Chancellor's statements, it looks like their assumptions are delusional.

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