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Stake in nuclear plant would be dramatic change of policy for UK (Wylfa)

Opinion Nuclear energy

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Last Monday, the board of Hitachi met in Tokyo to [consider the future](#) of their proposed new nuclear power plant at Wylfa in north Wales. The Japanese company decided neither to approve nor to drop the plan but to continue the negotiations with the UK government.

As Toshiaki Higashihara, Hitachi's chief executive, said after the meeting : "No decision has been taken."

They were right to pause because the deal on the table was weak and inadequate as protection against the risks involved in a project of such scale. Wylfa is set to cost at least 20bn — and, given the record of new nuclear construction, that figure can only rise.

As reported by the Japanese press, at that stage the deal appeared to involve simply a UK government "guarantee" to cover the construction phase of the project, which is when the risks are highest.

But, within days, authoritative reports in the FT and elsewhere indicated that Britain had gone further and decided to make a **direct investment** of public money into the project.

This would be a dramatic change of policy with many implications.

First, **it would mark the reversal of 40 years of a privatisation of the energy sector begun by**

Margaret Thatcher and Nigel Lawson. Suddenly, the state is back in business and the

arguments against other proposed nationalisations, for instance of the railways or energy

retailers, are undermined.

Second, taking a direct stake in one energy supplier opens up issues of competition policy.

Will the government take shareholdings in other new nuclear projects including **Hinkley**

Point C ? If nuclear, why not offshore wind or gas-fired power stations ?

Then there is the question of the use of resources. There appears to be almost no extra money

for anything from the National Health Service to defence and security. But suddenly several billion pounds have been found for a single nuclear power station.

The context of this decision is important.

Hitachi is one of the world's great companies and a significant investor in Britain. The Wylfa project is sound and far more likely to be built on time and to budget than Hinkley Point,

EDF's ill-starred nuclear power station that is 10 years behind schedule and billions

overspent. Wylfa is well run and the technology works — unlike the over-complex Hinkley

EPR reactor.

The problem is that the costs of the viable alternatives — wind, solar and natural gas — are all

falling. The costs of new nuclear reflect the failure of the industry to improve technology and

the expense of financing, given both the construction risks and the lead time of 10 years or more before any electricity can be produced.

In the long run, nuclear plants can produce excellent returns but few private investors are

willing to wait decades to get their money back. Only over 50 or 60 years does a new nuclear

station even begin to look like a good investment.

The absence of private investors is the reason why Hitachi, which cannot afford to risk its entire balance sheet on a single project, is seeking funding from the UK government, and no doubt from the Japanese authorities as well.

As reported, the new deal would reduce funding charges and help cut the headline cost of the

power produced to about 15 per megawatt hour below the Hinkley price, measured in 2018 money. (The Hinkley price was set at 92.50 in 2013 money and is indexed linked from that base — it is [ridiculously expensive](#).)

For the Japanese, a UK shareholding must be much more attractive than mere guarantees. It

would give the British government a clear stake in the success of the project, with interests aligned and the headline price of the electricity reduced.

But the question now for the Hitachi board is : can they trust the UK government ? The fact that the details of the offer have not been published is an indication of the sensitivity of the issue.

A direct shareholding will almost certainly be challenged in the courts on the grounds of competition policy and European state-aid rules. Britain is likely to be subject to EU rules at least until the end of the Brexit transition period.

And it must face scrutiny in parliament, where it will be weighed against other potential uses

of the money.

Examination of this deal is likely to force a strategic review of energy policy, which would include just how much nuclear power is really needed — a question that has not been answered since 2013. In those five years, much has changed and there is a good case for a fundamental and open reappraisal.

As the Japanese will have discovered, the UK government is weak and nothing in British

politics is certain. The deal is not yet done.



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