



Nuclear Industry Association

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Response by the Nuclear Industry Association to the Ofgem Project Discovery: options for delivering secure and sustainable energy supplies consultation

The Nuclear Industry Association (NIA) welcomes this opportunity to comment on Ofgem's Project Discovery consultation which we believe will be vital in the policy debate around ensuring the UK's secure low carbon energy future.

NIA is the trade association and information and representative body for the civil nuclear industry in the UK. It represents around 200 companies operating in all aspects of the nuclear fuel cycle, including the current and prospective operators of the nuclear power stations, the international designers and vendors of nuclear power stations, and those engaged in decommissioning, waste management and nuclear liabilities management. Members also include nuclear equipment suppliers, engineering and construction firms, nuclear research organisations, and legal, financial and consultancy companies. Several of these companies will be making their own responses to this consultation.

In our response we have confined our remarks to the key areas in the electricity sector which we believe need to be addressed.

We agree in principle with the assessment of the current market failings outlined in the consultation document. The urgency of the need to address these failings must also be stressed. Given the long lead times for construction of any form of generation, if market changes were made to encourage the development of secure, low carbon generating capacity immediately then it would have no effect until after 2015 at the earliest. Anything built in the meantime is likely to be part of our system for the next 30-40 years so the sooner these necessary changes are made the better.

We agree with the scale of the investment challenge faced in the electricity generating sector. We also strongly share the view that the current uncertainty in the carbon price is discouraging low carbon investment, but that in addition that uncertainty has a negative effect on all investment as potential investors in higher carbon plant such as CCGT will also worry about the potential impact of action on the carbon price at a later date.

One area where the consultation seems to be missing potential market developments is the issue of the likely very large increase in total electricity demand with the increased use of electric powered vehicles. This could have profound impact on the market in general and the size of the investment challenge in particular.

The market structure should be one that ensures that our electricity system is progressively lower in carbon content and that guarantees security of electricity supplies. In order to achieve this there must be greater certainty around carbon pricing and this must mean a floor price in one form or another. We do not have a view as to the precise mechanism by which this is delivered as an EU wide floor in the ETS, a UK based carbon top up tax (for when the price in the ETS drops below a UK determined floor price) or a straight carbon tax, will all help to deliver carbon reductions. We agree with Ofgem's assessment that the price spikes that occur at times of extreme shortage of supply do little to encourage further generating capacity to be constructed. For this reason we would support market reform that genuinely rewards developers for bringing sufficient capacity onto the grid. However these reforms are needed as soon as possible given the long lead times for construction and the longevity of plant.

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