

UK and Japan: Splitting the nuclear bill?

Blog post by Senior Associate Andrea Ninomiya, 11 May 2018

Last week, UK prime minister, Theresa May, met with the CEO of Hitachi, Hiroaki Nakanishi, to discuss how to finance the new Horizon nuclear plant at Wylfa in Anglesey. The meeting went under the radar at the time, but what has become clear is that Hitachi and Japan are confronting the UK with a political and policy dilemma.

That dilemma is rooted in cost. Currently, the cost of Horizon is estimated at £15bn. This was originally proposed to be divided into thirds among Hitachi, the Japanese government and businesses, and the British government and businesses. Following a review which indicated increased project costs due to tightened safety standards, Hitachi has raised concerns about its costs. The Japanese government has also faced public and media pressure to reduce its own exposure to the bill via Nippon Export and Investment Insurance. London is now being pressed to offer more.

The result is that London has to choose between an agreement that sees UK taxpayers shouldering more project risk and a disagreement that could halt new nuclear build in the UK for a generation. That project risk is not immaterial: the spiralling costs of EDF's new plant, Hinkley Point C, are now estimated at around £20bn - a cost that will see British electricity consumers pay a guaranteed 'strike price' of £92.50/MWh for its power supply over 35 years, in stark contrast to the recently agreed £57.50/MWh for offshore wind power delivered in 2022/23. This has been controversial.

What the UK does will reflect a range of factors. The UK has strongly rejected Japanese media reports that it is now willing to guarantee the debt of the Japanese parties. But it will also not want to walk away. One possible compromise may be a bigger UK stake. Indeed, London may try to argue that, by taking a larger stake, it is actually lowering the cost of capital, and consequently the strike price needed to make the project economical.

The political space for such a compromise is arguably available. There is strong government backing for new nuclear and strong industry advocacy behind the new build programme. The opposition leadership has relaxed its scepticism under pressure from trade unions. But for a UK government under pressure on almost every other front, it is an unattractive choice. There is considerable anxiety in Whitehall and division on whether to agree to any future nuclear projects. This deal is worth watching because it will set a precedent for the next decade.