



Department for
Business, Energy
& Industrial Strategy

Lord Callanan
Minister for Business, Energy and
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Lord Purvis of Tweed
House of Lords
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2 February 2022

Dear Lord Purvis,

I am writing in response to your questions during the Committee session on 31 January about the nuclear Regulated Asset Base (RAB) model, the support for our Small Modular Reactor programme, and on Principle G in Schedule 1 of the Subsidy Control Bill.

Regulated Asset Base model

We introduced the Nuclear Energy (Financing) Bill into Parliament to enable a RAB funding model framework for new nuclear projects. It is estimated that this funding model could lower the cost of each new large-scale nuclear project by more than £30 billion, compared to the existing Contracts for Difference model. The RAB is generic for nuclear projects and could be applied as appropriate to Small or Advanced Modular reactors.

You asked how the RAB will interact with the Subsidy Control Bill. You also asked about the funding provided to support our Small Modular Reactor programme. Any Government financial support to new nuclear projects, through the awarding of a RAB funding model, will be assessed against the regime to determine whether it constitutes a subsidy. If it is judged to be so, it will be designed to ensure it is compliant with the Subsidy Control regime and our international commitments; this applies both to the RAB model and any future support for Small or Advanced Modular reactors.

The current funding for Small Modular Reactors is provided under the Low Cost Nuclear Challenge Programme – Phase 2. This is delivered through UKRI who provided a Grant for the funding in November 2021. This funding, was treated as a subsidy and was duly added to the transparency register. The entry can be found here:

<https://searchforuksubsidies.beis.gov.uk/searchresultsmeasureroute/?page=1679>

Principle G, Schedule 1

It is my view that there is no deficiency in the balancing test in Principle G, as environmental and climate benefits and harms are both properly accounted for. The benefits should be assessed in view of the specific policy objective, as set out in Principle A; if the subsidy has been designed by reference to relevant environmental



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or climate benefits, then this should form part of the policy objective. There is no limit on the number of market failures or equity rationales that the subsidy may address.

As for environmental harms, Principle G requires all relevant negative impacts to be accounted for, including but not limited to distortions to trade, competition and investment. Where the subsidy has an appreciable negative effect on the environment or the climate, this must be taken into account in the assessment.

As you are aware, my Department has published an illustrative excerpt of the guidance that will accompany these principles and support public authorities in carrying out their assessments. I will ensure that both of the above points are absolutely clear in the final guidance that will be published in good time before the implementation of the regime.

As I said in the House, I believe it is unnecessary to supplement or extend the application of the energy and environment principles in Schedule 2 of the Bill. The UK's environmental obligations and practices are fit for purpose as they stand, and I do not believe it is helpful to impose additional obligations specifically on the giving of subsidies that are not fundamental to subsidy control.

I trust that this additional information addresses your questions and concerns. I am copying this letter to Lord Fox, and I will be placing a copy of this letter in the Libraries of the House.

Yours sincerely,

Lord Callanan