



The Rt Hon Greg Hands MP
Minister of State for Energy, Clean Growth and Climate Change
Department for Business, Energy & Industrial Strategy
1 Victoria Street
London SW1H 0ET

24th November 2021

Dear Minister

Thank you for your letter of 27 October.

We are supportive in principle of Government's efforts to bring in experienced institutional investors to finance new-build nuclear generation using a RAB framework and welcome the introduction of legislation to establish this model as a funding option for new nuclear projects.

As you are aware, as a large UK-based direct investor in infrastructure, USSIM (the wholly owned subsidiary and principal investment manager of USS Limited) is considering a potential future investment in new nuclear generation in the UK, subject to concluding that the risk-reward characteristics represent value for USS and its members. We have a duty to fund our members' pensions many years into the future, and investments in long-term, stable, predictable, regulated and inflation-linked assets form a key part of our strategy for achieving that goal.

While the UK has traditionally been attractive to long-term investors because of the stability and predictability of the RAB-based regulatory frameworks and regulators' focus on providing a fair return on capital invested in customers' interests, there have been instances where investor confidence has been undermined. In the last couple of years, energy companies, the UK's air traffic services provider NATS, and four water companies all made appeals to the Competition and Markets Authority. This activity was in response to regulatory determinations which were not perceived to have struck the right balance between the short-term interest of keeping consumer bills low with the need to incentivise the substantial long-term investment required.

When it comes to successfully applying a RAB model to finance new nuclear generation, a very long-term investment, this experience is very relevant.

As well as ensuring sufficient returns to incentivise long term investment, getting the detailed design of the economic and regulatory regime right will be critical. It is clear to us that a RAB framework is a necessary, but not sufficient, condition to successfully finance a new-build power plant at an efficient cost, and one attractive to the taxpayer. As well as the considerations common to many infrastructure investments, careful consideration will need to be given to the implications of significant operational complexity, historic overruns in time and cost of construction, stringent (and possibly evolving) safety standards, uncertain decommissioning and waste management costs, the need for a highly skilled and unique workforce, reputational risks, and a novel and (possibly) illiquid asset class.

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Notwithstanding the need to work through these issues, we do agree that nuclear energy has a key role to play in allowing the UK to meet its net zero emissions target by 2050 and supporting its energy security and resilience in the years ahead. We would be delighted to take you up on your offer to meet with you to discuss these issues in more detail.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Simon Pilcher', written in a cursive style.

Simon Pilcher
Chief Executive
USSIM