

Summary

- A lack of opportunity, financial risk and safety concerns could have been putting UK pension funds off investing in nuclear energy.
- However, new techniques and funding methods may have made nuclear power a more enticing investment option.
- Pension funds are increasingly looking to diversify their investment portfolios into renewable energy, and nuclear could be a part of the greener future.

New finance for new energy



such as solar and wind may only be able to carry the country so far in the pursuit of carbon neutrality.

Investment consideration

“UK pension funds are a good match for the long term, regulated and reliable returns which nuclear power at Sizewell C can provide,” begins EDF Energy director of nuclear development, Julia Pyke. “Pension funds have a strong track record of investing in national infrastructure assets and energy.”

Pension funds may be concerned at the risk associated with investing in nuclear power stations, but Pyke wants to assure potential investors that risk has been reduced after EDF’s

experiences with Hinkley Point C, and that changes have been made to address concerns.

She says: “Two things have changed – first a new regulated finance model is being developed with government, which allows for income during construction, and secondly, the risk of construction has been reduced because Sizewell C will be a close replica of the power station being built at Hinkley Point C in Somerset.”

In its Sizewell C project, EDF has adopted a regulated asset base (RAB) funding model, which allows for payment during construction, aiming to provide a secure payback and return on investments. Energy companies manage the infrastructure project, taking ownership of the assets and operating costs. The regulator sets the rate of return and agrees the cost of the project.

“Nuclear power stations in the UK

➤ **Although the pensions industry is increasingly looking to be more sustainable in its investment strategies, few seem to be talking about nuclear energy. Jack Gray investigates this much-debated form of low-carbon energy and whether pension funds should consider investing in it**

When discussing sustainable energy, people usually think of wind farms popping up offshore or fields of solar panels out of their windows as they drive down the motorway. What many don’t realise is that around 20 per cent of the UK’s electricity is produced through its nuclear power stations.

All the active nuclear power stations in the UK, which were predominantly built in the 1970s and 80s, are due to close between 2023-2030. However,

construction has begun on Hinkley Point C and plans are in place for a second, Sizewell C. The projects are being undertaken by EDF Energy, the government and state-owned Chinese company CGN.

With sustainable investment and portfolio diversification hot topics across the industry, there appears to be scepticism surrounding nuclear energy as an investment option. Concerns over risk and previous disasters may be impacting investor’s confidence, but there are many nuclear success stories, and renewables

have not previously offered an investable model to pension funds, but now the prospect of a RAB model is attracting investor's interest," continues Pyke. "Low carbon nuclear has been operating safely in the UK for many years and its reliability in an increasingly intermittent energy mix is making more people see its value."

However, some people cite the issues surrounding the construction of Hinkley Point C as one of the factors putting investors off. The estimated cost of the plant is £20 billion and its opening could be delayed, although EDF says it remains committed to its 2025 deadline. A 2018 report from the Office for Nuclear Regulations notes: "Improvements have been made since 2016 but it also identified that further work is required to ensure adequate quality management system arrangements are consistently embedded across the wider project."

Pensions and Lifetime Savings Association policy lead, investment and stewardship, Caroline Escott, says that pension funds may be dissuaded from investing due to these concerns.

"There have been concerns with the industry's track record of building new power stations – with many projects suffering delays and spiralling costs," she explains.

It is also not just financial risks that could put off investors, according to Escott, but also risks surrounding the nature of nuclear energy and its viability as an environmentally-friendly energy option.

She continues: "Investing in nuclear energy has long been a hotly contested issue for ESG-aware and responsible investors. Those who shun it cite safety concerns and the issues with long-term storage of radioactive waste."

Despite this, Pyke insists that nuclear power is much safer than people may perceive, especially compared to fossil fuel energy sources. She explains: "Perceptions about waste fuel and radioactivity have made some investors hesitate to consider nuclear, but both can

be safely managed and controlled, and nuclear has a very good safety record.

"In contrast, fossil fuels have poured pollution directly into the atmosphere for years causing great harm to people and the environment. That's part of the case we and others are putting forward for nuclear."

Environmentally sustainable

Appetite for environmentally-friendly investments for pension funds has been growing throughout the industry. In October 2018, the Financial Conduct Authority said that climate change is not just an ethical concern, but a "practical consideration for the UK pension industry". However, in November 2018, Pinstent Masons found that just 5 per cent of corporate pensions funds in the UK have a specific climate change policy, despite 74 per cent of funds admitting that they recognise the potential impact of climate change.

Aon senior partner, John Belgrove, believes that the UK should adopt nuclear energy as a sustainable energy source, as other renewables may not be enough to satisfy the nation's energy requirements.

"If we can encourage institutional asset owners to think about funding nuclear build through long-term debt issuance and potentially some equity development risk as well, meeting the twin goals of seeking assets that have liability-like characteristics with a decent yield and reducing carbon footprint, then that is a happy thing that comes together," he says.

However, there is some debate over whether nuclear energy can be categorised as renewable energy. The United Nation's Principles for Responsible Investing does not include nuclear as a renewable energy source.

It says: "Renewable energy focuses exclusively on energy production that can last for the foreseeable future and does not use fossil fuel inputs for energy creation. Therefore, coal, gas and nuclear energy are excluded from the concept of

renewable energy."

Carbon is used in the construction of nuclear plants and it is therefore categorised as 'clean energy' instead, as it is an energy source that does not "directly harm the environment or society".

Current situation

Some government officials have voiced their support for the new finance model, and what it can do for the success of nuclear energy. Speaking in January 2017, the Secretary of State for Business, Energy and Industrial Strategy, Greg Clark MP, said: "If new nuclear is to be successful in a more competitive energy market – I very much believe that it can be – it is clear that we need to consider a new approach to financing future projects, including those at Sizewell and Bradwell."

Aon responsible investment specialist, Jennifer O'Neill, notes that there has been a "fairly limited ability" for UK pension funds to invest in nuclear energy, although she believes this may change.

"For many investors this hasn't crossed their radar but, given the UK governments intentions to support the development of nuclear energy, that is perhaps something that is going to become more available to investors to consider going forward from here," she adds.

Despite the challenges, Pyke explains that there has already been some investment demand. She concludes: "UK funds have already invested in EDF's renewables projects and they are showing considerable interest in new nuclear at Sizewell C.

"They understand that we need to decarbonise and that renewables alone are not the only technology needed in a future low carbon energy mix. A new financing model means nuclear can become an attractive and reliable investment opportunity."

Written by Jack Gray