

Aging reactors may undermine confidence in rise of nuclear power argues leading underwriter

21 April 2010, PRAGUE – A renaissance in nuclear power generation had a dash of cold water poured on it last week by a leading nuclear underwriter.

Mark Tetley, managing director of Nuclear Risk Insurers (NRI), told the audience at the AEGIS London Energy Conference in Prague that talk of a renaissance in nuclear power was possibly premature. In particular, Mr. Tetley said that the age of many nuclear plants insured by NRI was of concern and significant risks were being created by the construction of new nuclear plants on sites adjoining older plants.

Mr. Tetley said: This is a very exciting time to be in the nuclear industry, but I'm here to pour a little cold water from the insurance side of things.

"Safe and effective operation of nuclear power plants has underpinned the renaissance. We must remind the industry that 80% of what we insure is over 20 years old; this means maintenance and human performance are very important. Some of these plants are nearly at the end of their lives. A major accident in an older plant could damage the image of the nuclear industry with the public, so operators need to focus on maintaining their existing assets properly."

Discussing the building of new nuclear power plants in the UK and around the world, Mr. Tetley pointed out that the favoured approach in the developed countries of building the new plant close to an older plant added risk exposure for the new plant constructors, financiers and operators.

Mr. Tetley said: "In the Western world it's easier politically to build new plants next to old sites. Many of the new plants are therefore being built next to older plants that will be decommissioned. If an accident occurred at the older site during decommissioning – say a fire – this could contaminate the new site. The value of that new site might be £5 billion, however the existing older site's statutory third party cover is low – for example £140 million in the UK – which could leave a big gap in the finance cover.

"There's also lots of interest in squeezing more life out of existing nuclear power plants. Refurbishing one plant adds risk exposure to the neighbouring plant.

"We're also seeing a significant increase in the use of contractors on existing sites. They are a new risk as they are not always so familiar with the plant and the stricter disciplines at nuclear facilities. Operators need to ensure that their contractors comply with industry best practice."

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New obligations on operators to pay for the future decommissioning of nuclear plants was also creating opportunities for insurers, Mr. Tetley explained. He said: "One of the obligations for new operators is to fully understand and in some cases finance the ultimate site decommissioning. A decommissioning fund is built up over time, but could be hit by poor investment returns or the new plant may be shut down early leaving a shortfall in the fund. As insurers, we're looking at filling these gaps for new-build operators; it's a good example of where insurers can help and produce new solutions.

Turning to nuclear third party liability, Mr. Tetley said "Whether plants are old or new, operators must still have financial security in place for third party compensation. The international nuclear liability conventions used to have a neat definition of what was meant by 'nuclear damage' caused to third parties. Now revised definitions of nuclear damage are much broader and are proving to be a challenge for insurers, as they now include environmental damage."

There are over 430 operational nuclear plants in the world today with a further 53 currently under construction.

The AEGIS London 2010 European Energy Conference took place on 14-15 April at the InterContinental Hotel, Prague, Czech Republic. Attendees included brokers, risk managers and energy industry representatives from across Europe.

The conference was opened by the President and CEO of AEGIS, Alan Maguire.

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Notes to Editors

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