



West Cumbria Sites Stakeholder Group

**West Cumbria Sites Stakeholder Group (WCSSG)
Presentation on the PBO (Parent Body Organisation) Competition
Ennerdale Country House Hotel
Thursday 3rd July 2008**

Attendees:

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| Howard Rooms | - | Sellafield Ltd |
| Gordon McCullogh | - | Studsvik |
| Kevin Wilkinson | - | Studsvik |
| Peter Clark | - | Sellafield Ltd |
| Shirley Williams | - | Secretary WCSSG |
| Steve Jones | - | Westlakes |
| Neil Stagg | - | Sellafield Ltd |
| Chris Darwin | - | Sellafield Ltd |
| Ron Hargreaves | - | WCSSG |
| Colin Hill | - | Churches Forum |
| Paul Shawcross | - | Sellafield Ltd |
| Brian Hough | - | NDA |
| David Harris | - | CNC |
| Paul McKenna | - | Isle of Man Government |
| David Skinn | - | Fluor |
| Ian Laidlaw | - | NDA |
| Alan Clark | - | CCC |
| Barry Snelson | - | Sellafield Ltd |
| P Tyson | - | Whitehaven Trade Council |
| Colin Sharpe | - | West Cumbria Business Cluster |
| David Humphreys | - | Cumbria County Council Emergency Planning Unit |
| Penny Hitchin | - | UK Monitor |
| Mark Foy | - | NII |
| Joe Clark | - | TU Rep, Windscale |
| Fee Wilson | - | Sellafield Ltd |
| Miranda Kirschel | - | CH2MHILL |
| Iain Irving | - | Nuclear Management Partnership |
| Peter Mann | - | Sellafield Ltd |
| Fergus McMorro | - | Copeland Borough Council |
| P Daley | - | Allerdale Borough Council |
| Peter Kane | - | Sellafield Ltd |
| Alan Irving | - | Whitehaven News |
| David Davies | - | Copeland Borough Council |
| Richard Jones | - | NDA |
| Jim Morse | - | NDA |
| Phil Bishop | - | Cumbria Constabulary |
| David Moore | - | Chairman WCSSG |
| Keith Opie | - | Cumbria Fire & Rescue Service |
| June Shield | - | WCSSG secretariat |

The Chairman welcomed everyone and gave a brief update on the re-structuring of the WCSSG.

Three new sub committees have been created namely:

- Commercial sub committee
- Socio Economic sub committee
- Decommissioning sub committee

All three sub committees have been convened and the terms of reference agreed for each of those committees.

The Socio Economic sub committee has held two meetings and Elaine Woodburn has been elected as its Chair.

The Commercial sub committee has held its first meeting and Cllr Mike Davidson has been elected as the Chair.

And finally, the Decommissioning sub committee held its first meeting fairly recently on 9th June, with Norman Clarkson being elected as the Chair.

This was an exercise that was undertaken to better align with the way that the Sellafield Site was structured. With the integration of UKAEA Windscale into the Sellafield Site and the deferral of Calder Hall decommissioning, there was no longer a need for the Calder Hall and Windscale sub committees, hence the creation of the three new ones.

The introduction of the three new sub-committees will provide a more structured arrangement, and will allow more in-depth scrutiny of those areas, as there isn't always the time to go too in-depth at the main meetings. Reports will still be given at the Main meeting by the new Chairs.

Today's meeting is concentrating on the Parent Body Organisation (PBO) transition which is an extremely important topic to be discussed, particularly given that the announcement of the new PBO for the Sellafield site is imminent.

An introduction was given by Jim Morse from the NDA and presentations were given by Richard Jones also of the NDA and Chris Darwin of Sellafield Ltd. The presentations provide an update on the competition process and also on what the site has been doing in order to prepare for a new PBO.

A very useful and broad range of questions/statements were raised following the presentations:-

Q Paul Shawcross: What happens if the company which becomes the preferred bidder walks away between July and November?

A Richard Jones: We will ask all four bidders to leave their bid submission on the table until the contract is awarded, so if the preferred bidder walks away the NDA can go to the 2nd ranked bidder.

Q Joe Clark: Is it acceptable to accept 2nd best? I have been to a meeting where it was clearly stated that if the 'winner' declines the offer, then the competition process starts again.

A Richard Jones: That is incorrect information. There isn't a winner and a second place, there is a preferred bidder and if that company withdraws from the competition, then we have three bids left, one of which will then become the preferred bidder.

Q Joe Clark: Have you identified any of the bids as being unsuitable?

A Richard Jones: We have a series of threshold criteria which basically say if the bidders fail to meet any of the very specific points, then their whole bid is rendered inadmissible and none of the four bidders have failed at any of these.

Q Paul Shawcross: It said on the slides about evidence, sources and evaluations and case studies etc. In the case studies I have come across (and I've been to the States twice) no matter who the companies are who run the sites, clean-up always results in job losses.

A Richard Jones: There were 10 case studies that each of the four bidders submitted, seven of these were mandatory and three were discretionary. Of that mandatory list of seven, there was a very clear case study which asked the bidders to demonstrate where they have mitigated the impact of such an issue/event which resulted in a negative impact to the local community, such as job losses; and how they've gone about dealing with that situation. We are interested in, how they went about dealing with this in a professional, safe and considerate manner; what they did to minimise the impact on the local community and economy.

Q Ron Hargreaves: What is the basis that the NDA is capable of making the right choice? Where is your experience? What evidence do you have to show that you are capable of choosing?

A Jim Morse: Even if you were to look back in history, there is no comparable piece of competition or competitive dialogue. It's not as if there's a better team who have done this before. So how have we prepared ourselves for that challenge? Firstly, selection of the individuals we have within the NDA, we've got a range of individuals with project management expertise, finance, socio-economics and communications. Nobody has done this sort of thing before. We've spent a lot of time visiting how it was done in DoE, and in the States where it has been done, well at least something similar, but not even there on the scale of Sellafield. We've engaged some consultants and we've also been under the very watchful eye of the Office of Government Commerce (OGC). So all of the procedures that we've used inside of OJEU, are all being reviewed by OGC. In fact, one higher than OGC, within Treasury the Major Projects Review Group which was set up by the then Chancellor of the Exchequer, Gordon Brown to make sure that the top ten investments that UK Government make, are scrutinised by a number of highly placed Treasury officials who've been through items like this. They sit across, inspect and challenge the progress of the top ten UK procurements, of which this is undoubtedly if not the first, then it's undoubtedly the second. So all of this process is within accordance with European law, as we have to as a public body. So that's the assurance that I will give you that as far as is possible, that we will have the right result.

Q Ron Hargreaves: You mentioned economics, money, management expertise etc, but I've not once heard you mention safety.

A Jim Morse: On the contrary, our number one responsibility is safety. If you look in the Energy Act, our overriding criteria is to enhance the safety of the estate that we've inherited.

Q Ron Hargreaves: Do you have a safety group within the NDA?

A Jim Morse: Yes we do, we have about twelve/thirteen members in our safety group and it covers all aspects of safety. Bearing in mind, we are not the Site Licence Company, we don't intend to staff ourselves up to the numbers required to run a site licence, but we have expertise in nuclear safety, security and the environment.

Q Joe Clark: Will the money raised from the sale stay with the treasury or will it go to the incumbents and if so will it be to the benefit of West Cumbria?

A Jim Morse: This is not a sale, there is no money changing hands as a direct consequence of the competition process. What happens thereafter is that the new parent body will receive dividend, representing the profit of the Site Licence Company. Today that is received by BNFL and BNFL give a large proportion of that back to Treasury; the only difference in this case is that it won't be going back to Treasury, it will pass into private industry.

Q Joe Clark: From what you're saying, there is no risk to the new PBO. So what we're doing is giving a contract to a commercial company with the opportunity for them to earn fantastic profits but they're not putting their money where their mouth is. So where's the entrepreneurial risk?

A Richard Jones: I suppose what we're trying to get across is, the NDA owns the assets and the liabilities. What the contractor does is take a performance risk. One of the reasons why an M&O contract has to change in the future, is the fee earning structure of the Site Licence Company will change. What will happen in the future as we engage the private sector and the relationship with the Parent Body Organisation, we will start to look at the extent to which efficiency is improved. They are not taking on massive nuclear liabilities; they take on the performance risk. If the SLC doesn't perform the way that they are expected to perform, through the application and the ideas of the management and their business leadership, then they will not earn anything.

Joe Clark: So in the worst case scenario, they walk away with a slightly tarnished reputation and it's cost the tax-payers millions to go through this exercise.

Q Alan Clark: When you say that top civil servants have looked at this competition, you only have to look at the Dome, top civil servants looked at that and at the Olympics and I'd bet it's overspent. Remember when they privatised water and gas and BT; and they said if they're more efficient, then you'll pay less; well have a look at them and you're not paying less and the best you can do from the front of the room, is to say you'll do your best. Because experts these days, nobody believes experts, they're a bit like politicians. We're not so much worried about the present workforce, but I'm worried about the kids who are going to school now and when they leave school, they've got to have jobs to go to. If the nuclear industry shrinks, the time will come in Cumbria when we say we can't afford the downsides of the nuclear industry; we don't want it. When I read the papers that say there are 8000 expected redundancies in the next few years, it actually frightens folk, and we are concerned.

A Jim Morse: Let's start with the future. In my opinion Cumbria is potentially poised for success. You have a tremendously skilled, motivated workforce, who keeps you safe at night, every night and every day. They have done for many years and I'm sure they will do in the future. You've got all of the natural assets to take advantage of new build in the future, by which I mean not only those skills, but the technology and the processes and raw materials; if that's what you'd call Plutonium. You've got a stable well bound community that understands what its future is and you've got a tremendous safety record. The way that the Government is clearly driving towards new build, gives you all the opportunities. This site isn't the number one site for a new build reactor, it's kind of marginal, but then you've got all of those assets that I spoke about. The kind of numbers that you spoke about, the fact that there would be redundancies that go with the completion of decommissioning was inevitability on 1st April 2005. One of the key components of the cases that we've studied, that we've spoken about, is what experience do the four bidders have of going through that same process in other areas; largely of course in the US. The DoE have made tremendous progress in decommissioning; there's been a tremendous reduction in their life time plan with also a tremendous balance on the other side of socio-economic activity in the communities affected.

Q Colin Hill: Precisely what are nuclear indemnities?

A Richard Jones: A nuclear indemnity is a recognition that that facilities on a nuclear licensed site will come with a track record i.e. their status and condition, which means that a new PBO cannot be expected to take responsibility for what has happened in previous years.

Q David Humphreys: Clearly this is a high risk industry for example loss of production through Thorp. Who is taking that risk in the future? Who is going to stand the loss?

A Jim Morse: Essentially the balancing of a new site company is with the NDA. So, the funding is made up of direct money provided by Treasury, money they recycle through us from additional revenue. So, money that funds the operations on site comes essentially from Government; from two places, government coffers and from revenue received. The PBO receives its profits not as a normal trading company; it only receives profit from the attainment of the fees of the Site Licence Company. So there is a fee schedule,

there is a base fee of about 3.5% that goes from NDA to Sellafield Site Licence Company. On top of that there are fees for performance. The profit that the PBO will receive is simply about efficiency and management of the operation of the site Licence Company.

Q: How do you determine performance?

A Jim Morse: Historically in the last three years, there are three types of fee, base fee, there are then a series of performance based initiatives which could be about providing better plans to underpin the asset maintenance, they could be plans to enhance socio-economic capability, they could be plans to reduce in the long term, the cost of the nuclear liability. Then there's a third set which is efficiency which is the gap between the estimate of the cost of performance, and the actual cost; and if the Site Licence Company can do the same amount of work, recognising being as safe as they have to be, if they can do it for less government funding; then they get a share of that gap.

Q Joe Clark: A lot of work on site is 'Level of Effort' and some of the potential PBOs earn two to three times more than the existing workforce. So we've got a team of people costing the taxpayer vast amounts.

A Jim Morse: Regarding comparative salaries, if the new Parent Body puts in a CEO who earns more than Barry Snelson, then that is part of the competition process. What private companies pay their executives is not the NDA's business. With regards to the 'Level of Effort' issue, this is at the heart of Sellafield's future success. All of those assets that I spoke about earlier are the success for Sellafield and its future. Last year the NDA carried out an accountancy survey and we found that almost half of the money we spent on behalf of taxpayers, some £2.3B, half of it goes into an indirect pot. We can see the outcome from the direct pot, e.g. we can see four cooling towers being demolished; but what we can't see is the other £1.1B, or where that goes. I'm not suggesting you can reduce that down to zero, but the £1.1B that cannot be attributed directly to production, is a huge number. So the more we can shift from this indirect pot, this 'Level of Effort' pot, the more we can shift those resources productively to the front line, the better.

Q Mike Davidson: Will the contract give the PBO the opportunity to seek new business?

A Richard Jones: The contract as with the existing M&O contract, doesn't give the Parent Body or the Site Licence Company the right to go out and contract for new work. All new work has to go through a sanctioning process, which goes through the Site Licence Company, the NDA and ultimately the Government.

Q Fergus McMorrow: How will the PBO deliver efficiency of savings whilst delivering their socio-economic policy?

A Richard Jones: The NDA will decide what percentage of savings it would spend on socio-economics. The contract doesn't change or specify what the NDA does with its portion of the savings. The Site Licence Company earns fee and what the Parent Body organisation does with that, is entirely up to them. What all of the bidders understand is that the obligations of the Site Licence Company to deliver its socio-economic commitments as part of ongoing business as usual, nothing changes. What all of the bidders have said is that insofar as understanding the undertaking that the site Licence has, they would seek to improve the socio-economic performance, to improve the impact, they will try and do it better and smarter, so that the ripple effect is wider.

Q Steve Jones: The individuals in the PBOs all seem to know each other well. How do you know that the bids are competitive and independent? Do you have a filter to identify suspicious bids?

A Richard Jones: We're talking about 'brand named' organisations and this contract is a massive opportunity for them, they have therefore all striven to be the best and the quality of their bids is evidence of this. Dialogue acts as an effective filter in every response and you would be able to recognise collusion. All the bidders have spent a lot of money in bidding for this contract

Q Paul Shawcross: The current executive team are being displaced and it must be said, certainly on behalf of Prospect, that they have served us well both on site and off site over the years and as such they should be treated with dignity and respect, especially when you're talking about numbers of the Executive who may be displaced. Secondly, as you would expect, the unions have had dialogue with all four bidders and they have not discussed the content of their bids. But if it is the intention of any of the bidders to make people redundant, as a result of this transfer, then that must be declared before point of transfer; and it is a legal requirement.

Paul Shawcross: With regards to workforce communications in respect of the PBO, it is very clear who is in charge of the site up to the point of transfer, but what isn't clear is how communications will deal with soft issues. This is about how the new PBO will get involved with the Sellafield workforce ahead of share transfer. My last question is when does BNFL cease to exist?

A Richard Jones: The dilemma we face is that we had to create a model that all four bidders could relate to and one of the real risks to this competition is the risk of challenge. We've got to be able to demonstrate that the process and evaluation is absolutely flawless. We also have to recognise that Barry Snelson and his team have a much more important job to do; they've got to retain command and control of the site during this process. The PBOs were asked to propose a complete replacement team, and then when we get to the point of contract award, we will consider any proposals at that stage, on who they might want to keep and who they would want to replace.

Q Alan Irving: Not for the first time in this type of forum, Cllr Clark has mentioned the figure of 8000 redundancies, how realistic is this, bearing in mind Jim Morse's view that Cumbria is poised for success? Where does the figure of 8000 actually come from?

A David Moore: I think that 8000 figure existed back in the old ERM study which looked at if reprocessing was to finish on a set date, then that would be the sort of cliff fall of job losses on the site. I think this has been revised a number of times since then.

Q Fergus McMorrow: This figure came from the ERM report (the 2nd one) which was produced in 2003, that is now five years out of date and I would ask that it is about time that this study is revisited, to derive a more realistic figure.

Alan Clark: The figure of 8000 has never been denied.

A Jim Morse: I can't imagine that of 10300 employees, that you could take 8000 out over the next four or five years and still be as productive as you were, it just seems incredulous.

Q Peter Kane: The NDA's remit is purely to decommission and there's no doubt that efficiencies and cost savings will cost jobs. Everything else is dependant on whether the PBO want to go for nuclear new build and there are long lead times for new build; what happens to job losses in the meantime.

David Moore: Thank you for those comments, I think Fergus did point out that all the information that's used to arrive at the figure of 8000, is out of date and doesn't fit and it is probably time to talk to the industry about getting a new report out that looks at the socio-economic impact and there may be an opportunity with the new PBO; they may offer us some assistance with that.

Q Alan Irving: I may have missed the answer, but this thing about a legal requirement for the successful bidder to declare whether there will be job losses?

A Paul Shawcross: It wasn't a question; it was a statement reminding the NDA that it is a legal requirement to declare job losses.

Q: During the bidding process, were the bidders asked to provide and commitment on job security or adversely any projections on likely redundancies?

A Richard Jones: Bearing in mind the workforce is employed by the Site Licence Company, the PBO don't have the right to determine levels of employment, nor can they mandate redundancies.

Q Ron Hargreaves: This leaves in the mind of those who aren't intimately involved with the process, that feeling of separation between power and responsibility. It is getting less and less clear to me about responsibility, eventually who goes to Jail if something goes wrong; it seems to be becoming rather diffuse.

A Barry Snelson: You're looking at the accused! The legalities are still the same, Sellafield Ltd owns the site licence, a licensee is appointed and that is currently me. So I am the individual, who stands as much chance as anybody of standing in the dock.

A Jim Morse: Our minimum legal obligations are to provide enough funds to allow Barry Snelson to comply with the Site Licence conditions and all of the UK regulations and laws.

A Jim Morse: In answer to Paul Shawcross' earlier question about when will BNFL cease to exist; it's not about whether BNFL exists, on that plant BNFL will not be the Parent Body and the owner of the shares on 25th November. Whether BNFL exists as a corporate entity is not the NDA's concern, but Barry might be able to shed a light on this.

A Barry Snelson: The exact demise of BNFL can't be determined. The last activities of BNFL were to sell off AWE, prepare Nexia for a future role as the National Nuclear Laboratory and to oversee the transfer of shares of Sellafield Ltd. The Executive, Mike Parker et al cease to be employed on 31st October. After that, just six people will remain to finish off the financial accounts for the year 08/09.

A Chris Darwin: With regards to the question on communications, we've been working on our internal communications and carrying those out. I think the question is really around when will the selected preferred bidder get involved in communications and that's something that our communications team are working closely with the NDA communications team; we will then work with the preferred bidder once they are announced. We've put quite a bit of work into defining some rules of engagement, bearing in mind that the competition process still continues, up until the point when the contract is awarded on 6th October. So, there will be a certain amount of limitations around what can and can't take place during that period. I know the NDA are looking toward a series of engagements between the bidder and various stakeholders both on and off site.

Paul Shawcross: I understand that, but there is an expectation both from the community and the workforce that we need to engage in communication with our new PBO. They will be our new PBO for 17 years and there is an expectation and everybody is waiting for the announcement; but the reality is if there's not going to be any communications, then tell us that, but keeping people hanging between July and November is not acceptable.

A Jim Morse: It's not acceptable and it's not going to happen.

A Brian Hough: We have already been working with the SLC communications team regularly over the last couple of weeks. There is a detailed workforce plan in place for the 11th July, to ensure that as far as possible, the whole of the workforce and the stakeholder community hear the news early and they hear it first and they don't hear it through jungle drums. I'm quite happy to go through that plan, from my experience; the colleagues I'm working with in the SLC have a very, very robust plan. Our aim is that by lunchtime and certainly by the end of the day we will expect that the vast majority of SLC and colleagues will have heard the news, with some detail and with some early words from NDA, with some early words from the successful bidder; that is then followed up the following week with a new communications newspaper which will include further information about the preferred bidder and all of that work is in training at the minute to try to ensure that if we can share as much as we can possibly share in competition space, as early as we can. In doing that you appreciate that means that we have been speaking regularly with all four bidders from a communications perspective, nothing to do with the bids, nothing to do with the tendering. What I can say is to give you my assurance, is that all four bidders are acutely aware of the need to engage as early as they possibly can, the workforce and the local community. Obviously we need

to have recognition of what we can and can't do up until share transfer date, but we'll be looking at it from a management process to really give the successful bidder a feel for all the kinds of issues, so that they are on the right page.

A Richard Jones: Just to try and explain some of the context to that, during the period of 11th July until 6th October, the competition process is still going on. This means that the confidentiality of the bidders' tabled offer is absolutely paramount. We've got an obligation to all four bidders to maintain that confidentiality and we've really got to make sure that we don't fall foul of that; because again when we talk about the risk of challenge; that risk potentially increases if details of their bids start getting out.

Q Paul McKenna: Confidence in the NDA has been eroded by the loss of a number of senior people at a critical juncture and if the preferred bidder were to drop out at this critical juncture then that would also reflect on badly the NDA.

A Jim Morse: So your point is that if this goes down to three bidders, then that would further damage the NDA. All the senior people who have left did not all leave at the same time. The criteria we've set ourselves for success in any of the competitions is to have three pre-qualified, good bidders who will make it up to the final podium. In Sellafield's case, we've got four. So, if one dropped out, we'd still be successful. It would undermine something of the NDA's reputation if it was to happen, but if that happened, it could happen for a whole number of reasons outside of NDA's control. Just because that might happen, doesn't mean we're going to stop progressing the mission, just because there's some reputational risk doesn't mean we're going to shrink back from taking decisions all over the estate; just like we've done for the last three years. We've tried to lead on a number of issues, for instance rewarding performance and sharing success; that within two months of our arrival, in terms of the £1000 decommissioning bonus, in terms of driving forward efficiency one year ahead of the Government's timetable. So, all of that speaks to a confident company that has gone through some changes but is still focussed on a mission. I wouldn't see any of those separate issues of change of directors being anything other than a sign that we're going to take some risk to provide the mission.

Q Penny Hitchin: By what process will the NDA consider an extension of the contract and what costs are involved in the competition process?

A Richard Jones: The way that the contract works is the contractor has a right to an extension, provided that they meet certain criteria. Those forms of criteria are determined by the NDA. The NDA is able to change those criteria from time to time, provided act reasonably at all times. We might have a set of criteria that we agree on 6th October, which align with the site mission, which align with the targets which have been set by Government but which we find in several years time are not entirely relevant anymore; so we have the opportunity to change them. If you've got a contractor whose meeting all the criteria, why would you want to spend money on further competition? If they don't meet the criteria, then the NDA has a decision to make as to whether or not it wants to run another competition.

The costs to the NDA are the costs of administration and the manning of those resources. There is no reimbursement of costs to the bidders. This has cost the bidders a large amount of money from their own bidding budgets, there is no undertaking from the NDA to reimburse them. Outside of that there are the venue costs and the legal team costs.

David Moore: I think everybody has had the opportunity to ask the questions they wanted to. I'd like to thank Jim, Chris and Richard for taking on these questions. I think from a community point of view and from the workforce's point of view, we are looking forward, we are positive about what's coming and I think you may have heard some negative comments today, but I think it's all about ensuring we all get the best from this. We are all looking forward to the future, we're looking forward to working with the new PBO whoever that is and I think they can be assured of the support of the communities of West Cumbria, provided they take on board what the Cumbria communities want and what the workforce want. If that all comes together, then I'm sure that the future can be as bright as Jim alluded to earlier.

Jim Morse: If you want us to appear at some other forum, if it's a forum that involves Sellafield site and Sellafield workforce in work time, then we're absolutely willing to do that; I don't mind where we have to do that.

David Moore: Thank you everybody, the date and venue of the next meeting is Tuesday 2nd October at Cleator Moor Civic Hall; and that will be a full scrutiny meeting.