Together Against Sizewell C

TASC: WRITTEN REPRESENTATION   IP no. 20026424

SIZEWELL C DCO APPLICATION

REVIEW OF APPLICANT'S FUNDING STATEMENT (DCO DOCUMENTS APP-066 & AS-011)

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TASC have carried out a critical review of the Funding Statement and the addendum document submitted by the Applicant as part of the Sizewell C (SZC) DCO application, the results of which are set out below.

<u>Contents</u>

1. <u>Executive Summary</u>
   This report examines the Applicant's statements that it is confident it will have the funds available to finance the SZC project and the related compulsory purchases. TASC look at the two relevant DCO documents and draw attention to various statements made by the Applicant which TASC question in the light of contradictory information, most of which is taken from EDF's 2020 Universal Report (a small part of which is replicated below).
   TASC conclude that, in our opinion, the Applicant has not provided sufficient evidence to support its confidence in having sufficient funds available to meet the SZC project costs. For this reason, **TASC recommend** the Secretary of State refuses the SZC DCO application.

2. <u>TASC's Review of May 2020 Funding Statement [APP-066] and January 2021 Addendum [AS-011]</u>
   Para. 2.1.3 refers to Government guidance stating "*26. … A funding statement must contain sufficient information to enable the Secretary of State to be satisfied that, if it were to grant the compulsory acquisition request, the proposed development is likely to be undertaken and not be prevented due to difficulties in sourcing and securing the necessary funding."*
   Similarly, para. 2.1.4 refers to compulsory land purchase guidance stating that applicants should be able to demonstrate "*a reasonable prospect of the requisite funds for acquisition becoming available."* and "*the degree to which other bodies (public or private sector) have agreed to make financial contributions or to underwrite the scheme, and on what basis such contributions or underwriting is to be made."*

In TASC's opinion, the funding statement continues the trend of consultation and DCO documentation ie short on substance-our view is that it does not contain '*sufficient information*', nor does it demonstrate '*a reasonable prospect* ' or any 'degree' of agreement of financial contributions**. TASC consider** it is merely a statement of wishes on the part of the applicant so falls short of government guidelines and should be rejected by the Secretary of State.

Remarks made by the Applicant in these funding statements warrant some comment:-
APP-066

4.2.7 Includes: *" The RAB model is attractive to investors as it provides a long-term revenue allowance which is indexed to inflation, which is underpinned by a large customer base (providing a very high degree of confidence)."*
TASC's concerns are the RAB model may be '*attractive to investors'* but this comes at the expense to UK electricity consumers and UK taxpayers. TASC point to experiences of similar schemes in the USA which are not positive (see https://www.postandcourier.com/business/3-years-later-how-the-fallout-from-scs-9-billion-nuclear-fiasco-continues/article_5d2a2684-d264-11ea-946f-935bbd3ffa98.html)

3.2.9 Includes the following statement: *"EDF Energy and the wider EDF Energy group have significant experience in delivering major energy infrastructure projects."*
TASC consider that EDF's recent experience of its group's involvement in the Olkiluoto, Flamanville and HPC projects is hardly a ringing endorsement of their competence.

TASC are aware from Plate 3.1: Corporate Structure that the holding company on EDF's arm of the corporate structure is Electricite de France, a company that counts the French government as owner of more than 83% of the company. One has to question why the French state does not have the confidence to fund its own company's project. However, the French public auditors, the Cour des Comptes, carried out a review, 'The EPR Sector' which was very critical of the EPR project (see Annex A) with particular emphasis on EDF's flagship EPR development at Flamanville. As a result of this, it would seem that the French will not be funding the construction of any further EPRs of the same design as proposed for Sizewell.

In para. 3.2.1 the Applicant refers to a cost estimate of £20 billion. Since then, a substantial number of changes have been proposed and TASC have asked the Applicant what effect this will have on the projects likely cost but the reply on 28th April 2021 merely said "*Thank you for your request for the predicted construction costs for Sizewell C power station. These will be known with more certainty as we get closer to a financial investment decision"* **TASC are concerned** at the lack of transparency of likely costs when major changes to the SZC project have been announced and history of all of the other European EPR projects - Olkiluoto, Flamanville and Hinkley Point C (HPC) - have shown substantial cost overruns. This matter is particularly relevant if the Applicant is reliant on the Regulated Asset Base (RAB) financing model where UK electricity consumers will be funding the construction and UK taxpayers taking on some of the financial risk for cost overruns.

In terms of funding, the Applicant offers a list of possibilities in these DCO documents:-

I) Own funds

II) 3rd party investors

III) A government sponsored funding scheme e.g. RAB
IV) Direct UK government investment

In APP-066 paragraph 3.2.8 the Applicant states, *"SZC Co. is confident that it will be able to raise the funding required for the Sizewell C project."* The Addendum document AS-011 at 3.1.8 continues the same over-confident theme by stating, *"funding is not considered to be an impediment to the implementation of the Sizewell C project or the acquisition of land, interests in land or rights over land identified in the Order."* It is **TASC's view** that the evidence of the EDF 2020 report contradicts this level of confidence and that there can be no certainty that the Applicant will be able to fund the construction of SZC or the acquisition of the compulsory purchase properties. When looking at the Applicant's assertions, TASC refer to:

I) The Applicant's own funds. As set out in EDF's 2020 report, the Applicants have a budget of £458 million to get the SZC project to a pre-final investment decision (FID) stage, but gives no commitment of funds for compulsory purchase or development costs. Instead EDF's 2020 report refers to EDF being '*a very minority shareholder*' which, in **TASC's opinion,** confirms that EDF clearly does not have any material financial contribution that they wish to invest in the SZC project and possibly confirms the French government's lack of confidence in the viability of the SZC development. EDF's financial problems have been well documented, but have not been helped by: the recent announcements in relation to Areva's [a wholly owned subsidiary of EDF] extra contribution of €600 million to the Olkiluoto 3 EPR project (see https://www.energyintel.com/pages/articlesummary/1106538/newbuild--france-to-inject--600-million-in-olkiluoto-3-completion); anticipated increase in costs of the Flamanville 3 EPR project forecast by the Cours des Comptes review (page 12 states "*Its construction cost is estimated by EDF at €12.4 billion2015, to which additional costs will be added which could reach nearly €6.7 billion2015 on the commissioning of the reactor, still being scheduled for mid 2023, including around €4.2 billion in financial costs.";* further delays announced regarding the building of HPC that will inevitably lead to cost increases (the Daily Telegraph on 23rd May 2021 stated *"EDF has warned that the coronavirus pandemic could cause major delays to its £23bn Hinkley Point C nuclear power plant. Talks are continuing between the French state-owned power business and British officials about potential hold-ups caused by the Covid crisis. Hinkley's start date has already been pushed back to June 2026 due to a six-month delay caused by the pandemic. It was originally due to come online in 2025 when it was given the go-ahead in 2016."* The Applicant still needs to fund the balance of the HPC project costs anyway on top of any additional costs due to these delays. Unless the Applicant can meet all its pre-FID costs and compulsory purchases out of the £458 million allocated to the SZC project referred to in EDF's 2020 financial statement, **TASC's opinion** is that the Applicant has not provided any evidence that EDF can fund their share of compulsory purchase costs or the construction of SZC.

II) 3rd Party Investors. The Applicant at 3.2.4 APP-066 states in May 2020 *"SZC Co has had positive engagement with third party investors with a view to attracting the investment required"* However, the addendum in November provided no update at all on any talks with third parties, so it seems likely that there are no third party investors and it also seems possible that potential finance providers are voting with their feet and following the lead of the likes of Legal & General, Aviva and Prudential who have all intimated that they have no plans to invest in SZC. Many would be investors have ESG guidelines that **TASC consider** would preclude investment in such an environmentally damaging project as SZC. TASC have been unable to identify any evidence in the DCO documents that funds are available from third parties for the SZC project.

III) A government sponsored funding scheme e.g. RAB Despite the RAB model consultation in October 2019 and government saying they are exploring the matter further, there is no evidence of progress in developing a scheme that would be acceptable to would be lenders, electricity consumers, UK taxpayers and parliament. There is currently no evidence that a suitable RAB funding model that is acceptable to all parties will be passed into legislation by this government. It would seem that the Applicant is aware of the doubts, hence the comment in EDF's 2020 report which states "*At this stage, it is not certain that the Group will achieve this objective. This financing model has never been implemented for projects of that scale before and therefore would be one of the largest ever equity issuance and project financing on the European scene."* **TASC contend** that the Applicant has not demonstrated with any confidence that funding will be available through RAB and have expressed doubts themselves in the EDF 2020 report.

IV) Direct government investment Government have not made any specific commitment to invest directly into Sizewell C but have already said it may consider it '*provided there is clear value for money for consumers and taxpayers.'* Part of that assessment will include a review of the Applicant's ability to keep to budgeted costs and for those costs to show a reduction of 20-30% on the costs of building HPC as well as being able to demonstrate a competitive price for its electricity. History shows that nuclear projects tend to increase rather than fall in price as evidenced by the current European projects at Olkiluoto, Flamanville and HPC. While the Applicant intends to replicate the HPC build at Sizewell, the difference in sites in terms of geology, size of site and environmental constraints with SZC planned to be built in a location adjacent to sites of ecological importance in an AONB, mean the build programme will have to be site specific so will provide many opportunities for cost increases. The Applicant's concerns about its ability to keep costs down is evidenced by the statement in EDF's 2020 report *"The development consent order document includes a very ambitious* [emphasis added]*target of savings on construction costs to take into consideration the fact that Sizewell C is a second of a kind."* Finally, we are all aware that the cost of electricity from renewables continues to fall with current contracts for offshore wind being circa £40/MwHr as compared with the cost of HPC's being circa £105/MwHr.

3. Conclusion

TASC's view is the Applicant has not provided evidence that it can be confident that it will have the necessary funds to undertake the SZC project. The statements of confidence set out in these documents in May and November 2020 appear to be contradictory to statements made in the March 2021 EDF 2020 report, which states *"EDF's ability to make a final investment decision on Sizewell C and to participate in the financing of this project* *beyond the development phase could depend on the operational control of the Hinkley Point C project, on the existence of an appropriate regulatory and financing framework, and on the availability of sufficient investors and financiers. <u>None of these conditions are guaranteed at this time.</u>* [emphasis added] *Failure to obtain the appropriate financing framework and appropriate regulation could lead the Group not to take the investment decision or to take a decision under less than optimal conditions."*

TASC would also like to draw PINS attention to a statement taken from the Environment Agency's website relating to the SZC permit application which says: *"Any company that wants to operate a nuclear power station will have to show that it can build, commission, operate and decommission it safely and securely, whilst protecting the environment and managing radioactive waste."* On the strength of these funding statements, **TASC are of the opinion** that the Applicant cannot demonstrate it has the funds to build and commission SZC, let alone fund operations and the non-costed decommissioning liability. If the Applicant cannot fund the build of SZC, then how can it possibly satisfy the Environment Agency's criteria?

4. Extracts from: EDF / Universal Registration Document 2020 (published 15th March 2021) Page 72

Sizewell C EDF and CGN signed the Sizewell C Project equity documents on 29 September 2016 alongside the HPC contracts, for the development, building and operation of two EPR reactors (3.2GW) at Sizewell in Suffolk. During development phase previous to final investment decision, EDF's share is of 80% and CGN of 20%. EDF has planned to pre-finance the development up to its share of an initial budget of £458 million. Final investment decision is likely to be made by mid-2022. If it is postponed, an agreement should be reached on the financing of the additional costs incurred. This project is based on the assumption that third party investors will invest a very large majority and EDF plans, at the date of the final investment decision, to become a very minority shareholder with corresponding limited rights and to deconsolidate the project from the Group's financial statements (including in the calculation of economic indebtedness by the rating agencies). At this stage, it is not certain that the Group will achieve this objective. This financing model has never been implemented for projects of that scale before and therefore would be one of the largest ever equity issuance and project financing on the European scene. Securing the appropriate risk-sharing mechanism and ultimately the corresponding financing structure ahead of the Final Investment Decision is therefore key for the project, the UK Government and the current shareholders. EDF's ability to make a final investment decision on Sizewell C and to participate in the financing of this project beyond the development phase could depend on the operational control of the Hinkley Point C project, on the existence of an appropriate regulatory and financing framework, and on the availability of sufficient investors and financiers. None of these conditions are guaranteed at this time. Failure to obtain the appropriate financing framework and appropriate regulation could lead the Group not to take the investment decision or to take a decision under less than optimal conditions (see section 2.2.4 "Operational Performance", risk factor 4A "Management of large and complex industrial projects including EPR"). Project development is based on a replication strategy from HPC which should enable costs to be driven down thanks to a decrease in construction costs combined with lower risks. The Sizewell C nuclear power plant would therefore also be based on the EPR technology, EDF being in charge of the replication of the design, and would benefit from feedback and experience from HPC. The development of the Sizewell C project achieved major steps in 2020. In June, Planning

Inspectorate accepted the application for the Sizewell C development consent order for examination. The examination process is expected to start in April 2021, meaning the Secretary of State should make their decision on the planning permission by April 2022. The development consent order document includes a very ambitious [emphasis added]*target of savings on construction costs to take into consideration the fact that Sizewell C is a second of a kind. The UK Government made a major announcement end of 2020 to set out how to achieve the ambition to net zero emission in 2050. On 18 November, a 10-point plan for a Green Industrial Revolution was issued, including a commitment to advancing nuclear as a clean energy source, across large scale nuclear and developing the next generation of small and advanced reactors, acknowledging the important role large scale nuclear will play in delivering the UK's future low-carbon energy mix. The UK Government will contribute up to £385 million to an "Advanced Nuclear Fund", of which £215 million will be invested in the development of British Small Modular Reactor (SMR) technology. The remaining £170 million will be dedicated to a research and development programme on Advanced Modular Reactors (AMR). Building on this plan, the Energy White Paper released on 14 December 2020 sets out the steps the UK Government will take over the next decade, including the ambition to bring at least one large scale nuclear project to the point of Final Investment Decision by the end of this Parliament period (2024), subject to evidenced value for money and the satisfaction of the UK Government's legal, regulatory and national security requirements. In parallel, the UK Government stated that it was to enter talks with EDF on the funding of the Sizewell C project as it considered options to deliver this ambition. The Government also stated that it continues to explore a range of financing options for new nuclear including the Regulated Asset Base (RAB) funding model. In addition, given the scale of the financial challenge, the UK Government could consider participating in financing during construction, provided there is clear value for money for consumers and taxpayers.*

1. Link to EDF / Universal Registration Document 2020 (published 15th March 2021) Page 72 : https://labrador.cld.bz/EDF-2020-Universal-Registration-Document/74/