

# 100% Renewable UK

<https://100percentrenewableuk.org/>

## The secret massive losses EDF is suffering in building Hinkley C

EDF faces massive financial losses as they continue to fund the building of Hinkley C in Somerset. This is because they are paying for the power station from their balance sheet rather than use much cheaper UK Treasury loans that were originally agreed with the UK Government. In short, paying for the construction costs out of shareholders' dividends is very costly, something that depresses share prices and in effect loses tremendous amounts of money for the main shareholder, the French Government.

Originally when the contract to build Hinkley C was signed off by the UK Government and then approved by the EU Commission (required under 'state aid' rules), the plan was that the bulk of Hinkley C construction costs would be paid for by loans from the Treasury, which would be lent at relatively low rates of interest. But the Government insisted on a proviso for this to happen. This condition said that the successful commercial operation of the same nuclear technology (the European Pressurised Reactor or EPR) being built in France at Flamanville had to be demonstrated by the end of 2020 (1).

However EDF has never taken up the offer of loans from the UK Treasury, and the obvious reason for this is simply that the completion date for the Flamanville EPR has been pushed back and back - so much so that the earliest it can even begin its test cycles will be 2022. EDF cannot possibly meet the conditions enabling it to take up the loan guarantees. EDF has made a 'virtue' out of this necessity and declared it will not take up the Treasury loans.

Hence, in order to complete Hinkley C EDF can only do so by issuing its own bonds, and thus accumulating debt that rests on its balance sheets. Such mounting debt reduces the possibility for issuing dividends to shareholders and thus depresses share prices.

EDF's notional profits from the Hinkley C deal (attacked at the time for being too high) have only recently been hit by the announcement that there will be up to around £3 billion costs overruns on the projects (I'm sure there will be more such announcements to come), but really these costs overruns are relatively small compared to the losses that EDF is taking by financing the project on its own balance sheet.

The rate of return on the project was estimated to be around 9 per cent in 2013 (less now given the announced cost overruns) and borrowing costs would be less than this if it was mainly financed by (relatively) cheap Treasury loans. Yet the borrowing costs of financing the project on its balance sheet are, according to accountancy conventions, more like 15 per cent. Hence EDF faces a big loss, in accountancy

terms, even if the project is finished on time and even if it then sold the project onto someone else (probably unlikely).

In fact way back in 2016 EDF's Chief Finance Officer Thomas Piquemal resigned after the EDF CEO refused to postpone making a decision about whether to go ahead with building Hinkley C. There were increasing concerns about the length of delays in building the EPR at Flamanville - and because of the loan conditions set by the UK Treasury for funding Hinkley C such delays had a direct financial implication for EDF's finances if it went ahead with Hinkley C. Piquemal thought that a hasty decision could jeopardise EDF's finances (2).

In fact 85 per cent of EDF's shares are owned by the French state. EDF share prices have been depressed in recent years- they are now worth less than third of what they were ten years ago, for example, but the Macron Government has long signalled that it is prepared to put state money into defending the project (3). Some might see this as a bizarre outcome that the French taxpayer is in effect bailing out what would otherwise be a huge loss making project in order to build a power station in another country - the UK. Many said that the 35 year contract granted to EDF for the project for £92.50 per MWh (2012 prices) was too much. In fact this seems to be proving very cheap compared to what a fully private company could afford to take on.

Some with expert knowledge have wondered how on earth EDF can still go forward with a project that looks like financial insanity for its own accounts. But at the end of the day this seems to be all about the politics, and national identity, which the elite French administrators appear to see bound up in the EPR technology - no matter how much it costs.

Just how damaged this identity will be depends in part on just how disastrous a construction project Hinkley C proves to be. Given that it is scheduled to be built in no more than 6 years, and that no currently operating British nuclear reactor has been built in the less than 8 years, the cost overruns seem only likely to mount.

But, the French Government may have the last laugh (or at least the next laugh) in that the British Government is now poised to fund the next EPR (at Sizewell C) under an opaque mechanism called the 'Regulated Asset Base'. This is alleged to offer cheaper means of financing. It will be cheaper for EDF of course, but in fact it transfers the risk of the inevitable cost overruns onto the British Government and our taxpayers. A fake price based on a ridiculously short projected time needed to build the power station will be used to cover what is a blank cheque to be offered to EDF to build the power plant.

EDF may be burning up French taxpayers money for the loss-making Hinkley C, but it will be the British taxpayers who will be paying the massive price of the next EPR project at Sizewell C. There are, of course, much cheaper options to produce low carbon power, but EDF and the British and French Governments are not rabidly keen to advertise such options.

**by David Toke December 2019**

(1) For further details of this, see my earlier blog at <https://realfeed-intariffs.blogspot.com/2019/02/new-funding-crisis-looms-for-for.html>

(2) See report in the Financial Times 'EDF chief quits over decision to push on with Hinkley Point'

by Michael Stothard, March 7th 2016 <https://www.ft.com/content/ef9d4de8-e3e9-11e5-ac45-5c039e797d1c>

(3) See report in Guardian, 'France agrees bailout to pay for Hinkley C' by Terry Macalister, March 17th 2016, Guardian, <https://www.theguardian.com/uk-news/2016/mar/17/french-government-edf-united-front-hinkley-point-money-nuclear-plant-union>