Hinkley's state support: the fallout

Olivia Gagan

17/10/2014

With the European Commission's (EC) approval of state support for the £16 billion ($25.7 billion), 3,200MW Hinkley Point C nuclear project in Somerset, England earlier this month, EDF can now finally move ahead with the development. But what does the EC's agreement mean for the future of energy subsidies in Europe?

The EU investigation which concluded this month centred on the level of the proposed government support for the project. This plan proposed a 'strike price' – a guaranteed minimum revenue – of £89.50 per megawatt hour if a further project at Sizewell C goes ahead, or £92.50 without a second nuclear plant. The agreed strike price includes the wholesale cost of electricity as well as the costs of building and financing the project. The deal will last for 35 years.

A charged climate

UK renewables developers, including Solarcentury and Ecotricity, have said this week they will support an appeal through the European courts to block this subsidy. Their complaints centre around the size and length of the support the project sponsors will receive, which is much more sizeable than comparable European state subsidies for renewable technologies.

Greenpeace also stated that the healthy subsidy Hinkley will enjoy is disproportionate to those offered to other projects. "It is such a distortion of competition rules that the commission has left itself exposed to legal challenges," Greenpeace EU legal adviser Andrea Carta said.

Green companies and NGOs are of course likely candidates to come out against a new nuclear build. But others are also in opposition to the subsidies. After the announcement was made, Austrian politicians immediately said the country will fight the decision in the European courts, arguing the project sets "a bad precedent". European energy subsidies, they argue, have before now focused on emerging and clean technologies that need support, not mature, proven sectors such as nuclear. UK utilities including OVO Energy have warned that electricity bills could shoot up to try and keep the project financially afloat.

A subsidy seems inevitable but the price is undoubtedly high. It is projected that the UK could shell out £17.6 billion in subsidies to the project over its lifetime, payments which will be recovered through consumer energy bills. The question everyone is asking; is this a good deal or not?

Power plays

There is no doubt that the UK needs more power, with its existing nuclear capacity set to be offline by the time Hinkley is projected to be up and running in 2023. Hinkley promises to meet a very significant 7% of the country's energy needs, and UK plc cannot afford the project on its own balance sheet. However, a key issue that has been raised is just how much of a profit the UK actually stands to make should the project be built and opeated successfully. None of the sponsors, namely French giants EDF and Areva alongside China General Nuclear Corporation (CGN) and China National

Nuclear Corporation (CNNC), are domestic stakeholders.

Last year the UK government announced that Chinese investors would be allowed to take minority and eventually majority stakes in the development of future UK nuclear projects, and EDF has confirmed that it had taken Chinese equity partners on board.

Profit, therefore, will not be repaid into British coffers, but into the balances of foreign investors. The strike price should provide some cash back to the UK taxpayer, but only after the the sponsors have taken the first 60% of it. EDF said it believes the deal will offer itself around a 10% return over the lifetime of the project.

While the potential flow of foreign investment into the UK through the Hinkley project has been praised by UK Chancellor George Osborne, others have voiced concerns about the lack of UK ownership. The criticism is that it will leave the country vulnerable to the wills of other country's businesses and politics, with consumers paying money into the pockets of international firms.

A question of support

The base issue is the mechanism underpinning the financing. Earlier this month the Public Audit Committee raised concerns that the first, earlier tranche of CfD funding, which consisted of around £16.6 billion of state support for renewables projects, was not a good deal for taxpayers. Yet this amount, spread across eight projects, is still less than that has been promised to Hinkley. Similar questions will no doubt continue to swirl around Hinkley when (and if) it enters financing next year.

The Contracts for Difference form just one part of the UK's wide-sweeping changes to the way its energy is developed, subsidised and sold under the new Energy Act, and it is not the only new market mechanism causing consternation. Last week Scottish Power decided to duck out of another new mechanism, the capacity market auction, stating that the new regime means the cost of delivering energy from the plant was not viable. The cost of paying for power in the UK is rising at an alarming rate, it seems, for operators, consumers and the state, and stakeholders are beginning to bite back, not just with Hinkley.

A final investment decision on Hinkley is due by the end of the year. By then, it will be clear whether Austria's threat to try and block the state support happens, and if other European countries will voice similar concerns. It is far, far too early to say whether Hinkley Point C will ultimately prove to be a savvy deal for the UK; but it is clear that the project sets a very expensive precedent for all future new nuclear builds across Europe.