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Viewpoint

Hinkley point C: A new chance for nuclear power plant construction in central Europe?



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HIGHLIGHTS

- Text deals with the EU's decision on the state support for the NPP Hinkley Point C.
- This decision sends a strong signal about possible state aid for new NPPs in the EU.
- Other member states are possible to consider similar pattern of financing.
- The case of the Czech Republic is used to demonstrate the situation.

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ABSTRACT

This text focuses on the decision of the European Commission on the admissibility of state support for the expansion of Hinkley Point C, a British nuclear power plant. The European Commission not only influenced the development of energy sector in the UK with its decision, but also sent a strong signal that it is possible to use state aid for new nuclear power plants in the EU. The example of the Czech Republic shows the way this signal may be perceived by governments and energy stakeholders and how it can influence the national debates about the construction of new nuclear power plants, even before the detailed information about the whole case of state aid for Hinkley Point C has been published.

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1. Introduction

On 8 October 2014, the European Commission (EC) decided that aid from the UK government for the construction and operation of the Hinkley Point C (HPC) nuclear power plant was compatible with EU rules on state aid according to article 107 TFEU (European Commission, 2014b). The decision aroused disconcerted and sceptical reactions among the professional public. Primarily because of a possible disruption of competition on the common energy market (Renssen, 2014). The whole case will be, after the publication of detailed materials (the European Commission has released only a brief press release so far), subject to many analyses from economic, political and legal positions. This text focuses on the less discussed symbolical level of the whole decision – on the way the approval of the EC may be applied in the debate about nuclear energy in those countries, which show a long-term

interest in the construction of nuclear power plants. An example of such country is the Czech Republic, where the EC decision changes the situation even now, regardless the fact that its details have not been published yet.

2. State aid and HPC

At first, about the decision of the European Commission itself. State aid is not forbidden in the energy sector according to the union *acquis communautaire*, however, the European Commission oversees it so as not to disrupt the market. State aid plays a prominent role, for example, at national support of renewable energy sources (see Fauquet & Johansson, 2008) and in general in the field of environmental and energy infrastructure. In this regard, the Commission published new Guidelines on State aid for environmental protection and energy 2014–2020 (European Commission, 2014a) in 2014 as well as so called Block Exemption Regulation for State Aid (Szyszczak, 2015). To a limited extent, State aid appears also in the field of nuclear power industry, as was the case of

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financial aid from the British Government to British Energy, in 2002 operating eight nuclear power plants in UK in that time (European Commission, 2002).

Extraordinary in case of HPC is primarily the extent of approved aid and the fact that it is the first case of approved state aid for new nuclear power plant (Renssen, 2014).

HPC will be built by multinational consortium led by EDF company. Construction costs are estimated to be around EUR 31,2 billion, the power plant is supposed to be put into operation in 2023 and it should represent around 7% of UK electricity generation. Between December 2013 and October 2014 the European Commission carried out an in-depth investigation, on the basis of which it approved two-fold intervention of British Government into NPC. The first of these state interventions is state guarantee covering debts which the operator will seek to obtain on financial markets to construct the plant. The second one is then a 35-year long contract-for-difference on the level of twice the current market price of electricity (European Commission, 2014b). In case of lower market prices of electricity, the operator will be compensated for the difference using money taken from electricity consumers; on the contrary, in case of higher prices the operator will return the money to the state institutions.

According to the notice of the EC, there are two reasons for approval of the EC of such state aid, obviously distorting the market at first sight. Primarily, during the investigation there have been agreement alternations between the British Government and consortium which should operate the future power plant. The final agreement is thus a concession to the objections of the European Commission and it should reflect the EU conditions for state aid provision. Regarding, for example, the state guarantee, it was raised by about EUR 1,3 billion and thus better corresponds to the risks associated with such a big project. Secondly, “during the investigation, the UK authorities have convincingly demonstrated to us that the construction of this nuclear power station could not be achieved by market forces alone. There is a market failure here, in particular because the project would not raise the necessary financing on the market due to its unprecedented nature and scale” (European Commission, 2014b).

It is not the aim of this text to analyse in detail the argumentation of the European Commission and the decision itself, but it is already apparent that it will face significant opposition and there will be realization complications with the construction itself. In April of this year the Austrian government plans to launch a legal challenge against the decision of the European Commission, which may slow down the realization of construction up to two years, while other countries can join (Neslen, 2015). Also a German cooperative Greenpeace Energy plans to take legal action (Euractiv, 2015). The decision of the European Commission (after disclosure of the details) will be critically investigated with emphasis on its compatibility with the EU and British law (see Deakin & Howarth, 2014; Szyszczak, 2015). The above mentioned statement about the market failure based on an argument that the project is not able to obtain enough funds on the market for its realization itself will probably be also called into question. For example, with reference to the planned construction of the new power plant in Finnish Fennovoima, of which the costs are significantly lower and it is counted on private funding (Beckman, 2014). After overcoming all these complications there is a question, whether investors will be willing to actually realize the construction under the current conditions. Even nowadays, the construction is threatened by serious financial problems of French company Areva, which takes part in the project with its technologies and equity stakes of 10% (Gosden and Armstrong, 2014; Macalister, 2014).

3. The case of the Czech republic

Formalistically speaking, the decision of the European Commission means just another step in a very complicated process, at the end of which the HPC may, or may not, be constructed. Wherein, until the publication of detailed materials, its detailed analysis and critical evaluation, other subjects of the European energy market should not deduce any far-reaching judgements from the whole case. However, reality shows that the European Commission (maybe unintentionally) have sent a stimulating signal to those countries, which speculate about new nuclear power plants and so far perceived a financial participation of the state as a step against the principles of energy *acquis communautaire*. The following example of the Czech Republic demonstrates how distinctive symbolic value may an approval of the European Commission possess and how it may be applied in a national discussion.

The Czech Republic is historically a rather pro-nuclear country. In 2013, 35.3% of its power was generated at the two nuclear plants on Czech soil (Korbel, 2014). These are the Dukovany nuclear power plant, which with four VVER V213 pressurized reactors, the installed power capacity currently amounts to 4×510 MWe. Next, Temelín, with a set of two VVER 1000 V 320 pressurized reactors, has an installed capacity equal to 2×1000 MWe. Both power plants are undergoing a process of modernisation, which has led to a combined installed power capacity of 4404 MWe as of late 2012 (Vlček and Černoch, 2013, p. 131).

The Czech Republic, moreover, is counting on additional development of nuclear power, as demonstrated in all of the state's strategic and conceptual documents. The 2004 State Energy Strategy anticipated and “relies on the future development of 1200 MW of new atomic sources” (Ministry of industry and Trade, 2004). The report of the so-called “Paces Commission” proposed “a gradual reduction of dependence on coal-fired plants based on their replacement by nuclear power plants, which eventually would come to a share of electricity generation already seen for example in France (77%)” (Ministry of Industry and Trade, 2008, p. 161). The updated version of the State Energy Strategy from 2010 discusses the necessity of “supporting and accelerating the process of negotiating the construction of new nuclear reactor blocks, including taking the necessary steps of international negotiations, with the goal of facilitating their fastest possible commissioning” (Ministry of industry and Trade, 2010 p. 29). The most recent version of the Energy Concept, from August 2014, calls for essentially the same: “To support and accelerate the process of negotiating, preparing, and completing new nuclear reactor blocks in existing nuclear power plants to a total capacity of 2500 MW (Ministry of industry and Trade, 2014 p.58).

Additionally, according to public opinion polls, support for nuclear energy is stronger in the Czech Republic than in any other EU Member State: 59% of Czech citizens say that the benefits of this source of energy outweigh its drawbacks (European Commission, 2010, p. 31).

Based on these facts, the ČEZ company, which operates both Czech nuclear power plants and is two-thirds owned by the state, announced a tender on 3 August 2009 for the construction of two new reactors at the existing plant at Temelín, with an option for three additional blocks, most likely one at the Dukovany plant and two at the Jaslovské Bohunice plant in Slovakia. The Areva company proposed an offer of its EPR reactors (which was later shelved), followed by an offer by Westinghouse with its AP1000 and by a consortium of the Russian firm Atomstrojexport and the Czech (but Russian-owned) company of Škoda Jaderné strojírenství, which proposed using its VVER-1000 reactors. While at first glance technical and safety questions played the central role in the

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