Agreement reached on commercial terms for the planned Hinkley Point C nuclear power station

- EDF Group and UK Government agree on key commercial terms of investment contract for HPC
- Project will benefit from the Government’s Infrastructure Guarantee Scheme under terms and conditions to be agreed upon
- EDF Group announces new partners and confirms key suppliers
- Final investment decision conditional on completion of remaining key steps

Agreement

EDF Group and the UK Government have reached in principle an agreement on the key commercial terms for an investment contract of the planned Hinkley Point C nuclear power station. This major step is one of a comprehensive set of agreements for the project which can be announced today.

The balanced investment contract will give investors the confidence to invest in a new nuclear power station which is capable of providing the UK with secure, reliable, low carbon electricity at a fair price for consumers. It shows that new nuclear will be able to save customers money compared to other forms of generation, as well as creating thousands of jobs and strengthening long term industrial capability.

The agreements are:
- The key commercial terms of an investment contract for Hinkley Point C
- Confirmation that the project will benefit from the Government’s Infrastructure Guarantee Scheme under terms and conditions to be agreed upon
- Letters of Intent with equity partners
- The four main contracts for engineering and construction
- Terms for a Funded Decommissioning Programme for Hinkley Point C

Finalisation of these agreements and construction of the plant are subject to a final investment decision. The Government and EDF Group will work together to address the remaining steps which must be taken before that decision can be taken.

Strike Price

The agreement is fair and balanced for consumers and investors. It means Hinkley Point C will offer stable and predictable prices through a “Contract for Difference”. If wholesale prices rise above an agreed “strike price”, consumers will not pay extra. If they fall below this price the generator will receive a top-up payment. Customers pay nothing until the power station is operational.
Agreement followed a robust and thorough process including opening the project to independent validation on behalf of the Government.

EDF Group has plans for two EPR reactors at Hinkley Point C in Somerset. In addition it is also developing proposals for two EPR reactors at Sizewell C in Suffolk. Successive power stations built to the same design have `a “series benefit” from a shared design, supply chain and engineering work.

The Strike Price is set at:

- £89.5/MWh if Sizewell C goes ahead. There will be a payment from Sizewell C to Hinkley Point C equivalent to £3/MWh upon the final investment decision being taken with respect to Sizewell C reflecting the fact that the first of a kind costs of EPR reactors are shared across the Hinkley Point C and Sizewell C sites.
- £92.5/MWh for HPC project if Sizewell C does not go ahead.

The payment mechanism funded by the Sizewell C project is intended to ensure that there is no impact on Hinkley Point C economics if Sizewell C goes ahead.

In addition, if savings are achieved in the construction of the Hinkley Point C project, these will be shared with consumers through a lower strike price.

DECC forecasts that electricity from Hinkley Point C will be competitive with future gas generation prices as well as all low carbon energy sources. It is estimated that the UK new nuclear programme will save households £74 a year in today’s prices by 2026-30.

Other key points of the investment contract agreed in principle include:
- EDF Group and its partners will take the risk of constructing the power station to budget and schedule
- The strike price will be fully indexed to inflation through the Consumer Price Index
- The contract will last for 35 years from the date of commissioning
- A rate of return (IRR) of around 10% by the project in line with EDF Group investments criteria
- The project will be protected from unforeseen changes of law

**Partners**

Agreement in principle on the scope of the UK Guarantees scheme and on the key terms of the investment Contract allows EDF Group to move ahead to secure partners for the financing of the project. The share of equity is expected to be:

- EDF Group 45-50%
- AREVA 10%
- China General Nuclear Corporation (CGN) 30-40%
- China National Nuclear Corporation (CNNC)
- Discussions are also taking place with a shortlist of other interested parties who could take up to 15%

AREVA has been integral in the construction of all the existing EPR projects and will bring the expertise and lessons learned from these projects to be applied in the UK.
The EDF Group has been working as an industrial partner with CGN and CNNC for 30 years. This includes the joint venture between EDF Group and CGN to build two EPR reactors at Taishan. The UK will benefit from this long-standing co-operation and the extensive and proven capability of CGN and CNNC in the construction and operation of nuclear plants.

The UK’s nuclear regulation ensures that all builders and operators must demonstrate that they operate in the interests of the UK and meet strict compliance requirements for safety and security.

The partnership will give CGN and CNNC the opportunity to gain experience in the UK and will support their long term objective of becoming nuclear developers in the UK in partnership with EDF Group and in full compliance with UK regulatory requirements.

The risk of constructing the power station to budget and schedule will be shared by EDF Group and its partners.

Benefits

The Prime Minister David Cameron said: “Earlier this month I spoke about our new industrial policy that looks to the future, and about our determination to embrace new technologies and back new industries and energy sources so that they can flourish and help us build a rebalanced economy across the country. As part of our plan to help Britain succeed, after months of negotiation, today we have a deal for the first nuclear power station in a generation to be built in Britain. This deal means £16bn of investment coming into the country and the creation of 25,000 jobs, which is brilliant news for the South West and for the country as a whole. As we compete in the tough global race, this underlines the confidence there is in Britain and makes clear that we are very much open for business. “This also marks the next generation of nuclear power in Britain, which has an important part to play in contributing to our future energy needs and our longer term security of supply”.

Secretary of State for Energy and Climate Change Ed Davey said: “This is an excellent deal for Britain and British consumers. For the first time, a nuclear power station in this country will not have been built with money from the British taxpayer. It will increase energy security and resilience from a safe, reliable, home-grown source of electricity. This deal is competitive with other large-scale clean energy and with gas – and while consumers won’t pay anything up front, they’ll share directly in any gains made from the project coming in under budget and from refinancing or equity sales.”

EDF Group Chairman and CEO Henri Proglio said: “The agreement in principle reached today with the British government significantly strengthens the industrial and energy co-operation between France and the United Kingdom. The EPR project at Hinkley Point represents a great opportunity for the French nuclear industry in a context of a renewal of competencies. This project will deliver a boost to the economy and create job opportunities on both sides of the channel and will enable the United Kingdom, a country in which EDF is already the leading producer of electricity, to increase the share of carbon-free energy in its production mix.”

EDF Energy CEO Vincent de Rivaz said: “What we are announcing today is a good, fair and balanced deal for consumers, the UK and EDF. The project will kick start the UK nuclear programme and will help rebuild the nation’s industrial stamina. The progress so far on the project reflects the great skill and determination of a world class team which is ready to get to work and turn Hinkley Point C into a reality.”
The project

Preliminary works for the project are already well advanced, with a design approved by UK regulators, a nuclear site licence in place and planning permission has been given for construction. Costs have been established through competitive tendering process and have been independently scrutinised.

Subject to a final investment decision by July 2014, the power station is expected to complete commissioning of the first unit in 2023. This means the power will be delivered when it is needed, at a time when the existing fleet of AGR reactors will be coming towards the end of operation, allowing a transition from one generation of nuclear power to the next.

The construction cost of the two nuclear power units at Hinkley Point, expressed in 2012 money, is expected to be £14bn. In addition to the construction costs, the project and its partners will have incurred £2bn of other costs before first operation. These include land purchases, achieving the different consents, construction of a spent fuel storage facility and preparing the 900 strong team which will run the station. This means that the total costs to first operation are expected to be close to £16bn, expressed in 2012 money.

For the first time in the UK, costs of waste and decommissioning are built into the project upfront through a Funded Decommissioning Programme.

Key terms of the contracts for the four most important suppliers to the project have now been finalised subject to a final investment decision. These are with:

- Bouygues TP/Laing O’Rourke (civil work contract)
- Costain (marine work)
- Alstom (turbines)
- Areva (Instrumentation and Control, Nuclear Steam Supply System and Fuel)

Work with potential suppliers, as well as national and local supply chain events have promoted opportunities for UK and Somerset businesses to supply the project. This means that 57% of the project’s construction value could be spent in the UK, building skills and expertise which will help the country win a greater share of nuclear programmes nationally and globally.

New alliances between British and French industry will allow both to take a leading role in this project and nuclear projects around the world.

Hinkley Point C has the potential to create 25,000 job opportunities in the UK during its construction, including 400 apprentices. It will create 900 jobs when operational.

Investment in local colleges, an enterprise centre and construction skills centre help people from Somerset to benefit from the project.

Building the new power station will also kick start the UK’s new nuclear programme and lead to lower costs for successive power stations.
Infrastructure Guarantee

The Government has confirmed that the project is eligible for its UK Guarantees scheme. It is currently assumed that, subject to Infrastructure UK due diligence, Treasury-guaranteed debt will finance 65% of expected total costs prior to operations, backed by an appropriate security package provided by the investors.

Infrastructure UK is undertaking a comprehensive due diligence of the project in order to verify the scope and determine the terms and conditions of a guarantee.

Next steps

A final investment decision for all partners requires a number of further conditions to be met. These are:

- Agreement of the full investment contract
- EDF Group to finalise agreements with industrial partners for equity funding and with Infrastructure UK for debt funding
- A decision from the European Commission on state aid

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EDF group, one of the leaders in the European energy market, is an integrated energy company active in all areas of the business: generation, transmission, distribution, energy supply and trading. The Group is the leading electricity producer in Europe. In France, it has mainly nuclear and hydropower generation facilities where 95.9% of the electricity output is CO2-free
EDF’s transmission and distribution subsidiaries in France operate 1,285,000 km of low and medium voltage overhead and underground electricity lines and around 100,000 km of high and very high voltage networks. The Group is involved in supplying energy and services to approximately 28.6 million customers in France. The Group generated consolidated sales of €72.7 billion in 2012, of which 46.2% outside of France. EDF is listed on the Paris Stock Exchange and is a member of the CAC 40 index.

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1 For the first time in the UK, a Funded Decommissioning Programme means that EDF Group will pay at the time of generation for the eventual decommissioning and waste management costs associated with Hinkley Point C. This cost is included in the strike price.

2 Internal Rate of Return of a project is a standard measure of profitability used by investors.

3 NNB GenCo will be protected against discriminatory or specific changes in law for example (i) change in law that is applicable only to HPC, or only to NNB, or only to generation facilities with CfDs, or only to nuclear generation facilities, or only to nuclear generation facilities with CfDs; (ii) change in law which has an undue and not objectively justifiable, discriminatory effect on HPC in comparison with a comparator group of generators; and (iii) a tax on uranium, provided in each case that such changes do not constitute (A) a ‘foreseeable’ change in law, (B) a change in policy or (C) development of good practice in the on-going civil generation nuclear industry.