

ISSUER COMMENT

20 May 2022



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RATINGS

Electricite de France

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| Domicile | Paris, France |
| Long Term Rating | Baa1 |
| Type | LT Issuer Rating |
| Outlook | Negative |

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Electricite de France

Further cut in anticipated nuclear output is credit negative

On 19 May 2022, [EDF](#) cut its estimate for French nuclear output in the year to 280-300TWh, 15TWh below the group's February forecast. The reduction stems from extended planned outages for reactors where an ongoing inspection programme has confirmed corrosion faults. EDF has said that, at this stage, no further outages need to be scheduled for 2022 and has confirmed its previous nuclear output estimate for 2023 in the range 300-330 TWh.

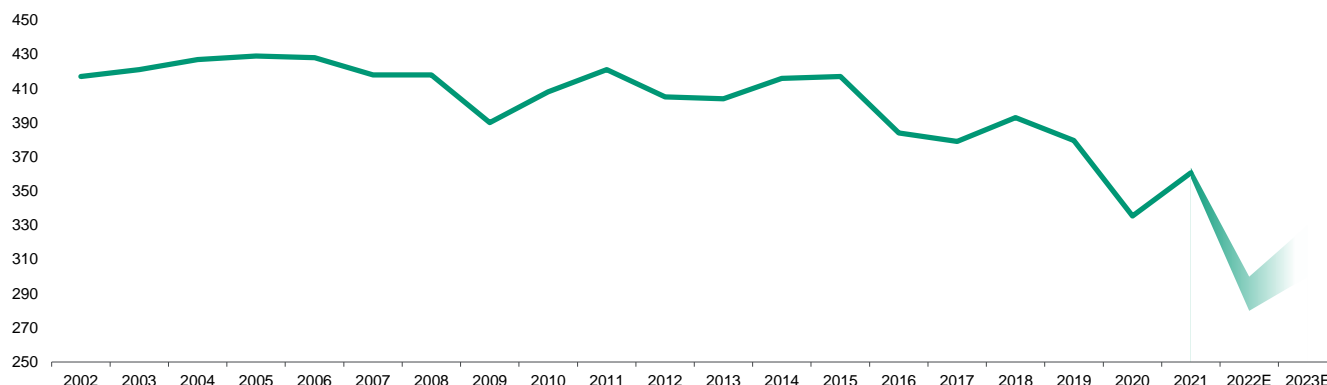
EDF has revised its expected French nuclear output for 2022 three times since the start of the year. On 13 January, the group estimated production of 300-330TWh, down from 330-360TWh. This was further lowered to 295-315TWh on 7 February. Four days later, EDF also sharply cut its output estimate for 2023 to 300-330 TWh, from 340-370 TWh.

If realised, the latest cut in nuclear production will further strain the group's earnings. This is because EDF sells forward its estimated nuclear output before the end of the budget year and, with a fleet dominated by nuclear and hydro power, there is little scope to replace lost production. The group will need to buy back up the sold electricity while European power prices remain high and volatile, with lost nuclear production exacerbating the situation in France.

For illustration, a 15TWh shortfall will result in c. €4.2 billion of extra costs, assuming EDF's c. €62-65/MWh 2022 hedged price and current wholesale price of c. €280/MWh. Absent additional mitigation measures, the lost production will weigh on EDF's financial flexibility and further weaken a credit profile negatively affected by the apparent unpredictability of nuclear output in France.

The risk that EDF again revises its estimates for 2022 and/or 2023 appears elevated. The group has not completed the metallurgical audit driven by the corrosion defects' detection late 2021 yet and has still to receive approval from the ASN's (*Autorité de Sûreté Nucléaire* - French Nuclear Safety Authority) for its planned repair programme. In addition, EDF's track record with regards to its French nuclear fleet's availability is negative, as evidenced by the structural decline of the nuclear output over the last ten years shown below.

Exhibit 1

French nuclear output has been declining over the last decade

Sources: EDF, MIS

Since December 2021, EDF has detected corrosion defects close to the welds on pipes in the safety injection system circuit on its 1,450MW and one 1,300MW nuclear reactor. Since then, the group has carried out preventive checks and assessments on the rest of the fleet, which are still ongoing. Inspection of the entire fleet is expected to spill over into 2023.

With a reported EBITDA of EUR18 billion as of 31 December 2021 and net installed generation capacity of 123 GW as of year-end 2021, EDF is one of Europe's largest integrated utilities, providing electricity generation, distribution and supply services. The group is organised along the following business lines: (1) France - generation and supply, where it is the dominant power generator and supplier; (2) France - regulated, which primarily includes electricity distribution through its subsidiary Enedis; (3) UK, through EDF Energy, the country's largest generator following the acquisition of British Energy; (4) Italy, where it is the third-largest generator through Edison; (5) other international, which mainly consists of Belgium, where EDF Luminus is the second-largest electricity group in the Belgian market, and in the Netherlands; (6) EDF Renouvelables (EDFR), the group's wholly owned investment vehicle for renewables, excluding hydro; and (7) other activities, which include Framatome, EDFT and energy services through Dalkia.

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