European Commission
Directorate-General for Competition
State aid Registry
Rue de la Loi/Wetstraat 200
1049 Bruxelles/Brussels
Belgique/ Belgie

Subject: State aid SA.34947 (2013)/C) (ex 2013/N0 _ Investment Contract (early Contract for Difference) for the Hinkley Point C New Nuclear Power Station. THE ROMANIAN ATOMIC FORUM (ROMATOM) COMMENTS PURSUANT TO ARTICLE 108(2) OF THE TREATY ON FUNCTIONING OF THE EUROPEAN UNION

Dear Sirs,

The attached paper represents the Romanian Nuclear Industry comments pursuant to Article 108(2) of the Treaty on functioning of the European Union regading the Investment Contract for the Hinkley Point C New Nuclear Power Station.

Best regards,

Gheorghe Lucaciu
Secretary General

State aid SA.34947 (2013)/C) (ex 2013/N0 _ Investment Contract (early Contract for Difference) for the Hinkley Point C New Nuclear Power Station.

THE ROMANIAN ATOMIC FORUM (ROMATOM) COMMENTS PURSUANT TO ARTICLE 108(2) OF THE TREATY ON FUNCTIONING OF THE EUROPEAN UNION

I. Introduction

EU member states' energy system needs major new investment projects to deal with gaps in the upcoming years due to conventional power plants that are to close in the next 10 years and the need to avoid carbon lock-in.

In line with the 2030 Framework for Energy and Climate Policy, Romania is keen to use its resources to their fullest potential and rely on its own choice of energy mix, as an effective state prerogative.

The 40% target to reduce greenhouse gas emissions established by the EC corroborated with the country's available resources for long term, prompts to a wise selection of technology neutrality sources able to deliver the sought out end results: security of supply, affordability and decarbonisation.

The practiced policies of the previous years have led to cascading measures regarding the above mentioned three pillars of sustainability having to face today the great challenge of affordability coupled with the need of decarbonisation.

The escalating costs and market unbalance have trigerred concerns over the means to counteract the disadvantages of an all-fit solution heavily subsidied by investing for the development of a truly competitive and level playing field system.

Therefore, the energy mix should be a balanced choice in which source diversity and technology neutrality play a significant role. The further development of nuclear industry in Romania ensures realiability, affordability and decarbonization.

From all of the above, the Romanian nuclear industry, in its entirety, is a strong supporter and urger to find the suitable support mechanisms that would allow investments in the nuclear field without hampering competition on the market or allowing over-compensation of the investors.

It is in this context, that the Romanian nuclear industry fully supports the mechanism proposed by UK in the form of the Contract for Difference (CfD).

II. Advantages of technology neutrality and level playing field

The EU should recognize the full potential of nuclear energy in supporting a 40% reduction in GHG emissions. The negative proven impact of a single energy form as an all fit solution to environment concerns should encourage all low-carbon technologies, on a fair competition basis, and discourage technology specific subsidies and specific targets. Support mechanisms such as CfD are competitive financing mechanisms and, given nowadays market challenges and concerns, they are of paramount importance for those European member states that are willing to create real competitive markets for the benefit of economy and end consumers, based on technology neutrality. Member states should be encouraged to identify competitive financing market models as a means to support investments. Emphasis by the EC on investment enabling measures, based on technology neutrality, will provide member states with the necessary flexibility in meeting targets.

No carbon free technology should hamper the potential to contribute of any other, however reaching the target is no easy task. Some states may use all carbon free energy forms, others may heavily rely on coal, but the choice of mix is an attribute of the states, while competition is by far the competence of the EU. It is worth emphasizing that states have the prerogative to address their energy challenges and adopt those economic and financial choices that best adapt to their internal situation. The instruments chosen are also entirely their choice.

III. Existing market failures impede nuclear new build in particular and major investments in general

The existing market failures, common to all member states to a higher or lesser degree, impede the proper development of nuclear new build as a solution to long term sustainable development in general, and as viable decarbonization solution, in particular.

- The use of ETS and CPF has already proven their shortcomings and their real incentive effect on low-carbon investments is at least uncertain on the medium and long term. Furthermore, their sole use would determine a high carbon price and impede efficient long-term private investments in low-carbon generation projects.
- The total absence of internalization of security of supply benefits by the market is hardly more applicable in the case of new nuclear build than in the case of any other investment as a support for an efficient security of supply. Security of supply has by far a broader social impact that is not priced by the market: any expansion in generation capacity is a risk reducer for everyone and only by increasing the amount of investments necessary EU can ensure security of supply.
- Ensuring diversity of supply depends greatly on investors risk assessment. Therefore, projects that have a more attractive risk-return profile (regardless of the social optimal risk-return profile) will always be more appealing to investors. Thus, even if diversity of supply is highly preferable to one source reliance and is a condition for the security of supply, ultimately it reduces to investing risk assessment.
- Even with nuclear technology that is considered mature as opposite to First of a Kind Projects, the investment still reduces to the general rule of attractive risk-return and standalone investment basis.

- Capital markets do have capacity constraints for all new low-carbon generation capacities, especially nuclear: existence of long-term nuclear related risks and liabilities; high risk of regulatory failure and lack of long-term headging against electricity prices.

Any claim that these general and nuclear related market failures do not have consequences on new nuclear build is highly unrealistic. Therefore, member states that are willing to make nuclear an important part of their energy mix are forced to identify means to facilitate investment in nuclear energy generation capacities.

IV. Benefits of the CfD support mechanism for nuclear new build in particular and market development in general

Given both the European and domestic context, the Romanian industry supports the UK Contract-for-Diffference (CfD) as, currently, the most appropriate and competitive instrument that supports nuclear development. State aid refers to a unidirectional payment mechanism that allows the investor to get over compensation which it has been noticed in the case of renewable energy development.

The CfD has the following charecteristics which de facto define the mechanism as a reliable, fair, market based, not over-compensatory, risk included commercial mechanism destined to support the developmet of nuclear energy as a part of the solution for affordability, security of supply and decarbonisation:

- two-way top-up payment mechanism set as the difference between the strike price and the reference price
- the strike price accurately describes the verified costs of investing and allows a reasonable level of return on investment to be achieved in a 35-year period, which is half of the normal life span of the extended life span of the NPP;
- it includes periodic reviews to adjust the strike price downwards if the costs turn out to be lower than planned, thus it impedes over-compensation;
- the reference price is a forward market price derived year ahead to reflect the expected value of electricity;
- it involves direct-marketing of electricity exposing the generator to inherent market risks and compelling the generator to assess and handle basis risk in order to realize the full strike price;
- it avoids transfer of future price volatility risk for low carbon generation capacities and, therefore, it removes associated market failures;
- It reduces the capital and financing costs and end user prices for consumers;
- It provides a contractual protection against changes in policy and law – addressing the risk of regulatory failure;
- it creates a level playing field for all low carbon investments;
- It guarantees neither fixed level of overall revenues (basis, volume, short-term electricity price risk), nor a fixed level of profit (construction, operation, equity, debt, indexation, foreign exchange risk).

V. Conclusion

The European Commission has recently released the 2030 climate and energy policy framework which within the context of tough economic conditions and a real need to tackle rising energy costs is a welcome attempt for the creation of a level-playing field adapted to states' most accessible ways to meet major targets.

The 20-20-20 energy policy has determined a rapid move towards renewable growth. A few years later, rising energy prices and a substantial renewable subsidies system combined with economic harsh times have caused concerns over sustainability and competitiveness in some member states.

Therefore, the major challenges today derive from issues like affordability, competitiveness, employment and development.

These are simultaneously EU and member states common objectives, therefore it is a common duty to identify solutions: nuclear energy is an important option to address such issues. However, the current market failures impede a proper and fair development of nuclear energy. Addressing market failures alone bares no realistic solution for medium and long-term. On the contrary, both the EU and member states should identify support mechanisms that allow both the development and removal of market failures. Such efficient mechanisms are always market based, competitive, fair and transparent.