Sizewell C

NEA-IFNEC Financing Initiative, December 2022

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Project Update

- Development Consent Order was granted in July 2022
- Early Works started at site (September 2022)
- December 2022: HMG confirms it will invest £700m in the project and take an initial 50% ownership. The funds will support SZC reach financial close at which point HMG ownership will reduce
- Working towards Financial Investment Decision next year

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Funding and financing Sizewell C

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SZC financing: Key requirements and context

1. **A low power price to provide customer value for money**
   – HMG approval for new nuclear project will be subject to clear value for money for consumers and taxpayers

   – Cost of alternative low carbon generation has fallen. Most recent UK Offshore wind projects are c£40/MWh

   – The cost of finance is around two thirds of the HPC Strike Price; finance cost needs to fall for new nuclear competitiveness

   – National Audit Office report on HPC recommended consideration of alternative financing models to improve value for money

2. **EDF will be a minority shareholder**
   – Size of investment limits utilities ability to finance project on their own
   – Requires third-party equity capital (e.g. pension funds) and 'project level' debt (not corporate debt from EDF/others)

3. **SZC not on Government balance sheet:**

In summary

- SZC requires cost of capital to come down (a commercial framework with lower risk)
- SZC will be privately financed
- At financial close SZC will become a standalone / independent company. This means SZC needs a commercial framework that is investable for third-party debt and equity

Financing context - Indicative financial structure
Strong credit rating and ability to attract a large amount of new equity is crucial

Indicative Financial structure	• Gearing of up to 70%
Equity	• EDF Energy & HMG expected to hold a minority participation – assume up to c.40% between them • **60%+ from third parties. Likely to include ‘financial investors’ who have not invested in nuclear before** • <u>All equity will be committed at financial close</u>
Debt	• Debt will not be fully committed at financial close • SZC will have to be able to continually raise debt through the construction period • **A strong credit rating will be important to allow the project continued access to debt markets**

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Would the HPC CFD enable the SZC financing requirements?

At HPC EDF undertook an extensive marketing exercise to seek third-party financial investors to join the project in partnership with EDF

- Financial investors were not prepared to invest. Major issues were:
  - <u>Construction risk exposure</u> FOAK UK EPR and downside sits entirely with HPC
  - <u>Long delay to returns</u> no revenue until 10+ year construction period is complete
  - <u>Technology risk</u> (no operating EPR in the world)

SZC benefits from HPC replication providing a substantial reduction in construction risk helping to make the project more investable

However: some of the equity investor issues under the 'HPC CfD model' would still be issues at SZC and 'project level' credit would not achieve the required risk profile

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Financing model: New for UK nuclear - well proven for other public infrastructure

Regulated Asset Base (RAB) model used to fund £200bn+ infrastructure assets in the UK

New nuclear RAB to enable financing of Sizewell C

RAB Complemented with Government Support Package (GSP) for targeted support for low probability / high impact risks

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Can the RAB model enable SZC financing requirements?

Key potential features of new nuclear RAB and GSP arrangements

- Revenue during construction
- Inflation linked revenue stream
- Construction risk: Overrun protection + Contingent Finance facility
- Financing risk: Cost protection + Liquidity support
- Minimal power market risks
- Government Support Package for high impact / low probability risks including insurance and political risk
- Customer and taxpayer value for money: Critical for Government approval of SZC
    - Investors remain 'on the hook' for risks they can control and are incentivised to deliver construction, operation and financing efficiently
    - Lower cost of capital reduces consumer costs

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Building a copy of HPC with the same supply chain provides SZC substantial cost and risk reduction

Complements introduction of RAB and GSP: Important for financiers and for consumer and taxpayer value for money

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All the objects shown green on the picture will copy the UK approved design of HPC

Thank you

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