PRESS RELEASE

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Temelinomics: or Why CEZ cannot afford to build Temelin 3&4

CEZ CFO Martin Novak said on 26 January 2012 that CEZ is now looking for ways to reduce the risk of Temelin 3&4, by sharing it with an investment partner and through government support such as feed-in tariffs for nuclear energy (Bloomberg 2012-01-26). The explanation given by Novak is that CEZ needs to free up cash to invest in other projects.

This most recent statement is less confident than Novak's comments six months ago, when he told the Czech press that by the time construction is underway, CEZ will be making so much money that it will not need a loan for Temelin 3&4. He dismissed the idea as risible, saying that he "must smile at the suggestion that CEZ would not have the money".

Has anything changed in the last six months? Or is CEZ now simply more willing to acknowledge, at least indirectly, that it is unable to finance Temelin 3&4 through its operating cash flows?

In this the latest study from Candole Research, we demonstrate just how unconvincing are the economics of Temelin 3&4 and how overblown Martin Novak's earlier statements have turned out to be. We show how the company's performance, together with its creditworthiness, is deteriorating. Bonds must be refinanced and coincidental projects worth more than €10bn completed. To accomplish all this will involve committing to loans that would lever the company above the industry average and make it less able to respond to future business risks –and for that matter, to future legal risks such as conviction for alleged abuse of dominant market power by the European Commission, whose ruling on the matter is expected shortly. We stress that, even if the project goes according to schedule and is on budget, it is very likely to generate negative NPV. We note that CEZ is already being subsidised in the construction of Temelin 3&4. The state has capped the nuclear insurance liability, which substantially decreases the insurance premiums payable. And CEZ transfers the cost of expanding the grid, which would otherwise not be necessary, to consumers. We expect that further subsidy will be required.

For these reasons, we are unable to find an economic justification for the project. We assume potential investors will reach a similar conclusion. We do acknowledge however that there might be other motives to proceed with the project, such as geopolitical or straightforward rent seeking, for example in the form of public subsidy-hunting –not unlike with the Czech photovoltaic bubble created and exploited by politicians.

As we have observed in an earlier study written two years ago called CEZ unplugged, "the risk to investors that CEZ's management may be tempted to seek rents while executing the investment plan remains high given the government's cavalier approach to scrutiny of the management it appoints." Past procurement decisions and mounting suspicion of unreported related party transactions by the firm's management strengthen doubts about commitment to maximising shareholder value. We do not consider the replacement of Martin Roman by Daniel Benes as CEZ's CEO to be significant, not least because Roman remains chairman of the supervisory board. And we see no good reason to believe that the burden on CEZ's free cash flow caused by wasteful procurement practices and investment will disappear just because the majority shareholder, the government, says so.

We hope this study is a useful contribution to the debate about whether Czech taxpayers, who will pay for Temelin 3&4, should be willing to do so. The full study may be downloaded here Temelinomics 2012.