Recommendation from the European Investment Bank to the European Commission on the subject of a possible EURATOM loan for the Nuclear Safety Upgrade project in Ukraine

The European Investment Bank has reviewed the project documentation and information on the safety upgrade project of the Ukrainian nuclear power plants provided by the Commission and supplemented by further project related information received, in accordance with the terms of the mandate given to the Bank in the agreement dated 19 July, 1994 and renewed on 18 July, 2000.

In accordance with the provision of Article 3 of the mandate, the Bank is required to assess the financial and economic aspects of the Project as they are stated in the file forwarded by the Commission, in particular to:

1. Examine the loan application forwarded by the Commission with regard to the:
   (a) Appropriateness of financing the project by loan;
   (b) Possibilities for reimbursement of the loan by the borrower;
   (c) Financial aspects of the transaction;
   (d) Guarantees offered.

2. Make a recommendation to the Commission.

The Bank is not asked to provide an opinion on the technical feasibility or acceptability of the proposed investment.

The Bank's conclusions are based on its assessment of the financial and economic aspects of the project as they appear in the documents submitted by the Commission, supplementary information made available to the Bank by the Commission and EBRD and agreed during the appraisal period and data received from the Ukrainian authorities during the field appraisal. They therefore do not constitute, nor be considered to imply, any judgment by the Bank for or against the project, since the Bank has not, in particular, examined the project's technical, nuclear safety and environmental aspects, which fall outside the scope of the Bank's mandate. The specific and limited recommendations by the Bank, in line with its mandate, relate to financial and economic issues which will be elements of the overall appraisal of the project by the Commission.

The Bank's qualified conclusion is as follows:

The nuclear safety upgrading project is suitable for EURATOM loan financing, as it is potentially least-cost, and is potentially financially viable.

The Bank comments and recommendations are as follows:

a) The safety upgrade project is of a nature appropriate for loan financing by EURATOM.

   The project has a well defined scope and implementation schedule, and forms an important part of the overall investment programme of the promoter. The project follows on from a successfully completed similar project, which can be considered as a pilot operation for the current safety upgrade package.

b) The Borrower (Energoatom) should be in a position to service and to reimburse the proposed EURATOM loan, its former and foreseen loans provided the regulated tariff is adjusted to allow full coverage of these expenses. In principle the financial viability of the project is ensured by the regulated tariff system that applies to the nuclear electricity production.

The safety upgrade project overlaps with other large foreseen capital expenditures, which are part of the Ukrainian energy strategy:
inter-alia extension of lifetime of the present units, completion of units 3 and 4 at Khmelnitsky NPP, construction of interim spent fuel storage facility and construction of other new generating capacities. Taking these investments into account a gradual increase in tariff levels during the project implementation would be required to around EUR 40/l\text{WW} and then later in two steps to c. EUR 50/MWh and c. EUR 60/MWh to reflect new investments in generating capacity. This raises an affordability issue in the Ukrainian economic and social context, which will require careful monitoring during the Project’s implementation phase.

c) **EU stress tests.** Following the Fukushima accident in Japan, Ukraine has confirmed its willingness to undertake ‘stress tests’ on a voluntary basis in accordance with the specifications agreed by the European Commission and the European Nuclear Safety Regulators Group (ENSREG). The impact of the stress tests on the ongoing safety upgrade project is highlighted in two resolutions issued by the nuclear regulatory body (SNRCU) and the Cabinet of Ministers of Ukraine in 2011. These resolutions requested the updating and the amendment of the Safety Upgrade Project, including the call for immediate implementation of some measures. In addition the SNRCU made the full completion of the Safety Upgrade Programme a pre-condition to any possible extension of life time of any nuclear units. The full results of the Ukrainian post-Fukushima stress tests have undergone an international peer review. The conclusions of the peer review process were summarized in a report by ENSREG in May 2012.

d) **It is foreseen that the loan will be guaranteed by Ukraine,** following confirmation of the favourable opinion of the Economic and Financial Committee of the European Council on the creditworthiness of Ukraine. No allocations from state budget are expected for the project. Energoatom will finance its share of project costs from own funds.

In order to mitigate the risks highlighted above the Commission may want to consider the following conditions in its loan documentation: