

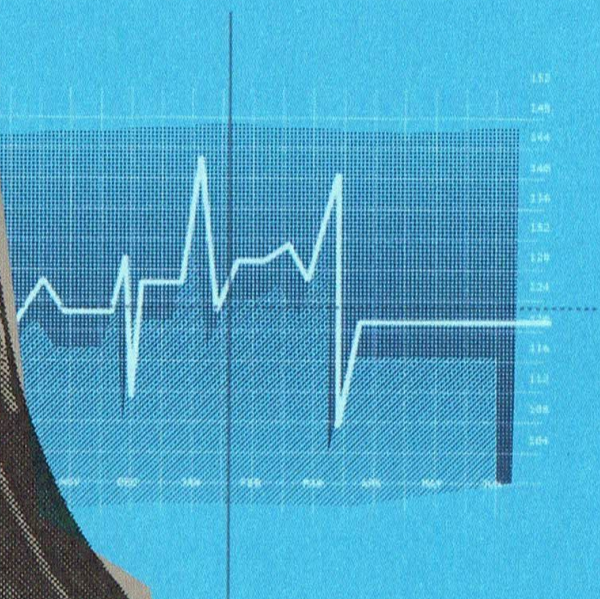
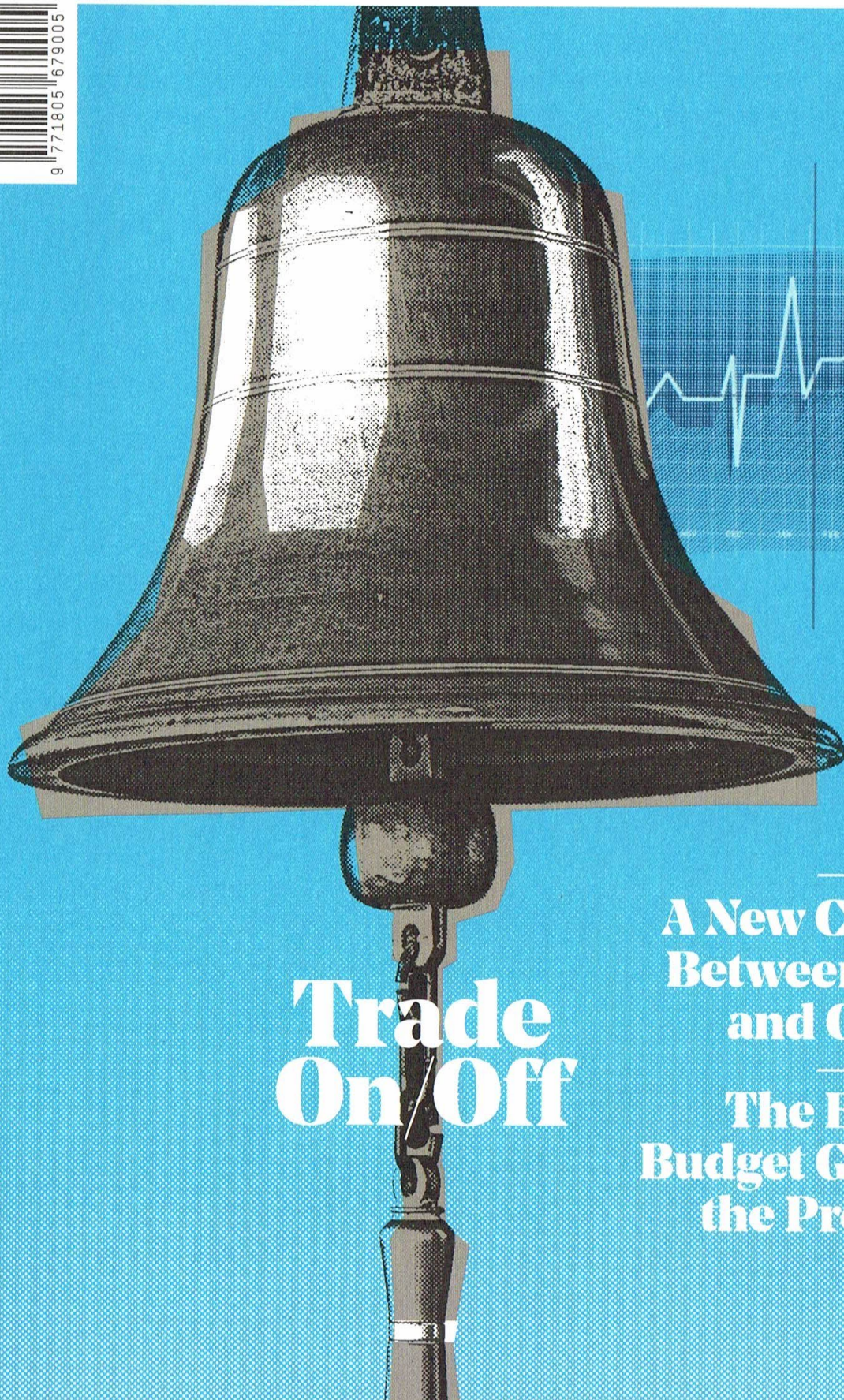
No.
01
2019

ASPEN Review

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Atomic Question Mark

Paks. A small town located in a bend of the Danube about 100 kilometers south of Budapest. The entire area is dominated by a nuclear power plant built in the late 1970s and early 1980s. It is clearly visible from the nearby hills with the vineyards of Szekszárd, famous for its excellent wine.

You can even approach the main gate of the power plant, but everywhere you see boards prohibiting taking pictures. The whole area is guarded by cameras and security men. Two huge buildings, the color of hospital green, stand out; they contain four reactors, which are to be closed down by 2037. There will be two more on the left side, which will take over the energy production. The entire investment will be financed from Russian loans. Paks II, as the power plant extension project is called, is a priority for Viktor Orbán's government, but not much is known about it yet, except that not everything is going as smoothly as expected.

The 2004 Fidesz electoral agenda stated that the most important element of Hungary's energy infrastructure is the Paks nuclear power plant, which satisfies 40% of the country's energy needs. The agenda also said that "in the current situation we would not be able to give up nuclear energy". The decision to build new blocks was taken when the coalition of socialists and liberals were in power; in a vote on 30 March 2009, 330 of the 346 MEPs

present in the plenary chamber supported the amendment to the Nuclear Power Act. On 3 October 2011 under the Fidesz government, the Hungarian parliament adopted an energy strategy until 2030 (with a 2050 perspective), which envisages maintaining a significant share of the Paks power plant in energy production.

The Commission gave the green light for the investment

Under the agreement on the expansion of the Paks power plant signed in Moscow in 2014, Viktor Orbán and Vladimir Putin decided that 80% of the investment (EUR 10 billion) would be financed by a Russian loan, while the remaining EUR 2.5 billion would come from the Hungarian state budget. It was also agreed that the loan granted for the design, construction and commissioning of new power units would be repaid within 30 years, with variable interest rates ranging from 3.95 to 4.95%. The extension provides for the construction of two reactors with a service life of 60 years. The new two units will have a capacity of 1200 MW each. The current blocks have 500 MW each.

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The agreement with the Russians was classified for a period of 30 years for reasons of national security. Rosatom received the contract without a tender. Such a procurement procedure could not remain unnoticed in Brussels. After 2015, the European Commission initiated as many as three proceedings for breaking the transparency procedures for the award of contracts. Finally, however, in March 2017, the Commission completed the last of the proceedings, thereby giving the green light for the investment.

The Commission stated in its approval that Hungary had decided to invest in the construction of the Paks II nuclear power plant, to which it was entitled under the Treaties. It was pointed out, however, that the Commission's role was to ensure that competition in the energy market was not distorted. The Commission consequently stipulated that the profits generated by Paks II be used to repay the investment commitments or cover Paks II's operating costs. Profits could not be used, however, to reinvest in the construction or acquisition of additional power generation capacity. The Commission also made the condition that Paks II be separated from Paks I and any of its successors or other state-owned energy companies.

The question of financing remains

According to the original plans, the construction was to start in 2018. It was speculated that it would begin with a ceremonial laying of the cornerstone during one of Vladimir Putin's visits to Hungary. The Paks II power plant was to start operating in 2025 or 2026. It is already apparent that this deadline is unrealistic, as the launching of the construction will be delayed by at least two years (2020), and the commissioning of the power blocks may take place as late as in 2032.

This is a huge problem for the government. It was initially assumed that between 2026 and 2032 both "old" and new reactors would be in operations (with two new reactors exceeding the four "old" ones in terms of the generated power, so it would be as if almost nine reactors were operating at once). They were to produce surplus energy that would be sold. Under the European Commission's decision, however, the profits of Paks II are "marked money" and cannot be freely used. In addition, the current deadline for the commissioning of Paks II means that the investment will perhaps only be completed after the shutdown of the last old type reactor or at best only slightly earlier.

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Years ago, the government pointed out three main arguments whereby Paks II would pay for itself. First, that the development of the economy would result in a constant need to increase energy production; second, that many nuclear power units in Europe would be shut down in the coming years; and third, that standards reducing carbon dioxide emissions would make production of energy from coal more and more expensive. Reducing carbon dioxide is, by the way, one of the most important arguments for the construction of Paks II, especially now that Hungary has announced that it will abandon the use of coal for energy production by 2030. Hungarians are also implementing the European Commission's guidelines on the share of renewable energy in the energy mix. The policy was aimed at bringing the share up to 13%. This target has already been reached and the share of renewable energy now exceeds 14% (more than half of it is biomass; the remaining significant sources are solar and geothermal energy).

The question of financing remains. By a decision of the European Commission, the period for repayment of the Russian loan was shortened from 30 to 21 years, and the interest rate turned out to be much higher than originally assumed. There are therefore increasing doubts as to whether it is ac-

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tually worthwhile for the government to expand the power plant, whether the financing method is appropriate and, finally, whether Russia can afford such a loan. It can hardly be expected that the government's priority project will be abandoned, but the assumptions from 2014 are becoming more and more difficult to implement.

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