THE CZECH GOVERNMENT HAS APPROVED A GOVERNMENT BILL TO PROMOTE THE BUILDING OF NEW NUCLEAR BLOCKS. THE STATE WILL GUARANTEE ELECTRICITY PRICES AND CUSTOMERS WILL PAY THE DIFFERENCE.

On July 27, 2020 the Czech government approved a bill on measures to transition the Czech Republic to low-carbon energy (the "Bill").

The Bill is to regulate promotion after 2030 in the Czech Republic for the building of new reactors with a capacity of at least 100 MW and subsequent sale of the electricity they produce.

According to the explanatory report on the Bill, the Czech Republic undertook to increase its share of renewable energy sources ("**RES**") to at least 22% by 2030 as part of its obligations to the European Union, with the RES share to grow to 17% in the electricity production sector alone. With regard to the limitations given particularly by the climate in the Czech Republic and low annual potential for the use of RES, it is not possible to contemplate RES as a full replacement for the decommissioned coal (and indirectly also nuclear) power plants. For this reason it is necessary to promote other energy sources, including new nuclear plants.

Investment and operating promotion

The Bill anticipates the introduction of investment promotion for building new reactors with capacity of at least 100 MW and mandatory purchase of electricity for predetermined prices.

Investors are to have the opportunity to request financial aid from the Czech budget for building new nuclear plants. If the state provides financial aid (which is not guaranteed), the loan would not be subject to interest during the time the new plant is being built. The annual interest rate for the remaining period will be at least 2%, although it will also depend on the costs for financing the state debt.

With regard to operating promotion, the Bill anticipates promotion of electricity purchase from these facilities on the basis of an agreement on purchase between the state and the entitled investor. On the basis of this agreement the electricity would be sold by the designated subject (a 100% state-owned authorized legal entity licensed by the ERO to trade in electricity) for the predetermined price. The designated subject would then sell the purchased electricity on electricity markets.

The agreement on purchase between the investor and the state would be made for at least 30 years, with the option of extending for an additional 10 years, even repeatedly. The agreement should, among other things, stipulate the amount and method of setting the price for electricity (the Bill uses the phrase "realization price"), the method of setting the realization price and rules for verifying its appropriateness by the Ministry no more than five years after electricity supply commences, and regularly thereafter for a period of at least five years, in order to limit the risk of creating unauthorized promotion.

Financing to be paid by customers in electricity prices

Financing the promotion for low-carbon sources will be secured in the same way as RES. The Bill anticipates that the financing will be secured from multiple sources, especially revenues from the sale of electricity purchased from a low-carbon plant, revenue from the transmission system component of the price and the distribution system component of the price for producing electricity from a low-carbon plant and contribution from the state budget.

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The component of the price for producing electricity from a low-carbon plant is stipulated by the Energy Regulatory Office in the same way as the component for RES promotion.

The explanatory report does not specifically state how much the market price for electricity from the new nuclear blocks would have to be in order to fully cover the costs for financing the construction and operation without the above-mentioned additional sources, which will have to come out of either the price for electricity or else the state budget. However, it does acknowledge that the market prices for electricity in recent years are too low to finance the actual costs of producing electricity. Another factor is the significant volatility in prices, reaching up to 90 euro/MWh in 2008, then rapidly falling and fluctuating between 20-40 euro/MWh in 2009-2016. In 2019 the price hovered at about 50 euro/MWh

Please note that this spring the Czech government also approved a bill set to review overcompensation for promoted sources. Besides checking whether disproportionate promotion is going to certain renewable resources that were guaranteed support for at least 15 years in Act No. 180/2005, the government also plans for this step to noticeably decrease the costs for RES subsidies as a result of cutting subsidies for photovoltaics, among others.

The bill is set to take effect as of January 1, 2021.

We will keep you informed of ongoing legislative developments.

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