



MANAGING PROJECTS FOR SUCCESS: INCENTIVES, RISK ALLOCATION AND THE COST OF CAPITAL

NEA – IFNEC Nuclear Financing Webinar Series
Contractual Structures and Incentives in Nuclear New Build
September 14, 2021

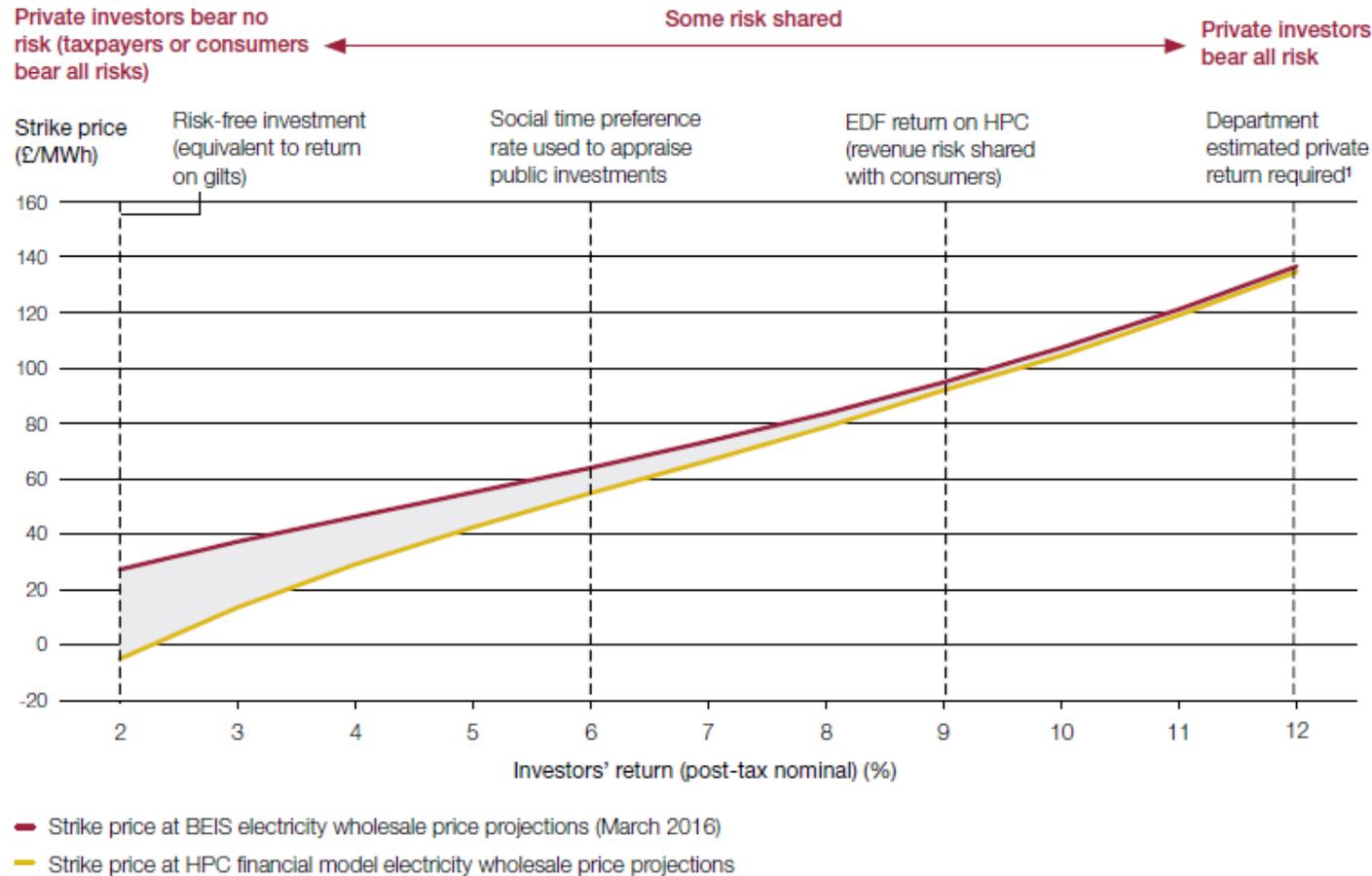
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THE UK ANALYSIS THAT CHANGED EVERYTHING HINKLEY C ENERGY COST TO COST OF CAPITAL

Sensitivity of strike price to investors' return



How did we get here?

- Historically vertically integrated energy companies passed on all costs of generation to customers
- In the 1990s market de-regulation (or liberalise) changed the rules
- Desire to ensure energy cost and schedule certainty led to risks being allocated to developers/vendors
- Nuclear examples are Olkiluoto and Vogtle for fixed price and Hinkley C for a CFD model



The chart presents the strike price necessary for investors to achieve different levels of return based on two sets of electricity wholesale price projections. The higher level of risk private investors bear; the higher the strike price. In summary table *Figure 19), we show three different scenarios:

Source: UK National Audit Office, "Hinkley Point C", June 23, 2017

REDUCING COST OF CAPITAL REQUIRES A DISCUSSION ABOUT PROJECT RISK

- As the project owner, the total risk resides with you
- Transferring all risk to contractors is an illusion
 - Allocating risk is a form of risk management, it does not disappear
 - There is no scenario where your contractor fails and you succeed
- Project structures require transparency to ensure action can be taken when the problem arises and the costs to correct are manageable



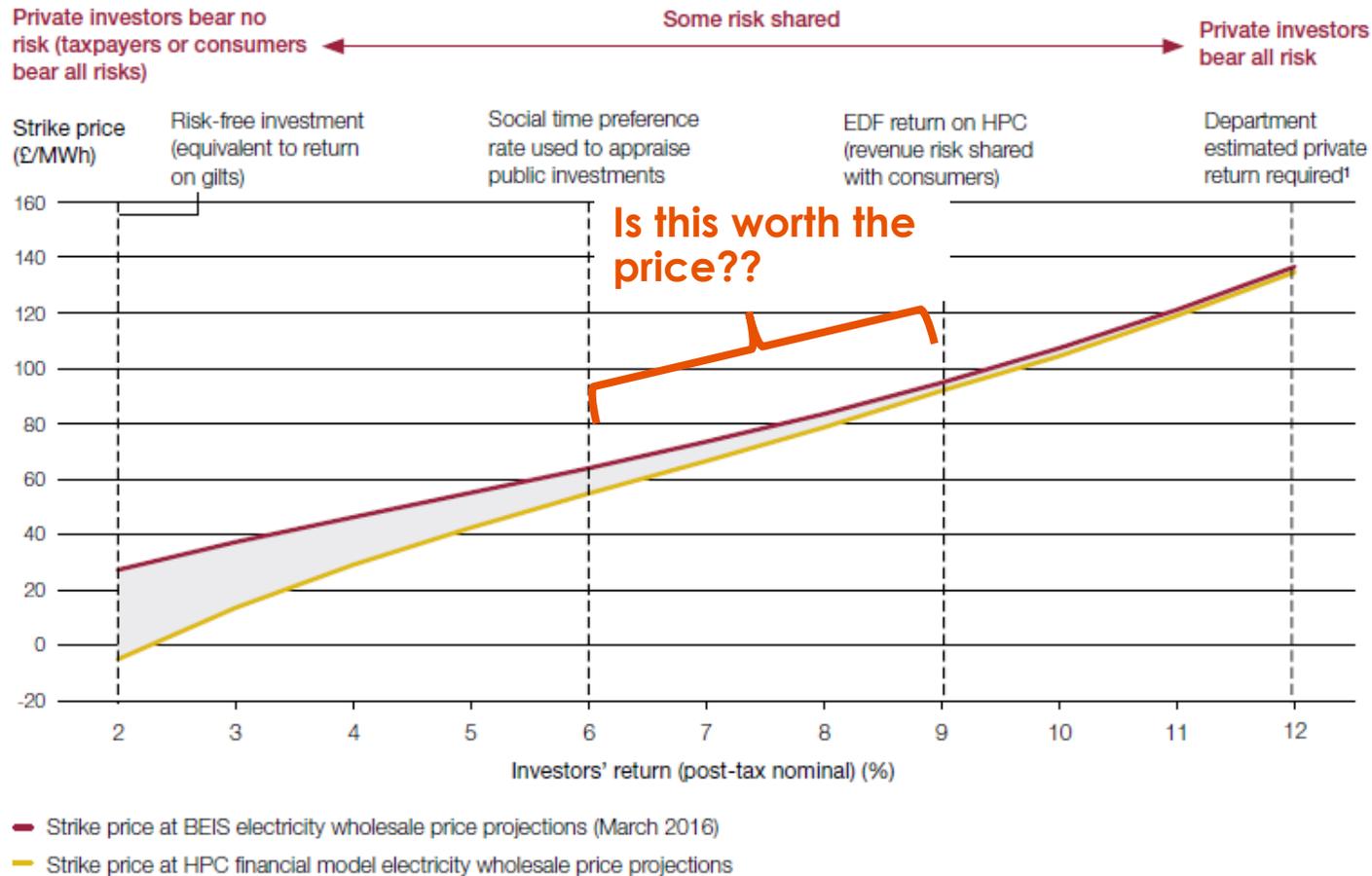
CONTRACT STRUCTURE CANNOT REPLACE GOOD PROJECT MANAGEMENT

- Plan, plan and plan some more.
- Ensure adequate design completion before construction
- Ready your supply chain
- Create strong project metrics
- Develop and implement a robust risk management program. Use it as the basis for project contingencies
- Develop a project financial structure that supports preparation before final commitment
- Get the best people you can



QUESTION TO ASK WHEN STRUCTURING WHAT IS THE VALUE OF RISK TRANSFER?

Sensitivity of strike price to investors' return



Key Takeaways

- Big projects are hard
- Risk allocation does not ensure project outcomes
- All parties need to focus on success, not what happens in the case of failure
- Contract structures need to incentivize good project management



THANK YOU!

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