



The Politics of the Nation's Next Nuclear Plant

Georgia Power, a subsidiary of the mighty Southern Company, is pressing ahead with the construction of a two unit, 2240 Megawatt nuclear plant called Plant Vogtle. With an \$8.3 billion federal loan guarantee, a cap on liability, production tax credits and pre-collection of profits, this makes Georgia Power the nation's biggest welfare queen.

All these financial goodies didn't come from performance in the marketplace but from well-planned lobbying at the state and federal levels. Let's trace the actions and rationalizations that went in to developing this project to its current stage.

The last phase of nuclear plant construction back in the 1980s demonstrated gross incompetence and mismanagement by the utility. Changing regulations got the blame. The lesson that should have been learned was to place more risk on the utility, but the reverse has occurred. The risk has been shifted more firmly to ratepayers and taxpayers.

The Southern Company strategy is to produce surplus power and sell to other regions of the country. Southern uses its unregulated generating subsidiary, Southern Power, to build low-risk natural gas plants but uses its regulated utility companies to build high-risk plants. The South, with its tradition of re-electing politicians long after they have become too rotten to be trusted, is an excellent place to invest large amounts of capital under regulation with virtually guaranteed returns.

Georgia Power went through the motions of evaluating alternative sources of generation and, by assuming high natural gas prices and high carbon emission penalties, found the high capital cost nuclear option best. The conclusion that high capital costs are a good tradeoff for low operating costs is always suspicious when made under regulation where returns are earned on invested capital but operating costs are passed through with no mark-up.

Georgia Power received regulatory approval to build the nuclear plant that included being allowed to collect financing costs of construction costs as the project progresses. In the regulatory world, financing costs include not just interest on loans but also a return on equity for the portion of stockholder money used. Regulated utilities usually have a capital structure of about 50% debt and 50% equity. Financing costs are then a blend of these two “costs.” For example, if debt is 4.5% and equity is 12%, then the financing cost is 8.25%.

After getting approval from state utility regulators, Georgia Power sought state legislation to make the financing scheme law. The proposal had widespread popular opposition, and Georgia Power expended a lot of its accumulated political capital. The year 2009 was an off year for elections in the General Assembly so the Company and the politicians it owned correctly assumed the public would forget the issues by the next election. The pre-collection of construction financing is now estimated to total \$1.9 billion, plus tax gross up. Of that, about \$1.4 billion in profits will be collected before the nuclear units are active. Widely touted in lobbying before the regulatory and legislative bodies was the purported savings to ratepayers of \$300 million in financing savings. This figure assumes no discount rate and ignores taxes. Consumers faced with paying credit card bills are supposed to be neutral about paying now or paying over the sixty-year life of the nuclear plant scheduled to begin operating in 2017 or later.

The cost estimate used in seeking approval for the project was \$14.5 billion. Not long after all the approvals were made, Stan Wise, a Georgia Public Service Commissioner, spoke before a meeting of southeastern regulators in Charleston, SC, declaring he did not expect the approved estimate to be the final number. This echoes the problems of the last round of nuclear plant construction thirty years ago.

During that last round of nuclear construction, Georgia Power continued to announce new higher cost estimates but always said that by only considering the incremental additional costs and ignoring the sunk costs, the project was worthwhile. While that line of reasoning is true, the notorious history of gaming the regulatory system by Georgia Power and the Georgia Commission makes it plausible that the initial estimate was deliberately low-balled to get approval; and the true additional cost is being slowly revealed after considerable cost has already been sunk.

Georgia Power has asserted, and has regulatory and legislative support for, the right to collect any sunk cost, with profit, if the project is ever canceled for any reason. The regulatory strategists in Georgia Power have learned the lessons of the last round of nuclear plant building very well indeed.

Cost overruns in projects out in the non-regulated sector of the economy are disasters for the management of the competitive companies. In the regulated world cost overruns lead to champagne corks popping on Wall Street and utility executives being hailed within the industry as visionary leaders. The more a project under regulation costs the greater the profit for the utility.

Georgia Power's Plant Vogtle is seen as the first example in the country's "Nuclear Renaissance." The technology indeed employs new simpler, safer, and more efficient designs than the last round of nuclear plants. However, there is nothing new about the crony politics, inflated claims, spin and financial shenanigans surrounding the project.

Jim Clarkson
www.rsmenergy.com