

SuperCWIP Plus: Taxing Utility Customers to Underwrite Investments Too Risky for Wall Street

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What Is CWIP

- Construction Work in Progress is a utility rate setting policy, under which power plants are paid for by customers as they are built.
- It differs from the policy that built nearly all utility property over the last 100 years, pursuant to which assets were financed by lenders and investors, with customers paying only when they began to receive service, just like all factories in other industries.

Construction Work in Progress

- *CWIP is a tax in that the government power is used to take money from citizens in a way and for a purpose that a free market would not do.*
 - Makes customers start paying years before a reactor generates any power (other industrial facilities must sell their output in order to charge customers).
 - Enables a utility to profit by building capital intensive power plants even if the plants are not beneficial for customers.
 - Creates incentives to build large power plants rather than conserve or purchase power from more efficient producers.

What is Super-CWIP

- Super-CWIP adds several features that go well beyond CWIP in shifting risk to customers. These include
 - Assurance of full recovery of costs even if the plant is cancelled;
 - Assurance of dwarf prudence reviews that are unlikely to disallow recovery of the most costly types of construction imprudence;

What Is Super-CWIP Plus?

- Super-CWIP Plus is the legislation being sought by Duke and Progress Energy in North Carolina. It eliminates the current requirement that a utility justify recovery of construction costs in the context of a comprehensive revenue review.
- Instead, cost recovery is assured through annual rate increases based on proof that money has been spent, even if cost reductions elsewhere in the utility mean that excess profit will occur.

Why Do Utility Companies Seek Super-CWIP Plus?

- Wall Street recognizes that new nuclear reactors are far more expensive than other ways of providing electricity and so will not finance new reactors.
 - New nuclear electricity will cost at least 12 cents/kWh
 - Natural gas fired electricity at today's 20 year gas price forecasts is under 6 cents/kWh
- The financial risks (cancellation, cost overruns, cheaper alternatives) are too great for knowledgeable investors/lenders.
- *All remaining hope for a nuclear revival rests on shifting risk from investors to customers or taxpayers.*
 - The “nuclear renaissance” is in shambles, with cost estimates rising, delays and cancellations being announced very month.

Four CWIP Myths

1. CWIP makes new power plants cheaper in the long run.
2. CWIP will create jobs.
3. Customers will be protected by effective reviews of prudence of expenditures.
4. We have to have CWIP in order to have nuclear power to combat climate change.

Myth #1:

Super-CWIP Will Make Electricity Cheaper

- CWIP is a zero sum game: Utility financing costs are lower because
 - Customers supply capital earlier
 - Risks (especially risk of paying cancelled plant costs) are shifted from investors and lenders to customers
- Little or no net savings to customers. They may get lower price later in return for paying sooner and taking more risk.
- Utility may take risks that it otherwise would not.
- Cheaper alternatives – especially efficiency - are de-emphasized and crowded out to make room for nuclear.
- Customers borrow at higher interest cost than do utilities.

Myth #1 Cont'd...

CWIP Savings Alchemy:

Nothing Is Actually Made Cheaper

- CWIP doesn't reduce costs of steel, concrete or labor
- CWIP doesn't make any actual risks (such as cancellation, delay or cost overruns) disappear
- CWIP does reallocate risks without reducing them

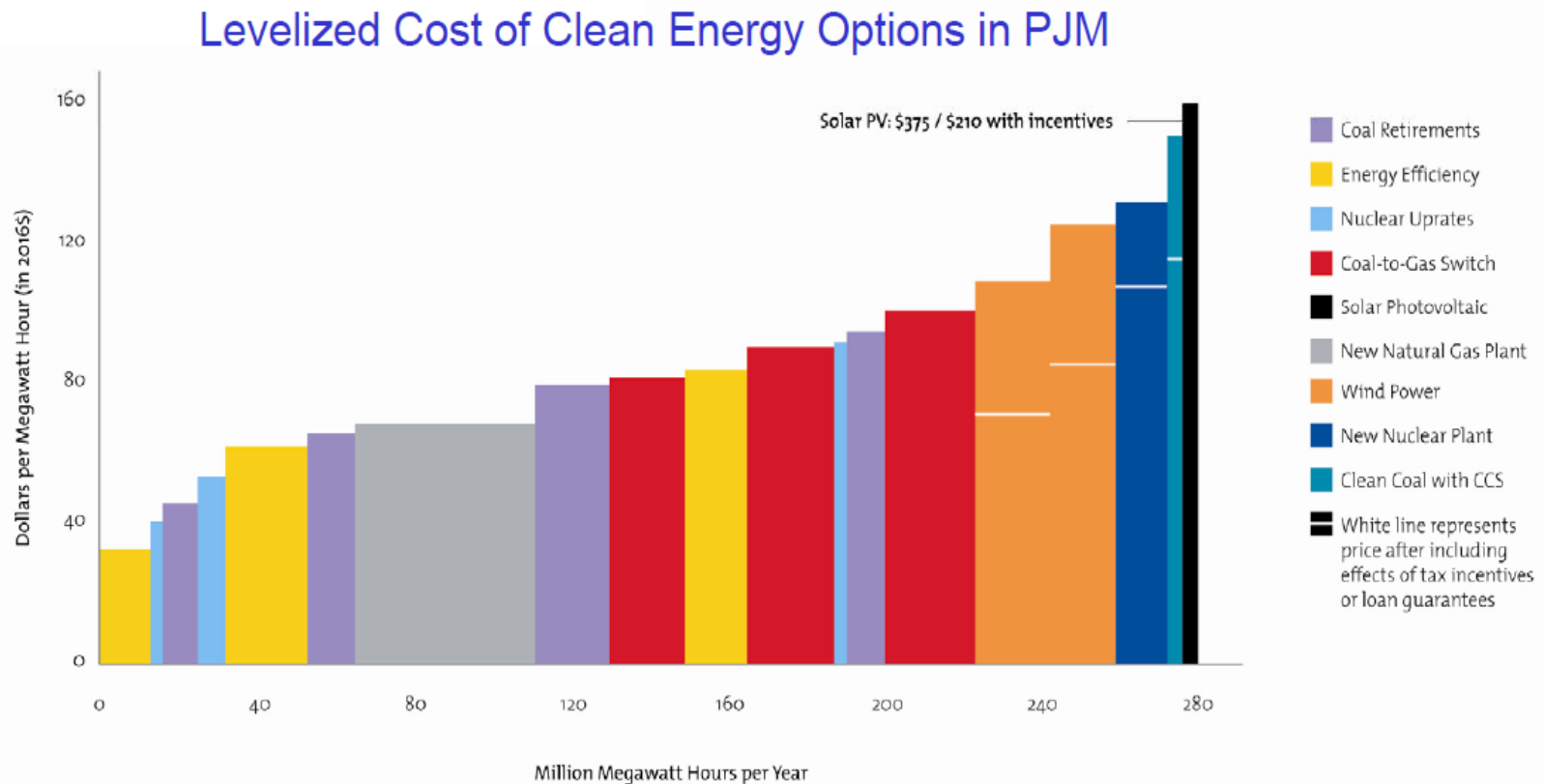
Myth #2: *CWIP Creates Jobs*

- No state ever improved its economic prospects by raising its electric rates higher than they need to be.
- With CWIP, jobs are actually lost immediately in the industrial and commercial sectors due to higher electric bills and production shifts to plants in other states.
- Immediate jobs are also lost in energy efficiency and cogeneration.
- Nuclear jobs may not come at all. They are at least five years in the future.

Myth #3: *Customers will be protected by frequent reviews of prudence*

- Super-CWIP provisions undercut adequate regulatory oversight by the NCUC
- Costs are passed automatically on to customers in an annual cost rider without undergoing review in rate proceedings
- Costs are passed on to ratepayers without consideration of utility company's current earning levels – possibility for over-earnings by Duke/Progress is real.

Myth #4: Exelon's View of New Nuclear and Carbon Emissions



Is the Proposed Legislation Essential to “Keep the Nuclear Option Open” in North Carolina?

- **No**

- North Carolina customers are already responsible for paying nuclear power plant costs many years before they receive any electricity (existing CWIP law).
- Nuclear power plants have been proposed in states that have nothing resembling this legislation (Texas, Maryland)

Is This Really A Good Time to Shift More Nuclear Construction Risk onto North Carolina Customers?

- **No.**

- Other states (Iowa, Missouri) have declined to allow CWIP at all in the last year.
- Adverse Super-CWIP plus impacts now clear in Florida
 - (Progress Levy County cost estimates have more than tripled)
- Major cost overruns in Georgia and South Carolina
 - Also Duke Edwardsport coal plant under Super-CWIP in Indiana (more than \$1 billion – 50% - over budget)
- Duke and Progress are not even committed to building the power plants

Are the Economic Risks Real?

- Half of all plants ever ordered were cancelled.
- French flagship EPR in Finland now 4 years behind schedule and 70% over budget.
- In the 1990s, nuclear power was the largest beneficiary of a rescue that Moody's estimated "between \$50 billion and \$300 billion" to avoid bankruptcy for several major utilities.
 - These were the "stranded cost" surcharges that accompanied electric restructuring and charged the unrecoverable costs of nuclear power to the customers