

Impacts to Ratepayers– excerpted from:

## Business Risks and Costs of New Nuclear Power

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### “Fixing” Problem By Charging Ratepayers Early Just Transfers Risk

The “fix” that utilities and the nuclear industry have proposed for the negative impact on utility cash flow and its attendant effect on credit ratings is to implement substantial advanced charges to ratepayers *during construction* of the plant.<sup>45</sup> Typically such charges, variably referred to as Early Cost Recovery, or Construction Work in Progress (CWIP) charges, pass through, with immediate rate increases, the full Cost of Capital used during construction of the plant. (As noted previously this is roughly a third of the total Capital Cost, e.g. approximately \$7 Billion (“Medium” case) in recovery charges levied on ratepayers early, for a 2-unit 2,234 MW new nuclear facility.)

Note that such early charges to ratepayers are in exchange for *zero* kWh’s delivered by the facility, as it is not yet in service – *nothing* but a hope of future kWh’s is delivered.<sup>46</sup>

Levying additional charges, with nothing at all yet delivered in return, places a financial strain on all the ratepayers in the service territory, similar in many ways to a tax increase.<sup>47</sup>

Virtually all households and small businesses are already carrying debt loads, including high cost debts such as credit cards. The average American household now carries \$8,700 of credit card debt,<sup>48</sup> much of it at interest rates from 18% to 29%. While consumers want to pay down their debts, every additional dollar taken from them is a dollar that cannot be devoted to debt payments, and therefore at a minimum will increase consumer interest costs. For many, a \$100/month increase in their home electric bill may make the difference between meeting or defaulting on an existing credit card’s minimum monthly payment. This can destroy a family’s credit rating.

In today’s economic climate where homeowners are already struggling to make payments, and most businesses are in similar straits, imposing significantly higher electric charges now will likely increase consumer debt loads and interest costs. For those closest to the

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<sup>45</sup> It is telling that state laws allowing such early cost recovery charges have been adopted specifically to aid *nuclear* power plants, and in some cases “clean coal”, while other types of power plants must actually deliver kWh before costs can be assessed on utility customers.

<sup>46</sup> Delivering “NoWatts” in exchange for billions in charges is a more radical idea than Amory Lovins’ “NegaWatts”. With “Negawatt” programs, customers at least receive *immediate* benefits in the form of energy efficiency improvements, greater comfort, and *reduced* utility bills.

<sup>47</sup> Progress Energy, for instance, has recently requested a 31% electric rate increase for 2009, approximately one third of which is for early cost recovery charges for future nuclear plants. These early charges will rise significantly as the project progresses.

<sup>48</sup> <http://www.money-zine.com/Financial-Planning/Debt-Consolidation/Credit-Card-Debt-Statistics/>

edge, or who have higher electric use, a rapid increase in electric rates may cause an increase in credit card payment defaults and home mortgage defaults. When businesses are affected similarly by increased demands on their cash flow, the effects can include employee layoffs and business bankruptcies.

**Credit ratings are very important. The prospect that undertaking a single project could have such a major impact on a utility company's balance sheet and cash flow that company credit ratings would be downgraded, should give pause to any executive, or oversight regulator, contemplating the wisdom of undertaking such a project.**

Attempting to "fix" this problem by levying billions of early charges on ratepayers during construction, with zero electricity delivered in return, simply shifts the cash flow and credit rating problems to the utility's customers. **This is the worst possible time to do so, given the precarious state of the economy.**

If these extra burdens cause already-strapped customers to damage their own credit ratings, it can take years to recover. A noticeable blow to the local economy could be felt, likely a significant multiplier of the direct charges levied.<sup>49</sup>

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Most ratepayers nationwide are now paying *retail* electricity rates (*including* distribution & transmission & G&A costs) equal to **6 cents/kWh to 15 cents/kWh current retail electric rates.**<sup>61</sup>

***Adding new nuclear power – with costs for generation alone, that are 2 to 5 times total retail electric rates now in place – will have a dramatic upward effect on electric rates.***<sup>62</sup>

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<sup>49</sup> Note, for instance, the entire U.S. and world economy is now in crisis, initially set in motion because a small percent of homeowners experienced problems paying their home mortgages. A similar effect could occur on a local economy levied with billions in extra charges (with no benefits yet delivered in return) if high levies push even more homeowners and businesses into defaults on credit cards, mortgages, or other consumer and business debts.

<sup>61</sup> See, e.g., U.S. Energy Information Administration, "State Electricity Prices, 2006", <http://www.eia.doe.gov/neic/rankings/stateelectricityprice.htm>

<sup>62</sup> The impact upon each utility's retail rates will vary. While distribution & G&A costs would be *added* to the "generation only" cost, making it *higher*, the utility will also have other generation sources, presumably at a lower cost/kWh, resulting in lower cost/kWh overall for ratepayers than if all kWh's were supplied by the nuclear plant. Nevertheless, *all* the costs of the new nuclear plant *will need to be charged to ratepayers* or the utility would risk bankruptcy.