3 Years, $8 Billion Later, Still No Georgia Nuclear Plant Agreement

Ray Henry, AP

Three years after the U.S. government promised $8.3 billion in lending for a nuclear plant in Georgia, Southern Company and its partners have not sealed a deal. President Barack Obama's administration recently agreed to a fourth extension of the deadline for finalizing lending agreements between Southern Co. subsidiary Georgia Power and the other owners of the nuclear plant now under construction. Congress authorized the funding in 2005 to revive a nuclear industry that at the time expected growth.

Few utilities secured even a preliminary agreement, mostly because power companies dropped plans to build nuclear plants. The Great Recession trimmed the demand for energy, and plummeting natural gas prices made it cheaper to build gas-fired plants. The slumping economy also pushed interest rates to historic lows, reducing borrowing costs and undercutting the need for subsidized lending. Southern is still pursuing the loans, though company officials say they are not needed to finish the project. The company was able to privately borrow $4.3 billion last year at an average interest rate of less than three percent, Southern spokesman Tim Leljedal said in a statement.

"We are committed to financing options that will serve the best interests of our customers, and - as long as the terms and conditions of DOE loan guarantees serve those interests - we will continue to pursue that option," he said. Negotiations to win federal financing for a proposed nuclear plant in Maryland fell apart. SCANA Corp. and Santee Cooper applied for loan guarantees to build a nuclear plant in South Carolina, but neither company views the funding as essential. "Can the company benefit from the program? In our view, yes," said Dimitri Nikas, an analyst who studies regulated utilities for the Standard and Poor's credit rating agency. "Is it absolutely critical? Probably not."

Originally, the loans seemed more important. The upfront building costs of a nuclear plant are tremendously expensive. The two reactors under construction at Plant Vogtle (VOH'-gohl) in eastern Georgia were originally estimated to cost $14 billion — an amount that has been rising. During the last round of building years ago, out-of-control construction costs pushed some utilities to the brink of financial disaster. If a utility ran out of money, it could be forced to stop building. A half-built nuclear plant cannot sell electricity and raise cash. Lenders feared they would be repaid late or never at all.

Trying to ease doubts, the U.S. government promised it would reimburse lenders if a utility was unable to repay its debts, shifting financial risk from creditors to the taxpayers. When financiers face less risk, they lend money at cheaper rates. That drives down borrowing costs for the utility and its customers. The loan guarantees

were more important for utilities that sell electricity in competitive markets, said Richard Myers, a vice president who oversees policy development at the Nuclear Energy Institute, an industry lobbying group. If a nuclear plant cannot keep its costs competitive with much-cheaper natural gas plants, it sells little power and its owners may have difficulty repaying debt. By contrast, the utilities now building new nuclear plants serve monopoly markets and have a legal right to charge customers for their costs. That reduces the risk that creditors won't get repaid.

Myers criticized the government for seeking to charge credit subsidy fees for the loans that were too high. "We thought the methodology that the government was using was needlessly conservative and pessimistic," he said. In 2009, U.S. Department of Energy officials wanted to charge Georgia Power a fee of between $17 million and $52 million to get the loans, according to documents obtained by the Southern Alliance For Clean Energy under the federal open records law. SACE is a critic of the loan program. DOE officials did not return multiple messages seeking comment.

"That doesn't sound like a lot of skin in the game for a big company that has a lot of reach," said Sara Barczak, who monitors the Plant Vogtle project for SACE. Leljedal said the power company has not received a final proposal on the fees. Southern CEO Tom Fanning said earlier this year that there were disagreements over a range of issues besides the fees.

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