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State regulators affirm latest cost report for Georgia Power Vogtle nuke project

By [Matthew Bandyk](#)

Georgia regulators on Aug. 21 approved [Georgia Power Co.](#)'s spending for the second half of 2011 on a project to build two new reactors at the Vogtle nuclear plant. The Georgia Public Service Commission's decision affirmed the [Southern Co.](#) subsidiary's actual spending from July 1 to Dec. 31, 2011, on its 45.7% share of the under-construction project.

In a monthly status [report](#) also filed that day, Georgia Power said it still believes its share of the total project cost will be \$6.08 billion, with about \$4.45 billion of construction and capital costs included in that amount. That price tag is under the \$6.1 billion certified by the commission. As it did the [previous month](#), Georgia Power declined to reveal what it has spent so far on Vogtle units 3 and 4, redacting the information from the status report. In June, the utility said it had spent \$2.23 billion through May, the last time it has reported that amount.

The commission's decision was based on the information presented to it in the sixth semi-annual monitoring report for the Vogtle project, which covers the six months ending in December 2011. While the report showed a project running under its estimated budget, a consumer watchdog contends the picture could be just the opposite in a matter of months.

"We see hundreds of millions of dollars looming on the horizon," Georgia Watch Senior Counsel Helen O'Leary said in an interview. Her group has told the commission that the possible overruns, if confirmed, would render the project uneconomic for state electricity consumers compared to simply building a natural gas-fired plant.

However, questions about the first new nuclear project to be built in the U.S. in decades remain, even after the PSC's vote. These include whether or not Georgia Power will reach a final agreement with the U.S. Department of Energy on its share of \$8.33 billion in loan guarantees offered to the utility and its partners in the nuclear project.

At the same time, Georgia Power is in formal dispute resolution with two contractors building the new units over who has to shoulder about \$425 million in cost overruns stemming from problems encountered during construction. In its latest Form 10-Q [filing](#), the Southern utility said this issue is forcing it to decide "whether maintaining the currently scheduled commercial operation dates of 2016 and 2017 remains in the best interest of their customers."

The project still has a long way to go. Construction of the reactors is about one-third complete, Georgia Power spokesman Mark Williams said Aug. 21, although all activities, including preconstruction and design work, are about half complete.

Help from the DOE up in the air

The negotiations over the final terms of the loan guarantee have extended past a May deadline for the DOE's offer. The [new deadline](#) is the end of this year. But Southern and the DOE have [delayed](#) the end of negotiations several times already.

Southern seems to have been preparing for the possibility that an agreement on the loan guarantee may not be reached. Utility spokespeople have repeatedly said the DOE guarantee is not needed to finish the project.

According to one analyst who has been following the project, if the loan guarantee fails to close, the blow to Vogtle 3 and 4 specifically and Georgia Power in general may not be very significant. "One of the things about these nuclear projects is that they have pretty strong credits behind them," Glenrock Associates LLC equity analyst Paul Patterson said in an interview. The fact that Georgia Power is the primary utility in a highly regulated state means they have little to worry about in terms of the loss of the loan guarantee affecting their overall credit, Patterson said. "Generally speaking, they are at ease."

Without the federal government aid, it is Georgia Power's ratepayers, not the company itself, who will perhaps be most affected. The guarantee "would lower the cost of the financing of the project for ratepayers," Patterson said. "If [Georgia Power doesn't] feel it's to their advantage, then they won't go for it."

The utility has [estimated](#) that the loan guarantee, in combination with a production tax credit and interest rate savings, will save its customers about \$2 billion once the new units start operating.



An increase in financing costs would also likely mean higher rates for customers. Georgia's law on nuclear cost recovery — amended by the state Legislature in recent years — allows utilities to recover the costs of financing from the construction of nuclear plants while the projects are still being built. Furthermore, a 2010 rate case [allowed](#) Georgia Power to receive an 11.15% return on equity.

Critics of the project allege that the cost recovery gives Georgia Power no incentive to keep the financing of the project under control. "If the financing costs increase, that's more money they will be making," O'Leary said. "For every dollar that ratepayers pay in financing costs, 75 cents goes to either taxes or paying Georgia Power's earnings."

In addition, Southern's finances are not the only ones affected by the fate of the loan guarantees. Georgia Power's ownership partners in building Vogtle 3 and 4 are [Oglethorpe Power Corp.](#), the [Municipal Electric Authority of Georgia](#) and the city of [Dalton, Ga.](#) [Documents](#) obtained through the Freedom of Information Act by an environmental group showed that in 2009 the DOE offered Oglethorpe and the Municipal Electric Authority higher credit subsidy fees — the amount they must pay to receive the guarantee — than it did for Georgia Power. The 2009 offer from the DOE was that Georgia Power would have to pay 0.5% to 1.5% of the guarantee total to receive it, while Oglethorpe and the Municipal Electric Authority were offered fees of 2.5% to 4.3% and 5% to 11.1%, respectively, the documents suggested.

Because the exact offers are likely to have changed since 2009, the Southern Alliance for Clean Energy, the group that successfully won a court decision to force the previous documents to be released, have put in an additional Freedom of Information Act request to both the DOE and the White House Office of Management and Budget.

"We wanted to have the updated terms and conditions of the loan guarantee," Southern Alliance High Risk Energy Program Director Sara Barczak said of the request. "Given what Southern has said publicly, they think that the conditions have changed in such a way that it is unfavorable to them."

But, according to Barczak, the DOE has told the group it will not be able to comply with the request until mid-September.

Contractor disputes

Another pending concern is the more than \$400 million that could be added to Vogtle 3 and 4's construction costs depending on the outcome of disputes with contractors [Westinghouse Electric Co. LLC](#) and [The Shaw Group Inc.](#) subsidiary Stone & Webster Inc. The contractors are claiming that Georgia Power should be responsible for about \$425 million in new costs due to changes in the design of the reactors and delays in the project schedule. According to the utility's recent Form 10-Q, the negotiations have entered a formal dispute resolution process.

In addition, Westinghouse and Stone & Webster have also [sued](#) Georgia Power for about \$29 million that they allege the utility owes for failing to provide enough material for an excavation performed during construction. This issue is separate from the \$425 million in dispute, Williams said.

The Shaw Group recently announced a deal in which it will be [acquired](#) by CB&I.

The consumer advocacy group Georgia Watch has argued before the PSC that \$400 million is, coincidentally, the exact amount that, if added to the \$6.1 billion in certified costs, would make Vogtle 3 and 4 no longer the most cost-effective way to meet the utility's future energy needs.

"Building a nuclear plant from scratch for the \$6.113 billion certified cost would only have been \$400 million more economic than building natural gas generation from scratch," the group said in a [brief](#) filed with the PSC Aug. 3. "If consumers get saddled with this cost, the benefit of the project having been selected as the most economic resource will disappear completely."

While Georgia Power has an estimate of the cost at which the project would "break even," or no longer be economic beyond that point, that number was redacted from the monitoring [report](#) just approved by the PSC.

Georgia Watch's brief asked the commission to use the possibility of \$400 million being added to the project as a reason to resurrect the idea of imposing a risk-sharing mechanism between the utility and the ratepayers. The PSC had [rejected](#) this idea in the past. In the Aug. 21 meeting, the commission unanimously voted against Georgia Watch's proposal to consider the mechanism.