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# A Guarantee for More Dirty Energy: “Construction Work in Progress” Laws

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# What Is CWIP?

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- 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. Assets were financed by lenders and investors, with customers paying only when they began to receive service, just like all factories in other industries.

# CWIP is a Tax

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- 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.
  - 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?

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

# What Is Super-CWIP Plus?

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- Super-CWIP Plus eliminates the requirement that a utility justify recovery of construction costs in the context of a comprehensive rate case 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?

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- Wall Street recognizes that new nuclear reactors are far more expensive than other ways of providing electricity and so will not finance new reactors without automatic recovery (and Federal subsidies and loan guarantees).
- The financial risks (cancellation, cost overruns, cheaper alternatives) are too great for knowledgeable investors/lenders

# Financial Risks

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- *All remaining hope for a nuclear revival rests on shifting risk from investors to customers or taxpayers.*
- No one else is willing to make the investment.

## *Four CWIP Myths*

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- CWIP makes new power plants cheaper in the long run.
- CWIP will create jobs.
- Customers will be protected by effective reviews of prudence of expenditures.
- 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

## Myth #1 Cont'd...

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- Little or no net savings to customers.
- Utility may take risks that it otherwise would not.
- Cheaper alternatives – especially efficiency - crowded out to make room for nuclear.
- Customers borrow at higher interest cost than do utilities

## Myth #1 Cont'd...

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- 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 reallocates risks without reducing them

## Myth #2: *CWIP Creates Jobs*

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- 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.

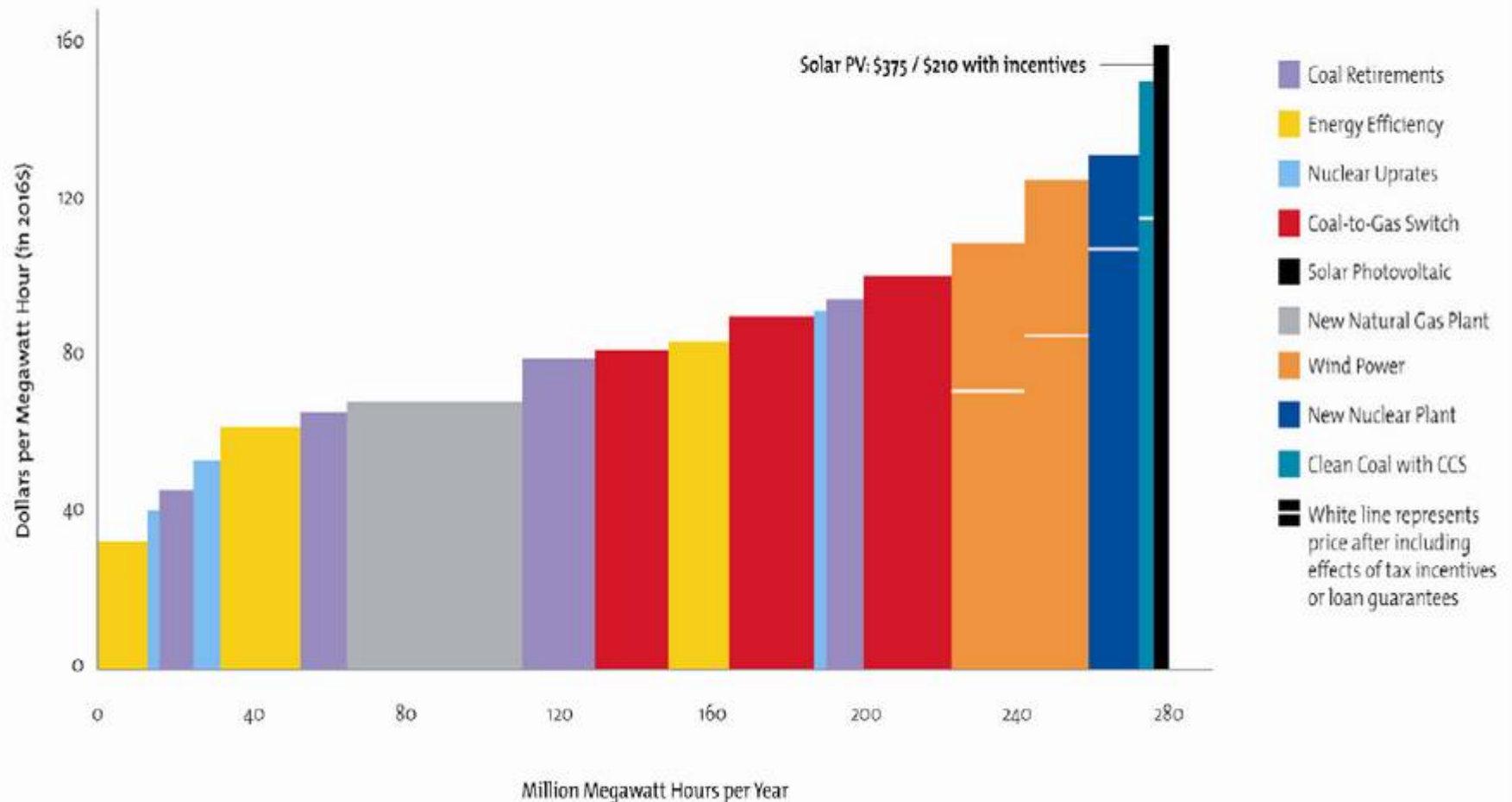
## *Myth #3: Customers will be protected by frequent reviews of prudence*

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- CWIP provisions undercut adequate regulatory oversight by the various Public Services or Utilities Commissions
- 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.

# Myth #4: Global Warming

## Levelized Cost of Clean Energy Options in PJM



# Super-CWIP Bills Are Not Essential to “Keep the Nuclear Option Open”

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

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

- Economic downturn
- 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 to \$24 billion for two reactors



# CWIP is not needed

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- Major cost overruns in Georgia (Vogtle) and South Carolina (Summer)
  - Also Duke Edwardsport coal plant under Super-CWIP in Indiana (more than \$1 billion – 50% - over budget)
- Most other utilities are not even committed to building the power plants

# Legal challenges

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- Cases concerning the constitutionality of CWIP are on-going in Florida and Georgia
- Information on the Florida Supreme Court case available at <http://blog.cleanenergy.org/2012/10/22/sace-protects-consumers-challenges-florida-nuclear-tax/>

# Campaign resources

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- Campaigns in several states to hold off or repeal CWIP provisions
- Information on North Carolina campaign available at [www.consumersagainstratehikes.org](http://www.consumersagainstratehikes.org)

# Overview: Political Equation

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People + Money +

Message +

Facts + Law +

Contacts +

Campaign Plan =

chance of winning