RESOURCE SUPPLY MANAGEMENT

Energy Procurement Energy Management

The Sad Saga of Plant Vogtle – Phase 1

It seems strange now that back in 1970 Georgia Power estimated the four-unit nuclear project would cost $1 billion. During the request for a construction permit Georgia Power said they faced blackouts without the project. Critics said the plant would be expensive, unneeded and plagued with uncertainties.

Following the oil price shocks of the 1970s a dominate belief influencing energy policy was that oil and gas were running out and their use should be restricted, namely not burned in power plants. Further, restrictions on plant emissions were technically challenging to meet at the time. Georgia Power was among many utilities choosing nuclear.

At the time the project started it was unheard of to seek capital recovery in rates before a plant was built and put in service. Soon the project was in cost-over-run trouble, and Georgia Power faced bankruptcy. Two of the four units were cancelled. The Company sought emergency rate hikes from the PSC. Significantly, the Company sold shares of the project and other plants to municipal and cooperative power distributors. This led to the Territorial Act which provided for all the ninety or so power sellers in Georgia to use the state-wide grid and compete for large customers. This arrangement has ramifications to this day.

By 1980 it was clear the Vogtle capacity is unneeded and Georgia Power's prediction of blackouts was nonsense. The Three Mile Island nuclear accident was now influencing regulatory policy; as a consequence, many utilities cancelled their nuclear projects. Internal analysis showed Georgia Power upper management that the project did not make sense and it would be cheaper to convert the 1% completed plant to coal. The president of Georgia Power reasoned that the project needed to be finished in order to get the state regulators to allow the capital to be put in rate base.

At this point we now see the vast difference in whether a capital project is built under regulation or under market conditions. Any sensible company would have cancelled the project. The perverse incentives of regulation were now being highlighted as the disastrous project went forward over-riding common sense. The regulatory and political regime would have other influences as the project progressed.

During the 1980s the project was haunted by whistle blowers and leaked information exposing huge waste and mismanagement. Georgia Power was repeatedly embarrassed before the PSC and the General Assembly. Nonetheless, the PSC granted rate increases while the predictions of construction cost were continually being updated.

Then, Georgia Power faced even more significant embarrassments. During an IRS dispute it came out the Company withheld information from the PSC. Tough talk came from the PSC, but no action was taken. Also, the Company was caught directing political contributions to a corrupt PSC candidate. The matter went to court where the Company pleaded *nolo contendere* and received a $1000 fine.

Finally, the two-unit project came in at almost $9 billion. The PSC ruled $1.1 billion was imprudently spent. Georgia Power parent, Southern Company, never missed a beat in their policy of always increasing dividends.

The utilities at the time blamed changing regulations for their cost overruns. However, there were large differences in the final costs for the various plants all facing the same regulations. Clearly management incompetence, particularly in Georgia Power's case, played a major part in the out-of-control cost of going nuclear.

The bitter lesson that should have been learned was to put the financial risk of such future projects directly on the utility. But that was not to be twenty years later as the power industry prepared for its next round of nuclear construction.

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