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AmerenUE ponders state law as it looks to add a nuke plant

By Jeffrey Tomich
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When Union Electric Co. pulled the plug on a second nuclear reactor in Callaway County in October 1982, few could have guessed that a new generation of executives would be back 25 years later with plans for another plant. But that's exactly what's happening.

The St. Louis-based utility, now called AmerenUE, and its partner, Baltimore-based UniStar Nuclear LLC, will seek a construction and operating license as soon as next month for a $6 billion, 1,600-megawatt plant next to the existing Callaway nuclear plant.

AmerenUE executives won't decide whether to go forward with the project until 2010, but they want to make sure that everything is in place if they do. Among the items on their agenda: reversing a 1976 law that prohibits Missouri utilities from charging customers for power plants while they're being built.

Missouri voters approved a law to prohibit so-called construction work in progress — or CWIP — on Nov. 2, 1976, by a 2-1 ratio despite being massively outspent. The law was the product of a grass-roots endeavor by anti-nuclear activists to halt construction of the first Callaway plant.

The $3 billion plant was ultimately completed in 1984 despite years of delays and hundreds of millions of dollars in cost overruns. A second unit at Callaway was canceled — until now.

Even with an aggressive energy efficiency campaign and greater use of renewable resources, such as wind and solar, utility officials say they'll need another baseload power plant — a large plant that runs 24 hours, seven days a week — by the end of the next decade to meet growing electricity demand. Right now, their technology of choice is nuclear.

Nuclear plants are cheaper to run than those that burn natural gas. And unlike coal-fired plants, they emit virtually no carbon dioxide — the greenhouse gas most closely linked with global warming.

Nuclear plants, however, cost more to build. AmerenUE estimates the price tag for a new unit at Callaway would be at least $6 billion. Add in financing costs, and the cost grows to $9 billion — roughly the same as the entire stock market value of Ameren Corp., the parent company of AmerenUE.

That's too much to borrow, especially with jittery credit markets. So unless AmerenUE can pay for the plant as it goes — by charging customers during construction — it won't get built, Chief Executive Thomas Voss said.

"We just couldn't do it," he said in an interview. "The risk would be too great. We don't think people would lend us the money. We don't think our board of directors would approve it. And we don't think our stockholders would think it's prudent."

Attachment A

For anti-nuclear activists and some consumer advocates, CWIP remains a four-letter word. That's especially true for Kay Drey of University City, a campaign coordinator for Citizens for Reformed Electric Rates, the group that pushed the 1976 ballot initiative. She pledged to challenge any effort to undo her work of 30 years ago.

"If they try to get rid of CWIP, we'll do it all over again," said Drey, a fixture at Ameren's annual meetings, peppering executives with questions about the Callaway plant. "I think the citizens should have a right to vote on that. I'm 75 years old, and I'm not looking for another statewide election fight, but I'll do it."

Another is John Coffman, an attorney for the Consumers Council of Missouri and the AARP, who is troubled by the prospect of allowing utilities to charge customers for a power plant before it's built because it removes a powerful incentive to manage costs.

"If voters had not prohibited CWIP in 1976, we all would be paying several hundred million dollars a year more for Callaway 1," Coffman said. "And if they succeed in repealing the will of the voters, we will all be paying hundreds of millions of dollars more," for a second Callaway plant.

The last of the nation's 104 nuclear plants was completed more than 20 years ago, so even the best cost estimates are less than certain. One thing is clear, though: Costs for all types of power plants are rising sharply in sympathy with prices for building materials such as concrete, steel and copper. A shortage of skilled labor has boosted costs as well.

Last month, energy consultancy Cambridge Energy Research Associates, based in Cambridge, Mass., reported that a power plant that cost $1 billion in 2000 costs $2.31 billion today. The first Callaway plant, completed in 1984, cost $3 billion.

"The fundamentals that have driven costs upward for the past eight years — supply constraints, increasing wages and rising materials costs — remain in place and will continue during 2008," Candida Scott of Cambridge Energy said in the report.

Moody's Investors Service estimated in a recent report that a new nuclear plant could cost more than $7,000 per kilowatt of capacity. If correct, the cost of a plant as large as the one being proposed by Ameren would balloon to more than $11 billion.

AmerenUE executives know the cost pressures facing the industry and consumers. They also know that raising electric rates is never popular. But they insist that reversing the anti-CWIP law would benefit customers in the long run.

Doing so could save $3 billion in borrowing costs and prevent the kind of rate shock that threw Illinois into chaos last year after electric bills skyrocketed, Voss said.

Jeff Davis, chairman of the Missouri Public Service Commission, agrees. He said changing the law could benefit consumers if drafted properly.

"If you pay cash, you're going to get a better price than if you put it on a credit card," he said.

The PSC chairman said he would support legislation to do so only if it included adequate consumer protections and preserved the commission's authority to disallow costs.

The issue isn't exclusive to Missouri. South Carolina's legislature last year approved a bill to allow utilities to charge customers for a new nuclear plant while it's being built. On May 31, electric utility SCE&G filed to raise rates beginning next year for its stake in two new reactors that won't begin producing electricity until 2016.

Attachment A

AmerenUE officials have met with some legislators and found support for reversing the Missouri law banning charges for construction work in progress, Voss said. The utility, however, realizes that November elections will change the makeup of the Legislature, and the state will have a new governor next year.

"I don't know if we'll get something passed next session, but we'd certainly want to get a feel for the Legislature," Voss said.

Part of AmerenUE's appeal to lawmakers is jobs, Voss said. The plant, in the heart of the state, would be the biggest construction project in Missouri's history, generating as many as 3,000 temporary construction jobs and 500 permanent jobs.

"It's a huge economic boon in a state that could use it," he said.

If AmerenUE is unable to build a new nuclear reactor, the utility probably will build more natural gas-fired generating capacity in Illinois to supply Missouri customers. That means Missouri would lose the jobs and economic benefit of a multibillion-dollar project and rates could climb even more than they would if a nuclear plant is built, Voss said. Retail electric rates in states such as California and New York, which rely mostly on natural gas, are twice as high as Missouri's, according to December 2007 data from the Energy Department.

AmerenUE also could look to sell the Callaway site to an out-of-state power company, such as Baltimore-based Constellation Energy Group, a partner through the UniStar venture.

"If Missouri doesn't want us to build it as a regulated utility, somebody could build it as an unregulated plant," Voss said.

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Attachment A