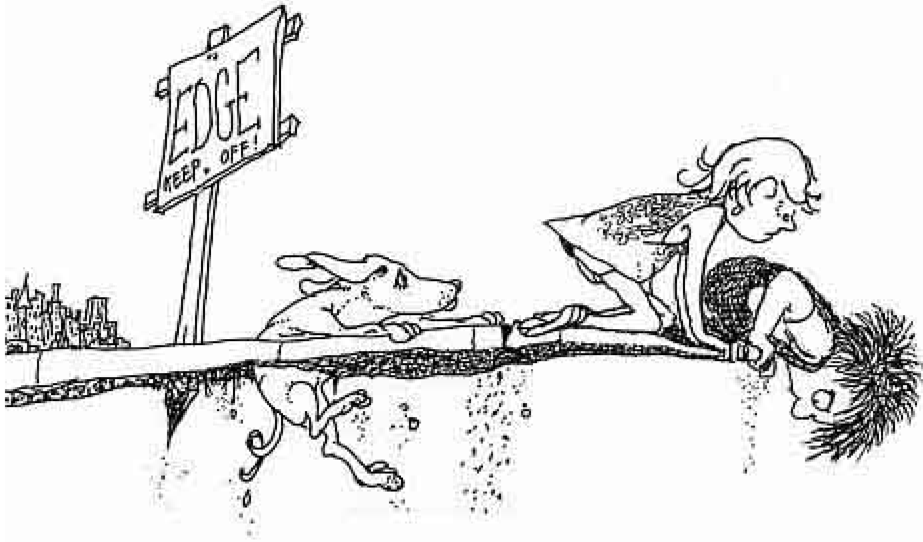
Financing Nuclear Power

PEACE | CROWELL
Limited Liability Partnership

A Road to Nowhere?



Capital Sources

Equity

- Developer
- Strategic Partners
- Private Equity

Debt

- Commercial Banks
- Hedge Funds
- Multilateral Agencies
- Export Credit Agencies
- Capital Markets

Show Me the Money

- A key financing hurdle to new development of nuclear power projects is the allocation of risk in a manner needed to attract debt capital.
- Corporate boards are unlikely to “bet the company”
- Non-recourse or limited recourse financing is paramount – we look to the Project Finance model, under which lenders look to cash flows from operation rather than creditworthy sponsors for repayment
- When we talk about risk allocation and mitigation, we assume the costs associated with risk mitigation are politically acceptable

Project Finance Applied

- Project finance allocates risk by creating robust contractual relationships with creditworthy counterparties to create credit where there otherwise is none :
  - Engineering, procurement & construction contracts
  - Power purchase agreements
  - Supply contracts
  - O&M agreement
- Certainty of costs/project completion is the key, with appropriate contingencies for limited and understood risks.

Risks Come in Different Shapes and Sizes

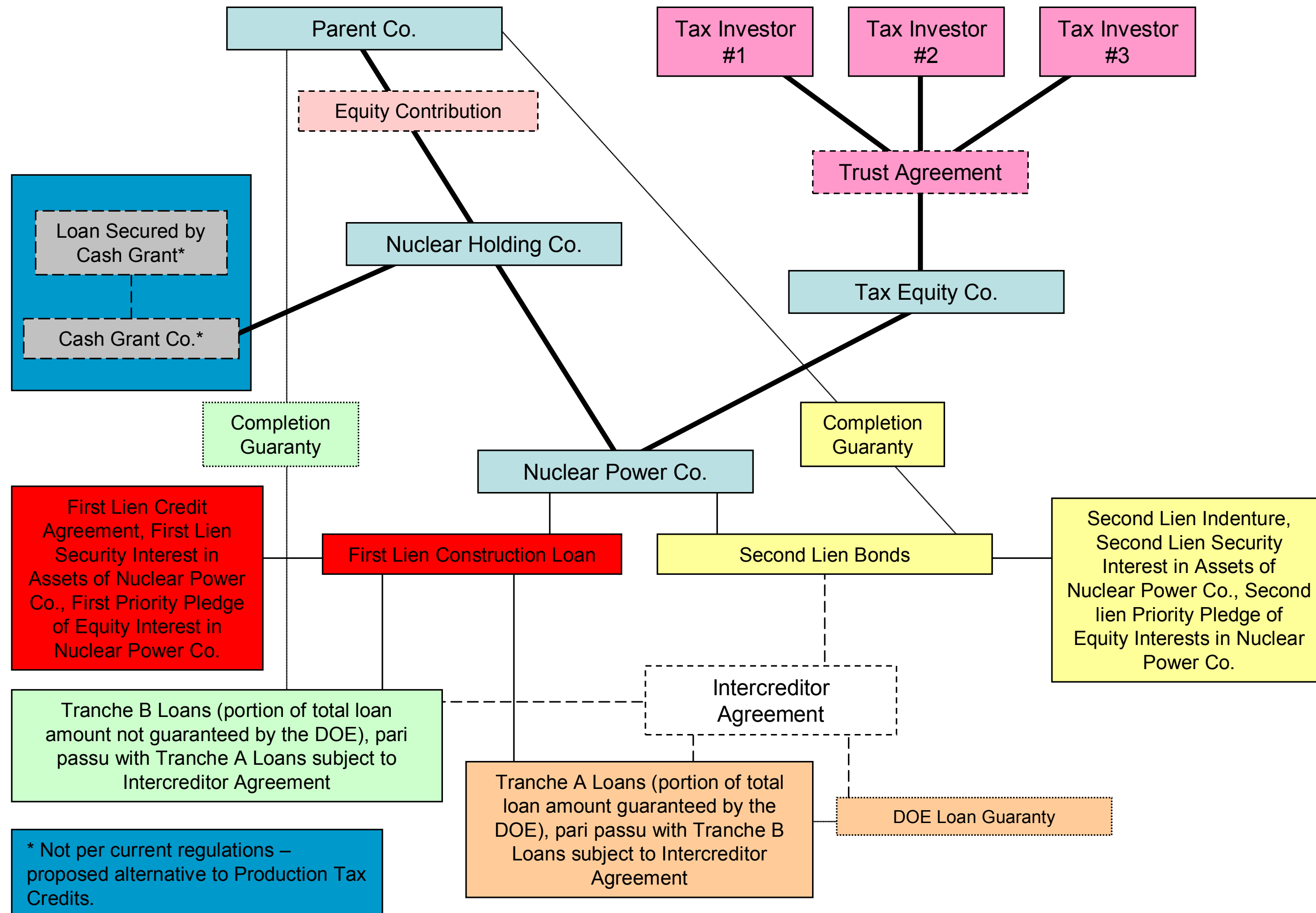
- Risks associated with constructing nuclear power plants include:
  - Cost overruns
  - Construction schedule
  - Litigation
  - Regulatory/ licensing
- These are symptoms of the real risk – insufficient cash flows available to repay debt.

Different Subsidies Have Different Objectives

- Cost subsidies relate to competitiveness of power production on a unit of output basis.
  - *Example*: Production Tax Credits (PTCs) provide a cost competitive advantage by reducing the tax liability associated with producing a unit of energy.
- Other "subsidies" are designed to mitigate risks – as risks are understood more private parties may be willing to take on those risks.

  - *Example*: DOE Loan Guaranties enable capital providers to invest in the face of perceived unfinanceable risks – as time elapses, those perceptions may change

Financing Sources; Complexity



How Can States Help?

- Rate recovery legislation, or something like it in rate-restructured jurisdictions, can be a proxy for contractual risk mitigation.
- How else can states reduce risk?
  - Streamlining regulatory processes
  - Lowering the cost of entry
  - Filing in gaps in federal programs
- States that want nuclear power development need to find ways to reduce risk as opposed to thinking solely in terms of "subsidizing" nuclear power.