

# **Bond Case Briefs**

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## **Toshiba Meltdown Casts Cloud Over Bonds for Nuclear Plants.**

- Company unit that's building facilities considering bankruptcy
- Public utilities in two states issued muni bonds for projects

The financial meltdown at Toshiba Corp.'s nuclear power-plant business is seeping into the U.S. municipal-bond market.

Debt issued by public utilities in Georgia and South Carolina that helped finance the first U.S. nuclear reactors built in 30 years has gotten riskier as exploding construction costs threaten the solvency of contractor Westinghouse Electric Co., a unit of Toshiba.

As the company reels from losses, Westinghouse is considering bankruptcy and Toshiba may sell a majority stake in its memory chip business to stem the bleeding. While the Japanese company guaranteed that Westinghouse will finish the work, the security of that backstop has been cast into doubt by Toshiba's weakened condition. Moody's Investors Service warned this week that it may downgrade the municipal debt tied to the projects, with S&P Global Ratings following suit late Thursday.

"A bankruptcy would raise a level of uncertainty about what happens," said Moody's analyst Michael Haggarty. "Our concern is they may have to go back to the ratepayers for potential additional costs."

The Municipal Electric Authority of Georgia is working with Southern Co. to build new reactors at Plant Vogtle, about 30 miles (48 kilometers) southeast of Augusta. The South Carolina Public Service Authority, known as Santee Cooper, and Scana Corp. are constructing two new units at the V.C. Summer plant some 30 miles northwest of Columbia, the state capital. Santee Cooper owns 45 percent of the new units, while the Georgia power authority owns about a quarter of the project in its state.

Moody's changed its outlooks on the ratings of \$7.1 billion of municipal debt issued by Santee Cooper and \$2.9 billion from the Georgia agency, saying a Westinghouse bankruptcy could call into question its ability to complete the projects and shift costs onto those agencies. Moody's rates Santee Cooper's debt, A1, the fifth-highest level. The Georgia bonds are graded either A2, one step lower, or Baa2, two steps above junk, depending on the legal security that backs them.

"We would argue the plants most likely get finished, but what is that additional cost going to be and who's going to absorb that cost," said Lyle Fitterer, who oversees \$40 billion, including securities issued by Santee Cooper, as head of tax-exempt debt for Wells Capital Management. "Most likely, if Westinghouse files bankruptcy the onus is going to be put on the owners of these plants."

The difference between the yield on some bonds issued by Santee Cooper and top-rated securities — a measure of the risk perceived by investors — has widened to more than 2.2 percentage points, an increase of about 0.67 percentage point since late December, according to data compiled by Bloomberg. That gap for Georgia project bonds averaged 1.35 percentage points Thursday, up from

0.96 percentage point two months ago.

A Westinghouse bankruptcy could make prices on the bonds more volatile, particularly because the debt issued by Santee Cooper has traditionally been held by risk-averse investors, Fitterer said.

"We think the whole complex is at risk of downgrade because of this, but ultimately it's not something that will put any one of those entities out of business or cause their ratings to go to non-investment grade," he said.

Santee Cooper is committed to finishing the project, said Mollie Gore, a spokeswoman for the agency. She declined to comment on Moody's decision to change the outlook on its rating.

"We've got about 5,000 contract workers on site today at V.C. Summer and they're all working hard and continue to make progress building these new units," said Gore.

Santee Cooper, created by the South Carolina legislature in 1934, serves 2 million residents, and its board has the power to set rates. On March 20, the utility's board voted to study whether customers need to pay more to fund construction of the new reactors, the Post and Courier of Charleston reported.

The Georgia electric authority was created by the state legislature in 1975 to provide wholesale electric power to 49 cities in the state. Moody's action was "more related to the concern with Westinghouse that it is with MEAG power," said Edward Easterlin, the agency's chief financial officer.

In addition to Toshiba's guarantee, and \$2.1 billion of unspent construction proceeds, the authority has \$920 million letters of credit issued by Japanese banks that would be available if Westinghouse files for bankruptcy, said Pete Degnan, the Georgia agency's general counsel. Toshiba has guaranteed as much as 40 percent of the contract price if Westinghouse abandons the project, Degnan said.

"We don't see that the Westinghouse bankruptcy would impact our ability to access the letters of credit or the parent guarantee of Toshiba," Degnan said.

Westinghouse has been building the power plants since 2013. The projects have been plagued by litigation, design changes and the need to get approvals from the Nuclear Regulatory Commission. Labor productivity has suffered because of a lack of supervisors on the site, said Degnan.

## **Bloomberg Markets**

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