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Fitch: Toshiba Insolvency Would Raise US Nuclear Plant Costs.

Fitch Ratings-New York-21 March 2017: The fiscal pressures on Westinghouse Electric Company LLC and its parent company, Toshiba Corporation, are weighing on the credit quality of the public power issuers that are involved in two nuclear power projects, Fitch Ratings says. The three issuers with co-owner interests have been subject to negative actions since 2015 when Toshiba's credit began to weaken, construction delays continued and additional cost overruns began to develop.

Westinghouse and Toshiba are the lead contractor and guarantor, respectively of the Alvin W. Vogtle Electric Generating Plant (Vogtle) and the Virgil C. Summer Nuclear Generating Station (Summer) development. The public power co-owners include Municipal Electric Authority of Georgia (MEAG), Oglethorpe Power Corporation, GA and South Carolina Public Service Authority (Santee Cooper), all of which remain on Negative Watch or Outlook. JEA and PowerSouth Energy Cooperative have agreed to purchase project output, but have Stable Outlooks.

The current financial strain on Westinghouse and Toshiba could lead to higher completion costs and further delays. In the event of bankruptcy, the Engineering, Procurement and Construction contract could be terminated and allow the co-owners to draw on letters of credit posted by the developer. However, the co-owners' abilities to recover additional costs and damages from the project guarantor could be limited in bankruptcy, undermining the benefits of the fixed-price agreement.

Fiscal pressure rose last week as the Japanese government said it was not considering supporting Toshiba and the company missed, for the second time, a reporting deadline for its audited third quarter results. Its application to delay its results until April 11 was approved, but it remains at risk of being delisted for failure to meet the requirements of the Tokyo Stock Exchange. Toshiba has undertaken a number of initiatives to bolster its liquidity and improve credit quality, including the proposed sale of its profitable memory chip business, but the success of these strategies is uncertain.

The public power issuers we rate have begun to make their plans for completing the plants with substitute contractors more detailed should Toshiba enter bankruptcy. The transition to a new construction team would almost certainly result in further revisions of the in-service dates past 2020 and higher costs to be borne by ratepayers.

The public power issuers have different supports that limit their rating downsides from these possible outcomes, including the unconditional obligation and ability to recover project-related costs, whether or not the projects are completed or operated. Each of the public power issuers also has the ability to set rates necessary to recover those costs independent of external regulatory approval. However, the willingness of each issuer to maintain robust financial metrics in the wake of higher costs is uncertain.

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