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Fitch: Closure of Nuclear Plant Limits Risks for US Public Power.

Fitch Ratings-New York-03 August 2017: Santee Cooper's (The South Carolina Public Service Authority) decision to suspend construction of the Virgil C. Summer Nuclear Generating Station (Summer) will limit the near-term credit risks it faces from the project, Fitch Ratings says. The suspension limits risks related to additional cost overruns, completion delays and the absorption of excess generating capacity for Santee Cooper, as well as its municipal and cooperative customers. However, the costs already incurred from the project will need to be recovered and replacement capacity may be necessary over time.

Santee Cooper has so far spent a reported $4.7 billion on the project, including interest, and could spend millions more to wind down construction. This amount is a fraction of the estimated $11.4 billion it would have needed to complete the project.

We expect Santee Cooper and its wholesale customers to recover all of the Summer project costs through higher electric rates. The public power systems have rate-setting flexibility as independent rate-setting authorities and maintain competitive wholesale and retail rates.

Toshiba agreed to pay $2.17 billion to satisfy its guaranty of obligations under the engineering, procurement and construction contract. Santee Cooper is due to be paid $967 million of this amount beginning in October 2017 and ending in September 2022. While this would reduce ratepayer recoveries, the certainty of payment hinges on the resolution of the Westinghouse bankruptcy and Toshiba's financial wherewithal.

Over the long term Santee Cooper will need to replace the supplies projected to be produced by Summer with other capacity and/or energy purchases. Expenditures should be manageable as demand growth continues to moderate and the costs of alternative capacity and energy decline.

However, if Santee Cooper decides to operate with slimmer margins, higher leverage or less cash to limit rate increases and ease the financial burden on its retail ratepayers, this could weaken leverage and debt service metrics to a degree resulting in rating downgrades.

Suspending work on Summer has raised investor interest in the status of the only other U.S. nuclear plant under construction — The Vogtle Electric Generating Plant — where the cost of completion is expected to exceed $25 billion. A decision on the Vogtle plant's future is expected over the next few weeks. Westinghouse is also Vogtle's main contractor. The public power issuers on Vogtle are Oglethorpe Power Corporation rated 'A', Municipal Electric Authority of Georgia rated 'A+', PowerSouth Energy Cooperative rated 'A-' and JEA, Florida rated 'AA'. All issuers except JEA hold either a Negative Outlook or a Negative Rating Watch due to construction delays and cost increases.

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