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Fitch: New Nuclear Projects Remain a Challenge for Public Power

Fitch Ratings-New York-29 November 2023: Absent broader joint action, improved cost competitiveness and/or greater certainty of cost and delivery, most U.S. public power systems are unlikely to pursue new nuclear construction over the next few years, and those that do face the risk of weakened credit quality, Fitch Ratings says.

The recent announcement by the Utah Associated Municipal Power Systems (UAMPS) and NuScale Power to terminate their Carbon Free Power Project (CFPP) illustrates the challenges facing public power systems as they consider new nuclear construction. The CFPP was created by UAMPS to develop the nation's first-generation small modular reactor nuclear plant, to be located at the Idaho National Laboratory near Idaho Falls, Idaho. The project planned to deploy six, 77-megawatt nuclear power modules provided by NuScale Power. Energy from the project was slated to replace generation from coal plants to assist members in decarbonizing their energy portfolios.

The project was unable to attract interest from enough purchasers to continue development, despite the plant's modular design, improved safety measures and the offer of low-cost government funding, likely due to schedule delays and cost concerns. Earlier this year, UAMPS raised the estimated cost of the project to $9.3 billion from $5.3 billion, and the cost of power to $89/MWh from $58/MWh, reflecting higher interest rates and inflationary pressures.

Nuclear energy is important to the public power sector, accounting for roughly 7% of the sector's capacity and nearly 18% of generated energy. Publicly-owned utilities, together with the country's electric cooperatives, own 19% of the nation's nuclear generating capacity and have benefitted from the strong performance of the operating reactors, most of which were completed between 1970 and 1990. Since 2000, the nation's nuclear units have recorded a capacity factor of 91%, helping systems achieve their objective of reliable and affordable power.

Interest in new nuclear generation should remain piqued as a result of proposed Environmental Protection Agency (EPA) rules to limit carbon-dioxide emissions from power plants, as well as widening concerns about the effects of climate change and more aggressive carbon-free energy standards. However, until the cost of new construction can be assured through insurance or guarantees provided by the U.S. government or highly creditworthy entities, widespread ownership agreements can broadly distribute and limit project exposure, and new design construction is proven to be both feasible and replicable, these risks will remain formidable barriers to participation.

Nuclear projects are large, costly and complex, and developers have a historically poor record of completing new projects on time and within budget. New projects launched at the Summer and Vogtle nuclear stations in 2013 were plagued by scheduling delays, fabrication challenges, labor shortages and significant cost overruns almost from the beginning of construction. While the first of the new Vogtle units entered commercial operation earlier this year, and the second unit is expected to come online in 2024, the project is seven years late and $16 billion over budget. These challenges contributed to rating downgrades of co-owners MEAG Power and Oglethorpe Power Corporation

between 2017 and 2021. Construction of the new Summer units was ultimately halted in 2017, similarly contributing to downgrades of the South Carolina Public Service Authority (Santee Cooper).

The Tennessee Valley Authority completed its Watts Bar Unit 2 in 2016 after work was suspended in 1985 and resumed in 2007. However, the final cost was roughly $2 billion higher than initially planned. The operational breadth and financial strength of TVA allowed the utility to absorb the costs and maintain its then current ratings.

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