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Westinghouse Meltdown Short-Circuits Some Muni Bonds.

Westinghouse filed for Chapter 11 bankruptcy on March 29. While the company doesn't have tax-exempt debt, its filing damaged two large public utilities with municipal bonds outstanding. The utilities' customers will pay higher rates for costly or incomplete projects, which not only causes ratepayer resistance but can make power costs uncompetitive and hurt financial operations.

The two utilities are the Municipal Electricity of Georgia (MEAG) and the South Carolina Public Service Authority, also known as "Santee Cooper". Each borrower relied on Westinghouse to build four nuclear reactors – two for each utility – on time and within budget. As often happens with nuclear projects, there've been construction delays and cost overruns. But the Westinghouse bankruptcy raises the question of whether the facilities will be built at all.

So what happens now? MEAG and Santee Cooper are left with unfinished facilities that cost a lot of money, aren't producing any power, and may not ever be completed.

There are at least three possible ways for them to proceed:

1. Hope that Westinghouse emerges from bankruptcy in a position to complete the projects,
2. Find another contractor if Westinghouse can't come through, or
3. Abandon the plants and all the money they've spent so far to build them.

With option one, the utilities have to hope that Westinghouse will be able to finish within its latest budget and timeline. Let's just say that its past performance with these projects doesn't exactly inspire confidence.

Along the second road, there aren't a lot of companies around anymore who build nuclear plants. And if you're one of them, you have to ask yourself whether you want to get involved in a situation as difficult as this. It's also worth noting that the type of reactor involved, Westinghouse's AP1000, hasn't yet been put into service anywhere in the world.

Finally the third route might pose the most risk. In that scenario, you're asking your customers to pay higher rates for a white elephant. When that happens, ratepayer resistance and lawsuits can follow, draining your balance sheet.

But even if some way is found to complete the plants, ratepayers won't be happy that they're paying for what they'll perceive as your mismanagement and mistakes.

On April 28 MEAG, Santee Cooper, and their partners in building the plants are expected to report updated cost and calendar estimates for project completion. The figures they disclose may well determine which of the three options above they will pursue. Each utility has about $8 billion in long-term debt, and bondholders will be paying close attention to their decisions.

The best-case scenario for bondholders at this point is that both MEAG and Santee Cooper will raise rates in amounts that are sufficient to maintain their existing credit strength.

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