



THE NUCLEAR NEWS INTERVIEW

## Kimmelman: A Wall Street view of nuclear power

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Kimmelman has 17 years of experience with Goldman Sachs, all dedicated to utility coverage, including five years dealing with utilities in the western United States. He also has extensive experience in regulatory testimony at both the state and federal levels.

The financing of new nuclear power plants was a topic for discussion for Kimmelman. The interview was conducted by Rick Michal, *NN* senior associate editor.

*A utility executive in the past year said that Wall Street does not lend money for nuclear acquisitions, and that all of his company's nuclear plant purchases have been financed internally. Is that an accurate view of nuclear's relationship with Wall Street?*

Not really, because I don't think any company has actually come forward with a credible, stand-alone request to have money lent to a one-off new nuclear project in the recent past. The reason is that there is a lower-cost alternative for financing either an existing or a new nuclear plant and that is off the balance sheet of the utility. There are many large utilities in the nuclear arena looking to grow their nuclear asset bases. They have very large liquid balance sheets and very strong credit ratings. They can raise funds at the corporate level at a relatively low cost—a lower cost than it would be if they were to get outside financing backed directly by one or a group of nuclear plants. Whether they're looking to purchase a coal plant, a gas plant, or a nuclear plant, a large utility's corporate credit is superior to a single asset credit. However, there were many leveraged lease financings of nuclear projects in the late 1970s and early '80s

*Investors will listen if utilities ask for nuclear plant financing, according to an investment banker.*

where the single asset credit was supported by lease payments from a utility taking the off-take from the plant.

*How would a lender view the financing of new reactors, some of which may be modularly built?*

What investors are likely to look at first is whether the plant is operating or under construction. Obviously with a plant under construction, there would be skepticism on whether it ever would be built, and whether it ever would be an economical operating facility. Investors would want an assessment of the revenue structure and the cost structure of the project. As far as revenue structure is concerned, investors would be more comfortable if a large portion of the plant's power output were being sold under contract. They also would look to the credit-worthiness of the buyer for the power under the contract. A strong power purchaser would help the credit scenario immensely.

Second, for lending on an existing nuclear plant, the plant would have to be relicensed—certainly for as long as, if not longer than, the period of the debt that is being raised—in or-



**Kimmelman:** "I think things will slow in terms of nuclear acquisitions."

der to be viewed as having long-term operating potential. A utility is not going to be able to raise 20-year debt on a plant that has a license expiring in two years.

*What would it take to convince Wall Street to lend on new nuclear construction?*

For new nuclear construction, I think there will have to be a well-defined view of the cost of building the facility, a proven technology in place, and most important, some risk mitigator with regard to cost overruns. The risk mitigator could be a regulatory backstop for collection, or maybe some fixed-price contract or turnkey contract from the contractor. Investors are not likely to fully assume construction risk without some type of mitigator. Without a construction cost backstop, the financing scenario is more likely to find the utility financing the new construction from its own balance sheet until the new plant is through construction. Once completed and the cost of the new plant is known, then most likely there would be a much more aggressive participation by investors. Investors might next focus on operating risk, but likely would show little concern in this area since the his-

torical operating performance of nuclear plants generally has been terrific in the past several years. Also, unlike financing gas plants, fuel variability would be of little concern to nuclear investors.

If a power-purchase contract is in place or possibly if it can be shown that the plant is a low-cost facility in its region, I think odds will be high in successfully attracting sufficient investors to finance construction of new plants. But it's the uncertainty of that overall cost equation of new construction that makes operating facilities far more financeable because the capital cost is known up front.

*How important to lenders is renewal of the Price-Anderson Act, which limits the nuclear industry's liability in the event of a reactor accident?*

Two dangling issues for the industry are the Price-Anderson Act and the nuclear waste issue. It is very important that the Price-Anderson Act be renewed because investors are going to have a major problem if there is an open-ended liability that could cause the project to have a major future cash drain. Regarding nuclear waste, we all know that's an important issue for the industry. Certainly, investors have been willing to lend to nuclear utilities at the corporate level very aggressively, yet the waste issue has not been solved. I don't think investors are yet concerned that there is going to be some large back-end cost or liability with nuclear waste. They are assuming that the issue will be solved, notwithstanding much debate on the issue.

*You commented earlier that lenders would fear building any form of new electric generation beyond demand. For nuclear specifically, does this mean that lenders would be more likely to finance smaller nuclear units, such as the 110-MWe pebble bed modular reactors, rather than 1000-MWe plants?*

Investors don't want to finance an asset that might end up being stranded—i.e., “We don't need the output from the plant,” or “The plant's not competitive.” These scenarios could occur even if a contract for the output does exist—perhaps demand diminishes and the power isn't needed. So there is a growing fear by investors that power-purchase contracts could be abrogated in the future, that they might not hold up in a court of law. Investors are going to do an analysis on how competitive the asset is and, once again, if they don't know the capital cost of the asset, they really can't do that calculation and they won't be an aggressive lender. It's increasingly important in the competitive electricity world that the asset being financed is economically viable.

*Do you think only large existing nuclear utilities will go forward with new plant construction?*

Yes. First of all, why would a small utility venture into that territory? A small utility has enough risk in its business, and has enough opportunities to put new capital into expanding its own “wires” network or expanding its own generation base. It would be an extraordinary risk for a small- or medium-size utility

to embark on a multibillion dollar new nuclear construction project with so many unknowns. I would think that any new construction might be concentrated among the Exelons, Entergys, Dukes, Dominions, and those kinds of large companies.

*International negotiators in July signed on to a climate-control agreement to further the Kyoto Protocol, even though nuclear power was shut out for credit as a “clean energy” mechanism. Here in the United States, nuclear is given no “carbon credits” for its avoidance of greenhouse gas releases. Does any of this have an effect on Wall Street's impression of nuclear?*

Actually, Wall Street is not even thinking about these issues because no one has yet come forth with a credible plan to build and finance a nuclear plant in the recent past. The fact that, unfortunately, there is no incentive in terms of a carbon credit is not very relevant because I don't think investors were looking for one. Even if the government did come forth with that credit, the question would be, is that going to spur someone to build a nuclear plant? Exelon, not too long ago, made an announcement on investigating the pebble bed modular reactor. Wall Street's reaction was, “Fine, we'll wait and see if you really do something.”

*Regarding the political atmosphere in the United States, the current White House administration has said let's go forward with nuclear, while opposition lawmakers have said no. How does that influence how Wall Street would look at proposals for new construction?*

Politics is driven largely by public sentiment, and I think Wall Street sees public sentiment toward nuclear as being stuck at the point in time of the accident at Three Mile Island. There really needs to be further education and a public mood shift before significant public and political support likely will emerge for any announcement of a major new nuclear plant order. I think, once again, we're not going to see a major announcement until we can get a handle on what the cost of a new facility would be. We'll more likely see announcements of upgrades to existing facilities or purchases of existing facilities. Investors likely would be more comfortable with the concept of an upgrade to an existing facility because it's more quantifiable in terms of what the capital costs would be.

*If there were public/private construction of a new plant—let's say the industry were allowed to build on a Department of Energy site—would that make lenders more comfortable?*

The question is, where is the revenue stream going to come from to cover the cost? Sure,

the U.S. government might be supporting the project, might even fund a portion of the project, but are they going to guarantee revenue streams? If they did, it would be like lending to the Tennessee Valley Authority, a strong government supported credit. In a case like that, investors don't much worry about what the project is, because the federal government is behind it. My guess is that this won't happen. Instead, it will be utilities looking at whether to finance a nuclear expenditure on a stand-alone project basis, or whether they should use their own corporate credit. Historically, they've used their corporate credit or pursued a sale leaseback structure for the plant.

*Would Wall Street prefer participation of vendors and reactor builders in a partnership with utilities to build new plants?*

Yes, because it spreads the risk and might pass on the cost overrun risk to a third party.

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*What is your take on how deregulation is now affecting the nuclear industry?*

I think things will slow in terms of nuclear acquisitions. Because of some of the California issues, regulators now are much more hesitant to encourage utilities to divest their generating assets. We may be more likely to see more upgrades to existing nuclear facilities. This approach may involve more manageable and definable expenditures. And we're certainly excited to hear about the pebble bed technology and the potential for smaller, modular-type plants; it seems as though these have some early-stage promise. We also would expect to see some positive public sentiment shift toward nuclear as deregulation has sharpened the focus on alternative fuel issues, such as environmental issues related to coal and the volatility of natural gas prices.

*Speaking about public sentiment, a California poll in May showed that 59 percent of the respondents supported nuclear. Then a different poll came out in July that showed 55 percent of the respondents in California were against new nuclear construction. How do you read those swings?*

I suppose it's all a matter of how you ask the question and take the poll. Perhaps the concept of more nuclear is becoming more accepted given the sharp rise in electricity prices—however, the NIMBY [not in my backyard] issue is probably alive and well. ■