PaloVerdeLRCEm Resource

From: Steve Brittle [smbrittle@yahoo.com]
Sent: Sunday, July 26, 2009 3:17 PM
To: PaloVerdeEIS Resource
Cc: dwaz@fastq.com
Subject: Fw: More NEPA Scoping Comments
Attachments: ATT00002.gif

VIA EMAIL TO PaloVerde.EIS@nrc.gov and US Mail

Chief; Rulemaking and Directives Branch
Division of Administrative Services
Mailstop TWB-5B01M
U.S. Nuclear Regulatory Commission
Washington, DC 20555

Re: NEPA Scoping Comments regarding Relicensure of Palo Verde Units 1, 2 and 3

Don't Waste Arizona, Inc. (DWAZ) is a non-profit environmental organization (with a 501 c 3 status granted by the IRS) dedicated to the protection and preservation of the environment in Arizona. DWAZ is headquartered at 6205 South 12th Street, Phoenix, AZ 85042, and can be reached at 602-268-6110. On behalf of itself and it affected members, DWAZ offers the following additional NEPA scoping comments regarding Relicensure of Palo Verde Units 1, 2 and 3:

Below are DWAZ's questions, with an article of Moody's downgrading SC Electric and Gas due to their participation in a nuke. Moody's has said that it would be downgrading utilities participating in nuclear energy projects. Moody's study and a recent followup are attached for inclusion and reference. Fitch also downgraded this utility a while back, and the article is below the first one.
DWAZ includes the attached by reference: "Special Comment, Moody's Corporate Finance--New Nuclear Generating Capacity: Potential Credit Implications for U. S. Investor Owned Utilities," May 2008, at http://massimobray. italianieuropei. it/080527MoodysNewNukeGenCapacit y.pdf

DWAZ's questions include:
In relation to the "Special Comment, Moody's Global Infrastructure Finance--New Nuclear Generation: Ratings Pressure Increasing," June 2009.
Q: This report says, "History gives us reason to be concerned about possible balance-sheet challenges, the lack of tangible efforts today to defend the existing ratings, and the substantial execution risk involved in building new nuclear power facilities."
While this report largely deals with new reactors, it is true that older reactors are having major components replaced, like heat exchangers, plumbing and electrical infrastructure,

generators, and condensers, etc. Some of these are beyond "variable operating cost" and are capital investments, capitalized on the balance sheet. Similar to when an old company truck gets too old and the repairs and capital improvements outweigh the cost of payments on a new one, when reactors get older, this at some point will happen. When that does happen, what are the risks that could down-grade APS/PVNGS ratings with firms like Moody's Standard and Poor's and Fitch ratings companies?

Q: What are the major component and infrastructure replacements that PVNGS has had so far that have been capitalized?

Q: Are is the NRC learning from the collective experience of other reactors in the U.S. and their major component and infrastructure replacements?

Q: What are the costs of capitalized major component and infrastructure replacements for other reactors in the U.S., and how does PVNGS compare?

Q: One of the Browns Ferry reactors had a fire many years ago, and this fire knocked out the reactor from producing electricity for decades. When the reactor was refurbished, the total cost was about $1.5 billion. Does APS see how this kind of repair/renovation could have a significant impact on corporate risk levels and on ratings by credit ratings agencies like Moody's? Could APS financially handle such a contingency and survive without bankruptcy, or would APS just stick ratepayers with the bill again?

Q: In another case, at the Davis-Besse in Ohio, the reactor came a few months away from a corrosion-caused breach of containment. Does APS or ANPP realize that there are possible major repairs that may make an old plant a large previously un-booked liability?

Q: What are the costs of increased variable operation and maintenance of U.S. reactors as reactors have aged, for reactors, per reactor, over 15 years old, over 20 years old, over 25 years old, over 30 years old and over 35 years old?

Q: What are the costs of capitalized major component and infrastructure replacements of all U.S. reactors, per reactor, as reactors have aged, for reactors over 15 years old, over 20 years old, over 25 years old, over 30 years old and over 35 years old?

Q: What depreciation duration was used for these capitalization schedules for income tax purposes for each U.S. reactor per incident of capitalization?

Q: This reports says, "We also believe companies will ultimately revise their corporate - finance policies to begin materially strengthening balance sheets and bolstering available liquidity capacity at the start of the construction cycle." To the degree that there can be breakdowns and capitalized major component and infrastructure replacements with significant economic value at any time, what are Arizona Public Service and other members of the Arizona Nuclear Power Project doing in terms of "strengthening their balance sheets and bolstering available liquidity capacity"?

Q: What are APS and ANPP target reserve margins, by year, for 2009 and for future years through the proposed extended lifespan of PVNGS?

Q: What have the target reserve margins been for the years since PVNGS Unit 1 has been in operation?

Q: What have the actual reserve margins been for APS and ANPP for the low point of each year since PVNGS Unit 1 has been in operation?

Q: To what degree are APS and the other partners of ANPP counting on PVNGS in its total relied- upon capacity and as part of the calculate reserve capacity?

Q: As PVNGS reactors go down because of increased interruptions in service due to age, is

APS and ANPP increasing its reserve margin to cover this decrease in reliability?
Q: If so, by what megawattage and percentage of total power design electrical rating plant capacity, for APS and ANPP?
Q: The report says, "Historical rating actions have been unfavorable for issuers seeing to build new nuclear generation. Of the 48 issuers that we evaluated during the last nuclear building cycle (roughly 1965-1995), two received ratings upgrades, six went unchanged, and 40 had downgrades. Moreover, the average downgraded issuer fell four notches. All these ratings were evaluated on the senior secured or first mortgage bond ratings." While these are for new builds, major capitalization may be required numerous times for aging reactors during their last 2-3 decades of operation. Have APS and ANPP members prepared for the possibility of downgrades by the ratings agencies due to large capital outlays?
Q: The report says, "We view new nuclear generation plans as a 'bet the farm' endeavor for most companies. . ." While they are referring to long construction timelines, there may be lengthy repair timelines at PVNGS. What are APS and ANPP doing to brace for possible extended capital repairs of PVNGS Units 1-3, in terms of bolstering financial health and in terms of increasing reserve margins?
Q: Please provide a list of all capitalized component and infrastructure investments for PVNGS year by year and component by component and infrastructure investment by investment, since the initial power-up at each reactor.
Q: Please give projections for what the cost of similar investments will be, item by item, in the future. For example, for a generator replacement done in the past, what is the projection on cost to do replace a generator in the future, year by year through the proposed license extension period?
Q: The report says that APS moved down 4 notches from 1981-1993, with a beginning rating of A2 FMB with the lowest rating at Baa3. If there is to be an extended period of repair/construction in the future for any of the Units 1-3, say for 1, 2, 3, or 4 years, what ratings downgrade might happen?
Q: If there is a Moody's rating downgrade of 1, 2, 3 or 4 levels, what impact on interest rates for new plant construction and major capitalized repair debt will occur, in percentage increases?
Q: What are APS and ANPP doing to improve their respective credit ratios in anticipation of such component replacements or capitalized infrastructure repair possibilities?
Q: The reports says, "The likelihood that Moody's will take a more negative rating position fro most issuers actively seeking to build new nuclear generation is increasing. With only about 24 months remaining before the NRC begins issuing licenses for new projects and major investment begins, few of the issuers we currently rate have taken any meaningful steps to strengthen their balance sheets. Considering these new projects tend to raise an issuer's business and operating risk profiles, the utility's overall creidt profile appears weaker." Again, with increases in major repairs as reactors get older, and with increasing dollar amounts for repairs, what are APS and ANPP doing to minimize their risks and to keep from getting down-graded by the ratings agencies?

Thank you.

Stephen M. Brittle
President

Don't Waste Arizona, Inc.
6205 South 12th Street
Phoenix, AZ 85042

SCANA feels rating bite on nuclear plant

Wednesday, July 15, 2009

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Moody's Investor Services lowered SCANA Corp.'s bond rating this week and listed the outlook as negative because of the S.C. utility's joint ownership of a $12 billion nuclear project under construction.

Moody's warned investors two weeks ago that it was likely to take a negative view on nuclear20developmen t by power companies. Some in the nuclear industry have taken issue with that policy. But Moody's stood by it when explaining its decision on SCANA.

"We remain concerned with the … risks associated with a project of this magnitude for a company of this size," said Moody's Senior Vice President Jim Hempstead.

SCANA subsidiary S.C. Electric & Gas is expanding the V.C. Summer Nuclear Station with Santee Cooper.20The power companies are adding two AP100 nuclear reactors at the existing nuclear plant.

Schedule slips

Meanwhile, the S.C. Office of Regulatory Staff notes in a report filed Tuesday that several parts of the project have slipped off schedule. The staff points out that SCE&G says none of the delays are serious enough to affect the anticipated completion date for each unit.

"SCE&G indicates that this is a result of=2 0the creation of the first fully integrated project schedule by its contractors and is not a trend," the staff writes. "If these changes do indicate a pattern, then a trend of this sort this early in the project is cause for concern."

Overall, the staff says, the project appears to be on budget and on time. SCE&G now estimates its share of the project may cost more than originally projected — $6.8 billion rather than $6.3 billion. But that is not the result of any cost overruns. The company updates its calculations of future prices and financing charges every quarter,20and those new calculations account for the higher costs.

Cost recovery concerns

But uncertainties surrounding nuclear construction are clearly having an impact in the capital markets.

And those issues are reflected in Moody's downgrade.

The rating agency reduced SCANA's senior unsecured debt rating one notch to Baa2 from Baa1. The report cites a weakened balance sheet for SCANA and its subsidiary. It notes South Carolina's Baseload Act, passed in 2007, creates a supportive regulatory environment for construction of the nuclear plant. But it warns that it does not believe SCANA is guaranteed to recover all of its construction costs.

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Two weeks ago, Fitch Ratings also downgraded SCANA to BBB+ from A-. Fitch also cited "financial pressure and increased business risk from SCE&G's plans to construct and finance two nuclear generating units."

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Associated Press

Report: SC nuclear reactor costs up; could drop

By SEANNA ADCOX , 07.15.09, 04:30 PM EDT =2 0

COLUMBIA, S.C. --

A South Carolina agency reported Wednesday that the cost of two nuclear reactors could rise by more than $500 million because of inflation in construction costs, though officials called it a high-end estimate.
While environmentalists call the review by the Office of Regulatory Staff disturbing, agency executive director Dukes Scott said the increase is "not a call for alarm or panic."
According to the report, South Carolina Electric & Gas Co.'s budget for the reactors at the V.C. Summer Nuclear Station near Jenkinsville increased from $6.3 billion to nearly $6.9 billion. The state's largest private=2 0utility is required to adjust the estimated cost quarterly using a five-year inflation average.
Scot t and an SCE&G spokesman attribute the increase to unusually high construction costs over the last five ye ars.
"The five years we're looking at happen to have some of the highest inflation figures in recent times," said SCE&G spokesman Eric Boomhower. "It's almost an anomaly."
If the latest economic conditions continue, SCE&G's overall costs could stay at or below the $6.3 billion estimate, according to the report.
The forecast cost would have gone down had the report used a 10-year or one-year average for construction costs, Scott said.
"It is something we will monitor. As we come out of the recession, the inflation factors may change," he said.
The review for the quarter ending March 31 is the first since the state Public Service Commission approved the project in February. The timetable calls for the first reactor to generate power by 2016, and the second in 2019.
The two, 1,100-megawatt reactors will be jointly owned and operated with state-owned

utility Santee Cooper, which is not subject to the same review process. The utilities already operate one reactor at the nuclear station about 25 miles northwest of Columbia, which came on line in 1982.
The project's total price tag had been estimated at $10 billion.=2 0A spokeswoman for Santee Cooper did not immediately return a call regarding its portion of the project.
The report also says SCE&G did not meet nearly half of its first-qua rter scheduled milestones, although the utility completed them or plans to within the allowed, 18-month contingency. Scott said the agency will closely monitor the progression in the second and third quarters.
"While we don't anticipate exceeding any of our schedule contingencies, we are working with the contractors involved in this project to ensure we maintain some breathing room within our approved timelines," Boomhower said.
A group opposing the reactors says the report confirms its concerns.
"Any way you cut it, the cost of construction has gone up," said Tom Clements, a nuclear campaign coordinator with Friends of the Earth. He called the slipping schedule and cost adjustment a "real red flag the project is already running into trouble."
Friends of the Earth's appeal of the project is before the state Supreme Court, with briefs due in August. The group contends the state Public Service Commission did not adequately consider alternatives, notably energy conservation and efficiency programs, before giving approv al, and that the law allowing utilities to collect money upfront to pay for the reactors is unconstitutional.
Customer rates are expected to go up roughly 2.5 percent yearly for the next 10 years to help=2 0pay the financing cost for SCE&G's portion of the project.
"Ratepayers could move or die and get nothing" from the money they've paid, Clements said.

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Fitch Revises SCANA & Subsidiaries' Rating Outlook to Negative
2008-08-04 23:17:02 -
- Fitch Ratings has affirmed the ratings of SCANA Corp. (SCANA) and its subsidiaries South Carolina Electric & Gas Co. (SCE&G) and Public Service Co. of North Carolina (PSNC) as shown below and revised the Rating Outlook for each of the entities to Negative from Stable. Fitch also lowered the short-term Issuer Default Rating (IDR) and commercial paper ratings of SCE&G, PSNC and South Carolina Fuel Co. to 'F2' from 'F1' and assigned an 'F2' short-term IDR to SCANA.
The revised Rating Outlook and lower short-term ratings reflects the expected financial pressure on SCANA's principal subsidiary SCE&G from plans to construct and finance two nuclear generating units for service in 2016 and 2019, respectively. The Negative Rating Outlook also recognizes the construction risk and uncertainties associated with projects of this size and complexity. SCANA management estimates the two units will cost $9.8 billion. SCE&G will own 55% of the two units at a

projected cost of approximately $5.4 billion, which together with environmental and other capital expenditure requirements will more than double the company's current electric rate base of approximately $4.4 billion. The impact on credit quality is softened by legislation in South Carolina that permits utilities to earn a cash return on construction work in progress (CWIP). An Engineering Procurement and Construction (EPC) contract that fixes a portion of the plant cost also mitigates construction risk. Nonetheless, credit quality measures are expected to trend downward throughout the construction cycle. Ultimately, the rating impact will depend on management's financing plan, its ability to control construction costs, the regulatory treatment of investment expenditures and capital market access.

Although the credit quality of subsidiary PSNC is not directly affected by the events at SCE&G, the weakening consolidated credit profile of SCANA accounts the negative outlook for PSNC.
Fitch affirms the following ratings:
SCANA Corporation: --IDR at 'A-';
--Senior unsecured debt at 'A-'.
SCE&G:
--IDR at 'A-';
--First mortgage bonds at 'A+'
-Senior unsecured debt at 'A';
--Preferred stock at 'A-'.

PSNC
--IDR at 'A-';
--Senior unsecured debt at 'A'.
Fitch lowers the following ratings:
SCE&G:
--Short-term IDR to 'F2' from 'F1';
--Commercial paper to 'F2' from 'F1'.
PSNC:
--Short-term IDR to 'F2' from 'F1';
--Commercial paper to 'F2' from 'F1'.

Fitch assigns the following rating:
SCANA Corporation
--Short-term IDR of 'F2'.

Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, www.fitchratings. com. Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site.

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Created By: smbrittle@yahoo.com

Recipients:
"dwaz@fastq.com" <dwaz@fastq.com>
Tracking Status: None
"PaloVerdeEIS Resource" <PaloVerdeEIS.Resource@nrc.gov>
Tracking Status: None

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