Energy Insider by Marsha Freeman

Two more utilities face bankruptcy

Sabotage by state regulators is throwing Ohio's utilities into financial chaos.

On July 29, the Centerior Energy Corporation filed a brief with the Public Utilities Commission (PUC) of Ohio stating that if its two utility companies do not receive an emergency rate increase, they are in danger of defaulting on debt obligations.

In January of this year, the Public Service Company of New Hampshire went into Chapter 11 bankruptcy, becoming the first utility to do so since the Depression. Now, Toledo Edison and Cleveland Electric Illuminating companies, held by Centerior, are facing a similar future.

What has characteristically made power companies financially vulnerable has been a combination of stretched-out periods of nuclear power plant construction, and actions by state regulators which make it impossible for the company to operate.

In 1974, a group of utilities began construction on the two Perry nuclear units in Cleveland, Ohio. The two units, 1,250 megawatts (MW) each were projected to cost $1.234 billion together. When Perry 1 came into service in November 1987, it had cost $5.6 billion. Unit 2 had construction suspended in 1984, when it was 50% complete, after $1.7 billion had been spent.

Why did the cost escalate? First, the plants were midway through construction when the accident occurred at the Three Mile Island plant in nearby Pennsylvania. Construction was halted, systems were redesigned in midstream, and sections of the power plant that were finished were torn out, to meet new requirements laid down by the Nuclear Regulatory Commission.

Originally, the plant was scheduled to be operational by the end of the 1970s. When the construction started, state statutes read that, once the plant was 75% complete, the utilities could add some of the construction cost into their rate base to raise the funds to finish the job and retire debt that had been incurred.

According to a Centerior official, a couple of years ago, state law was changed, requiring that a plant be 90% complete before costs could be added to the rate base. Even then, very little of the actual cost could be passed on to customers.

However, the Perry plant, and the Beaver Valley 2 plant, also partly owned by the same two utilities, have both been *operating* and producing power since November, and the cost of building and operating them is *still* not in the rate base.

According to opponents of the rate increase, the utility does not "need" the money. They state in a brief filed with the Public Utilities Commission that the companies should "improve accounting practices" and institute dividend reductions. But if dividends are cut, the companies will find their bond rating devalued—another step toward financial insolvency.

According to the utilities, they have had to borrow money at interest rates as high as 20% to build the nuclear power plants. A full one-third of the "cost" of the Perry plant is financing charges.

The utilities found themselves running out of funds last fall, and because the PUC would not move on phasing in rate hikes, they decided on a desperate route to raise money. In September, the largest sale-leaseback deal in history was concluded.

The two companies sold all of their shares of the Bruce Mansfield coal-burning plant and Toledo Edison's shares in the Beaver Valley 2 nuclear plant, both in western Pennsylvania, to private investors for $1.7 billion. (CEI still owns a 24.4% share of Beaver Valley 2.) Cash from the sale was used to cover day-to-day operating expenses, and to refinance some of the debt at a better rate. The highest interest rate loans, however, could not be refinanced. Now, the utilities are leasing back the capacity of the power plants *they built*, from the private investors.

The sale-leaseback agreement includes a proviso that the companies show a net income over the preceding 12 months of any period, that is a "coverage ratio" or multiple of the amount of interest component that is paid in the semi-annual lease payment. The companies are not in danger of defaulting on their lease payment, but on the "coverage ratio" part of the agreement. According to Centerior, the interest rate component of the lease rental payment is 80%.

In other words, the two utilities, which are $4 billion in debt from having built power plants without recovering the cost, are now also paying off the debts a private firm has incurred to buy their assets.

At the end of August, the PUC was to decide how much the utilities can raise their rates to bring in more revenue. But perhaps, they would prefer to wait a little longer, until the companies are forced into bankruptcy, and there is no one to run the state's power plants.