

SB 31 is a relatively straightforward proposition, but questions about it quickly descend into the complexities of regulatory law. I'm going to relate what the bill does in essence, and then discuss some key considerations I found that bear on the questions.

The bill has been called a rough equivalent to deciding to pay the interest on a construction loan as that interest is incurred. While the example is certainly different in complexity, I do find it to be a reasonable comparison. Georgia Power will invest \$4.5 billion in a project to add two new reactors to the Vogtle generating plant. The Georgia Public Service Commission (PSC) requires that half of this financing be bond debt, and half be new capital raised through stock issues. Under present rules, both the interest on the debt and the return on the stock investment will accumulate during construction, to be paid after the plant goes in service. This would be like rolling the interest from a construction loan into the final mortgage note. The note is larger than it would be if the interest had been paid during construction, so the mortgage includes interest being paid on interest. Thus Georgia Power customers will be paying financing charges (interest) on financing charges, unless SB 31 is passed.

My first key consideration is the interesting fact that the EMC's and the cities in the power business own a 55% stake in the plant, and they are not constrained from charging for financing during construction (which they plan on doing). They can even start recovering the actual construction costs during this time (this is not part of SB 31). Since the EMC's and the cities are quite arguably organizations that must act very directly in the interests of their customers, it is interesting that they have concluded that recovering financing costs during construction is good for those customers. If that is so, why are we excluding other Georgians from the same arrangement?

Another consideration has to do with Georgia Power's return on investment. Some have called this "pre-paid profit". That's an assertion worth looking at more closely. As I'm sure you know, Georgia Power is very tightly regulated by the Public Service Commission – to include precisely how much of a return the company can pay stockholders. While a project with any rate of return right now is a big deal, normally Georgia Power stockholders don't get as good of a return as owners of most other stocks. Those folks buy for the security of the investment. But the bottom line is simply that the PSC sets the rate of return just high enough to get people to buy the stock.

Anyway, the point is that the PSC's regulated rate of return is going to be paid on the funds the company must raise to build the plant, *sooner or later, no matter what*. Under the present system, those mandated returns will pile up during construction, and Georgia Power will later charge customers to pay a return on those accumulated, unpaid returns to capital. It's just like paying interest on interest. Waiting until construction is completed actually pays the stockholders an extra bonus. So this guaranteed return makes those stockholders somewhat insensitive to any change – they will either be paid for the use of their money up front, or they will get paid more later on. But for consumers, adding up these returns on returns, plus the interest on interest from the debt financed part of the project, amounts to nearly \$300 million extra they will have to shell out, or almost 5% of the total cost. This kind of savings is the reason the cities and EMC's use this approach. It may also be the reason why four other southeastern states have made this same change, and a fifth is moving in this direction.

Another worthwhile concern is the question of why this needs to be done legislatively, rather than leaving everything to the PSC. There is no doubt we have a very pro-business PSC, which should be a factor encouraging Georgia Power to pursue this project in any case. I think the concern arises from uncertainty about whether policies of the present members of the Commission will continue to be pursued in the future. When reviewing a company seeking to make an investment of this size, the bond market will factor in whether regulators apply a consistent policy towards the borrower. A change in Georgia's political climate (resulting in a change to PSC membership) could create enough uncertainty to result in an adjustment to Georgia Power's bond rating. A single step reduction in that rating would have an impact across all of the company's operations, and would quickly result in cost increases that the PSC would pass on to customers. These increases could add up to \$50 or even \$100 million per year. So the potential impact due to an inconsistent PSC is the argument for legislatively setting this business model in place. SB 31 binds the PSC to this cost recovery model for nuclear plants. It does not limit the PSC's power to regulate and pass judgment on rate change requests in any other way.

This review of bond ratings and risk also addresses another question to which I always demand an answer. When looking at any legislation a big corporation requests, the key is to figure out "what's in it for them". In this case, Georgia Power obviously wants to avoid the cost and political heat that would come from passing on bond rate increases, and the damage such a situation would do to the business. Thus we get down to the basic question: is the value of making this change worth our while as citizens? After reviewing this information over several weeks, I truly feel the bill is in the best interests of Georgia. That's why I voted in favor of the bill.