Announcement:

Moody's: Nuclear plant construction poses risks to credit metrics, ratings

New York, June 02, 2008 -- The cost and complexity of building a new nuclear power plant could weaken the credit metrics of an electric utility and potentially pressure its credit ratings several years into the project, according to a new report from Moody's Investors Service.

In the report, "New Nuclear Generating Capacity: Potential Credit Implications for U.S. Investor Owned Utilities," Moody's examines the effects of a new nuclear facility on the credit metrics of "NukeCo," a hypothetical electric utility. Through this illustrative model, Moody's suggests that a utility that builds a new nuclear power plant may experience an approximately 25% to 30% deterioration in cash-flow-related credit metrics. In the case of "NukeCo," cash flow from operations as a percentage of debt falls from roughly the 25% level to the mid-teens range.

"While new nuclear generating capacity has a number of positive credit implications, it is not without its risks," said Moody's Vice President Jim Hempstead. "The sheer size, cost and complexity of new nuclear construction projects can increase the business and operating risk of a utility, potentially exposing it to downward rating pressure over the intermediate- to longer-term horizon."

According to the illustrative model used in the report, "NukeCo" is well-positioned within the single-A ratings category before building a nuclear plant and would face little ratings pressure in the early years of construction. But in years 5-10, when construction costs reach their peak and key credit metrics begin to deteriorate significantly, the fictional company would be better positioned in the Baa-rating category.

Hempstead said it would be unlikely for near-term ratings or rating outlooks to change solely due to a utility's decision to pursue new nuclear generating capacity. He said utilities building a new plant would most likely strengthen their balance sheets and bolster liquidity at the start of the construction cycle. Further, he said, regulators would be likely to authorize reasonable recovery from ratepayers of construction costs out of concern for the long-term financial health of the utilities they regulate.

"A utility's approach to its overall corporate financial policies would be a critical factor in the overall credit profile assessment during the construction period. Our preliminary analysis leads us to conclude that financial credit metrics will deteriorate meaningfully without significant mitigating factors or other structural provisions," Hempstead said.

Beyond the financial pressures inherent in nuclear plant construction, Hempstead noted a number of other risks.

"The technology is very costly and complex, and the 10- to 15-year duration of these construction projects can expose a utility to material changes in the political, regulatory, economic and commodity price environments, as well as to new alternatives to nuclear generation," he said. "These potential changes in the landscape could prompt regulators to disallow certain cost recoveries from ratepayers after a plant is built, or lead to market intervention or restructuring initiatives by elected officials."

On the side of positive rating implications, Hempstead said new nuclear appears to be one of the most compelling solutions for electric-power generation amid more stringent environmental regulations -- particularly related to greenhouse gases, which nuclear plants do not emit.

"New nuclear capacity will also provide long-term benefits with respect to fuel diversity, reducing the reliance on volatile natural gas commodities or purchased-power costs," said Hempstead. "Further, the longer the time horizon a regulator uses to assess a utility's request to build a new nuclear plant and recover the investment, the more benefit nuclear power will have on electric rates for end-use consumers."

* * * * *

NOTE TO JOURNALISTS: For more information please contact New York Press Information +1-212-553-0376; EMEA Press Information in London +44-20-7772-5456; Juan Pablo Soriano in Madrid +34-91-310-1454; Alex Cataldo in Milan +39-02-914-81-100; Eric de Bodard in Paris +331-5330-1076; Detlef Scholz in Frankfurt +49-69-707-30-700; Mardig Haladjian in Limassol +357-25-586-586; Alex Sazhin in Moscow +7495-641-1881; Petr Vins in Prague +4202 2422 2929; Tokyo Press Information +813-5408-4110; Hilary Parkes in Toronto +1-416-214-1635; Hong Kong Press Information +852-2916-1150; Hector Lim in Sydney Press Information +612 9270 8102; Luiz Tess in São Paulo +5511-3043-7300; Alberto Jones Tamayo in Mexico City +5255-1253-5700; Daniel Rúas in Buenos Aires +54 11-4816-2332 ext. 105; Craig Jamieson in Johannesburg +27-11-217-5470; Jehad el-Nakla in Dubai +971 4 365 0284; or visit our web site at www.moodys.com

New York
James Hempstead
VP - Senior Credit Officer
Corporate Finance Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

New York
William L. Hess
Managing Director
Corporate Finance Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653