

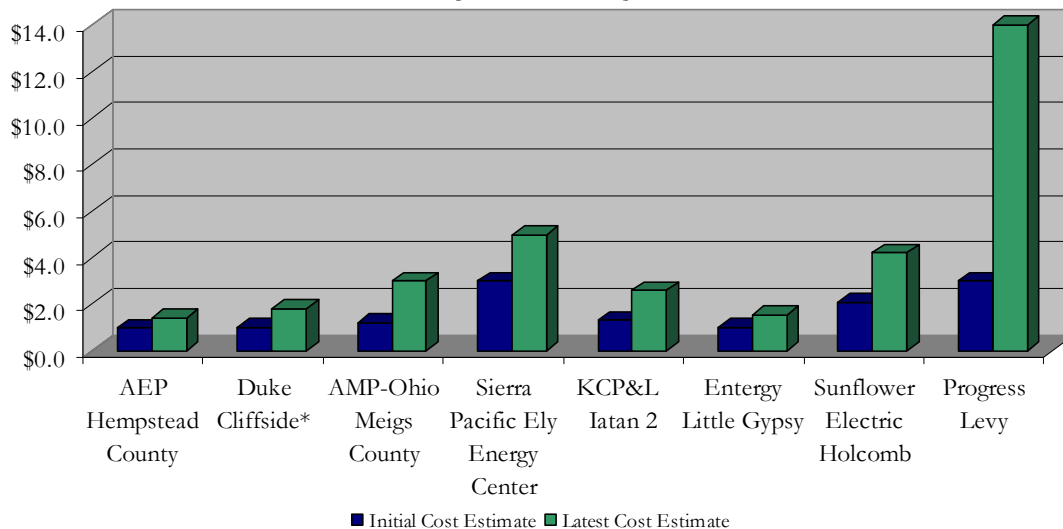
## Rising Utility Construction Costs in Regulated States Place Consumers at Risk

Power plant developers in all regions of the country are facing rising construction costs. *The New York Times*, the Edison Foundation, Cambridge Energy Research Associates and others have reported that rising commodity prices, labor costs and other factors have increased new plant costs by as much as 130 percent since 2000. No form of regulation or electricity market structure is immune to these rising costs: all must purchase steel, concrete, copper and other construction materials in the same global markets that have been facing increasing demand from rapidly growing Asian and South American economies. But while developers in both restructured and regulated states face these cost pressures, the question is: what structure provides the incentive to get the best possible deal for consumers at the lowest risk? Vertically-integrated utilities have relatively little or no new recent plant construction know-how. Furthermore, utilities have little incentive to maximize efficiency when they can include many cost overruns in their rate base. Competitive suppliers on the other hand, have every incentive to constrain costs because their investors, as opposed to captive ratepayers, are financially responsible for new construction. Competitive suppliers are experienced national developers who built nearly three quarters of new capacity in the past decade. In states where utilities still own and operate generation facilities, it is absolutely essential that a transparent competitive process with an independent evaluator be used to identify the best resources for ratepayers. Examples below show that utility customers in many states with vertically-integrated utilities are vulnerable, as several plants have seen costs skyrocket over the past several years. Competition is the hallmark of the American economy: more competition to build new power generation means better cost containment and innovation for consumers.

### UTILITIES SHOW THEY CANNOT CONTROL COSTS – CONSUMERS LEFT WITH THE BILL

Utility Construction Cost Estimate Increases: Original vs. Latest Estimates

[Billions of Dollars]



[\* Note: Duke Cliffside estimates are shown for the one 800-MW unit granted approval, not the two 800-MW units originally proposed]

- Southwestern Electric Power Company, an affiliate of American Electric Power (AEP) is currently seeking regulatory approval to build a 600 megawatt (MW) coal-fired power plant in Hempstead County, Arkansas, of which AEP will own 73 percent. Since the original estimate in 2006 the **plant cost has increased by 44 percent** to \$1.4 billion. The latest estimate was made in 2007 and is not expected to be the final price as there is no fixed contract for construction.
- In May 2005 Duke Energy Carolinas sought approval from the North Carolina Utilities Commission to build two 800 MW coal-fired units at its existing Cliffside plant for \$2 billion. In October 2006 the plant was estimated to cost \$3 billion due to

increasing commodity prices and Duke Energy warned the Commission that costs could increase even more. Which they did. In March 2007 the Commission ruled that only one 800 MW unit would be built, which Duke estimated would cost \$1.8 billion – **an 80% increase in constructing each megawatt** of capacity.

- In October 2005 American Municipal Power-Ohio, a consortium of 81 public power companies in Ohio and six other states, proposed building a 960 MW coal-fired power plant in Meigs County, Ohio. The original cost estimate of \$1.2 billion ballooned to \$2.3 billion in June 2007 and to more than \$3 billion in February 2008. The proposed plant's **cost has increased 150 percent in less than three years**. The final cost estimate is not expected until 2009.
- Sierra Pacific Resources is seeking to build 1,500 MW of coal-fired generation in Ely, Nevada. The original construction cost estimate for the plant was \$3 billion but that **estimate has risen 67 percent** to \$5 billion. Sierra Pacific is not planning to seek final approval for the plant until 2009 or 2010, likely further increasing costs to Nevada consumers. While the Ely Energy Center is seeing its projected cost skyrocket, Sierra Pacific is needlessly exposing its ratepayers to additional risk by refusing to consider purchasing power from competitive alternatives, such as a competitively developed plant well ahead in development.
- Kansas City Power & Light is proposing to build the 850 MW Iatan 2 coal-fired power plant near Weston, Kansas. The plant was originally estimated to cost \$1.3 billion although it quickly rose by \$400 million. KCP&L is expected to release a revised estimate in April 2008 and the **cost is expected to jump to \$2.6 billion** with financing.
- In the span of three months Entergy revised its original cost estimate for its repowering of its Little Gypsy unit more than 50 percent. In April 2007 its original filing for the 538 MW repowering estimated the plant cost at \$1 billion. By July the **cost estimate had risen to \$1.55 billion**. Meanwhile, Entergy rejected a lower-cost bid from a competitive supplier to build a plant to serve its customers, preferring instead to pass on a risky investment to its captive ratepayers.
- Sunflower Electric Energy Corp. saw the estimated price of their proposed 1,400 MW coal-fired Holcomb facility **more than double to \$4.2 billion**. The Holcomb project is currently stalled due to environmental concerns from the Kansas Department of Health and Environment and Gov. Kathleen Sebelius, although the leadership in the Kansas Legislature has said that they will work to get the plant built.
- Progress Energy proposed building a 2,200 MW nuclear power plant in Levy County, Florida, in late 2006. Within two years **the cost of the plant had increased nearly fourfold**, from \$3 billion to \$14 billion.

### **DOZENS OF PROPOSED PLANTS CANCELLED AFTER COST OVERRUNS**

- In 2007, \$45.3 billion in coal-fired power plants were cancelled throughout the U.S. and a total of 59 power plants were either put on hold or canceled outright. Among the primary reasons for the cancellation of these projects was the rapidly rising cost of construction. According to Standard & Poor's, "The power industry has seen capital costs for new generation climb by more than 50 percent in the past three years, with more than 70 percent of this increase resulting from engineering, procurement and construction costs."
- In October 2007, Tampa Electric withdrew plans for a 630 MW IGCC coal plant. Despite \$133.5 million in federal tax credits, the company abandoned its plans for the project, citing "regulatory uncertainty and related potential cost increases," as the original cost estimate of \$1.5 billion jumped to \$2.0 billion.
- Xcel Energy announced in October 2007, that it would be delaying plans for a 600 MW coal plant in Colorado until 2009 or later, as a result of skyrocketing costs. It was estimated that the cost of the coal-gasification project exceeded \$1 billion.
- In April 2008, Long Island Power Authority announced that it was terminating a 350 MW offshore wind farm. LIPA acknowledged cost issues with the project, which had jumped \$114 million to reach \$811 million, including construction, financing and transmission cable costs.

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*EPSA is the national trade association representing competitive power suppliers, including generators and marketers. These suppliers, who account for nearly 40 percent of the installed generating capacity in the United States, provide reliable and competitively priced electricity from environmentally responsible facilities. EPSA seeks to bring the benefits of competition to all power customers. Go to [www.epsa.org](http://www.epsa.org) for more information.*