
THE TRANSFORMATION OF THE ENERGY SECTOR

NUCLEAR

Westinghouse files for bankruptcy over U.S. projects

Kristi E. Swartz, E&E News reporter

Published: Wednesday, March 29, 2017



Westinghouse Electric Co., the contractor behind the Plant Vogtle expansion in Georgia (above), filed for Chapter 11 bankruptcy protection. Photo courtesy of Georgia Power.

This story was updated at 10:06 a.m. EST.

Westinghouse Electric Co. LLC, the builder of the nation's first nuclear plants in 30 years, has filed for Chapter 11 bankruptcy protection as a result of "certain financial and construction challenges" from those very projects, the company said early this morning.

The nuclear contractor said it has reached agreements with each of the project owners using its AP1000 technology reactor design to continue building them during an initial assessment period. In the United States, those main owners are Southern Co. and Scana Corp.

Southern's Georgia Power unit and Scana's South Carolina Electric & Gas Co. are building a total of four reactors with a group of public power companies in Georgia and South Carolina.

Westinghouse's bankruptcy has been looming for months. Board members of the company's parent, Toshiba Corp., approved the move in Japan this morning. This meant news began trickling out late last night.

Westinghouse issued a news release early today. Its Chapter 11 filing took place in the U.S. Bankruptcy Court for the Southern District of New York.

"Today, we have taken action to put Westinghouse on a path to resolve our AP1000 financial challenges while protecting our core businesses," said interim President and CEO José Emeterio Gutiérrez. "We are focused on developing a plan of reorganization to emerge from Chapter 11 as a stronger company while continuing to be a global nuclear technology leader."

The move will shield the company from any additional losses that have already put Toshiba in a financial crisis. Regardless of Westinghouse's continued involvement in Georgia and South Carolina, the filing also calls into question when these reactors will be finished and how much extra the electric companies and their customers will have to pay.

The bankruptcy has been looming for months. Toshiba, Westinghouse and subcontractor Fluor Corp. previously had declined to

comment. Georgia Power and SCE&G have said they have been monitoring the situation and were prepared for any outcome.

"While we are working with Westinghouse to maintain momentum at the site, we are also currently conducting a full-scale schedule and cost-to-complete assessment to determine what impact Westinghouse's bankruptcy will have on the project, and we will work with the Georgia Public Service Commission and the co-owners to determine the best path forward," Georgia Power spokesman Jacob Hawkins said in a statement released shortly after Westinghouse's.

"We will continue to take every action available to us to hold Westinghouse and Toshiba accountable for their financial responsibilities under the engineering, procurement and construction agreement and parental guarantee," he said.

Toshiba gave Georgia Power a \$920 million letter of credit. Georgia Power's contract with Westinghouse stipulates finishing the Vogtle Electric Generating Plant's units by June 2019 and 2020, or else it will pay liquidated damages to the electric company.

Westinghouse has secured \$800 million in debtor-in-possession financing. This will help finance its core businesses of supporting operating plants, nuclear fuel and components manufacturing and engineering, the company said. Its existing letters of credit will remain in place, and new letters can be issued, it said.

Waiting game

The filing will allow Westinghouse to renegotiate or break its contracts. The fallout from that could be significant in many ways. At this point, there are many unanswered questions, leaving room for plenty of speculation from analysts and others.

"We can stop, we can start, we can pause or we can convert to natural gas," said Stan Wise, chairman of the Georgia Public Service Commission.

A Westinghouse exit likely means "they must know something that somebody else doesn't know," Wise said. "We just don't know what we don't know. So we have to wait."

Westinghouse has fixed price contracts with Georgia Power and SCE&G. Those shifted the financial risk away from the electric companies but also ultimately were what led to Westinghouse's financial downfall.

There are also agreements that the utilities have with their regulators in Georgia and South Carolina. Westinghouse has nothing to do with those. Some stakeholders are concerned that a broken or changed contract with Westinghouse will lead to the electric companies' request to renegotiate those settlements.

"Is there something out there that is going to cause a major problem in finishing the job, and now you don't have this safety valve from this big corporation that was guaranteeing the price?" said Charles Fishman, a utility analyst for Morningstar Inc.

Should any new contracts be negotiated under a so-called "cost plus" arrangement — in which a contractor gets paid for expenses plus a profit — the financial risk would shift more toward the electric companies. Georgia Power and SCE&G are regulated monopolies, so they can ask to recoup those costs from their customers.

The public power companies that are co-owners also face higher costs, which they likely would pass on to their customers, as well.

"I'd like to think there's a pretty good chance Southern and Scana are going to take over these projects. There's going to be a little extra cost, a little more delay, but it's not a big deal," Fishman said. "But is there something out there that is not public and is one of the reasons Toshiba walked away and Westinghouse filed bankruptcy?"

Old and new problems

Morgan Stanley analysts said each project could see billions of dollars in cost increases: \$3.3 billion for Southern and \$5.2 billion for Scana. This is because the projects already have a history of cost overruns, and it's not clear that the issues behind those have changed.

Both projects are more than three years behind their original schedule, and additional delays surfaced last month. Scana announced that its project at the Virgil C. Summer Nuclear Generating Station is roughly another eight months behind. Westinghouse told Southern that its reactors are also delayed, but the company has yet to agree to that schedule.

Oglethorpe Power Corp., a Plant Vogtle co-owner, in its recent regulatory filing noted those new dates of December 2019 and September 2020. The power company said it did not think those dates were "achievable," however, signaling that it is preparing for more delays.

For Westinghouse, the company's efforts to solve some problems at its nuclear projects wound up creating significant ones later. The

company bought the nuclear construction business of Chicago Bridge & Iron Co. as part of a wide-ranging legal settlement between the contractors and the utilities in 2015.

The deal ultimately led to Toshiba confirming in February that it would book a \$6.3 billion write-down. Executives also said it would take roughly \$6.1 billion to finish the projects if workflow and efficiency remain as slow as they are.

Southern has a little more cushion because of the size of its balance sheet and the number of customers in Georgia Power's territory compared with Scana, which is significantly smaller. The Vogtle project also has another safety net: \$8.3 million in loan guarantees from the Department of Energy. That amount was divided up proportionally among the project's co-owners.

Georgia Power has received \$2.63 billion of its available \$3.46 billion, according to the company's recent cost-and-schedule update. If the Vogtle contract is terminated, Southern would have to prepay the borrowings over a five-year period, according to a regulatory filing.

No risk on loan guarantees

A former director at the Department of Energy's loan program said the bankruptcy poses no risk to the federal government. Brendan Bell, an adviser for the firm Boundary Stone Partners who previously served as director of strategic initiatives at DOE's Loan Programs Office, said the billion-dollar loan guarantees the government issued Southern Co. and other utilities to build the Vogtle reactors are backed by the revenues of those utility companies.

"In terms of DOE exposure, there is no risk of repayment if Westinghouse goes bankrupt or if the project is delayed because of the way the LPO structured the deal," Bell said. "We did that very purposefully."

Bell pointed out that none of the utilities, such as Southern, are going out of business and that they will be able to repay the loan. Westinghouse, the engineering, procurement and technology provider, is under contract with those utilities and will likely have to renegotiate contracts, but that shouldn't be detrimental to the Vogtle project overall, he said.

"At the end of the day, Westinghouse is going to declare bankruptcy," he said. "They'll restructure their debt ... their future is predicated on projects like Vogtle getting built."

The CEOs of both companies discussed options during separate earnings conference calls with analysts last month. Southern CEO Tom Fanning said his company could step in "if and when we need to" to finish Vogtle, but made it clear that he didn't think that would happen.

Scana CEO Kevin Marsh said his company's options include serving as a general contractor; agreeing to a new engineering, procurement and construction contract; or agreeing to a new procurement and construction contract in which the company supplies the engineering itself.

The contract also has an "abandonment provision," but Marsh said that's "not something that's high on our list."

Scana has also started to escrow intellectual property and software from Westinghouse's AP1000 design. Having access to the design, software and letter of credit would help transition to a new construction team if the project gets to that point, Marsh said.

The decisions that each of the electric companies make — and what state utility regulators approve — will affect whether shareholders or customers bear the brunt of additional cost increases at each of the projects.

Wise, the Georgia PSC chairman, said the settlement that regulators approved in December has to be what they use from this point on. That agreement requires both of Vogtle's reactors to produce electricity by the end of 2020, or Georgia Power will face a cut in its rate of return on equity.

The commission also can review costs on any system or structure that doesn't perform or meet design standards and federal nuclear safety requirements, or that delays the project beyond the 2020 deadline.

"I'll just say [the settlement is] the commission's starting point," he said.

South Carolina regulators lowered Scana's rate of return on equity for V.C. Summer for calculating revised rates starting this year. Scana also agreed that it would not file a future request to change capital costs until January 2019. Its reactors are to be online by August 2019 and 2020.

Dukes Scott, executive director of South Carolina's Office of Regulatory Staff, said his office and others believed their settlement was the best path forward at the time. He's sticking to that agreement.

"I'm saying that to everybody that asks about it," he said.

Scana, South Carolina-owned Santee Cooper and Westinghouse have agreed to continue building V.C. Summer and will file those documents in bankruptcy court as well, the utilities said in a [joint statement](#) issued this morning. The companies also are evaluating what to do next. Santee Cooper's board approved a resolution Monday for it and SCE&G to do an independent review of construction progress and what it will take to finish Summer.

"The agreement with Westinghouse allows progress to continue to be made on site while we evaluate the most prudent path to take going forward," Scana's Chairman and Chief Executive Kevin Marsh said in a statement. Fluor has agreed to continue as the project's construction manager, he said.

Reporter Hannah M. Northey contributed.

Twitter: [@BizWriterKristi](#) | Email: kswartz@eenews.net

Advertisement



年8月13日	200	57.00	11400.00
年8月19日	3903	55.00	214665.00
年8月20日	2400	50.00	120000.00
年8月21日	7000	48.00	336000.00

HOT CO₂MMODITY How do politics & economics link up to avert climate disaster? **Very carefully.**

The essential news for energy & environment professionals

© 1996-2017 Environment & Energy Publishing, LLC [Privacy Policy](#) [Site Map](#)