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NEI sees progress on value recognition of nukes, pushes for proposed market changes

By Amy Poszywak

The Nuclear Energy Institute is hopeful that the era of sustained economic stress for certain merchant nuclear generation in the U.S. as a result of low commodity prices and weak demand will draw to a close if certain proposed market changes are implemented.

Over the last year, recognition of the value of nuclear assets from policymakers, regional transmission organizations and legislators has increased, NEI President and CEO Marvin Fertel said Feb. 12 in New York City at the organization's annual briefing for the financial community. The challenge for 2015 and beyond, he said, will be ensuring that intellectual recognition of value is turned into monetary recognition.

"We've seen significant movement in the past year on the part of FERC and the regional transmission organizations in recognizing the underlying problems in capacity market designs and prices in competitive energy markets," Fertel said. "But it's imperative that concrete actions be taken that recognize the inherent value of nuclear assets in time to ensure that we don't lose additional nuclear plants that are excellent performers."

NEI praised actions taken by FERC and certain grid operators to explore changes to capacity and energy markets, including PJM Interconnection LLC's request made last December that FERC approve a new "capacity performance" product. Fertel said FERC's actions have been swift, and that the evolution in thinking has happened in a relatively short amount of time.

That said, there are initiatives in motion to change the tide for economically strained reactors, but that change has yet to arrive. The question of whether or not proposed market changes will actually be implemented remains unanswered.

Source: FirstEnergy Corp

2014 operational and financial data

Operating capacity (MW)	908
Net generation (MWh)*	5,147,360
Capacity factor (%)*	70.72
Non-fuel variable O&M costs ($/MWh)	6.60
Fuel cost ($/MWh)	8.25
Non-fuel O&M cost ($/MWh)	14.71
Fixed O&M cost ($/kW/yr)	68.53
Total operating & maintenance expense ($/MWh)	22.96

* Through November 2014.
Plant financials sourced from SNL generation supply curve.
As of Feb. 12, 2015.
Source: SNL Energy

SNL

"The ball is still up in the air in Illinois, it's up in the air in New York with [Exelon Corp.'s R.E. Ginna] station and we still are, I would say, still too early in the process to know," Jim Lash, president of FirstEnergy Corp. subsidiary FirstEnergy Generation Corp. told reporters following NEI's presentation. "Until we get an outcome, I wouldn't say there is a trend toward this."

On Jan. 7, Fitch Ratings identified at least eight nuclear reactors it believes are at risk for retiring early for economic reasons, following Entergy Corp.'s Vermont Yankee plant and Dominion Resources Inc.'s Kewaunee plant in Wisconsin.

FirstEnergy's own Davis-Besse plant in Ohio — which, according to a recent Moody's report, is being threatened by the natural gas boom in the nearby Marcellus shale along with new gas-fired plants being added to the grid to take advantage of that fuel source — was excluded from Fitch's list because of a proposed 15-year PPA agreement with its own subsidiaries, which will purchase the output from Davis-Besse and then sell it into wholesale markets. The PPA is a component of FirstEnergy's electric security plan currently under review with the Public Utilities Commission of Ohio. An evidentiary hearing on the ESP has been scheduled for mid-April, with a decision expected soon thereafter, according to spokesman Doug Colafella.

According to Lash, that agreement does not completely eliminate the need for change in the PJM capacity market. As it stands, Davis-Besse is teetering on the edge of making money versus losing money.

"Today's prices versus two days ago prices, it fluctuates," he said. "It's on the edge."

Lash said FirstEnergy has no timeline for when it might make a decision on whether or not to keep operating the plant.

"What we do is we stay very focused on EBITDA and cash, and as long as we can generate sufficient EBITDA and cash flow for our company, we'll ride it out here," Lash said. "We have those discussions with our market analysts all the time, so there's an expectation there."

Alternatively, David Christian, CEO of Dominion Generation Corp., said the economics of its merchant nuclear unit in Connecticut, Millstone, are sound.

"We have the largest single source provider of electricity in New England, and it's the lowest-cost producer in New England, and you're starting to see some price recovery there as well," he said.

Hira Fawad contributed to this article.