

Energy Insider by William Engdahl

A case of financial warfare

Tangles of state, federal, and environmental obstruction continue to threaten the U.S. electrical grid.

Years of interest-rate usury and deteriorating government policy on nuclear energy have put the future of the U.S. electric utilities into fundamental jeopardy.

Despite efforts by national media to shift the problem for this growing crisis to utilities and their decision to build nuclear plants, the problem is just the opposite. The case of the Shoreham nuclear plant in New York is illustrative.

Almost 10 years back, about the time of the 400 percent increase in OPEC oil prices, Long Island Lighting Company (Lilco) began work on an 854-megawatt nuclear power plant. When planned in the 1970s, it was to be the first of at least three nuclear units for the New York utility's 3 million customers over the next several years. Lilco, like a number of other East Coast utilities, got locked into exclusive oil-fired electric power in the 1960s when it was the cheapest thing going. But a 1500 percent increase in the price of fuel oil since 1973 gave Lilco ratepayers the most costly electricity in the nation.

Opponents of nuclear power claim that the plant has become a \$2.5 billion dollar financial white elephant. The *New York Times* recently endorsed a recommendation by the anti-nuclear Shoreham Opponents Coalition (the usual gaggle of Abalone Alliance/Sierra Club types) that Lilco "abandon" the plant, claiming savings of \$3 billion over 20 years through conserva-

tion. This is insane. Even if initial "demand" projections did not warrant it, to replace existing oil capacity alone would require keeping Shoreham. The plant today is 95 percent complete. For two years the "antis" have screamed and howled at hearings over everything under the sun to sabotage completion of the plant. Because of the absurd procedures in the Nuclear Regulatory Commission, the government spends taxpayer dollars to hold interminable hearings which do nothing to make nuclear plants safer.

And because of the unnecessary increase in regulatory requirements issued by NRC after Three Mile Island in 1979, Shoreham and every other nuclear construction project underway has had to rework and redesign in midstream, adding huge cost increases. On top of this, Federal Reserve Chairman Paul Volcker has targeted every utility for bankruptcy by killing the long-term bond market.

Yet despite all this obstructionism, and despite an estimated \$2.5 billion cost, the Shoreham plant will be the best economic benefit the region has enjoyed in years.

New York, like many other states, forbids spreading out capital cost recovery of new plants through rate increases during actual construction. The result is that utilities are forced to tie up huge amounts of capital for as much as 12 to 14 years of construction. Lilco, like others, is forced into a temporary "cash-

flow problem" and is faced with having to recover by charging those capital costs over the first five years of Shoreham operation. Then came Volcker: fully one-third of Shoreham's \$2.5 billion tag is for interest and carrying costs. But even if Lilco rates rise, the long-range savings are enormous.

Lilco estimates that it will save \$10 billion over the life of the plant, assuming no higher oil prices. If oil prices rise even 2 percent annually, savings from the new nuclear plant would easily top \$50 billion. The initial \$2.5 billion capital cost is now in a very different perspective.

Indeed, one of the few competent studies of actual operating costs, done by Gordon R. Corey of Illinois's Commonwealth Edison, gives the lie to fraudulent claims about nuclear cost. With a large system to evaluate several of each type, Commonwealth found that in 1980, nuclear averaged 18.4 mills per kilowatt hour. Coal averaged 36.8 and oil a whopping 93.1 mills per kwh.

While we, in effect, unilaterally "freeze" our nuclear energy infrastructure, the heart of industrial health and a strong defense, our Soviet counterparts are going all-out to build nuclear power. According to a just-released analysis from Los Alamos National Laboratory which I shall review in detail in a future column, "Nuclear power will be used on a large scale throughout the Soviet bloc to generate electricity. . . . The reactor-safety, environmental, and nuclear weapons concerns so prevalent in the Western world play no role in Soviet bloc planning." We would do well to think about that the next time Ralph Nader's cohorts demand we commit industrial suicide.