

Crain's Chicago Business - Fact Check by Exelon

Exelon tells Wall St. one thing about profits while peddling a different tale in Springfield

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Are Exelon's Illinois nukes profitable or aren't they?

The state's largest power generator recently sounded new alarms about the financial health of its nuclear fleet that go well beyond previous warnings. In materials distributed to lawmakers in Springfield as Exelon preps for another run at a nuke rescue package from the state, the Chicago-based electricity giant claims that all six of its Illinois plants will lose money this year.

And both are true! One is a look back, the other a look forward.

It seems like a stark and alarming reversal of its previous stance—that its profitable Illinois fleet is pressured financially and losses are confined to two facilities at most.

Not a reversal. All six plants would lose money this year if they had to sell their output on the open market.

But wait. In Exelon's world, all is not as it seems. Despite the language in its lobbying materials—a slide on 2016 Illinois nuke profitability states, "In 2016, the revenues of all Illinois' nuclear units will be insufficient to cover costs, with Quad Cities and Clinton suffering the greatest losses"—a senior executive says in an interview that the company isn't trying to claim every Illinois nuke will lose money this year.

Also correct. Because some of their power was sold years ago at higher prices.

Executive Vice President Joseph Dominguez says that Exelon is telling lawmakers that "available market revenues" aren't enough to cover costs at any nukes this year. That's another way of saying wholesale spot power prices are too low to cover costs.

Of course, Exelon's nukes are essentially protected from spot 2016 prices. More than 90 percent of their output was sold well in advance at prices that were considerably higher a few years ago.

Exelon disclosed all this information in August. Crain's even wrote about it: <http://www.chicagobusiness.com/article/20150822/ISSUE01/150829956/exelons-case-for-how-poorly-its-nukes-are-doing>

Exelon Chief Financial Officer Jack Thayer reassured investors of that on Feb. 3: "As you know, we're highly hedged in 2016, which . . . allowed us to offset the impacts of lower prices in 2016."

It's an ongoing frustration for state Sen. Don Harmon, D-Oak Park, who is chief sponsor of Exelon-opposed legislation to bolster largely stalled clean energy sources like wind and solar in Illinois. "We have a hard time getting to the bottom of the Exelon financial situation," he says. "It's not the first time that what they told the Legislature was different from what they told Wall Street."

We share with lawmakers the same data we use to make decisions on the future of each nuclear plant, which are based on whether the plant is expected to be profitable in the future.

Will the Illinois fleet as a whole be profitable this year? Dominguez is noncommittal, and in a later email a spokesman writes that the company can't say: "Final results will depend on revenue from energy output that has yet to be sold, plant performance and congestion costs, which can be volatile depending on weather and other factors."

Looking at the fleet as a whole misses the point. We can't operate Plant A at a loss even if Plant B earns a profit.

Asked whether Exelon is being misleading in its lobbying materials, Dominguez says the company's lobbyists make clear that the slide claiming every nuke will suffer losses isn't to be taken literally. "That's not the context in which we've been presenting the material," he says. "We're very clear with lawmakers where we're deriving these numbers."

That's an unfair characterization. Exelon has been open, honest and transparent with lawmakers about the financial situation of the state's six nuclear energy facilities.

Effectively, what the company is trying to say, Dominguez says, is that current market prices won't adequately support the nukes if they persist.

Exelon last year floated legislation that would have imposed a surcharge on electric bills statewide, funneling most of the \$300 million in revenue to the nukes. That bill stalled amid broader energy debates and the state budget crisis. The company is expected to offer something new soon to prop up the nukes.

Our lobbyists are well versed in the nuclear plant economics. It's a complex subject, and we make every effort to explain it accurately to legislators. And to reporters.

Harmon thinks whatever context Exelon is providing is largely lost on most lawmakers. "The Exelon family has literally scores of lobbyists," he says. "I'm sure some do a better job than others at explaining context."

But that doesn't justify disseminating materials that appear to add artificial urgency to Exelon's situation, he says. "Trust is always in short supply in this negotiation," Harmon says. "To put out materials that are misleading in the most generous characterization doesn't help build that trust."

The urgency is real. Clinton and Quad Cities are at risk of being shut down unless legislation is passed.

'NOT RELEVANT'

The charts Exelon distributed show each nuclear plant earning energy revenue from \$19.40 per megawatt-hour to \$27.80 per megawatt-hour.

In investor presentations, Exelon has shown that about 90 percent of its energy revenue in the Midwest is locked in at more than \$34 due to previous hedges. Combine that with \$5.60 per megawatt-hour in additional revenue per agreements to deliver during high-demand periods, and Exelon's fleetwide revenue is about \$40. Subtract a few dollars to cover the costs of congestion on the power grid, and the fleet (other than the smaller, higher-cost Clinton plant downstate) would seem to exceed the break-even cost of \$35 per megawatt-hour Exelon has laid out.

So why didn't Exelon say that to Illinois lawmakers?

We can't make decisions based on prices we were able to lock in two years ago and that can't be repeated today.

"It's not relevant," Dominguez says. "From my perspective and the company's perspective, the hedges aren't repeatable."

Instead, Exelon is attempting to show how markets have moved against the nukes since even a year ago, when the company first approached Springfield for ratepayer-financed help.

Dominguez allows that not every nuclear plant in Illinois will lose money this year. "What we're really focused on is Quad Cities and Clinton and the losses they have suffered," he says.

Did you know? Closing these two plants will result in the loss of 4,200 clean energy jobs in Illinois and eliminate over \$1.2 billion in annual economic activity.

Exelon has said it will start closing the Clinton plant this fall if it gets no relief from Springfield. Quad Cities is committed to remaining open for at least a few more years.

Harmon isn't optimistic that a wide-ranging energy bill, including money for Exelon, will pass the Legislature this spring. "I think there is absolutely the potential for a deal that satisfies some concerns of all stakeholders," he says. "To get that done before the end of May is increasingly unrealistic."

We agree. Legislation can save these two plants—but it has to get done now.