

Construction Work in Progress: Beware the CWIP Rip Off

-John Coffman, Kay Drey, Kathleen Logan Smith

On November 2nd, 1976, Missouri voters approved, by a 2-to-1 majority, a law that banned charging electric ratepayers for Construction Work in Progress (CWIP).

Now AmerenUE lobbyists are pressing the Missouri General Assembly to overturn this voter-enacted, consumer protection provision. Driving this current push to allow CWIP is AmerenUE's desire to build a second nuclear reactor at their Callaway plant – and their inability to lure private investors to take the risk of mistakes, delays, strikes, or material or labor shortages (even with the guaranteed opportunity to earn a fair profit margin).

The 1976 ballot initiative amended Missouri law to ensure that electric ratepayers were not billed for charges based on the costs of Construction Work in Progress of a new or existing power plant until the plant was "fully operational and used for service." This initiative overturned the Missouri Public Service Commission's (PSC's) decision, in December 1975, to allow CWIP.

Utilities have historically sold stocks and bonds to private investors to pay for the construction of new power plants, and the finance charges for the use of this money were paid after the plant was producing electricity. The PSC decision would have had ratepayers pay the finance charges and get nothing – not one kilowatt of electricity – in return for this amount added to the monthly bill.

The American Public Power Association stated: "[CWIP] abandons the traditional practice that the capital market furnish capital for the construction of new plants. Instead, the Commission desires consumers to supply money for the growth of a private business, and the consumer receives no financial return for a company's use of his capital...The proposal removes incentive for utility management to curb costs. If a utility is guaranteed revenues for all costs incurred during construction, e.g. labor, equipment, property, engineering studies, etc., some incentive is removed for utility management to operate efficiently and be conscious of costs, because the consumer is supplying the capital, and the risk to management and to the investor is diminished." (Comments filed with the Federal Power Commission, 4/15/75, pp. 12, 13)

It's unfair. CWIP would allow electric utilities to charge current customers for future projects that are not yet providing any service.

It's unnecessary. The Callaway I nuclear plant was built by Union Electric (AmerenUE's predecessor), financed and audited before the large cost was phased-in for ratepayers. Customers

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then experienced no significant cost increases for two decades while Union Electric profited considerably (at times even setting earnings records) *without* the assistance of CWIP or any other ratepayer bailout.

It's irresponsible. CWIP would force ratepayers to pay for projects before they are audited. When Callaway I was completed and thoroughly audited by the Missouri Public Service Commission (PSC), hundreds of millions of dollars were "disallowed" by the PSC as imprudent cost overruns. If AmerenUE knows that the money to finance a project is going to be passed-through while it is being built, then the pressure to explore "least cost" options and manage efficiently is weakened.

It's a ripoff. Consumers already pay AmerenUE a high level of "profit". This electric monopoly is already allowed to charge rates that include a rate of return (with a return on equity higher than 10%). This profit already compensates it for the risks of planning and financing their operations. If, in fact, it prefers to have ratepayers bear all of its big risks, then AmerenUE's rate of return should be eliminated.

It's a bad precedent. Consumers should not be forced to "invest" in the utility's projects – that is the job of shareholders. Consumers also should not be forced to be the utility's "insurance company", guaranteeing the utility's risks.

Because the voters have debated this issue in the past and decided resoundingly to ban CWIP as an unfair ratemaking scheme, our elected officials should dismiss the utilities' efforts to undo this important protection. You can help by asking your elected representatives to hold firm to the voters' wishes, preventing a return to excessive Construction Work in Progress charges on our electric bills.

Protect Fair Electric Rates - Stop CWIP