Fulton County Taxpayers Foundation

Non-Profit Advocate Of Lower Property Taxes In Atlanta/Fulton County

501(c)3 Non-Profit Advocate of Lower Property Taxes in Atlanta/Fulton **June 2009**

Quotations From The Public Service Commission Staff Report on Georgia Power Company

On April 21, 2009, the Governor signed Senate Bill 31 (SB 31) into law. This Bill authorizes Georgia Power to pre-charge its ratepayers for Units 3 and 4 of the Vogtle Nuclear Power additional plants which will be completed in 2017.

On January 21, 2009, the Staff of the Georgia State Public Service Commission (PSC) issued an analysis of SB 31 – revised February 6, 2009 - which should be of great interest to the ratepayers of Georgia Power. Despite strong opposition by the PSC Staff to major portions of the Bill, Georgia Power successfully lobbied the legislature to by-pass the PSC and pass the legislation.

Below are the key points made by the Georgia Public Service Commission Staff Report:

"During Construction, the Ratepayers Would Make Payments To Compensate Georgia Power's Financing Costs, But Would Not Be Receiving Service From The Plant."

According to the PSC Staff Analysis, Senate Bill 31 requires that all financing costs must be charged to ratepayers during the construction period, rather than over the life of the plant. Traditionally, the Public Service Commission has allowed recovery of financing costs, along with direct construction costs, only when the plant goes on line. The costs are then depreciated over the useful life of the plant, 40-60 years in the case of a nuclear plant. Under SB 31, "during the construction period the ratepayers would make payments to compensate the Company for financing costs but would not be receiving service from the plant."

"Pre-Payment Reduces The Company's Incentive To Cut Costs"

SB 31 allows Georgia Power to start receiving profit payments years before the plant is completed. This reduces the pressure on Georgia Power to cut costs and finish the plant on schedule. According to the PSC Staff Report, "Even if Georgia Power has over-earned on its revenue, the PSC could not use those over-earnings without the express agreement of Georgia Power to offset any under-recovery of finance costs and would still have to allow the ratepayers to be charged the full amount."

"Costs That Could Have Been Allocated To Certain Large Industrial and Commercial Customers Of Georgia Power Would Have To Be Allocated To Remaining Customers, Thus Increasing Their Rates Even More."

SB 31 exempts certain large industrial and commercial customers of Georgia Power from paying the financing costs, increasing the rates for the ratepayers even more. These large industrial and commercial customers are billed at "marginal pricing" and account for approximately 14%-19% of all kilowatts sold.

“Georgia Power Customers Do Have A Cost Of Money.”

According to the PSC Staff Analysis, when ratepayers’ cost of money is taken into account, the pre-payments cost ratepayers at least $218 million in present value dollars over the life of the plant. Current customers whose opportunity cost of capital is more than Georgia Power’s, will never receive a net benefit from the prepayment.

Even before the current economic crisis, approximately 50% of families carried credit card debt. The average interest rate was almost 14%. Using 14% as the customers’ opportunity cost of capital, the pre-payments cost ratepayers $740 million more in net present value dollars over the life of the plant. Further, it is unreasonable to ignore the $400 million income tax impact of the prepayments on the ratepayers. Georgia Power is indifferent to the pre-paid taxes – they are a pass-through for Georgia Power.

“Under the Georgia Constitution, the Public Service Commission, As The Expert Ratemaking Agency, Has The Discretion To Use Reasonable Accounting, Recovery, and Rate Design Mechanisms.”

SB 31 removes any input of the Public Service Commission and mandates that the Public Service Commission use particular rate design mechanisms, even if the Commission finds that others might be more appropriate.

Conclusion

SB 31 mandates that the ratepayers in the State of Georgia pay the interest on the Georgia Power’s construction loans and prepay $400 million in taxes to Georgia Power six or seven years before the new plants are up and running. The government – by way of SB 31 – makes us all mandatory investors in Georgia Power. In the worst possible economy, most – if not all ratepayers – prefer to use their money for food, mortgage-payments or rent, college education or interest-earning savings. In the best interests of the ratepayers and taxpayers, the Taxpayers Foundation has taken legal action to void Senate Bill 31.

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Unite the Fight To Bring Better Government to Atlanta and Fulton County!

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