CRYSTAL RIVER CRACK: THE MORAL HAZARD OF PRIVATE UTILITY COMPANIES

About fourteen months ago, I wrote about the Florida Containment Dome Crackers who had the bright idea that they could save $15 million while refurbishing the steam generators at the Crystal River nuclear power plant in 2009. They wound up cracking the containment dome because they had no clue on managing this complex project: it was the managing engineering contract they decided to bypass to save money. Yesterday, Duke Energy, the successor to Progress Energy (more on that change in a bit), finally announced that they will no longer pursue the repairs and that the plant will be closed. The math has only gotten worse since my earlier report. Now the overall cost estimate for the repairs, replacement energy while the plant is down and construction of a new gas power plant is up to $3 billion from the earlier $2.5 billion estimate. Of those costs, insurance will pay $835 million and Duke's customers will pay the rest. Most depressing of all is that the Tampa Bay Times' Ivan Penn, who has been the go-to source on this story since its start, reports that Duke will pocket $100 million of the $1.3 billion expended to date on the "upgrade" to the plant. Clearly, the regulatory environment in Florida enables private companies posing as public utilities to feed their addiction to public funds without consequence for bad decisions. In fact, Duke has now been rewarded with $100 million when their predecessor only sought to pocket $15 million. Rate-payers will be stuck with a bill for over $2 billion, some of which it appears to me Duke will be allowed to pocket while building the replacement plant.

Meanwhile, Citrus County, where the plant is located, is looking at 600 lost jobs and a huge blow to its tax base (the replacement gas plant will be on the Atlantic coast instead of the Gulf coast where Citrus County is located):

> Shutting the plant would drop Duke Energy’s tax bill, which was $35 million, to at most $13 million, an executive of Duke subsidiary Progress Energy Florida told the county last month.
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> That shortfall, equal to a fourth of the county’s general fund, could have dire consequences for schools, safety and public services in this expanse of forests and strip malls less than 80 miles north of Tampa.

The locals see tough times ahead:

In the midst of the Crystal River fiasco, Progress Energy entered into a merger agreement with Duke Energy. Despite Duke being the larger entity, the original merger agreement called for Progress CEO Bill Johnson to be head of the new combined company. The deal closed in July of last year, but Johnson’s tenure as CEO lasted only a few hours. From behind the Wall Street Journal paywall:

> The merger closed Monday, creating a utility giant with former Progress CEO Bill Johnson at its helm. Hours later, the newly merged company’s Duke-dominated board met for the first time and threw Mr. Johnson out of the job. It replaced him with Jim Rogers, who had run Duke before the deal and was slated to become the merged company’s executive chairman.

Johnson, of course, was compensated handsomely for his few hours as head of the new company:

> Mr. Johnson, reached on his cellphone Friday, declined to comment. His severance package, which a spokesman said could be worth more than $44

> million, includes a payment of up to $1.5 million, but only on condition he not disparage Duke.

Perhaps Rogers was seen as the better candidate than Johnson to continue manipulating regulators:

> One of his marquee projects—an Indiana coal-gasification project called Edwardsport—is close to $1 billion over budget. State regulators are holding hearings on the company’s plan to pass on $2.6 billion of the $3.3 billion in costs to ratepayers. Duke has been accused of exerting improper influence over state regulators in an ethics scandal and several executives departed. The company hasn’t admitted any wrongdoing.

Recall that Johnson was a sitting board member of the insurance group Nuclear Electric Insurance Limited when it began considering whether and how much to compensate Progress for its losses in the repair fiasco. At least it now appears that neither Johnson, Rogers nor any other representative of Duke or Progress sits on the current board. Perhaps that is why we have this in Penn’s article:

> Jon Moyle, a lawyer for the Florida Industrial Power Users Group, said the insurance settlement “represents a great deal for NEIL and a bad deal for ratepayers.”
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> “Duke’s decision to resolve all of NEIL insurance claims for this amount is disappointing to say the least,” Moyle said.

How different would the outcome be if a public utility had been in charge of Crystal River? It’s hard to imagine such a group would have made the bad decision to bypass a professional consulting engineering manager for the repair project. Had they done so, however, I think we can rest assured that those responsible would have been removed promptly and with nothing close to a $44 million severance package. As things stand now, regulatory capture is a huge drug that feeds the addiction of private companies operating as utilities and there is no mechanism to inflict consequences for poor management. Instead, they are rewarded handsomely and paid extra to keep their mouths shut when they are finally forced out.