March 11, 2008

Testimony before the Senate Finance Committee
Maryland State Senate

HB 1246: Transition Costs – Return to Baltimore Gas and Electric Company Customers – Condition of Approval to Construct a Nuclear Reactor

Position: FAVORABLE

Maryland PIRG respectfully requests a favorable report of HB 1246.

When the Maryland General Assembly passed electricity restructuring legislation in 1999, it was broadly believed that restructuring of the electricity market would create competition, which would in turn drive down prices, providing Marylanders with cheaper electricity.

Nine years later, it is clear that restructuring has not delivered on this promise. Competition has failed to appear. Constellation Energy continues to dominate the market for wholesale electricity generation in Maryland, supplying more than 70 percent of power in the BGE wholesale auction. The percentage of households that have switched suppliers is in the single-digits. Electricity rates have skyrocketed for residents across the state, and the state is facing blackouts as early as 2011.

Beyond rising rates, one of the most contentious issues around deregulation has been the issue of stranded costs. Under deregulation, BGE transferred ownership of its power plants to its parent company, Constellation Energy and then convinced the state to make ratepayers pay nearly another $1 billion for taking the plants off BGE's hands. These plants, especially the Calvert Cliffs nuclear plants, produce electricity at a low operating cost, and under regulation, BGE had passed that low price on to customers. In a deregulated market, natural gas sets the market price at a much higher rate than it costs to produce power at the Calvert Cliffs plants, so Constellation Energy can charge that market rate and earn tremendous windfall profits from operating Calvert Cliffs. Not only did BGE customers lose the plants, but they also paid Constellation $1 billion for taking them and now are paying even more in big markups that never would have been allowed under regulation.

Constellation Energy has proposed building a third reactor at the Calvert Cliffs nuclear power plant in Maryland. Not only would building a third reactor at Calvert Cliffs threaten public health and safety, and damage the environment, but it would be extremely expensive.

Initially, Constellation estimated the reactor would cost $2.5 - $3 billion to construct. However, cost estimates for building nuclear power plants are notoriously inaccurate. Areva, a French-government owned company and Constellation’s partner in the proposed third reactor, has fallen 2.5 years behind on the construction of a reactor of the same size and design in Finland. Some analysts estimate that the delays have added $2.2 billion to the cost of the plant which is 50 percent above original estimates. According to an October 2007 report, Moody's Investor Services predicts construction costs for new reactors to be $5,000-$6,000/kw, which for Calvert Cliffs-3 would be in the $8 to $9.5 billion range.

Constellation Energy is looking for taxpayer money to help finance the proposed reactor. The company has already secured promises from Calvert County for $300 million in tax breaks. This is equal to $4,500 per taxpayer in Calvert County. The company claims the new plant will add 450 full-time jobs in the county, but at a cost to taxpayers of approximately $750,000 per job. Constellation could also try to force ratepayers to pay the cost of its license application, whether or not it decides to build the reactor, as other utilities have tried elsewhere. And Constellation is counting on federal taxpayer subsidies to cover loan guarantees and insurance in case of an accident or terrorist attack at the plant.

HB 1246 would settle the tab between Constellation Energy and Maryland ratepayers. The bill would make sure that before Constellation is allowed to embark on building another nuclear power plant in Maryland, they return stranded costs for the existing plants to ratepayers.

Maryland PIRG respectfully requests a favorable report on HB 1246.

For more information about this testimony, please contact Johanna Neumann, State Director of Maryland PIRG at (410) 467-9389.