

ATOMIC POWER PLANTS--  
LONG ISLAND, N. Y.

**REPORT ON ALTERNATIVES  
FOR THE  
APPORTIONMENT OF THE COSTS OF THE  
SHOREHAM NUCLEAR FACILITY**

February 29, 1984

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## CONCLUSIONS

Based on the foregoing analyses, it appears that:

1. It is possible to significantly limit rate increases by apportioning the costs of Shoreham among the parties in interest: the shareholders and creditors of LILCO, government and the ratepayers.
  - . Maintenance of continuing, adequate, uninterrupted electric service need not be jeopardized under any of the apportionment approaches considered.
  - . Several of the approaches considered result in cumulative real rate increases of less than 15% through 1990.
  - . LILCO's projected capital expenditure levels (exclusive of Shoreham and Nine Mile Point 2) over the next several years and related moderate capital requirements during that period would suggest that adequate electric service could be maintained during those years without increasing rates to the levels that might be required to attract significant amounts of new capital. Consequently, sharing the Shoreham financial burden--if otherwise appropriate--should not jeopardize the adequacy of service.

## CONCLUSIONS

(Continued)

2. It is unlikely that traditional ratesetting procedures would result in real rate increases that would be acceptable to all the parties in interest. It is more likely that an acceptable apportionment solution can result from a negotiation in which the various parties in interest are represented.

- . Under the traditional ratesetting process, the application of theory to facts results in a rate structure. The current situation is so unique and complex that the parties in interest must first agree on desired results. Once desired results are agreed upon, the process by which the results can be achieved can be developed. A cooperative, non-adversarial atmosphere facilitates discussion of issues and balanced compromises.
- . Several of the apportionment approaches discussed in this report are non-traditional and special agreements would be required to make them workable. For example, under the modified cash requirements approach outlined above, LILCO's interest coverage and other financial ratios would continue to be below industry standards. In order for LILCO to attract new debt at a reasonable cost, some provision would have to be made to provide

## CONCLUSIONS

(Continued)

protection comparable to that of other securities. Assurances of a clear commitment to the ratemaking approach would have to be given or other government backing might be appropriate.

- . The process applied would have to include a mechanism for evolving back to a traditional approach over time.
3. The process for achieving consensus and successfully implementing an apportionment solution requires that a party take the lead and bring the other parties in interest together.
  4. While there are many ways of apportioning the cost of Shoreham among the parties in interest, those which appear to have the highest probability of successful implementation on a timely basis, require that the largest portion of the cost be borne by the LILCO shareholders, government, and the ratepayers.
    - . At the present time, the creditors do not appear to have any incentive to grant significant concessions; consequently, it seems unlikely that their participation in a solution could be obtained outside of a time-consuming, formal process.

## CONCLUSIONS

(Continued)

- . There is no logical party to represent the interests of the creditors in a negotiated resolution.
  - . The incremental impact of creditors participating in the apportionment likely would be relatively modest.
5. A long-term solution for Long Island and LILCO requires:
- a) an objective assessment of all of the issues in addition to Shoreham that could significantly impact the viability of LILCO and the cost to ratepayers (e.g. Nine Mile Point 2), and
  - b) simultaneous resolution of other significant issues or the implementation of a process to closely monitor and control their development.
- . Shoreham is the dominant factor in any assessment of LILCO's future performance prospects, but other factors--Nine Mile Point 2, service area demand growth, future fuel prices and future generation capacity requirements--are also important considerations in relation to the goal of maintaining a viable Long Island economy. For example, LILCO's potential liability exposure for extracting itself from its Nine Mile Point 2 obligations is significant.

## CONCLUSIONS

(Continued)

- . Any strategy adopted for apportionment of the cost of Shoreham would have to be predicated primarily on current conditions and nearer-term expectations and requirements. The approach used should contemplate regular revaluation of the continued applicability of the apportionment mechanisms employed in the future based on then existing circumstances.
  - . Interrelationships among the factors--e.g., demand and electric rates--would lessen the negative impact of rate reductions.
6. Delays in the resolution of the Shoreham issues decrease the probability of an orderly implementation of a resolution.
- . Since delays would increase the cost of Shoreham, they would compound the problem to be resolved.
  - . Delays increase the risk that intervening events would take control of the process.