

UBS warns that more nuclear retirements are on the way

Firm sees 'a growing capitulation in the nuclear sector'

09/25/2015 by Wayne Barber

UBS has issued a "sobering view of nuclear unit viability" across many parts of the United States and said that leading operators **Entergy** (NYSE:ETR) and **Exelon** (NYSE:EXC) have several units in danger of premature retirement.

"In contrast to previous downturns, we see a growing capitulation in the nuclear sector as the prospects of a protracted downturn in power remain front and center," UBS said Sept. 24. "We see nuclear retirements as central to any potential medium-term 'recovery' in the sector, principally offsetting the twin headwinds of growing renewables and cheaper natural gas."

The investment banking and financial management firm offered its review of the situation in a document distributed to clients. UBS Analyst Julien Dumoulin-Smith was the lead author of the report.

Many single-unit stations and "nearly all merchant nuclear units remain at risk," UBS said. The firm suspects that the Exelon Clinton plant in Illinois might be the next nuclear plant retired. It's conceivable that Clinton could retire as early as May 2016, UBS said.

"We forecast nuclear's contribution to the overall generation mix to decline slightly from 19.5% in 2014 to ~18% in 2030," UBS said. "Overall we estimate 97GW of nukes in 2030 vs. 99GW in 2014."

(The forecast takes into account the new units under construction now as well as various anticipated retirements).

"Again our forecast could well underestimate total retirements," given the growing impact of cheap natural gas and the high capital requirements needed to maintain reactors, UBS said.

"We see both [Entergy] and [Exelon] as substantially exposed to this thesis: it has specifically emerged in recent days that not just ETR's Fitzpatrick but also the Pilgrim unit could well be shut in lieu of investing to improve profile up to NRC [Nuclear Regulatory Commission] levels.

Exelon long ago announced plans to close its Oyster Creek plant in New Jersey in 2019 and the company has also been trying to secure business agreements to keep its Ginna plant running in the state of New York.

But in addition to the "ongoing saga in Illinois" on the fate of Quad Cities, Clinton, and even Byron, UBS said the Exelon Three Mile Island plant in Pennsylvania is also at risk.

UBS noted that natural gas is "poised to enter the Northeast in a big way, epitomized by the in-service of the Constitution pipeline next year."

While capacity prices, most notably in New England have climbed in recent years, UBS projections continue to indicate

that the bulk of Exelon and Entergy's plants remain challenged as energy revenues rather than capacity remain the core of the value proposition in the Northeast. High capacity factors are needed to amortize substantial fixed costs, UBS said.

"Bottom line, we don't have confidence a turnaround is imminent, with further pressure from cheap gas poised to exacerbate regional problems," UBS said. Lastly, the Northeast markets already benefit from a modest carbon price signal with **Regional Greenhouse Gas Initiative** (RGGI) prices reaching recent highs at \$6.02/ton, but still far from levels needed to maintain the assets, according to UBS.

ABOUT THE AUTHOR

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