

What A Government Takeover of the Yadkin Project Will Cost Taxpayers of North Carolina

There has been a lot of debate about what a government takeover of the Yadkin Project might cost North Carolina taxpayers. Since a federal takeover has never been done before, the uncertainty about how much it would cost is understandable. Here is Alcoa's view:

If the State of North Carolina is determined to take Alcoa's privately-owned business along the Yadkin River, it will have to pay the company a fair price for its property.

The deadline to pursue a federal takeover of the Yadkin Project expired nearly three years ago. Therefore, there are only two ways for the State of North Carolina to acquire Alcoa's property: to purchase it directly from the company, or to condemn it. Since Alcoa does not want to sell the Yadkin Project, condemnation is the only remaining option.

When the State of North Carolina condemns property, it must pay fair market value – and the fair market value for the Yadkin Project has been calculated at more than \$500 million using standard valuation methodologies.

The \$24 Million Myth

Proponents of a state takeover claim they can "recapture" the Yadkin Project for \$24 million. This is based on a clause in the Federal Power Act (FPA) that allows the federal government to take over a hydropower project at the end of its license term for the cost of its "net investment," plus severance damages. The "net investment" for the Yadkin Project was estimated at \$24.2 million in the official application for a new license filed with FERC on April 26, 2006, and has increased since then to more than \$91 million.

There are several reasons why the \$24 million figure is a myth and takeover proponents' use of the figure is misleading:

1. One problem with the \$24 million figure is that the deadline to pursue a federal government takeover under the Federal Power Act expired nearly three years ago and is no longer an option. Therefore, the Yadkin Project cannot be taken by the federal government under this provision.

The legal process for a federal agency to pursue a takeover of a hydroelectric project is clearly defined in the Federal Power Act. Any recommendation to take over a hydroelectric project must be made by the end of the comment period specified in the notice of the license application. In the case of the Yadkin Project, the comment period ended on June 25, 2006. No federal agency indicated an interest in operating the Project or that a takeover would be appropriate. And in any event, a federal takeover would require U.S. congressional approval.

2. Even if a federal takeover were possible, it would still cost North Carolina taxpayers much more than \$24 million. Alcoa has incurred additional capital costs related to the Yadkin Project since the \$24 million figure was calculated, thereby increasing the amount of the company's "net investment" to more than \$91 million. In addition, this value would need to be adjusted for inflation to reflect investments made by the company over time and as far back as 1915. (Generally speaking, it would take more than \$20 in 2009 to have the same purchasing power of \$1 in 1915.)
3. Under the takeover clause in the Federal Power Act, Alcoa is entitled to "severance damages" in addition to other costs. Relevant provisions in the Federal Power Act have never been interpreted, but Alcoa believes that the severance damages inflicted by a takeover of the Project would be substantial. To replace these assets in Alcoa's energy portfolio would cost hundreds of millions of dollars.
4. If the State of North Carolina takes over the Yadkin Project, through condemnation or other means, it will assume some significant financial responsibilities. This includes nearly \$200 million over the next several years to perform necessary upgrades to the dams and power generation facilities.

How much money does the Yadkin Project generate?

Proponents of the government takeover have claimed that the Yadkin Project makes up to \$100 million a year. The fact is APGI generates about \$44 million a year in revenues before expenses. After subtracting operating expenses, taxes and other costs, the profit is expected to average about \$8 million a year. In fact, the company is experiencing and expects the Yadkin Project to have a negative cash flow for the next several years because of investments to upgrade the dams and powerhouses, meaning it is borrowing money to cover operating and maintenance expenses.

The profit is based on current power price levels. That figure is lower than what some would expect, due to the significant expenses associated with the investment required to upgrade the dams and powerhouses. Once these expenditures are complete, the cash flow is expected to increase in later years.