

PSEG Nuclear, LLC
ZEC 2 – Salem II
Docket No: ER20080558

Response to Discovery Request: SII-ZECJ-FIN-0019
Date: 10/1/2020

Question:

Provide the estimated risk-adjusted cost of capital for the Unit:

- a. Provide a detailed explanation, including supporting workbooks, of how the risk-adjusted cost of capital was calculated for energy years 2023-2025; and
- b. Provide the methodology used to determine the risk-adjusted cost of capital, along with supporting documentation and industry benchmarks it deems appropriate, and juxtapose this against the original cost of capital.

Attachments Provided Herewith: YES - CONFIDENTIAL

Response:

Please see the accompanying confidential attachment for PSEG Power's calculation of weighted average cost of capital. This estimate of cost of capital was derived applying traditional methodologies used to estimate an enterprise's cost of debt, cost of equity and relative debt/equity structure, as detailed therein. In PSEG Power's business, our use of this estimate is primarily limited to capital budgeting considerations, acquisition and disposition related assessments and impairment testing for year-end accounting purposes. The required cost of capital for any future period is the then current cost of capital, updated consistently with the estimation methodology provided. PSEG Power does not calculate or maintain a separate cost of capital for the plants owned by its affiliates, including plants owned by PSEG Nuclear. Rather, the weighted average cost of capital, as calculated here, is used in connection with any analysis related to any of PSEG Power's plants.

We are choosing to not use a risk-adjusted cost of capital in completing the balance of this application. Rather, we are choosing to demonstrate that the plant is projected to not cover its costs and risks. The ZEC Act provides applicants with two potential approaches to meet the financial criterion: to demonstrate that the plant is "projected to not fully cover its costs and risks, or alternatively is projected to not cover its costs including its risk-adjusted cost of capital." N.J.S.A. 48:3-87.5(e)(3) (emphasis added). The Act's financial criterion does not require an applicant to demonstrate need under both these alternative approaches. Rather, the ZEC Act is clear that the financial criterion can be demonstrated under either one of these two approaches.