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IHS CERA Power Capital Costs Index Shows Power Plant Construction Costs Decreasing Slightly

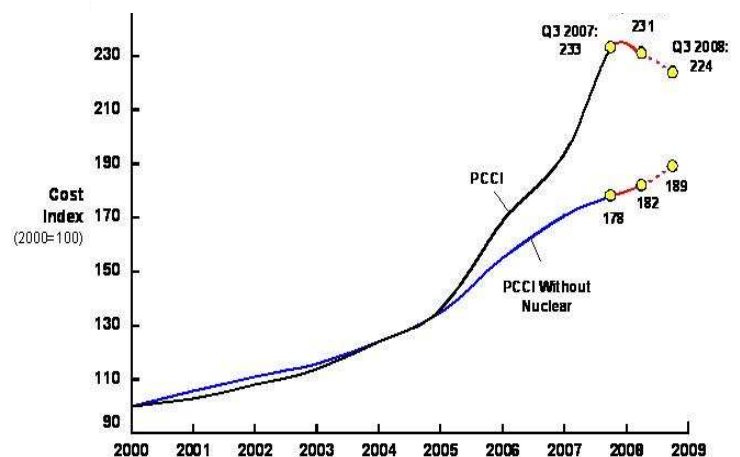
124% cost increase since 2000, but current 3% decline signifies upcoming price moderation

CAMBRIDGE, Mass. (December 17, 2008) – Although costs have increased 124 percent since 2000, easing commodity prices and a lower cost for constructing nuclear power plants brought a modest three percent decrease over the last six months to the IHS CERA Power Capital Costs Index (PCCI). The IHS CERA PCCI tracks the costs of building coal, gas, wind and nuclear power plants.

A proprietary measure of project cost inflation similar in concept to the Consumer Price Index (CPI), the IHS CERA PCCI is indexed to the year 2000. It now registers 224 index points, indicating a power plant that cost \$1 billion in 2000 would, on average, cost \$2.24 billion today.

The latest IHS CERA PCCI represents a three percent decrease over the last six months, resulting primarily from easing in the cost of nuclear reactors and containment vessels, a decline that began in the third quarter 2007. The other three sectors of the generation mix – coal, gas and wind – have continued to show cost increases. However, hidden in these minor increases are the first signs in a change in direction. Wind and gas plants have experienced fairly robust escalation in the last six months, but nearly all of these increases occurred in the second quarter of

IHS CERA Power Capital Costs Index With and Without Nuclear



Source: CERA

2008, with costs flattening out in the third quarter.

“All power plant projects across the portfolio’s generation mix have recently seen increases in materials, civils and construction, skilled labor, and engineering, design and project management,” said Candida Scott, CERA senior director of cost and technology. “However, the signposts clearly suggest directional changes in the near-term future.”

- Wind has shown the largest increase at eight percent over the last six months and 14 percent over the last 12 months. An increase in global demand in reaction to uncertain future carbon policies, unfavorable exchange rates from international suppliers and a shortage of suppliers able to meet a previously insatiable demand has driven higher costs for wind turbines and towers. Declines in commodity prices, lower fuel costs for natural gas and coal, and the global financial crisis may all result in wind project costs coming down in the near term.
- Gas-fired plant costs have increased slightly in the last six months, with combined cycle and simple cycle plant costs increasing by three percent and two percent, respectively. However, all increases were registered in the second quarter, with costs steady over the last three months. Gas prices have fallen recently, making these projects more economical, but this has not translated into immediate increase in demand or higher costs. The financial crisis and falling commodity prices are likely to result in lower costs over the near term, even with sustained high demand.
- Coal plants have experienced continued steady cost escalation over the past six months, driven by strong demand for boilers and steam turbines. However, a slowing of demand in Asia and continued uncertainty regarding U.S. environmental policy may result in utilities taking a ‘wait-and-see’ approach and costs could come down.

Additionally, decreases in steel costs should result in lower finished goods costs within a few months, added Paul Bachmuth, CERA associate director of capital cost power.

“Steel costs have increased dramatically over the past six months, with mills passing through high raw materials costs for iron ore, coking coal and fuel,” Bachmuth said. “However, steel raw material costs declined at the end of the third quarter and a drop in demand for steel products is pushing steel costs back down to the cost floor for steel production.”

The IHS CERA PCCI report concludes that credit issues will almost certainly have a growing and noticeable impact on future general industrial construction activity in the U.S. and other regions. Lenders are tightening credit terms and requiring more collateral for new construction projects, and U.S. state and local governments are cutting budgets and scrapping plans due to issues with credit.

“The expected drop-off in power plant construction starts and commodity costs will almost certainly result in lower power plant capital costs over the near term,” Bachmuth added.

Energy Industry Capital Costs

The IHS CERA PCCI complements the IHS CERA Upstream Capital Costs Index (UCCI) and IHS CERA Downstream Capital Cost Index (DCCI) which measure the cost of construction of new oil and gas production projects such as platforms and pipelines and construction of new refineries and petrochemical plants. Both indexes demonstrate the effects of the global credit crisis and slower global growth.

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About the IHS CERA Power Capital Costs Index (PCCI)

The IHS CERA PCCI tracks the costs of equipment, facilities, materials and personnel (both skilled and unskilled) used in the construction of a geographically diversified portfolio of more than 30 power generation construction projects throughout North America. It is similar to the consumer price index (CPI) in that it provides a clear, transparent benchmark tool for tracking and forecasting a complex and dynamic environment. The IHS CERA PCCI can be tracked on the IHS Index Web Site at www.ihsindexes.com. The IHS CERA PCCI is a work product of CERA's Capital Costs Analysis Forum for Power (CCAF-P) in partnership with PowerAdvocate. For information on the Capital Costs Analysis Forum for Power, contact Candida Scott at cscott@cera.com.

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