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Tough choice: BP or nuclear power

The oil disaster in the Gulf and concerns over global warming could spur greater interest in building nuke plants. That means new options for investors to explore.

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MSN Money

Nuclear energy has been rising on the nation's agenda for years because of growing concerns about the environmental damage and national-security risk from using too much fossil fuel.



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But the massive **BP** ([BP](#), [news](#), [msgs](#)) oil spill has made nuclear power look even more attractive -- a potential environmental silver lining from the Gulf of Mexico disaster.

Certainly, memories of the 1979 [Three Mile Island nuclear accident](#) and the 1986 [Chernobyl meltdown](#) make it difficult for many to embrace nuclear energy. But new plants have compiled strong safety records.

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Most critically, nuclear plants don't produce [carbon emissions](#) -- which means old fears about potential meltdowns have to compete with environmentalists' efforts to fight global warming.

A key takeaway for investors in this: We'll likely see greater interest in nuclear plants from U.S. utilities if polluted shorelines along the Gulf of Mexico boost support for policies that nudge us away from [fossil fuels](#).

"We're pretty bullish on nuclear energy," said Don Wordell, who manages the **RidgeWorth Mid-Cap Value Equity Fund** ([SMVFX](#)). "It's environmentally friendly, and it is low-cost on an ongoing basis." As a play on this theme, he owns shares of **Fluor** ([FLR](#), [news](#), [msgs](#)), which helps build nuclear plants. Other companies in the space, such as **Shaw Group** ([SHAW](#), [news](#), [msgs](#)) and **McDermott International** ([MDR](#), [news](#), [msgs](#)), would also get more business from a bigger build-out of nuke plants.

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Utilities that have a lot of nuclear energy in their production mix -- or plan more -- would also get a big boost from an environmental-policy shift that taxed carbon. Unlike competitors more dependent on coal, these utilities' costs wouldn't go up as much in a carbon-tax scenario.

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Exelon ([EXC](#), [news](#), [msgs](#)), **Southern** ([SO](#), [news](#), [msgs](#)) and **Scana** ([SCG](#), [news](#), [msgs](#)) are three utilities with a decided tilt toward nuclear energy compared with coal, says Roger Conrad, the editor of a top-ranked [investment newsletter](#) called the [Utility Forecaster](#). He thinks all three look attractive, in part for this reason. There are also a couple of exchange-traded funds that let you invest in the industry.

What about uranium? Don't be tempted to buy into **Cameco** ([CCJ](#), [news](#), [msgs](#)), **Uranium Energy** ([UEC](#), [news](#), [msgs](#)) or other producers of the nuclear plant fuel as a play on more plants. **The reason: Lots of new supply coming online soon will hold down uranium prices, says Tom Winmill of the Midas Fund** ([MIDSX](#)).

The big problem for nuclear

One big challenge with nuclear power has always been that plants are so darn expensive, and most of the cost has to be paid upfront. A single plant runs at least \$4 billion, says the industry-backed Nuclear Energy Institute, or NEI, and it can cost twice that much. It takes about 17 years for a utility to pay off the investment, says Revis James, the director of the Energy Technology Assessment Center at the Electric Power Research Institute.

That's a long wait in a stock market where quarterly earnings are key, and many investors merely "rent" stocks for a few months rather than invest for the long haul.

But in time, the payoff for utilities with nuclear plants can be huge. Because after construction costs are recovered, nuclear energy is far cheaper than coal once fuel and maintenance are the main costs. "They are a great deal, once you get them done and paid for," says Buzz Miller, the executive vice president of nuclear development at Southern, which operates six nuclear plants built in the 1970s and 1980s and plans to build two more. "A nuclear plant can last 60 to 80 years."

The difficulty for utilities is those first 17 years, James says. This helps explain why China, where upfront costs matter less because of heavy government involvement in the industry, has been charging ahead. In contrast, private-sector U.S.-based utilities are much more reluctant to build nuclear plants.

Worldwide, there are 53 nuclear plants under construction, 137 plants on order or planned and 295 projects under consideration, according to the NEI. In contrast, the U.S. may add four to eight new plants to its 104 by 2017.

Environmentalist opposition has been a hurdle as well and remains strong in some circles. Concern about the impact of a wider meltdown than Three Mile Island's -- and what to do with the waste nuclear plants produce -- remains strong. It wouldn't take much for the "No Nukes" rallies to fire up again.