

Union of Concerned Scientists ♦ Southern Alliance for Clean Energy ♦ Sierra Club ♦
SUN DAY Campaign ♦ Public Citizen ♦
Physicians for Social Responsibility ♦ Natural Resources Defense Council ♦
Nuclear Information and Resource Service ♦ Friends of the Earth ♦
Environment America ♦ Clean Water Action ♦
Beyond Nuclear ♦ Alliance for Nuclear Accountability

June 23, 2010

Dear House Appropriations Committee:

As you develop your Fiscal Year 2011 Energy and Water Appropriations bill, we urge you to oppose \$36 billion in additional nuclear loan guarantee authority under the Department of Energy's (DOE) Title XVII Loan Guarantee Program. This would triple DOE's current nuclear loan guarantee authority from \$18.5 billion to a whopping \$54.5 billion. Given the industry's history of cost overruns and default and the fact it is showing no sign of bringing projected costs for new reactors under control, assuring the safety of its technology, or resolving interim or long-term waste storage issues, burdening U.S. taxpayers with tens of billions dollars of additional liability for uneconomic new reactors is both risky and unwise.

The nuclear power industry is not ready to build new reactors in the near-term while efficiency and renewable energy technologies are ready now. The only loan guarantee to be conditionally offered thus far to a nuclear power project – \$8.3 billion to Southern Company and its project partners – is for two reactors in Georgia that have yet to have a certified design or a combined construction and operating license from the Nuclear Regulatory Commission (NRC). According to the NRC, no reactor will be licensed until at least 2012. Moreover, the NRC has raised concerns about whether the AP1000 design being proposed for half of the new reactors in the United States, including the one in Georgia, can withstand earthquakes and severe weather such as hurricanes and tornados. This and other technical problems are likely to delay licensing and increase the estimated and final costs of these reactors. Also of concern is that DOE and the Office of Management and Budget have not demonstrated that they have a plan to address potentially significant cost overruns in projects that receive loan guarantees.

Even prior to the current credit freeze, the nuclear industry, unlike the renewable industry, was unable to borrow money from Wall Street. Moody's Investor Services is calling new reactors a "bet the farm" investment. The Congressional Budget Office (CBO) estimated the likelihood of default for loans made to nuclear reactor developers to be "very high – well above 50 percent." Taxpayers will be at risk even if the estimated subsidy cost (the risk of default) is paid by the industry. Both the non-partisan CBO and the Government Accountability Office (GAO) have concluded in their analyses of loan guarantees that calculating a subsidy cost is extremely

difficult. CBO concluded that “the challenges and constraints involved in estimating the subsidy costs for such innovative projects make it more likely that DOE will underestimate than overestimate the fees paid by the borrower.”

The risk of default arises from the enormous capital costs and long construction times for new reactors. Estimates of construction costs for new reactors have quadrupled since 2000. Areva’s showcase reactor under construction in Finland is already three and a half years behind schedule and at least 75 percent over budget. The same reactor design, started 2 and a half years later in France, is now 2 years behind schedule and at least 20 percent over budget. The estimated cost for two proposed reactors in South Texas, also in line for loan guarantees, has risen from \$5.8 billion in 2006 to a reported \$18.2 billion, including financing charges and cost escalations, in December 2009. As a result, the San Antonio municipal utility backed out of 85 percent of its share of the reactors and will spend no more money on the project. Thus, no one can say with any level of assurance what a new reactor will cost to build in this country. It is therefore unacceptable to ask taxpayers to shoulder the majority of the costs and risks of this 60-year old mature technology when renewable energy and energy efficiency investments can be made much more quickly, for much less money, and with much less risk to taxpayers.

The fact that the U.S. nuclear industry has said it wants taxpayer-backed loan guarantees for nearly all of its proposed new reactors – or what the Nuclear Energy Institute has called a “permanent financing platform” – is itself an admission that loan guarantees are not part of a market transformation strategy that will move the industry toward self-sustaining economic viability, but rather a permanent government subsidy to underwrite what would otherwise not be financed by the private sector. Southern Company, as well as another possible loan guarantee recipient Unistar, have already announced that they intend to borrow the money from U.S. taxpayers via the Federal Financing Bank. They are also looking to the Japanese or French Export-Import Banks to provide additional financing. Thus it is far from clear that, even with potentially two governments involved, Wall Street will actually invest in new reactors.

The public is fed up with corporate subsidies and bailouts. It therefore makes no sense to expand public subsidies to encourage utilities to invest in excessively risky projects that will jeopardize tens of billions of taxpayer dollars. We strongly urge you to oppose additional loan guarantee authority for new nuclear reactors in the FY2011 Energy and Water Appropriations bill.

Sincerely,

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