TAXPAYERS FOR COMMON SENSE
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Editorial Board/Op-ed Editor Briefer

TAXPAYERS AT RISK: EXPANSION OF NUCLEAR LOAN GUARANTEES COULD COST BILLIONS

Several new analyses confirm that, after over half a century of operation, nuclear power remains one of the most capital intensive, high-risk energy industries. Despite its checkered past, industry proponents have suggested that nuclear power could be a cost-effective solution in a carbon constrained world. In order to pay for the potential resurgence of nuclear power, several proposals to dramatically increase subsidies for the industry have emerged and will be debated this fall as the energy and climate bill moves through the Senate and is reconciled in conference with the House bill.

Taxpayers for Common Sense (TCS) opposes the expansion of loan guarantees for new reactors:

- Earlier this summer, the Senate Energy and Natural Resources Committee adopted S. 949, the 21st Century Energy and Technology Deployment Act, as part of a suite of bills that has now been combined into a larger energy bill, the American Clean Energy Leadership Act of 2009 (ACELA). The main goals of the Clean Energy Technology Deployment provisions, now Title I of ACELA, are to make changes to the existing DOE loan guarantee program and create an independent entity within DOE, known as the **Clean Energy Deployment Administration (CEDA),** to distribute credit support to the energy industry.

- The **Department of Energy's Loan Guarantee Program** already has $18.5 billion authorized for Treasury-backed loan guarantees for new nuclear reactors. The non-partisan Congressional Budget Office (CBO) estimates a 50 percent default rate on these loan guarantees. However, this could be just the beginning of billions more in risk as the nuclear industry has already submitted more than $120 billion in loan guarantee requests.

While TCS takes <u>no position</u> on whether or not nuclear power should be part of the nation's energy future, we strongly believe it should not continue to be subsidized by taxpayers.

BACKGROUND

For decades, taxpayers have been asked to shoulder much of the cost of nuclear power. Adding more subsidies in the current economic climate will guarantee the loss of billions down the road. Since 1948, the nuclear power industry has received more than $85 billion in generous taxpayer subsidies and continues to risk billions more in liability coverage. In the 1960s and 1970s, billions of dollars were lost in canceled and abandoned reactors. Nuclear power's past problems, which include cost overruns, issues with regulations, and construction delays, continue to be unresolved.

A recent report by Mark Cooper, a senior fellow for economic analysis at the Institute for Energy and the Environment at Vermont Law School, reviewed three dozen studies on the cost of new reactors since the early 2000s, as well as the cost of currently-built reactors. He found current estimates for new reactors are already four times higher than estimates earlier this decade. Using the numbers from these studies, which ranged from 12 cents per kilowatt-hour to 20 cents per kilowatt-hour for new reactors, he calculated that the cost of building 100 new reactors would range from an additional $1.9 trillion to $4.4 trillion over the life of the reactors, compared to providing the same energy with efficiency and renewable technologies. Furthermore, Cooper affirms that both Wall Street and utilities agree that it will take "massive direct subsidies" in order to build the reactors.

Recently, former NRC Commissioner Peter Bradford stated that federal loan guarantees do not actually lower risk, but merely shift the risk from investors to taxpayers. The risks of cost overruns, availability of cheaper alternatives, cancellation, or an accident remain the same. Even having taxpayers take on all of this risk, however, may be insufficient to maintain a utility's credit rating. According to a June 2009 Moody's update, loan guarantees "will only modestly mitigate increasing business and operating risk profile." As a result, "the likelihood that Moody's will take a more negative rating position for most issuers actively seeking to build new nuclear generation is increasing."

As these new analyses demonstrate, the cost and risk of nuclear reactors is increasing and with it the demand for subsidies. Already the nuclear industry has made it clear they are seeking more than $100 billion in federally backed loan guarantees to fund the construction of new reactors. Nuclear power is a mature energy industry that should no longer be subsidized and should secure financing on the private markets. After more than 60 years of subsidies, taxpayers should no longer be asked to bear the risk for nuclear power. We urge you to editorialize against legislative actions to increase subsidies and loan guarantees for new nuclear reactors, including the current structure of the Clean Energy Deployment Administration during the upcoming energy and climate debate.

CONCERNS SPECIFIC TO THE DOE LOAN GUARANTEE PROGRAM

Title XVII of the Energy Policy Act of 2005 authorized the Department of Energy (DOE) Loan Guarantee Program to disperse loan guarantees for innovative technologies. While the program was intended for emerging energy technologies, mature energy industries like coal and nuclear that have already received billions of dollars in subsidies for decades, are eligible as well. Currently, the program has $51 billion in authority with $47 billion earmarked for nuclear energy, coal gasification, coal power generation with carbon capture and storage, and renewable energy and transmission projects. Of the $47 billion, $18.5 billion is allocated for nuclear reactors and $2 billion for the front-end nuclear cycle.

The chief concerns of TCS are the following:

- ***High default rate.*** The Congressional Budget Office considers the risk of default on nuclear loan guarantees to be very high --well above 50%. Payments for defaults from the Loan Guarantee Program come directly from the U.S. Treasury. Additionally, loan guarantees issued under Title XVII carry an extremely high risk because they can provide a guarantee for 100% of a loan worth up to 80% of a project's total cost. The Department of Energy has issued risky loan guarantees to the energy industry in the recent past. For example, in the late 1970s and early 1980s the DOE offered billions in loan guarantees for the development of synthetic fuels. Administrative failures and market changes caused the loans to default causing taxpayers to lose billions.

- ***Failure of self financing.*** In addition, although the loan guarantee program is designed to be self-financing, the Government Accountability Office in a February 2007 report stated that appropriations will likely be needed to cover the expenses of the program. And while the DOE is tasked with estimating the administrative and the subsidy cost (the net present value of the anticipated costs of defaults) of the loans, the Congressional Budget Office projects that the Department of Energy will likely underestimate these costs.

CONCERNS SPECIFIC TO CEDA

Per the **Clean Energy Deployment Administration** (CEDA) included in the Senate Energy bill, S. 1462, TCS has several concerns:

- ***Wrong focus.*** By including high-risk, high-cost mature technologies, like nuclear power that private markets would not back even prior to the credit crisis, CEDA misses the mark.

- ***Exempts Loan Guarantees from Strong Congressional Oversight.*** Among the more egregious provisions in the bill is the exemption of CEDA from annual appropriations process and the set aside of $10 billion from the US Treasury for its creation.

- ***Taxpayer exposure for defaults.*** Additionally, the bill lacks sufficient oversight and accountability mechanisms and places no limit on the amount of loan guarantees CEDA can distribute. If the bill moves forward, taxpayers could easily lose billions in defaulted loan guarantees and other forms of credit.

Congress must maintain strict oversight and not provide authority for further risky loan guarantees. The federal government must learn from past mistakes and exercise caution with the program or risk jeopardizing billions in taxpayer dollars through the financing of risky projects.

For more information, please visit the Taxpayers for Common Sense Web site at www.taxpayer.net

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