November 16, 2009

Dear President Obama:

As you develop your detailed Fiscal Year 2011 Budget Request, we urge you to reject authorizing more loan guarantees that could be applied to the construction of new nuclear reactors. The 2009 Omnibus indefinitely authorizes $18.5 billion for the construction of new reactors, none of which has been allocated. Energy Secretary Chu recently testified to the Senate that DOE intends to offer three or four nuclear loan guarantees by the end of the year; however, it is clear that any decision to issue “conditional” nuclear loan guarantees for as yet unlicensed reactors would be premature and highly risky for U.S. taxpayers.

Recent events have underscored the fact that the nuclear industry is not ready to build new reactors in the near-term. The best case scenario for the industry – that construction for new reactors will be licensed in three years and will take another six or more years to build – is highly improbable.

- In October, the Nuclear Regulatory Commission (NRC) rejected the amended AP1000 reactor design, slated for 14 of the 25 proposed reactors in the U.S. and two of the short-listed projects for loan guarantees, because it cannot withstand severe weather such as hurricanes, tornados and earthquakes.
- The EPR design, proposed at three sites and also on the short-list for DOE loan guarantees, is in early review stage at the NRC. At the joint request of the French, Finnish, and British regulators, the EPR vendor Areva has agreed to revise the design so the day-to-day and emergency systems cannot fail at the same time.
- DOE informed Entergy in 2008 that the ESBWR design, which is currently in its fifth revision, would not be eligible for loan guarantees. Three of the five sites proposing the ESBWR subsequently abandoned the design.
- The NRC’s certification of the ABWR, proposed for one site and on the short-list for a loan guarantee, will expire in 2012 and will have to be reviewed for recertification. The design will have to address compliance with the NRC’s new aircraft attack rule.
The fact that these loan guarantees may be “conditional” does not mean that taxpayers will be protected. With fundamental outstanding questions surrounding the designs of these reactors, DOE cannot establish meaningful conditions for loan issuance and payback, or calculate accurate subsidy costs or the total amount of the guarantee. Providing conditional guarantees to the industry could give developers an unwarranted level of assurance that is not commensurate with the assurances that the industry has so far provided to regulators, DOE, and U.S. taxpayers. Even if these designs are eventually certified and these reactors are licensed, delays could increase costs by hundreds of millions or even billions of dollars, undermining the economic viability of these projects. Most importantly, issuing conditional guarantees now would commit government resources to back questionable, massively expensive future projects at the expense of more immediate and economic opportunities to develop clean efficiency and renewable technologies.

Loan guarantees for new reactors will create a significant liability to U.S. taxpayers. The Congressional Budget Office (CBO) estimates the likelihood of default for loans made to nuclear reactor developers to be “well above 50 percent.” With such high risks, the nuclear industry was unable to borrow money from Wall Street even prior to the current credit freeze, unlike the renewable industry. Worse still, loan guarantees permit much more highly leveraged financing (a four-to-one debt-to-equity ratio) for nuclear plants than would occur in their absence.

These risks are intensified by nuclear power’s enormous and growing capital costs. In the past year, the estimated costs of the South Texas Project reactors have increased by $4 billion to $17 billion, VC Summer increased by more than $1 billion, and Bell Bend (EPR design) increased from $4 billion to $13-15 billion. Indeed, Moody’s is unimpressed by loan guarantees, concluding that proposed loan guarantees for nuclear construction would “only modestly mitigate increasing risks” and that new reactors are “bet-the-farm” endeavors. Until there is greater certainty regarding design approval and associated costs, it is unacceptable to ask taxpayers to underwrite the costs and risks of this technology when renewable energy and energy efficiency investments can be made much more quickly, for much less money, and with little risk to taxpayers.

To protect taxpayers and ensure public safety, the U.S. government should not give out loan guarantees or “conditional” guarantees before a reactor is fully licensed. Given that no reactors are licensed or can be licensed for several years, no additional budget authority is needed. We urge you to omit additional nuclear loan guarantee authority from your FY2011 budget. Instead, we urge you to invest broadly in renewable resources and energy efficiency measures that can be deployed at lower cost and risk in the near-term.

Sincerely,
Encl: Letter from Chairman Edward J. Markey to Energy Secretary Steven Chu, November 6, 2009

Cc: Hon. Carol Browner, Assistant to the President for Energy and Climate Change
Hon. Nancy Sutley, Chair, Council on Environmental Quality
Hon. Steven Chu, Secretary, Department of Energy
Hon. Peter Orszag, Director, Office of Management and Budget
Ms. Sally Eriksson, Program Associate Director for Natural Resources, Energy, and Environment, Office of Management and Budget
Chairman Edward Markey, Energy and Environment Subcommittee