Constellation Energy shelves plan for Calvert Cliffs reactor

By Steven Mufson
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Constellation Energy has shelved its proposal to build a new reactor at its Calvert Cliffs nuclear power plant, Obama administration officials said Friday, even though the administration had decided to award the project a $7.5 billion loan guarantee.

Senior administration officials said Constellation's decision was "a surprise," but a Constellation Energy spokesman Larry McDonnell said that the administration's loan guarantee terms were "unworkable" and that Constellation had told the Energy Department "we can't move forward."

The decision by Constellation deals a blow to the idea of a U.S. nuclear renaissance. Constellation and French power company Electricite de France are partners in Unistar, a joint venture that had intended to make the new Calvert Cliffs reactor the first of a fleet of identical units around the country. They filed the loan guarantee application in July 2007.

But economic factors have made nuclear power projects more challenging. Low natural gas prices make that fuel an attractive alternative. Congress also failed to pass climate legislation that would have boosted fossil fuel prices. And steep construction costs make the projects a financial stretch for utilities like Constellation.

House Majority Leader Steny H. Hoyer (D-Md.), who said he had "been working very hard to secure a loan guarantee" for the project, called Constellation's decision a "disappointment."

"Despite significant movement by the administration on the loan package to more favorable terms for the companies, Constellation Energy has indicated that it cannot move forward with the loan guarantee process at this time," he said. He said he would seek ways to revive the proposed project.

EDF also said it was "disappointed and shocked" that Constellation had "unilaterally decided" to withdraw from the project. "Constellation knows that we were at the finish line with the Department of Energy and were making significant progress," said an EDF spokeswoman. She said that the Calvert Cliffs reactor was "of monumental importance to Maryland" and would have generated 4,000 new jobs.

Obama administration officials said that they had proposed terms consistent with their fiduciary duty. "We want to see this industry go forward, but we also have a duty to protect the taxpayers' money," one senior administration official said.

The administration has approved only one conditional loan guarantee for a nuclear power project and that went to a Georgia plant to be built by Southern Co., which under state law can begin to
recover costs while the plants are under construction. Maryland regulations say that power plant construction costs can be passed through to customers only once the plant is operating.

Sources familiar with the negotiations over the loan guarantee say that the Office of Management and Budget initially calculated that the credit subsidy for Calvert Cliffs was nearly 12 percent, requiring Constellation to put up $880 million. OMB later said that the Constellation venture could lower the subsidy rate to around 5 percent by agreeing to self-insure the project, buy up to 75 percent of the reactor's power and put up an additional $300 million.

EDF said Constellation withdrew "in spite of our repeated efforts to substantially decrease their exposure and risk to the project."

Constellation and EDF, a major shareholder in Constellation, have been quarreling separately over whether Constellation can force EDF to buy several older fossil fuel power plants for $2 billion. EDF said that while the future of the third Calvert Cliffs reactor is unclear, it "remains committed to pursuing new nuclear [power plants] in the U.S."

Separately, administration officials said they had approved a $1.06 billion loan guarantee for an Oregon wind farm, the world's largest, after project developers waged a vigorous lobbying campaign to bring the year-long application process to a conclusion.

"We're gratified that this lengthy process has come to an end, and we look forward to closing the transaction shortly," said John McNamara, chief financial officer of Caithness Energy, the project developer.

The wind project, known as Shepherds Flat, will provide 400 jobs, 845 megawatts of power and avoid emissions of 1.2 million tons of carbon annually.