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LOAN GUARANTEES FOR NEW NUCLEAR REACTORS PUT TAXPAYERS AT GREAT RISK AND SHOULD NOT BE ISSUED BY DEPARTMENT OF ENERGY

18 Groups From 4 States With Reactors Up for Loan Guarantees Speak Out in Opposition; DOE Liberalization of Rules Would Expose Taxpayers to Billions of Dollars in New Defaults.

Austin, Texas Taxpayers will be put at significant new risk for billions of dollars in loan defaults if the U.S. Department of Energy (DOE) moves ahead with plans to issue its first set of controversial taxpayer-backed conditional loan guarantees for new nuclear reactors, according to 18 national and state-level public interest groups from the four states where utilities are most likely to receive the loan guarantee hand-outs: Maryland, Georgia, Texas and South Carolina.

In a joint statement issued today, the groups charged that “The [DOE] Loan Guarantee Program faces fundamental problems that fatally undermine the program’s integrity as it seeks to bail out the nuclear industry, including a lack of control over the prohibitive and uncontrolled cost of new reactors, excessive and unjustified secrecy, and an inability to properly secure the loan guarantees.” They called on DOE to put the issuance of loan guarantees on hold given the unacceptable financial risks placed on the taxpayer, the poor track record of the DOE with past loan guarantees and the lack of transparency in the loan guarantee decision-making process.

DOE has identified four nuclear utilities as prime candidates for conditional loan guarantees: Unistar Nuclear in Maryland (for one reactor at the Calvert Cliffs site), SCANA in South Carolina (for two reactors at the V.C. Summer site), Southern Company in Georgia (for two reactors at the Vogtle site) and NRG Energy in Texas (for two reactors at the South Texas Project).

“If the DOE issues loan guarantees to NRG for the South Texas Project, the risks placed on the U.S. taxpayer are numerous,” stated Karen Hadden, Executive Director of the SEED Coalition. “One STP site-specific issue that causes us great concern is use of the ABWR reactor design. NRG is requesting numerous departures from the pre-approved design which has never been built in the U.S. and has had serious problems in Japan.”

“There is also the increased financial risk of guaranteeing a loan to NRG, which has a bond rating just above “junk” grade according to Moody’s. The company declared bankruptcy in 2003,” Hadden said. “NRG has not found the additional investors it needs for the reactors. San Antonio’s municipal utility, CPS Energy, voted unanimously last week to reduce its 50% stake in the project to between 20-25%. How can the DOE put U.S. taxpayers at risk by guaranteeing a loan to fund reactors when the buyers aren’t firm? There are no buyers for the 810 MW share that CPS no longer wants and can’t afford, and no one will want high dollar nuclear generated energy when cheaper options are available.”

According to the statement from the groups: “Given that DOE has the authority to hand out only \$18.5 billion in loan guarantees and that the current estimated price tag for a single reactor is \$9-15 billion, it is clear that DOE will not be able to fully back all of the new nuclear reactors currently under consideration.” The Nuclear Regulatory Commission (NRC) has stated that it will not approve any new license applications for several years from now.

Eighteen state and national groups have signed on to the statement, including the Nuclear Information and Resource Service, Public Citizen, Friends of the Earth, the South Carolina Chapter of the Sierra Club, the Southern Alliance for Clean Energy (SACE), and the Sustainable Energy & Economic Development (SEED) Coalition (Texas). (A full listing of groups can be seen on the statement itself, at www.NukeFreeTexas.org)

A number of the groups have also raised legal challenges on the state and/or federal level against the reactor projects, charging that they fail to comply with safety and environmental laws. The organizations contend

that DOE loan guarantees for the highest-cost energy option, nuclear power, would be a diversion of resources from cleaner, cheaper options that the nation must urgently pursue.

“With five contentions admitted for a hearing by the Atomic Safety and Licensing Board (ASLB) Panel and seven more contentions pending, the citizen legal intervention at STP has been the most successful in the country thus far,” said Hadden. The ASLB Panel admitted four water-related contentions, ruling that STP had failed to adequately analyze the environmental impacts of radioactive contaminated water and water availability. The Panel also ruled that STP failed to consider the impacts of a radiological accident at one unit on the operations at the other units.

“It hardly makes sense for the DOE to force the U.S. taxpayer to help fund more nuclear reactors in this country when the NRC recognizes that nuclear plants could become weapons for terrorists and are vulnerable to air attacks with potentially catastrophic effects,” said Hadden. On August 14th, the Intervenor filed seven more contentions regarding STP's failure to comply with a new NRC fire safety rule which says each licensee must “develop and implement guidance and strategies intended to maintain or restore core cooling, containment, and spent fuel pool cooling capabilities under the circumstances associated with loss of large areas of the plant due to explosions or fire,” including those that would occur from the impact of a large commercial airliner. However, the Intervenor's contentions that STP has failed to meet the fire and explosion regulatory requirements, STP's submittal, and related documents are considered classified by the NRC and are not available to the public.

“The licensing process is likely to be delayed as a result of additional contentions,” said Hadden. “Delay and construction problems led to the first reactors at STP coming in six times over budget and eight years late.”

In their joint statement, the 18 groups criticized the DOE for weakening the terms of loan guarantees to favor borrowers, at the expense of taxpayers. Recently, for example, DOE proposed “to modify [its] regulations so as to eliminate the taxpayer as the primary claimant to fixed assets after a default, in order to make the loan guarantees more attractive to investors - such as the French and Japanese export-import banks. Thus, what seems to be cooking in DOE's secret loan guarantee laboratory is a ‘Son of Synfuels’ give-away, where securing loans for private nuclear companies takes precedence over protecting taxpayers. Public interest opponents of the use of the taxpayer-backed loan guarantees to subsidize new nuclear reactors therefore demand that DOE suspend the issuance of conditional loan guarantees as DOE has not demonstrated that it has in place a transparent process for protecting U.S. taxpayer-financed nuclear loan guarantees against default.”

The loan guarantees would put U.S. taxpayers – rather than investors – on the hook to pay back the loans should any of the projects default. According to a May 2003 Congressional Budget Office (CBO) report, the risk of default on loan guarantees for new nuclear plants is “very high – well above 50 percent.” The shift of liability to taxpayers underscores not only the necessity of public review and scrutiny of the loan guarantee program, but also begs the question of how effectively and to what degree DOE can mitigate financial risk to taxpayers through program administration.

Further, DOE has been criticized by the Government Accountability Office (GAO) and the DOE Inspector General for not setting up the necessary controls to manage the government's significant financial risk exposure. The GAO reported in July 2008 that “rather than taking and completing key steps to better ensure that the loan guarantee program would be well managed and accomplish its objectives, DOE focused on soliciting preapplications for proposed projects.” The report concluded that DOE is not “well positioned to manage the loan guarantee program effectively and maintain accountability because it has not completed a number of management and internal control activities key to carrying out the program.”

Imprudent loan guarantee administration is not a new experience for DOE. Failure to properly assess financial risk in a similar loan guarantee program in the late-1970s and early-1980s, forced DOE to cover significant losses on the risky synthetic fuels industry. Loan defaults on these projects led to a \$15 billion loss for U.S. taxpayers.

The full text of the joint statement can be found at: www.NukeFreeTexas.org