

IN BRIEF

TAXPAYER-BACKED LOAN GUARANTEES: WHY THE DOE SHOULD HALT PLANS TO ISSUE NUCLEAR LOAN GUARANTEES

THE ISSUE:

The Nuclear Regulatory Commission's (NRC) recent objection to serious safety problems in the AP1000 reactor design is just the latest setback of the so-called "nuclear renaissance" and shows that it would be contrary to the Obama administration's emphasis on ending reckless lending practices for the Department of Energy (DOE) to proceed with its plans for loan guarantees for any new reactors that are not finalized and licensed.

WHAT IS AT STAKE RIGHT NOW:

The DOE is intent on moving ahead with controversial plans to issue nuclear loan guarantees "soon," according to Energy Secretary Chu. These guarantees are part of the DOE's Title XVII Loan Guarantee Program. Two of the four new nuclear projects that the DOE is reported to be considering for taxpayer-backed loan guarantees are AP1000 designs. Of the other four designs currently being proposed in the U.S., three are not yet certified and one will have to be re-certified before it expires in 2012.

On October 15, 2009, the NRC made it clear that there are grave doubts if the current AP1000 nuclear reactor design structure can withstand hurricanes, earthquakes, tornadoes and other external impacts, as required by the NRC's regulations. Late last week, the NRC said that its "staff has informed Westinghouse that the company has not demonstrated that certain structural components of the revised AP1000 shield building can withstand design basis loads," and also stated that the unsuccessful efforts to secure information had gone on for a year. The NRC announced: "This is a situation where fundamental engineering standards will have to be met before we can begin determining whether the shield building meets the agency's requirements."

The AP-1000 problem is only the latest of many setbacks that will continue to cause the cost and risk of these projects to increase. For more information about the delays, cost increases and cancellations of the so-called "nuclear renaissance" thus far, see <http://www.psr.org/nuclear-bailout/resources/the-renaissance-that-wasnt.pdf>.

The fact that these guarantees might be "conditional" does not mean that taxpayers are protected. With fundamental questions surrounding the design, DOE cannot determine meaningful conditions for a "conditional guarantee." Even if these designs are eventually certified and the reactor is licensed, delay could increase costs by hundreds of millions of dollars, undermining economic viability. DOE cannot possibly calculate an accurate subsidy cost (the amount the borrower must pay to compensate the government for taking on the risk of the guarantee) or even the total amount of the guarantee. Does DOE plan to calculate the amount of the guarantee once the reactor has a license and a price-tag? Essentially, the DOE is saying "we promise billions in taxpayer dollars to back you whenever you figure out what you are going to do." The credit rating agency, Moody's, is unimpressed by loan guarantees, concluding that proposed loan guarantees for nuclear construction would "only modestly mitigate increasing risks" and that new nuclear reactors are "bet-the-farm" endeavors.

WHAT THE EXPERTS SAY:

- Edwin Lyman, senior scientist, Global Security Program, Union of Concerned Scientists (UCS) in Washington, DC, a position he has held since May 2003, said: **"The NRC's rejection of the revised AP1000 shield building is a hopeful sign that it is starting to recognize the major safety risks posed by novel and untested reactor design features and manufacturing approaches. The NRC should not license any new reactor unless rigorous testing shows it meets the highest safety and security standards. Those in Congress who are pressuring the NRC to accelerate its reactor licensing reviews need to be aware of the potentially disastrous consequences of forcing regulators to do a rush job."**

- Former Nuclear Regulatory Commission (NRC) member Peter Bradford, an adjunct professor at Vermont Law School and former chair of the New York and Maine utility commissions, said: **“The NRC's concerns about safety of the Toshiba-Westinghouse AP1000 design are only the latest illustration of the very high costs to which federal loan guarantees would expose U.S. taxpayers. Already in the last 18 months, more than half of the 25 nuclear reactors that the industry has said constitute the ‘nuclear renaissance’ have been canceled, or have been delayed by more than a year, or have experienced an upward cost revision of more than a billion dollars. These delays are very likely to increase the costs of the plants, turning some of them into economic white elephants of the sort with which the nuclear industry already has considerable experience. In anticipation of such an outcome, the industry has been seeking unprecedented federal loan guarantees to assure that the risks associated with new reactors will this time be borne by taxpayers.”**
- Henry D. Sokolski, executive director, Nonproliferation Policy Education Center, and former resident fellow at the National Institute for Public Policy, the Heritage Foundation and the Hoover Institution, said: **“In 2003, the Congressional Budget Office determined that ‘well over half’ of new nuclear reactor projects would be likely to default, leaving taxpayers holding the bag for billions upon billions of dollars. There’s plenty of reason to believe that this projection is all too relevant today. The last time the federal government pushed commercial-energy loan guarantees, it was for a single synfuels project, which, after years of mismanagement and technical difficulties, finally tanked, leaving the public with a bill for \$13 billion. Given the poor track record of nuclear reactor builders in meeting construction schedules and budgets, and the unpredictability of the federally backed financial schemes, Moody’s notified U.S. utilities that it would reduce their credit ratings if they went nuclear – even if the utilities secured federal loan guarantees. Recent news that the U.S. Nuclear Regulatory Commission has rejected a revised version of the most popular new reactor design, Westinghouse’s AP1000, suggests just how risky this business can be.”**
- Southern Alliance for Clean Energy (SACE) High Risk Program director, Sara Barczak said: **“What we are saying is very simple. This alarming situation -- in which one federal agency ‘hand’ does not seem to know what the other federal agency ‘hand’ is doing -- needs to end. With billions of taxpayer dollars at stake in the proposed nuclear loan guarantees, the Department of Energy owes it to the public to get on the same page as the NRC about these serious AP1000 reactor design problems. We believe that the DOE should assure the public that utilities considering problematic nuclear reactor designs, such as the AP1000, would not qualify for these loan guarantees. Otherwise the DOE is ignoring the NRC warning and deliberately putting taxpayer dollars at considerable risk.”**

FOR MORE INFORMATION ...

Eighteen groups from the four states with proposed new reactors in line for \$18.5 billion in loan guarantees also issued a statement calling the guarantees a “risky venture lacking accountability” that must be halted. The groups wrote: “Given the lack of transparency, the risk involved and the poor track record of the DOE with loan guarantees, issuance of the current loan guarantees must be put on hold and no further loan guarantees should be authorized by Congress.” (View the statement at

http://www.cleanenergy.org/images/position_statements/Loan%20Guar%20Group%20Statement%2010%2017%2009.pdf)

On October 17, 2009, 10 local groups from states with proposed AP1000 reactors called on the Energy Department to halt its loan guarantee process in the wake of the NRC warning about AP1000 safety issues. (View the statement at

http://www.cleanenergy.org/images/position_statements/DOE%20loan%20guarantee%20letter%2010%2020%2009.pdf)

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