Why Wall Street Wants America's Taxpayers to Finance Nuclear Power

For Wall Street, investment in new nuclear power projects is too risky.

Recently, six of Wall Street's largest investment bankers informed the Energy Department that they are unwilling to accept any financial risk for nuclear power loans. *"We believe these risks, combined with the higher capital costs and longer construction schedules of nuclear plants as compared to other generation facilities, will make lenders unwilling at present to extend long-term credit."*[1]

Pointing to the past experience, the banks stated that *"lenders and investors in the fixed income markets will be acutely concerned about a number of political, regulatory and litigation-related risks that are unique to nuclear power, including the possibility of delays."*

At the behest of the nuclear industry, the energy bill now before Congress shifts financial risk from Wall Street to taxpayers.

The legislation authorizes the Department of Energy (DOE) to *"guarantee up to 100 percent of any loan or debt obligation"* for energy projects, as long as the loan is no more than 80 percent of the total cost of the project.[2] Two years earlier the Congress authorized the DOE to provide loan guarantees for energy projects in the Energy Policy Act of 2005, but set a limit of 80%. According to the Nuclear Energy Institute, the nuclear industry's lobbying arm, some 17 companies and consortia are currently pursuing licenses for 31 new reactors, which would require more than $100 billion in loans.

Wall Street's financing fears are well founded.

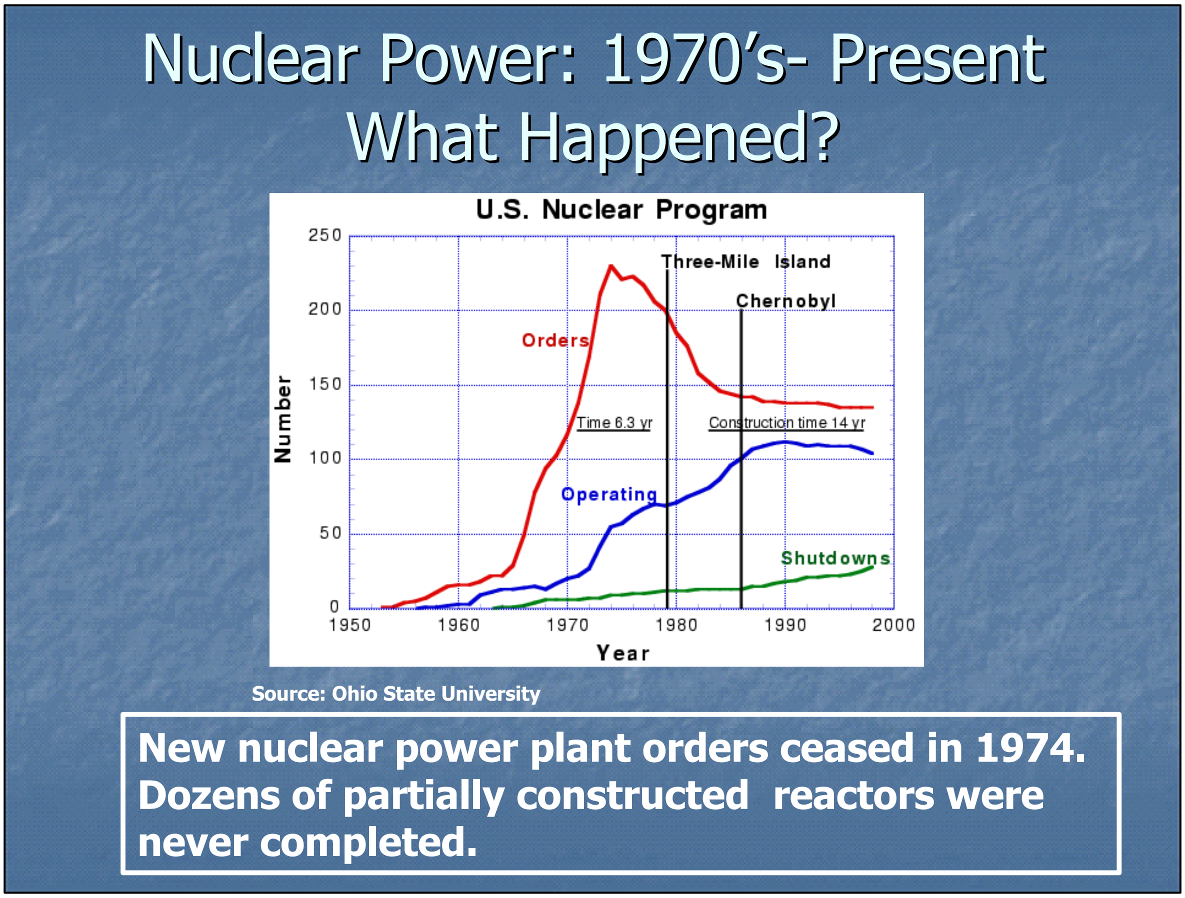
Despite massive subsidies and R&D investments, there has not been an order for a new nuclear power plant in the U.S. for almost three decades. By early 1985 the business magazine, Forbes declared, *"the failure of the U.S. nuclear power program ranks as the largest managerial disaster in business history."* In October 2007, Moody's Investor Service concluded that reactor costs could be twice as high as market estimates resulting in higher debts and a *"reasonably high likelihood their credit rating will also decline."*[3] There are several reasons why Wall Street wants American taxpayers to take the financial risks for nuclear power:

- **Cost inflation** – On average, capital costs for nuclear power plants in the U.S. increased two to three-fold during the 1970's and 1980's. The current experience with new reactor construction in Europe does not bode well. Olkiluoto-3 in Finland, the first nuclear plant ordered in Western Europe since the 1986 Chernobyl disaster, is **more than $2.5 billion over budget because builders have been unable to implement safety measures.**

- **Construction Delays** – Based on past experience new reactor licensing and construction is likely to take about 15 years. Eight new and different reactor designs are being considered in the U.S. – all which could impose significant demands on regulatory approval, and costly delays for one-of-a-kind construction equipment, reactor components and material.

- **Nuclear Waste Uncertainties** –The proposed Yucca Mountain disposal site is almost 20 years behind schedule. Moreover, DOE has concluded, by the time the Yucca Mountain Site would be full, nuclear power plants will have accumulated nearly the same amount of spent fuel stored at reactor sites today – requiring a second repository.

- **<u>The Three Mile Island (TMI 2) Accident of 1979</u>** – This accident dramatically demonstrated the financial risks of nuclear power. The cost for construction and cleanup of the accident was $2 billion -- the equivalent of over $10.6 million for every day TMI-2 produced electricity.



[1] Citigroup, Credit Suisse, Goldman Sachs, Lehman Brothers, Merrill Lynch, and Morgan Stanley, Comments in response to Notice of Proposed Rulemaking on Loan Guarantees for Projects that Employ Innovative Technologies (RIN 1901-AB21), 72 *Federal Register* 27471 (May 16, 2007), July 2, 2007
[2] The House passed H.R. 3221and Senate H.R. 6,
[3] Moody's Corporate Finance, Special Comment, October 2007.