

February 24, 2011

Mr Naoto Kan
Prime Minister of Japan

Honorable Prime Minister,

We are writing to urge you to prevent a loan guarantee from the Japan Bank for International Cooperation (JBIC) for the proposed atomic reactor project at the South Texas site in the U.S. state of Texas. Such a loan would entail extraordinary financial and social risk for the JBIC and the Japanese people.

All currently proposed reactor projects in the United States face a challenging economic environment caused by unfavorable market conditions; escalating projected construction costs; decreased electricity demand growth; low natural gas prices and increased competition from safe, clean renewable energy sources. With a deregulated, competitive power market and some of the lowest wholesale electricity prices in the country, Texas is a particularly risky U.S. state in which to invest in expensive new reactors.

The projected cost for the two South Texas reactors has increased from \$5.6 billion in 2006 to as much as \$18 billion today.¹ Last year, the City of San Antonio reduced its investment in the project by 85 percent because of the rising cost estimates. San Antonio's municipal utility, CPS Energy, sued their partner NRG Energy (the loan guarantee applicant) for \$32 billion, alleging fraud, illegal conduct, and conspiracy over cost estimates and citing NRG's deals with outside partners. NRG has been desperately pursuing other municipal utilities to commit to purchase electricity from the proposed reactors by promising fixed priced energy and other incentives that would further undermine the economic viability of the project.

New nuclear reactors in Texas would produce energy at far higher costs than the market price of power in the state. An independent assessment conducted for Texas' main grid operator ERCOT (Electric Reliability Council of Texas) found that the cost of the South Texas reactors would exceed the revenue they would generate in the market by 33 to 52 percent.²

Texas has a host of lower-cost alternatives, especially wind and natural gas, that will continue to meet the need for electricity. Texas is the number one wind market in the United States with more than 8,000MW in service. Natural gas reserves are adequate for 100 years, thus assuring low-cost energy for a long time. A 2010 analysis done for ERCOT projects per kilowatt capital costs for solar power to already be cheaper than nuclear power in Texas—a cost advantage that is projected to grow wider under every possible scenario envisioned.³ Currently, the average

¹ *Nuclear Expansion could cost \$18.2 billion*, San Antonio Express-News, December 23, 2009

² Potomac Economics, LTD., Independent Market Monitor for the ERCOT Wholesale Market, *2009 State of the Market Report for the ERCOT Wholesale Electricity Markets*, July 2010, http://www.puc.state.tx.us/wmo/documents/annual_reports/2009annualreport.pdf.

³ ERCOT Scenario Development Working Group, *Scenario Assumptions Spreadsheet*, , September 2010. <http://www.ercot.com/calendar/2010/09/20100910-SDWG>

wholesale cost for electricity in Texas is 3.7 cents per kilowatt-hour, while electricity from new reactors with capital costs in South Texas' range is estimated to cost between 12 cents to 20 cents per kilowatt-hour. Moreover, the large projected increases in electricity demand made just a few years ago – which served as the basis for many new reactor proposals – are now highly unlikely to be reached for another decade or more. This is partly due to the U.S. recession, of course, but also due to increasing energy efficiency throughout the U.S. economy.

Due to Japanese corporate involvement in the proposed South Texas reactor project, it might appear that it would make a good investment. The reality, however, is that the projects involving Japanese companies will suffer the same delays, design problems, financial difficulties and determined public opposition as other proposed nuclear projects.

Moreover, the history of U.S. nuclear reactor construction does not provide room for optimism. According to a 1986 study from the U.S. Department of Energy's Energy Information Administration (EIA), the average cost overrun of the first 75 U.S. nuclear reactor projects was 207 percent – or more than triple the original estimated cost.⁴ The cost overruns of the last 50 reactors built in the U.S. were even higher, reaching as much as 800% over-budget. Such extraordinary cost overruns led to multi-billion-dollar bond defaults, utility bankruptcy, and significant financial losses by utilities. Nothing in the U.S. experience suggests that new reactor projects will be any more successful at containing costs than past projects.

Just as we have warned American taxpayers and elected officials about these very serious financial risks, we also urge you to very carefully consider these risks before deciding to invest in new reactors in the United States. We respectfully suggest that Japanese taxpayers would not want to lose money on a U.S. reactor project. Nor would U.S. taxpayers want to bail out JBIC when the predictable losses occur. Such outcomes would obviously be uncomfortable on both sides of the Pacific.

cc:

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⁴ *An Analysis of Nuclear Power Plant Construction Costs*, January 1, 1986, Energy Information Administration, Technical Report DOE/EIA-0485

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