

November 1, 2010

The Honorable Jeffrey Zients
Acting Director and Deputy Director for Management
Office of Management and Budget

Dear Director Zients:

As you develop your Fiscal Year 2012 Budget Request, we urge you not to seek additional loan guarantee authority for the construction of new nuclear reactors under the Department of Energy's Title XVII Loan Guarantee Program. Allocating even more loan guarantees to these large, uneconomic projects will put U.S. taxpayers at even greater risk. The 2009 Omnibus indefinitely authorized \$18.5 billion for the construction of new reactors, of which \$10.2 billion remain unallocated despite the Administration's recent efforts to issue a second multibillion dollar loan guarantee for the Constellation project at Calvert Cliffs in Maryland. All proposed reactor projects face the same challenging economic environment caused by unfavorable market conditions, including escalating estimated construction costs, decreased electricity demand, and low natural gas prices. More loan guarantees will not resolve these fundamental problems

For example, Constellation's recent rejection of a \$7.5 billion loan guarantee for a new reactor at Calvert Cliffs indicates how poor the economics are for new reactors, especially merchant plants that must operate in competitive markets. Constellation rejected the loan guarantee even as the Administration said it was preparing more generous terms for the company. Since 2007, when Constellation first applied for a license from the Nuclear Regulatory Commission, the projected cost of the 1,600 MW reactor has more than doubled from \$4.5 billion to about \$10 billion while the price of natural gas has declined by over 25 percent. Constellation would have difficulty selling high-cost nuclear electricity into a competitive market. Moreover, projected electricity demand in the region has fallen dramatically. Demand in the PJM mid-Atlantic region in 2020 is projected to be 2,300 MW lower than was forecast in 2007, raising serious questions about the need for the additional power the reactor would produce. Furthermore, the PJM's latest capacity auction included a large increase in renewable energy, demand response and energy efficiency bids. Most significantly, the auction saw a 32 percent increase in competitive demand-side resources over the prior year; the 9,282 MW of low-cost, low-carbon capacity represent almost six times what a new reactor at Calvert Cliffs would provide.

The two proposed reactor projects in Texas that are in line for loan guarantees will face the same challenge: selling high-priced electricity into a competitive electricity market. A recent ERCOT market monitor report concluded that the cost of new South Texas reactors would exceed the revenue they would get in the market by 30 to 50 percent. Earlier this year, the City of San Antonio, the major investor in the South Texas Project, reduced its investment in the project by 85 percent after estimated costs jumped from \$13 billion to at least \$17 billion. Although the developer NRG is trying to find other investors for the project, the Associated Press quoted CEO

David Crane on October 13 as saying that he will cancel the South Texas Project if natural gas prices remain low – even if offered a loan guarantee.

Even proposed nuclear projects in rate-regulated states are facing these unfavorable market conditions. In South Carolina, Santee Cooper, the state-owned utility, recently announced that it is seeking other investors to take on part of its 45 percent share of two new reactors at VC Summer, another loan guarantee hopeful. At the same time, the investor-owned utility SCANA is struggling to find additional investors in the project. Of greater concern is that SCANA's \$9.8 billion cost estimate for two AP1000 reactors does not reflect the most recent estimates for reactors of the same design elsewhere in the country, which could easily double the announced cost of this project.

Loan guarantees will not change the fundamentally negative outlook for new reactors in today's economy. Therefore, there is no compelling reason for the Administration to raise risks to taxpayers by authorizing more nuclear loan guarantees in your FY2012 budget. We urge you to instead invest more broadly in cost-effective, low-carbon options like renewable resources and energy efficiency measures that can prevent more global warming pollution at lower cost and risk in the near-term.

Sincerely,

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Radioactive Waste Watchdog
Beyond Nuclear

Michael Mariotte
Executive Director
Nuclear Information and Resource Service

Anna Aurilio
Director, Washington DC Office
Environment America

Dave Hamilton
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