August 25, 2010

Hon. Steny Hoyer
United States House of Representatives
1705 Longworth Building
Washington, DC 20515

Dear Representative Hoyer,

Several recent media accounts indicate that you have been actively promoting the issuance of a Department of Energy loan guarantee (which will also entail a taxpayer loan from the Federal Financing Bank) for the proposed Calvert Cliffs-3 nuclear reactor that would be owned and operated by UniStar Nuclear Energy, which is owned by Maryland's Constellation Energy and Electricite de France.

We recognize, of course, that this proposed reactor would be in your Congressional District and thus you naturally have a strong interest in the project. However, we caution that support for this project at this time may be ill-advised. The economics of the project are suspect at best. There are growing indications that Constellation shareholders do not want to see this project pursued. The proposal faces considerable regulatory hurdles in obtaining a reactor design certification and subsequent construction/operating license. Constellation executives have stated publicly that they are not committed to building the reactor, even if a federal loan is provided for the project.

It is increasingly likely that rather than being a boon to Calvert County, Calvert Cliffs-3 is more apt to be a drain on taxpayers, Marylanders and Constellation shareholders, and even your own constituents.

The economics of Calvert Cliffs-3 are suspect

Not only would Calvert Cliffs-3 be in a competitive market, the economics of the project raise questions as to its viability under any market conditions.

Constellation CEO Mayo Shattuck testified last year before the Maryland Public Service Commission that Calvert Cliffs-3 would cost "about $10 billion" in "overnight" costs—i.e. if the reactor could be built overnight and finance and other charges could be avoided. Of course, those cannot be avoided, and the Pennsylvania utility PPL estimates a reactor identical to Calvert Cliffs-3 would cost $13-15 billion once those costs are factored in: http://www.bellbend.com/faqs.htm

This is a remarkable sum for a company that is valued at $7 billion (and which just two years ago, Warren Buffett valued at $4.7 billion).

Constellation's partner, Electricite de France, is much larger. But EDF seems unconvinced of the economics of the project either, and already has taken a $1.4 billion provision against anticipated losses on Calvert Cliffs-3 and its investment in other Constellation reactors. Such a provision would be devastating for a company the size of Constellation (one reason shareholders are opposed to the project). And the enormous costs of this project coupled with the size of Constellation raise questions about the ability of the company to repay federal loans if the project is further delayed and/or goes over budget.

This is not an academic question. Both of the two Areva EPR reactors (the design chosen for Calvert Cliffs-3) now under construction in Finland and France are substantially behind schedule (4 years for Finland and 2 years for France) and over budget (80% in Finland and 30% in France) despite being years from completion.

Constellation shareholders are turning against Calvert Cliffs-3
Several recent published reports indicate that Constellation Energy shareholders and investors recognize these risks and are hoping that this project does not receive a federal loan.

For example, on August 4, 2010, Jonathan Fahey of *Forbes* wrote:

> In the past week the two favorites for the next round of Department of Energy loan guarantees for new nuclear plants, NRG Energy and Constellation Energy, have announced they just can't take the wait any more and are dialing way back on spending until they hear some news.
>
> Turns out this is great news for investors: While the companies desperately want to win loan guarantees, their investors are hoping the companies lose out. With energy prices low and new nuclear construction so risky and expensive, investors would rather that their companies stick to more conventional businesses. http://blogs.forbes.com/jonathanfahey/2010/08/04/nuclear-loan-guarantee-wait-excruciating-for-constellation/

Jay Hancock of the *Baltimore Sun* wrote:

> The fact that Constellation stock goes down every time it looks like the plant will be approved suggests that even the people who own the company don't want it to happen. http://www.baltimoresun.com/business/bs-bz-hancock-calvert-nuclear-20100801,0,7296439.column

And *SNL Coal Report/Marketweek* quoted an analyst with Macquarie (USA) Equities Research (which downgraded Constellation's rating on July 29 because of the Calvert Clifs-3 project):

> "CEG's nuclear project in MD should soon receive a nuclear loan guarantee *and we are not happy about it*. The future of CEG's US$2bn 'put option' on its non-nuclear plants appears less promising, not to mention the project's questionable economics," Macquarie analyst Angie Storozynski said (emphasis added).

As a Maryland-based company, many of Constellation's shareholders are Marylanders and Maryland institutions, and Calvert County residents.

Calvert Cliffs-3 continues to face regulatory hurdles in design certification and licensing

As you know, UniStar is owned by Maryland's Constellation Energy and Electricite de France. The nature of this ownership, and whether it violates the Atomic Energy Act's prohibition against "foreign ownership, control, or domination" of a U.S. reactor project, has been accepted for litigation—likely next summer—by a Nuclear Regulatory Commission Atomic Safety and Licensing Board (ASLB). Regardless of how the ASLB rules, the issue is likely to be ultimately resolved by federal appeals courts.

Serious deficiencies in the EPR design, uncovered by U.S. and European regulators and whistleblowers, raise questions about when the EPR can be certified by the Nuclear Regulatory Commission, a step that must occur before a construction license can be granted. See, for example, http://www.nytimes.com/2010/07/27/business/global/27iht-renepr.html.

A construction license for Calvert Cliffs-3 certainly will not be issued before the end of 2012, raising questions about the need for a speedy resolution of the federal loan issue. Given the history of U.S. reactor construction—on average U.S. reactors have taken more than eight years to build—and the current experience in Finland and France, where eight years is the current projection, it is highly unlikely Calvert Cliffs-3 could become operational before 2020.

Constellation itself is not committed to building Calvert Cliffs-3, even if it receives a federal loan guarantee

Absent assurance of financing, it is understandable that UniStar/Constellation cannot absolutely commit to building Calvert Cliffs-3. However, Constellation executives will not commit to building *even if they receive a federal loan.* Instead they say they want to receive a guarantee before they make a determination whether they will build the reactor.

This would simply tie up federal loan funds on a project that increasingly appears to make little market sense.

On a July 28 second-quarter earnings call, Constellation CEO Mayo Shattuck pointed to “persistently low natural gas prices, the inability of the U.S. Senate to pass comprehensive climate change and energy legislation, and seemingly less-than-ideal short- and long-term power price outlooks” as market signals that indicate the project is no longer viable.

As a deregulated merchant plant, Calvert Cliffs-3 would face considerable competition from the pending Bluewater Wind offshore wind facility, the EmPower Maryland Act that seeks significant reductions in electricity demand through efficiency, and the ability of other potential competitors to build much faster and cheaper natural gas plants if electric demand warrants. Demand has been falling in our region and we note that despite the exceptional hot weather this summer, demand has not yet returned even to 2006 levels.

For all of these reasons, we urge a sense of caution in your support for Calvert Cliffs-3.

Sincerely,

Michael Mariotte
Executive Director
Nuclear Information and Resource Service
For the Chesapeake Safe Energy Coalition

The Chesapeake Safe Energy Coalition is composed of:
Beyond Nuclear
Chesapeake Climate Action Network
Chesapeake Physicians for Social Responsibility
Clean Water Action
Crabshell Alliance
Green Party (MD)
Nuclear Information and Resource Service
Public Citizen
Sierra Club, Maryland Chapter
Southern Maryland CARES

Cc: Maryland Congressional Delegation
Governor Martin O’Malley
Former Governor Robert Ehrlich