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SOUTHERN ALLIANCE FOR CLEAN ENERGY ♦ SUN DAY CAMPAIGN ♦ 2020 VISION ♦
WESTERN ORGANIZATION OF RESOURCE COUNCILS

February 2, 2009

Dear Senator:

The Senate Appropriations Committee has added an additional \$50 billion in loan guarantees to the American Recovery and Investment Act of 2009 to support energy technologies authorized under Title XVII of the Energy Policy Act of 2005. The vast majority of this authorization would likely go to technologies such as nuclear power and liquid coal. The nuclear industry has demanded \$122 billion in loan guarantees to construct 21 new nuclear reactors, according to the U.S. Department of Energy (DOE). There are numerous reasons why nuclear and liquid coal loan guarantees do not belong in an economic stimulus bill and we urge you to oppose this provision.

First, these industries will not provide significant stimulus. The nuclear industry is not ready to build new reactors in the near-term. Even under the best-case scenarios for the industry, no new reactors will even be licensed for at least three years and they will take another six or more years to build. Similarly, there are very few liquid coal facilities that can go forward today. This provision would essentially allow developers to pocket stimulus funding for later at the expense of more immediate opportunities.

Second, the U.S. Department of Energy (DOE) is not ready to manage such an enormous loan guarantee program. In July 2008, the Government Accountability Office (GAO) released a scathing report on the status of the program, finding that “instead of working to ensure that controls are in place to help ensure the program’s effectiveness and to mitigate risks, DOE has focused its efforts on accelerating program operations.” GAO recommended that DOE and Congress “limit the loan guarantee commitments...until DOE has put into place adequate management and internal controls.” Indeed, the DOE is not yet even prepared to disburse the \$38.5 billion loan guarantee program already authorized by Congress in 2007. Adding additional funds to a program that has difficulty applying the funds it already has will provide little stimulative effect. And adding \$50 billion more to a program that has not yet been proven to work would be fiscally irresponsible.

Third, loan guarantees for these technologies would create a significant liability to U.S. taxpayers. The Congressional Budget Office (CBO) estimates the likelihood of default for loans made to nuclear reactor developers to be “well above 50 percent.” Worse still, the loan guarantees permit much more highly leveraged financing (a four-to-one debt-to-equity ratio) for nuclear plants than would occur in their absence. High leverage is a key characteristic of the mortgage-backed securities that precipitated our current economic crisis. This appears to be little more than a preemptive and unnecessary bailout of the nuclear power industry.

The same is true for liquid coal. Financial viability is contingent upon factors well beyond the facility's control such as world oil price and carbon dioxide regulation. According to the National Energy Technology Laboratory, these facilities are economically feasible when oil prices exceed \$86 per barrel, assuming no price on carbon dioxide. Oil market volatility would expose taxpayers to bad investments as they are forced to cover the cost of nonperforming loans. At this time, the nation does not need more financial risk. Instead, funding should flow to measures of proven economic and environmental worth such as critical infrastructure repair, energy efficiency, and public transit.

Fourth, these risks are intensified by each technology's enormous capital costs. Estimates of construction costs for nuclear reactors have more than tripled since 2000. According to an October 2008 report by the credit rating agency *Standard & Poor's*, the costs continue to "soar" due to production bottlenecks, increasing costs of materials, and lack of trained workers and utility construction experience. Similarly, liquid coal facilities could cost up to \$125,000 per barrel of daily production capacity. A commercial scale 50,000 barrel per day facility could thus exceed \$6 billion in capital costs. Given the huge risks associated with nuclear and liquid coal development, it is unacceptable to ask taxpayers to shoulder the risk for these costly energy sources in the recovery package when renewable energy and energy efficiency can be made much more quickly, for much less money, and with little risk to taxpayers.

Fifth, these technologies should not be viewed as efficient jobs generators. Nuclear jobs are expensive to create and many actually would go to foreign workers. Few jobs would be created in the 2-year time frame of the stimulus bill. Based on the current estimated costs for new reactors, each nuclear job would require an investment of at least \$1.5 million, according to the Nuclear Energy Institute's own numbers. The October 2008 *S&P* report concluded that experienced personnel and management will have to be transferred from other countries, such as France and Japan. There is very little information on liquid coal job benefits since no commercial scale facilities have been built in the United States. However, the high cost of liquid coal facilities likely means that jobs will be expensive to create. Investments in renewable energy and energy efficiency will create more domestic jobs sooner and at less cost than nuclear power or liquid coal. In 2006, there were already 8.5 million green jobs in the fields of renewable energy and energy efficiency in the U.S., according to the American Solar Energy Society.

Finally, loan guarantees to the nuclear and liquid coal industries represent subsidies for technologies with demonstrated environmental liabilities and financial risks. Nuclear energy, for instance, is fully mature but chronically uncompetitive, exhibiting multibillion dollar cost overruns for a single reactor. The nuclear industry has made it clear that it wants taxpayer loan guarantees for nearly all of its proposed new reactors — itself an admission that the subsidies are not part of a market transformation strategy that moves toward self-sustaining economic viability for the technology. Liquid coal is a carbon intensive technology that produces nearly twice the lifecycle global warming pollution as conventional petroleum fuel. The disadvantages of nuclear and liquid coal technologies simply do not exist for renewable and energy efficiency projects. Moreover, if short-term "green jobs" are the objective, it makes no economic sense to attack the low-carbon energy problem with 10-year, high-cost, waste-generating nuclear power or dirty liquid coal plants, when numerous faster, cleaner and lower-cost energy solutions are available.

We are at a time when the integrity of our financial system is being sorely tested. A financial crisis is a particularly bad moment to pile more risky obligations on the shoulders of taxpayers

and the federal budget. We urge Congress to oppose this provision and instead focus on renewables, efficiency and conservation measures that can be deployed in the near-term, at low risk, and that will lead us to a clean and sustainable future.

Sincerely,

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