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Budget watchdogs see folly in U.S. loan guarantees for nuclear power

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President Obama's plans to jump-start expansion of a stagnant nuclear power industry is likely to encounter some resistance - and the most formidable foe may well be Wall Street and cost-conscious fiscal watchdogs rather than environmentalists worried about storing radioactive waste.

or the dollars-and-cents crowd, the big issue is a simple one: Who will pay?

Their evaluation of Mr. Obama's move, announced Tuesday, to back the construction of two nuclear reactors with \$8.3 billion in federal loan guarantees is one of caution and skepticism. The same holds for his proposal to expand the budget for loan guarantees for nuclear power from \$18.5 billion to more than \$54 billion in fiscal year 2011.

"Our opposition is not based on the type of power being planned," says Andrew Moylan, director of government affairs at the National Taxpayers Union, a federal spending watchdog. "It really is the fact that these guarantees could mean taxpayers losing big chunks of money, putting taxpayers on the hook for potentially very risky projects."

Even free-market advocates who favor nuclear power were adamant that Obama's proposed expansion of loan guarantees for nuclear power is a questionable move.

"We are missing a historic opportunity to expand nuclear power the right way [through private financing] and instead settling for a handful of government-subsidized reactors," says Jack Spencer, a research fellow for nuclear energy policy at the conservative Heritage Foundation. Expanding the federal loan guarantee program for nuclear power is "one of the most detrimental subsidies that could be offered."

A troubled history

In 1974, President Richard Nixon announced Project Independence - a plan to build 1,000 nuclear stations. Of the 253 reactors eventually ordered by the US utility industry, 71 were canceled before construction began, according to a tally by the antinuclear group Beyond Nuclear. Of the remaining 182 projects to receive construction permits from government commissions, 50 were abandoned during construction, with billions of dollars in investment lost. Another 28 were shuttered before their 40-year licenses expired, Beyond Nuclear reported.

Obama said, in announcing the loan guarantees, that "investing in nuclear energy remains a necessary step." Indeed, Wall Street investment banks are skittish of nuclear power projects and have expressed little interest in financing them - unless backed by the full faith and credit of Uncle Sam.

But some say the nuclear industry has had plenty of government support already.

Doug Koplow, president of the Boston energy consulting company Earth Track, says his analysis shows \$178 billion in public subsidies for nuclear energy from 1947 to 1999.

Against that backdrop, the Government Accountability Office in 2008 reported that the average risk of default on Department of Energy loan guarantees for all energy projects (including nuclear and other power projects) was about 50 percent. More pointedly, the Congressional Budget Office in 2003 said the default risk for new nuclear reactors would be "very high - well above 50 percent."

Even during the heart of the credit boom in 2007, Wall Street's seven biggest investment banks informed the US Department of Energy in a letter that -contrary to the government's expectations - they would require 100 percent federal loan guarantees for any funds they might loan to build new nuclear power plants.

That view was echoed last year on Wall Street, when a June report by Moody's Investor Service entitled "New Nuclear Generation: Ratings Pressure Increasing" termed new nuclear plants a "bet the farm" credit risk for the 14 utilities pursuing them.

"New Nuclear - The Economics Say No" was the title of a Citigroup report in November that cited surging costs for nuclear power in Britain - despite the British government's recent shift to support it. Citing cost overruns and delays on nuclear power projects in China and Finland, the report said that without loan guarantees from the British government, government-set minimum power prices, and other guarantees, "we see little if any prospect that new nuclear stations will be built in the UK by the private sector."

"It speaks volumes that nobody on Wall Street would risk a penny of their own to build a nuclear power plant," says Jerry Taylor, senior fellow at the Cato Institute, a libertarian think tank. "That tells us all we need to know about the wisdom of loaning money to utilities to build nuclear plants."

Breaking the dam of resistance?

Nuclear power supporters, however, are elated. Even though Obama offered a "conditional" loan guarantee - contingent on Nuclear Regulatory Commission license approval for the new plants - it is still a big boost for the Southern Co., recipient of the guarantees.

"We are honored by the administration's confidence in our ability to build the nation's first new nuclear power plant in more than three decades," David Ratcliffe, the Southern Co. CEO, said in a statement.

Obama's proposed \$54 billion in federal guarantees would back seven to 10 new plants, according to the Nuclear Energy Institute, a lobby group.

"This loan guarantee, and others to follow, will act as a catalyst to accelerate construction of new nuclear plants," said a statement from the group.

The federal government's move will probably ensure that the project goes forward - and lowers the risk for the company, which must still come up with several billion of its own funds for the project, some analysts say.

"I certainly don't see Southern Co. defaulting," says Justin McCann, senior equity analyst at Standard & Poors in New York. "They have a strong balance sheet and probably would have been able to go through this project without the guarantee."

That does little to mollify fiscal watchdogs - especially those with an eye on US Senate legislation that, if passed, could exempt such loan guarantees from congressional oversight, potentially allowing an unlimited off-balance-sheet expansion of federal loan guarantees.

"These loan guarantees are not just free money that pours out of the sky. These bills come due," says Mr. Moylan at the National Taxpayers Union. The problem, he says, is that politicians find loan guarantees to be an easy way to promote an industry, but that a decade or so down the road there's the risk that some of these projects could go belly-up.

"This is not uncharted territory," Moylan says. "We've paid billions to cover losses on some of these projects in the 1970s and '80s. We're saying there's potential for a lot more red ink in the future."