ONE HUNDRED TWELFTH CONGRESS

Congress of the United States

House of Representatives

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August 3, 2011

The Honorable Steven Chu
Secretary
Department of Energy
1000 Independence Ave. SW
Washington, D.C. 20585

Dear Secretary Chu:

We are writing to request a meeting concerning a report issued today by the Congressional Budget Office (CBO) evaluating the Department of Energy's (DOE) credit subsidy fees for federal loan guarantees of new nuclear power plant construction projects. The fee is intended to equal the risk-adjusted, net present value cost of a default after recoveries. Theoretically, the credit subsidy fee is designed to insulate taxpayers from the financial risks of default on nuclear plant construction loans.

This CBO analysis was requested in the previous Congress by Rep. Kucinich. The Domestic Policy Subcommittee, which he chaired, held a hearing on April 10, 2010, to examine the economics of new nuclear plant construction. The Subcommittee was concerned that the computer model that DOE was using to determine subsidy fees did not accurately reflect the true risk of default. These potential deficiencies could have significant consequences to taxpayers, requiring multi-billion dollar bailouts in the event of defaults on new nuclear plant construction projects.

Following the hearing, Chairman Kucinich issued a document request for materials related to the computer model used by DOE to calculate credit subsidy fees for nuclear power plant construction projects. DOE and the Office of Management and Budget (OMB) expressed reservations, in view of the confidential and proprietary nature of the information requested. After several meetings, Chairman Kucinich and OMB Director Orszag reached a compromise by which OMB and DOE would provide the information to CBO, which would evaluate the computer model and the data and report its results to the Subcommittee. On July 2, 2010, Chairman Kucinich wrote a letter to CBO Director Douglas Elmendorf requesting a report on these issues. OMB and DOE provided information to CBO on terms negotiated among those three agencies.

After a year long examination, CBO issued a report today concluding that "estimates of guarantee costs are significantly lower than the corresponding fair-value estimates, which provide a more comprehensive measure of the cost to taxpayers." In the most favorable scenario, in which the utility involved has an "A" credit rating and the recovery from a default is expected to be 75%, the credit subsidy fee is only one-tenth of what the "fair-value" credit subsidy fee would be.

We do not have any reason to believe that DOE's calculation of credit subsidy fees for other energy technologies is inappropriate. But in light of CBO's findings, the continued use of this current model to establish credit subsidy fees for nuclear reactor construction projects could expose taxpayers to the risk of billion dollar bailouts. For this reason, we request a meeting with you at your earliest opportunity to discuss CBO's report and its implications.

Sincerely,

Elijah E. Cummings
Ranking Member
Committee on Oversight and
Government Reform

Dennis J. Kucinich
Ranking Member
Subcommittee on Regulatory Affairs,
Stimulus Oversight and Government Spending

cc: The Honorable Darrell E. Issa, Chairman
Committee on Oversight and Government Reform

The Honorable Jim Jordan, Chairman
Subcommittee on Regulatory Affairs, Stimulus Oversight and Government Spending