

WebMemo



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Grading the Gang of 10's Nuclear Energy Proposal

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In recent weeks, five Democrats and five Republicans have united in a bipartisan effort to overcome Washington gridlock over energy policy. Among the energy sources addressed in the so-called Gang of 10's proposal¹: nuclear. Although a number of versions of the plan are circulating, the nuclear provisions in the latest draft would result in the following:

- An increase in the Nuclear Regulatory Commission (NRC) staff;
- The creation of a federal nuclear workforce training program;
- The creation of an interagency working group to promote domestic manufacturing;
- The funding of a spent fuel recycling research and development facility;
- Expansion of the insurance program created by the Energy Policy Act of 2005 (EPACT 2005) to protect against government caused delays;
- Clarification of the EPACT 2005 loan guarantee program; and
- A shortening of asset depreciation schedules.

Although some of these policies are important steps forward, some are unnecessary or fall short.

Increasing NRC Staff

Grade: Incomplete

The United States NRC is responsible for granting permits for plant designs, construction, location, and operation.² Therefore, increasing NRC staff could marginally help streamline the process.

However, simply adding staff is not enough. It does nothing to change the process or the regulations and does not recognize the fact that it takes about two years to train new regulators.

Instead, the proposal should institute a fast-track program aimed at halving the time for granting a construction/operation permit for certain new plants.³ Such a proposal would direct the NRC to focus its efforts on fast-tracked applications. To participate in the program, the new plants would have to be of an NRC certified design, be located on a site that already has a plant, and be operated by an experienced nuclear operator. In order to support the plan, Congress should provide the NRC with the appropriate resources and direct America's national laboratories to organize in support of the effort.

Creating an Interagency Working Group to Promote the Domestic Nuclear Industry

Grade: B

An interagency working group to help expand America's nuclear industrial base could be useful. Despite numerous departments, agencies, groups, and individuals in the U.S. government that support nuclear energy, no comprehensive and cohesive policy on nuclear energy supplier issues exists. The

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result is often an inefficient and confusing application of policy in real-world situations. This is further complicated when multiple government stakeholders have different interpretations of different issues. Having an entity through which the nuclear supplier industry could coordinate its needs with the federal government would prove invaluable. Every effort should be made, however, to ensure that it does not become a forum to divvy out new subsidies. Instead, such a group must focus on solving the many regulatory, trade, waste, and national security issues that continue to impede the efficient progress of nuclear energy in the United States.

Creating a Federal Training Program for New Nuclear Workers

Grade: F

The Gang of 10's subsidy-centric proposal to rebuild America's nuclear workforce is neither needed nor appropriate. Companies have already begun investing in commercial nuclear manpower and capacity despite the fact that no new reactor construction has begun.⁴ Those that make the right investments today will be the ones best positioned to take advantage of future nuclear markets.

Federal intervention only distorts the risk of these companies, causing them to either make investments that they otherwise would not or discount the costs for an investment that they would have made anyway. Either case will result in an inefficient marketplace, and, eventually, a weaker overall industry. Instead, Congress should take steps that free industry to pursue nuclear (and other) energy projects with confidence. A stable regulatory environment is far more important to the long-term health of the nuclear industry than any short-term subsidies. Congress should promote industrial independence,

not create dependencies that are inherently unstable for long-term business planning.

Funding Construction of a Nuclear Fuel Recycling R&D Facility

Grade: D

The G-16 should be applauded for addressing the used nuclear fuel/waste issue. However, the group's proposal to build a used fuel recycling research and development facility fails to adequately address this issue. Indeed, this proposal could perpetuate the underlying flaw of the current strategy—that nuclear operators, who have the most to gain from a solution, have no responsibility for used fuel management. The federal government is responsible for the service, which is financed through fees collected from ratepayers. Although the government has collected nearly \$30 billion (fees plus interest), it has not collected any used fuel. The problem could be fixed by giving nuclear operators the responsibility of managing used nuclear fuel. This would create the incentive for the private sector to develop an economically rational and sustainable used fuel management strategy. The federal government's role would be to protect public health and safety through its role as regulator.

Expanding Standby Support Insurance

Grade: C

The proposal expands the standby support insurance established by EPACT 2005, which insures against government induced regulatory delays.⁵ The program, though critical, should not be extended. It currently provides \$2 billion in coverage for the first six nuclear plants (\$500 million for the first two plants, \$250 million for the next four). The G-16 proposal would expand that number, covering 12 plants for up to \$500 million each. The program is

1. The bill is also known as the "Gang of 16" bill, as six more senators have signed onto it.
2. Nuclear Regulatory Commission, *New Reactors*, at <http://www.nrc.gov/reactors/new-reactor-licensing.html> (August 21, 2008).
3. A forthcoming Heritage Foundation *WebMemo* will explain fast-tracking new nuclear reactors.
4. See, for example, John Delano, "Westinghouse: Nuclear Energy In Renaissance" May 28, 2008, at <http://kdka.com/local/Westinghouse.nuclear.power.2.735210.html> (September 8, 2008); press release, "Gov. Jindal, The Shaw Group, Inc. and Westinghouse Announce Module Fabrication and Assembly Facility in LA," August 26, 2008, at <http://www.southerngovernors.org/SGA-Today/tabid/67/ctl/ArticleView/mid/824/articleId/2861/default.aspx> (September 8, 2008).
5. Energy Policy Act of 2005, Sec. 638: Standby Support for Certain Nuclear Plant Delays, at <http://thomas.loc.gov/cgi-bin/query/F?c109:6:./temp/~c109jbBqxE:e646137> (September 8, 2008).

necessary to help offset the risk posed by an unknown and potentially unstable regulatory environment. However, the first six plants should provide adequate time and experience to remove most regulatory uncertainty. The proposal also allows the secretary of energy to replace old contracts that expire without claims being paid with new ones for new projects. This amendment to the original standby support program authorized by EPACT 2005 should remain so long as there are no more than six total insurance contracts at any one time and the total insured amount does not exceed \$2 billion.

Clarification of the Federal Loan Guarantee Program

Grade: C

The plan expands what project costs are eligible for EPACT 2005 loan guarantees. The important policy moving forward with regard to loan guarantees is that the program not be expanded in terms of dollar amount beyond what has already been legislated. Loan guarantees for the first few nuclear plants may be legitimate as a means to offset the risk posed by uncertain government regulation. However, the nuclear renaissance should not be dependent on these types of programs.

Accelerating Depreciation of Nuclear Power Facilities

Grade: A

In order to determine each year's tax liability, a capital asset's value is generally deducted from a

business's taxable income over a period of years. The rate at which this value is deducted is generally determined by its depreciation schedule specifying the rate of depreciation and the number of years over which the asset is to be depreciated. The fewer the years, the faster a business can claim the investment's tax deduction, thus maximizing its value. One important G-16 proposal would reduce the depreciation schedules for nuclear power facilities from 15 years to five years, thereby reducing the tax bias against investment in these facilities. This proposal also brings nuclear in line with other non-CO₂-emitting energy sources like wind and solar, thus ensuring that, at least from a tax liability perspective, all non-CO₂-emitting energy sources are treated equally.

Improvement Needed. Although the Gang of 10's energy plan has been subject to a great deal of criticism, they should be applauded for their bipartisan efforts to restore the nuclear energy industry in the U.S. But it is important to distinguish the good nuclear policy from the bad. Overall, the G-16 proposals need improvement. The government should focus on ways to reduce risk associated with the past and provide the proper oversight while allowing the private sector to rebuild the industry and develop solutions for the future.⁶

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6. For a top 10 list of things that Congress could do to achieve this, see Jack Spencer, "Nuclear Power Needed to Minimize Lieberman–Warner's Economic Impact," Heritage Foundation *WebMemo* No. 1944, June 2, 2008, at <http://www.heritage.org/Research/EnergyandEnvironment/wm1944.cfm>.