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UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548



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Expected at 9:00 A.M.  
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STATEMENT OF  
J. DEXTER PEACH  
DIRECTOR  
RESOURCE, COMMUNITY AND ECONOMIC DEVELOPMENT DIVISION  
BEFORE THE  
SUBCOMMITTEE ON ENERGY RESEARCH AND PRODUCTION  
HOUSE COMMITTEE ON SCIENCE AND TECHNOLOGY  
ON  
PRIVATE FINANCING FOR THE CLINCH RIVER BREEDER REACTOR

Madam Chairman and Members of the Subcommittee:

We welcome the opportunity to be here today to discuss the proposed private financing for the Clinch River Breeder Reactor (CRBR). During the past few months, we have issued two reports on the Department of Energy's (DOE's) efforts to obtain additional private financing for the CRBR project.<sup>1</sup>

In March 1983, DOE and a task force of the Breeder Reactor Corporation (BRC)--a company representing utilities who have contributed funds to the CRBR project--issued reports that described a potential framework for obtaining private financing for the CRBR. On May 12, 1983, we reported, that they

--represented the beginning of a process that would require much more work before a detailed private financing proposal is developed,

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<sup>1</sup> Analysis of Studies on Alternative Financing for the Clinch River Breeder Reactor" (GAO/RCED-83-151, May 12, 1983) and "Comments on a Plan for Obtaining Private Financing for the Clinch River Breeder Reactor" (GAO/RCED-83-226, Aug. 22, 1983).

--represented a trade-off between short-term budgetary savings against possible higher overall Government costs for the project, and

--provided insufficient information to adequately analyze the tax benefits associated with attracting private financing.

On August 1, 1983, DOE submitted to the Congress a more definitive financing plan which was also prepared by the BRC task force. We reviewed this plan and provided you with our comments on August 22, 1983.

#### OVERVIEW COMMENTS ON FINANCING PLAN

The August plan provides more information on project organization, debt financing, equity financing, and tax benefits. However, the basic concepts remain the same--that with Government guarantees, the revenues from CRBR-generated electricity, and available tax benefits, investors could be found to finance a portion of the remaining CRBR cost. The private sector financing would produce budgetary savings during the CRBR's construction. But, such savings would be a trade-off against either future reductions in Federal revenues or additional budget outlays. Specifically, the revenues expected to be produced from the sale of CRBR-generated electricity will be used to pay back private investors. If, however, the revenue is inadequate, the plan calls for the Federal Government to provide funds necessary for operating expenses and repayment of the private investment.

The latest plan calls for the project to be a joint venture comprised of the Federal Government and a partnership of private investors. The Secretary of Energy--following enactment of

appropriate legislative authorization--would transfer title of the CRBR powerplant to the joint venture. The Government and the private investors would own the project in proportion to their respective investments.

About \$1.66 billion have already been spent on the CRBR project. DOE currently estimates that an additional \$2.5 billion will be required to complete the project. The BRC task force plan calls for the joint venture to raise about \$1 billion toward that remaining cost. About \$675 million of the \$1 billion would be provided from debt (loans and bonds) financing while about \$150 million would be raised by selling equity shares in CRBR. The remaining \$175 million would be the remainder of the contributions, including any interest earned on the contributions while held in escrow, pledged by electric utilities at the outset of the project.

#### DEBT FINANCING

The plan states that the initial private sector debt financing would be provided from \$675 million in short-term (1984 through 1990), 10-percent construction loans. BRC task force officials believe these loans will be available from several large private lenders. The construction loans (including interest) would then be retired by having the joint venture issue 30-year bonds in 1990. BRC task force officials estimate that the bonds would carry a 10-percent interest rate and would be underwritten by investment bankers. The 30-year bonds would be retired using revenues from the sale of CRBR electricity. The plan states that interest paid to the bondholders would be taxable.

BRC task force and investment banking officials point out that the 10-percent interest rate anticipated for the construction loans and the 30-year bonds is only an estimate. The actual interest rate paid will reflect market conditions at the time of issuance. BRC task force officials have stated that if market interest rates are higher than 10 percent, a share of CRBR power sale revenues may be offered to investors to maintain the 10 percent rate.

#### EQUITY FINANCING

The BRC task force also anticipates raising \$150 million by selling equity (partnership) shares in the CRBR. Shares will be sold by the investment bankers, although the plan does not specify who might purchase the shares. The return to the equity investors will be in the form of tax benefits and a share of the CRBR revenues available after the bondholders and operating expenses are paid. Task force officials stated that the distribution of such revenues will be made in accordance with a ratio that will be determined when the shares are sold.

#### TAX BENEFITS

Tax benefits for the equity participants are better defined in the task force's new plan than in the March 1983 reports. The new plan specifies that the participants will receive only those tax benefits available to investors in any similar private project. The plan states that the equity participants will be entitled to investment tax credits and tax deductions for accelerated depreciation; research and development expenses; and deductible costs, such as the interest paid by the joint venture

on the loans. The equity shareholders' tax benefits would be based on the total private investment--both debt and equity investment combined--not on the equity share alone. That is, for an equity investment of \$150 million, the investors would receive tax benefits on the total new private investment of \$825 million (the \$1 billion private investment minus the remainder of the utilities' pledged but unpaid contributions). Because the investors and their respective tax obligations are currently unknown, the net effect of private investment in the CRBR on Federal tax revenues is uncertain at this time.

#### UTILITY CONTRIBUTIONS

The plan also considers \$175 million in utility contributions to be part of the \$1 billion private investment package. This is not, however, a new contribution but the remaining undelivered portion of the utilities' original \$257 million pledge plus the interest utilities' contributions have or will earn while in escrow.

#### GOVERNMENT FINANCING

The plan envisions that all costs to complete the project over and above the \$1 billion private investment (DOE estimates these to be \$1.5 billion) will be paid by the Federal Government. Thus, the private financing plan would require the Congress to enact a \$1.5 billion appropriation, with obligations to be made over the next 7 or more years as needed for plant construction. In the event of cost overruns, construction schedule delays, operating problems, or insufficient electric power sale revenues, the plan calls for the Federal Government to provide all additional funds.

## GOVERNMENT GUARANTEES AND RISKS

The plan also calls for the Federal Government to guarantee that the equity investors' tax benefits associated with the CRBR will be realized and that, if CRBR is not completed, licensed, or operated as planned, the equity investors and bondholders will be repaid--both their investment and a rate of return on their investment to be agreed upon during future negotiations. Thus, the March reports and the more recent plan emphasize that private financing can only be obtained if the Federal Government retains all project risks by guaranteeing that the Federal funding will be provided when needed, the CRBR will be built and licensed on schedule, and it will operate and produce revenues as projected.

Before concluding my statement one basic point must be made. Over the past few years, we have issued numerous reports dealing with various aspects of the breeder reactor research and development program and more specifically with the CRBR. We have consistently pointed out that the breeder program is a research and development program and that construction of a demonstration plant such as the CRBR or a similar demonstration project is a logical step in the research and development process.

In that context, discussion concerning the future of the breeder program in general and CRBR in particular rests on a broad range of issues. Among those issues are CRBR's role in breeder reactor research and development, project costs and related budget implications, the need for and timing to bring breeder reactors on-line, the projected availability of uranium ore to fuel the current generation of light water reactors, and projected demand

for electricity and nuclear power's role in meeting that demand. Thus, decisions about the future of the CRBR ultimately require economic, value, and political judgments by the Congress against the backdrop of a wide range of issues.

← This concludes my prepared statement. We will be glad to answer any questions.

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Since March 1983 we have been reviewing issues related to how increased private financing can be provided for the Clinch River Breeder Reactor (CRBR). We have reported on the financing framework which DOE and the Breeder Reactor Corporation (BRC) presented in March 1983 and the more recent BRC financing plan which DOE transmitted to the Congress in August 1983.

DOE and the BRC concluded that with appropriate Government guarantees the CRBR project should be able to attract an additional \$825 million in new construction financing. \$675 million would result from the sale of bonds and \$150 million would be raised from the sale of equity shares. An additional \$175 million would come from the remainder of already committed utility contributions plus interest earned on such contributions while held in escrow. The bonds would be repaid from electricity sales revenue and the equity shareholders would realize all tax benefits available under the existing tax code on the total new private investment of \$825 million. Also, equity investors may be assigned a share of any excess profits resulting from the sale of CRBR generated electricity. Our overall assessment of the DOE and BRC approach is that private financing represents a tradeoff between short-term budgetary savings and possible higher overall Government costs for the project.

It should be kept in mind that, with the possible exception of the funds already committed by the private utilities, the Government would maintain all project risks under private financing just as it does under Government financing. The Government initially assumed this risk because the CRBR is a demonstration project representing one further step in a long-term research and development process that is intended to make breeder reactors available as a future source of electricity. As an R&D project the future of the breeder program in general and CRBR in particular rests on a broad range of issues. Among these issues are CRBR's role in breeder R&D, project costs and related budget impacts, the need for and timing of commercial breeder reactors, the projected availability of uranium ore to fuel the current generation of light water reactors, and the projected demand for electricity and nuclear power's role in meeting that demand.



I should emphasize that GAO takes no policy position on building the CRBR. Rather, we believe decisions about its future require a combination of economic, value, and political judgments by the Congress against the backdrop of a wide range of issues. We hope our testimony today can add to your understanding of the issues.