

Michael J. Wallace

Vice Chairman and COO
Chairman, UniStar Nuclear Energy
Chairman, Constellation Energy Nuclear Group

100 Constellation Way
Suite 1800P
Baltimore, Maryland 21202-6302
410.470.2877
410.470.5767 Fax
mjw@constellation.com



Constellation Energy

October 8, 2010

The Honorable Dan Poneman
Deputy Secretary and Chief Operating Officer
U.S. Department of Energy
Forrestal Building
1000 Independence Avenue, SW
Washington, DC 20585-1000

Dear Deputy Secretary Poneman,

SUBJECT: Calvert Cliffs #3 Loan Guarantee

For the better part of the last year, Constellation Energy and our partner Electricite de France (EDF), through our joint venture, UniStar Nuclear Energy (UNE), have worked with the staff at the Department of Energy's Loan Guarantee Program Office to advance our application and receive a conditional commitment for a loan guarantee for the Calvert Cliffs #3 nuclear plant project under Title XVII of the Energy Policy Act of 2005. However, for the reasons described in more detail below, in light of the significant and ongoing uncertainty created by the Office of Management and Budget's inability to address significant problems with its methodology for determining the project's credit subsidy cost and the unreasonably burdensome conditions a loan guarantee under this approach would require, we regret to inform you that Constellation Energy does not see a timely path to reaching a workable set of terms and conditions that would be economically reasonable and statutorily justifiable. While it may yet be that our partner EDF is able to proceed in the face of such uncertainty, Constellation Energy is unable to do so.

As our discussions got underway in earnest earlier this year, we were very hopeful that the DOE process would produce a workable set of terms and conditions that would enable the project to advance to the next stage. The professionalism and dedication of the program office was first-rate. The staff were very clear about what was needed to ensure appropriate risk-mitigation for the taxpayer and worked with us to craft conditions to meet those needs, providing a foundation for us to work with our partners on an appropriate internal allocation of those risks. As you know, however, as our application went through preliminary credit review during the Summer, we were surprised to be presented with a shockingly high estimate of the credit subsidy cost that we and our partners would have to pay the U.S. Treasury in order to obtain the loan guarantee: 11.6%, or about \$880 million. Such a sum would clearly destroy the project's economics (or the economics of any nuclear project for that matter), and was dramatically out of line with both our own and independent assessments of what the figure should reasonably be.

During the course of our discussions, Constellation Energy and our partners identified a significant problem in the methodology that the OMB requires for the credit cost calculation, a problem that is applicable beyond just our project, and therefore of significant program and policy consequence. Yet, in seeking to explore this further, we encountered significant delay and resistance in being able to even engage on the issue. After finally being able to detail our analysis of the problem and possible solutions to key officials, and after Congress held a hearing exploring the broader problem, we understand the

The Honorable Dan Poneman
Page Two
October 8, 2010

Administration may convene an interagency process to consider it further. But the timing of such discussions, their ultimate conclusion, and the prospect of a reasonable outcome remain wholly uncertain.

While all of this was pending over the last couple of months, the program office quite constructively undertook a "work around" to see if there might be a reasonable and responsible way to deal with the excessive credit subsidy cost issue within the context of the existing, albeit flawed methodology it has to work with. We have now gone back and forth several times on different sets of such ideas. Each iteration, though, has produced ideas for new conditions that not only would make the project economics and risks more, not less, challenging, but also failed to meaningfully and sufficiently lower the credit subsidy cost number—further underscoring the fundamental and unrealistic flaws that persist in OMB's methodology.

The added risks in such ideas are all the more untenable in light of other factors currently challenging the development of new nuclear plants, including the lack of energy security and climate change legislation, declining natural gas prices, and rising costs of plant construction. In any event, the purpose of the loan guarantee program is supposed to be to provide sovereign support to help bridge the financial risks inherent in such long-term, capital intensive projects, not increase such risks.

Constellation Energy has been and will remain a dedicated and steadfast proponent of the need for new nuclear energy in America to help address the nation's critical energy security, air quality and climate change mitigation objectives. Over the last five years, we have labored tirelessly with our partners and spent substantial sums to make that commitment tangible through the creation of the UniStar joint venture and the development of the Calvert Cliffs #3 project. And we are fortunate to enjoy a tremendous amount of support from our communities, labor, our state and county government, and our congressional delegation. But, we could only sustain such an effort for so long in the face of such unrelenting uncertainty. That time, regrettably, has now come due.

Our Partner EDF is aware of our views. We are confidentially providing a copy of this letter to our partner EDF and to the management of our joint venture UniStar Nuclear Energy. At this point, we believe that the next steps on the loan guarantee process are for EDF to determine.

We deeply appreciate and have the highest praise for the superb work performed by the DOE Loan Guarantee office throughout this entire process. We wish that we could have come to a better position at this time.

Sincerely,



Michael J. Wallace

MW:mag

cc: Jonathan Silver, DOE
Jean-Pierre Benque, EDF
George Vanderheyden, UniStar Nuclear Energy