The Next Solyndra*

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After weeks of outrage over an ill-fated $535 million federal loan guarantee to Solyndra — a bankrupt, politically backed solar-energy company — you'd think Washington would back away from such boondoggles. Yet, there's a good chance lawmakers will do it again, this time awarding a $2 billion loan guarantee to an Ohio nuclear-fuel project that, like Solyndra, is almost certain to fail. But rather than being a liberal project to promote "green" energy and enrich Democratic donors along the way, this loan guarantee is an attempt of Ohio politicians — of both parties — to bring the bacon home to their swing state.

Rejected for a loan guarantee back in 2009, the troubled United States Enrichment Corporation (USEC), based in Maryland, has lobbied hard to get the Department of Energy (DOE) to reconsider their case. On October 21, USEC's insistent pleading paid off: DOE announced it would spend up to $300 million to help USEC reduce the technical problems that forced DOE to reject USEC's original application.

Never mind that Moody's just gave USEC a junk-bond credit rating. Ohio's Sen. Rob Portman (Republican and member of the Senate Energy Committee), Sen. Sherrod Brown (Democrat), and Rep. John Boehner (Republican and speaker of the House) all insist USEC deserves federal support and have urged the president to live up to his own pledge to back a loan guarantee for the project. That promise was made — you guessed it — during President Obama's 2008 presidential bid to drum up Ohio votes.

That the massive uranium-enrichment machines that USEC is trying to deploy are still failing in demonstration tests doesn't really seem to matter. Four months ago, the Nuclear Regulatory Commission reported that six of these machines, which are based on an exotic U.S. Department of Energy design, "crashed" in what was supposed to be a validation run. USEC has already spent nearly nine years and $2 billion to develop these machines but still needs $3 billion to complete the project.

It also doesn't help that USEC has few, if any, firm contracts for the uranium-enrichment services the machines are supposed to afford. Like Solyndra, USEC has a customer problem. That, along with the technical riskiness of the centrifuge design, is a key reason why USEC wants federal taxpayers to guarantee the project. A quick review of USEC's competition shows why the company will have a hard time penetrating the market.

First, there's Louisiana Energy Services, which operates a large European-designed plant in New Mexico. It secured enough fuel contracts that it didn't have to ask for a federal loan guarantee. It also has sufficient cash flow to finance the plant's expansion if needed. Its enrichment technology is proven and much less expensive than USEC's.

Then there is Areva SA, a French-government-owned firm that secured a $2 billion federal loan guarantee to build a large uranium-enrichment plant in Idaho. It needed the guarantee because, like USEC, it lacks enough firm contracts to cover its construction and operation costs. However, unlike USEC, Areva SA's plant is based on proven enrichment technology (the very same technology that is operating in New Mexico). Even so, AREVA, which has financial troubles of its own, recently announced that it was putting this project on hold until it was clear that investing in it would produce profits.

Finally, there is the GE-Hitachi enrichment venture now underway in Wilmington, N.C. This project could blow all of the competition away, since it uses a new technology known as SILEX, which promises to produce enriched uranium for one-third to one-half the cost of any deployed enrichment system.

Given all these other options, why would anyone back USEC? The project's supporters contend that supporting USEC will guarantee

400 long-term jobs and ensure an entirely American source of enriched uranium. This, of course, assumes that USEC won't go under before its machines start working. Also, if USEC finally fails and federal taxpayers become responsible for the loan, as is likely, those 400 jobs will come at a pretty high price — up to $5 million apiece.

As for the national-security argument, it's a head scratcher. Why do we need a purely American source of enriched uranium — that is, why would the URENCO or the French bug out of operating in the U.S.? If there are legal barriers to using this supply for national security emergencies, we could simply change the law. As for our military, it has enough enriched uranium stockpiled to replenish our arsenal and naval reactors for nearly 100 years.

All of this brings us back to the Beltway take on helping USEC: The Ohio project, Washington insiders whisper, is hardly any worse than Solyndra. Even shakier energy projects, both nuclear and nonnuclear, are sure to get federal energy loan guarantees, so why shouldn't USEC? After all, they argue, the USEC guarantee, if approved, is unlikely to prompt much public blowback but it's sure to make interest groups in Ohio happy.

Perhaps, but this ought to be reason for pause.

Before USEC goes the way of Solyndra and even more bankrupt energy projects get federal backing, it certainly would be smarter to consider the alternative of just saying no. This, of course, would require government officials to do more than merely express moral outrage about energy projects that have gone wrong. They'd actually have to show some self-restraint at a time when money is scarce.

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