

Newsweek

Kentucky-Fried Politics

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Kentucky's two Republican senators, who built their political careers railing against unions and government spending, stuck people and businesses in the Pacific Northwest with hundreds of millions of dollars of debts plus higher costs for electricity. They did it to save union jobs by wasting millions in federal dollars. Confused? Hold tight. It gets worse. (Or better, if you live in Kentucky.)

The deal crafted by Senator Mitch McConnell, the majority leader, and Senator Rand Paul, a libertarian, required the federal agency that owns hydroelectric dams in the Pacific Northwest, the Bonneville Power Administration (BPA), to pay \$700 million for uranium fuel that could have been purchased on the open market for just \$450 million. Interesting sidebar: Bonneville didn't need this fuel.

The senators, who favor so-called right-to-work laws that make unions ineffective, did this in part to help the United Steelworkers, the nation's most progressive industrial union. Just last year, Paul introduced and McConnell co-sponsored a bill that would eviscerate unions.

The deal was officially touted as a move that would save power customers in the Northwest by paying only \$65 million for fuel that it claims would have cost more than three times as much if it were purchased later. But details in the contracts reveal that the deal increased costs by at least a quarter-billion dollars and perhaps as much as \$1.7 billion.

As part of this complicated transaction, Energy Northwest, an arm of BPA, paid \$1.55 for each unit of uranium that was available in the open market for just \$1. That 55 percent overcharge drained money from people and companies in the Pacific Northwest, but it really helped some folks in McConnell and Paul's home state of Kentucky.

It propped up a failing business in Paducah, Ky., the U.S. Enrichment Corporation, whose chief executive officer, John K. Welch, was rated one of the most overpaid executives in the country by *Washington Business Journal*. He averaged \$5.9 million in salary over the past four years at a company that lost more than \$1 billion in that time, in part because it uses World War II-era technology to make nuclear fuel.

The deal also kept 1,000 people, half of them steelworkers, on Enrichment's payroll through the 2012 congressional elections.

Welch shut the plant down on May 31, but the company is negotiating a prepackaged bankruptcy so it can resume operations, aided by a \$62 million earmark from taxpayers that was slipped into the budget bill Congress passed earlier this month.

The deal also pumped badly needed cash into the government-owned Tennessee Valley Authority (TVA), Appalachia's electricity utility. TVA has struggled to meet its debt obligations as electricity sales have declined. TVA benefited here because it got to sell a big block of electricity to Enrichment. In fact, for years Enrichment was TVA's biggest customer, taking 5 percent of its load. Enrichment used all that juice to make the all that uranium fuel it sent to BPA.

The process Enrichment used to make nuclear fuel, known as gaseous diffusion, is so inefficient that it requires 20 times as much juice as modern techniques. TVA runs a huge coal-fired electric generating complex near the Enrichment just to ensure it has enough juice. That means the nuclear power plants using this fuel are not really "carbon-free," as nuclear power plants are often described.

If you have managed to follow this twisted tale thus far, you might be wondering at this point: How could Enrichment, teetering on the brink of bankruptcy, its bank accounts near empty, afford to pay TVA for all that electricity?

That's where the Obama administration stepped in, partly under pressure from Paul, who had placed holds on some federal Energy Department nominees. (Paul and McConnell favor eliminating the department.)

The Energy Department told BPA, which it controls, to have Energy Northwest borrow \$711 million and then buy a 31-year supply of the nuclear fuel from Enrichment, even though it had no need for the uranium.

In essence, Uncle Sam made his rich Western niece, BPA, take out a loan and give that money to her cash-poor sister, TVA.

BPA did as instructed but insisted on unusual conditions to protect it in the event Enrichment went broke before the work was completed. Those provisions included having Enrichment transfer ownership of the finished fuel to the Energy Department, which in turn sold it to BPA, a strategy that would insulate BPA from claims by Enrichment's creditors in a bankruptcy proceeding.

Numerous public statements by Kentucky's two senators and other politicians in both parties - as well as from Enrichment, BPA and TVA - all hailed this deal as a fantastic bargain for taxpayers. Enrichment's Steve Penrod, the vice president in charge of the Paducah plant, said two years ago that the arrangement is "a unique opportunity while the plant is still operating that would be a win-win for everyone."

That might have been true except for the disaster at Japan's Fukushima nuclear plants, which have the same design as the BPA plant near Pasco, Wash. Once that story hit the headlines, support for new nuclear plants plummeted and so did prices for enriched uranium.

The true (and mostly hidden) costs of this deal - and how it deftly siphoned many millions from the Pacific Northwest to Kentucky - became known only after an independent economist in Portland, Ore., dug through the official files and contracts and wrote a [212-page report](#) in December.

Robert McCullough is a former utility company executive respected and feared by the legal monopolies that supply the nation's electricity. For two decades, his reports have shown how utilities and related industries engineer what look to be fair deals, but benefit the companies while sticking it to their customers and U.S. taxpayers.

McCullough, who has advocated for nuclear power, calculated that shutting down the BPA nuclear plant right now and getting electricity from other sources would save Pacific Northwest customers \$1.7 billion over 17 years.

The final tally for the deal McConnell and Paul shepherded was obscured through an accounting technique McCullough and his staff peeled back, step-by-step, in his report for Oregon and Washington Physicians for Social Responsibility.

Here's the short version: To pay for Enrichment's uranium fuel, BPA sold \$711 million of bonds at about 5 percent interest. BPA says the fuel will end up saving customers \$171 million, which would be a tremendous bargain. To arrive at that "bargain" price, McCullough says BPA assumed it would earn a 12 percent return on the money it borrowed at 5 percent. It then projected how much money it would have accrued by 2028. Then it calculated backward how much cash was needed, if invested at 12 percent - rather than paying out 5 percent - to have that sum in 2028. That part alone explained away a quarter-billion of the actual expense.

Of course no matter what, Energy Northwest must pay 5 percent on what it borrowed to benefit TVA.

Christopher E. Paine, a nuclear specialist at the National Resources Defense Council, an environmental group, isn't impressed by that bookkeeping magic. "This was not a business deal," he says. "It was exactly like the old Soviet deals in the days of Soviet central planning."

And pumping money from the Pacific Northwest to Kentucky and pumping huge amounts of carbon dioxide into the atmosphere by burning 20 times more coal than necessary to make uranium fuel was not the only damage done by the McConnell and Paul arrangement.

McCullough dug up EPA records showing that the Enrichment plant in Paducah used vast amounts of CFC-114, known as Freon when it was used in air conditioning and refrigeration systems. Freon was banned from aerosol cans in 1978 and nearly all other uses in 2000 because it eats the ozone layer.

Enrichment won an exemption from those bans on national security grounds, proving once again that it's either very lucky, or has a very powerful benefactor or two.

So when you're tallying up all the costs from the McConnell-Paul deal, add this in: It was responsible for hundreds of thousands of pounds of Freon evaporating into the air - 68.7 percent of all the Freon released in America in 2012.

When asked about all this, McConnell and Paul say, in essence, "Who? Me?"

McConnell's office told *Newsweek* he played no role in those contract negotiations, and was unaware that the deal drained money from the Pacific Northwest to Kentucky. It added that McConnell "has long been a vigorous supporter of the employees at the Paducah Gaseous Diffusion Plant."

Paul's office said he only met with the Energy Department officials "to encourage them to find a solution that recognized Paducah's 40 year commitment to nuclear energy and fuel, and to try to preserve jobs in Kentucky" and he helped the steelworkers because he "considers it his obligation to support all voices in Kentucky, whether they are Republicans or Democrats, business or labor."

And by that measure, both men did an excellent job.