

CONVERDYN News Wire – March 2011

An up-to-date information bulletin on the nuclear fuel cycle

Our Mission: We will be the premier provider of nuclear fuel cycle services with customer satisfaction as our primary focus – Unique, Innovative and Successful.

March 10, 2011

ConverDyn Predicts Adverse Impact on U.S. Conversion Industry

Previous U.S. Government Barterers Had 10 to 50% Negative Impact on Market

On March 2, 2011 the U.S. Department of Energy (DOE) announced that Secretary Chu had issued a determination and market impact analysis (as required by 42 U.S.C. §§2297h-10) authorizing uranium transfers to fund accelerated cleanup activities at the Portsmouth Site in Piketon, OH. Approximately 2,000 MTU per year over the calendar years 2011 through 2013 will be used for barter transactions, consistent with DOE's Excess Uranium Inventory Management Plan published December 2008. The Secretary's determination is based on an independent market impact analysis performed by Energy Resources International Inc (ERI).

In recent weeks there have been reports that USEC Inc. would like to re-enrich some of DOE's inventories of depleted UF6 ("tails"). This will result in additional barterers, similar to those that took place with the privatization of USEC in 1998 and the sole source award to USEC in July 2009 for the first phase of the accelerated clean program at the Portsmouth plant. These prior transfers were also supported by secretarial determinations of no adverse impact on the U.S. uranium mining and conversion industries. Were those predictions accurate? The answer is no, as shown below for the conversion segment:

- The large quantity of natural uranium used to facilitate privatization of the U.S. Enrichment Corp. in 1998 resulted in the spot price of conversion dropping by 50% from \$5.10 to \$2.55/kgU during the period Jan 1998 to Nov 1999. The term price fell by 35% from \$5.00 to \$3.25/kgU.
- When DOE announced that the accelerated cleanup of the Piketon site would be supported by transferring over 1,000 MTU to USEC Inc., the spot price declined by 26% from \$7.50 to \$5.50/kgU during the period Jul to Dec 2009. The term price dropped by 10% from \$12.25 to 11.00/kgU.
- All quoted prices are from The Nuclear Review, published by TradeTech.

ERI is careful to state at the beginning of its report that "ERI does not make any warranty, express or implied, nor assume any legal liability or responsibility for the accuracy, completeness, or usefulness of any information contained herein, nor for any consequent loss or damage of any nature arising from any use of this information".

The current ERI report asserts that the potential market impact of the proposed DOE transfers would be a price reduction of \$0.20/kgU or 1% - 2%. This is in stark contrast to the 10% to 50% impact caused by such transactions as documented above.

We are deeply concerned about the impact of past, present and future U.S. Government actions on the conversion market. The U.S. is the only country in which 50% of the conversion capacity has been shut down! Even if the current \$0.20/kgU impact is correct, it comes out of an already negative bottom line for U.S. conversion. Further deterioration of the conversion market will send the wrong signal to a critical industry segment that is already struggling from a lack of reinvestment economics.

The need for imports to support the U.S. nuclear renaissance has been well documented. A less well-known fact is that the highest degree of U.S. self-sufficiency, using domestic technology, is in the conversion step, at over 60%. Compare this to less than 10% for uranium and about 25% for enrichment. We are ready, able and have the most attractive technology for expanding our conversion capacity to support the global re-birth of civil nuclear power. However, to accomplish that goal we need a level playing field.

In order to keep our customers, suppliers and friends current on important timely topics that require immediate communication – we send out the ConverDyn News Wire periodically. Comments and suggestions are welcomed as always.