ERI 2010 Market Analysis

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5. Summary of Potential Market Implications and Nature of Industry Concern

5.1 Potential Market Implications

Based on presently available information and the results of the analysis described in this report, ERI does not believe that either (i) the potential price effect of the presently proposed quantities of equivalent U_3O_8, conversion services and enrichment services that DOE is considering transferring during the next several years beginning in the first quarter of 2011; or (ii) the quantities of domestic production, if any, that might be displaced due to the proposed DOE transfers are of a magnitude that they would constitute a material adverse impact on the domestic industries or any of the initiatives that are presently underway. These initiatives include uranium exploration and development, previously announced plans to license and construct new enrichment facilities, or the U.S.-Russian HEU Agreement.

5.2 Nature of Industry Concern

The nuclear fuel markets recognize that DOE controls a very large amount of material and the predictability of DOE's transfer of that material into the commercial markets over time is very important to the orderly functioning of these markets. If based upon DOE actions, the perception of domestic suppliers of uranium concentrates, for example, was that DOE might begin to transfer into the market quantities of uranium that are significantly larger than those quantities that DOE had previously indicated to the industry it may transfer (e.g., DOE 2008 Plan), then the potential adverse impact on uranium exploration and development could become significant for the domestic industry. In this regard, it is critical for long-term planning and investment decisions by the domestic industry that there can be confidence that DOE will adhere to what it presents as being established guidelines and plans.

The transfer by DOE of material during any year in an amount that is substantially larger than 10% of U.S. annual requirements is likely to be viewed by the industry as DOE establishing a precedent by which it may make future transfers without any regard for the "*maintenance of a strong domestic nuclear industry.*"

If the industry believes that such a precedent is being established, then ERI expects that domestic suppliers within each of these markets may become concerned that (i) previously proposed schedules of transfers would be accelerated at some time in the future, resulting in a larger amount of DOE inventory being introduced into the market each year and/or (ii) additional U.S. inventory that has not yet been identified as surplus would be added to the transfer schedule. Either of these could result in a larger amount of equivalent nuclear fuel materials and services being introduced into the market, which, if of sufficient magnitude, could potentially have a material adverse effect on the markets.

"ERI does not believe that either (i) the potential price effect of presently proposed quantities of [uranium], conversion services and enrichment services…or (ii) the quantities of domestic production…are of a magnitude that they would constitute a material adverse impact on domestic industries or initiatives that are presently underway."

ERI 2013 Market Analysis

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industry. As for USEC, it is clear that the company supports and will benefit from the transfer 0.3 million SWU that is under consideration by DOE. In addition, it should be noted that the NNSA/DOE transfers of uranium materials containing equivalent enrichment services to TVA have been known to the market for many years and are long-term contracts in nature.

Therefore, the potential impact of the transfer of DOE material presently under consideration on the enrichment services industry is not significant.

The transfer of an additional 0.3 million SWU in 2013, when assessed in conjunction with other possible transfers of equivalent new enrichment services into the market by DOE, results in a total transfer to the commercial market that remains well below 10% of U.S. enrichment requirements in 2013. The total to be transferred to the commercial markets from HEU down blend remains consistent with the representative amount for 2013 originally projected in the DOE 2008 Plan, as does the net total from all DOE transfers of enrichment services.[19]

In summary, based on presently available information and the results of the analysis described in this report, ERI does not believe that either (i) the potential price effect associated with the transfer by DOE of an additional 0.3 million SWU to USEC during 2013; or (ii) the quantities of domestic enrichment services, if any, that might be displaced due to the proposed DOE transfers are of a magnitude that they would constitute a material adverse impact on the domestic enrichment industry, taking into account the sales of uranium under the U.S.-Russia Highly Enriched Uranium Agreement (HEU Agreement) and the Suspension Agreement.

[19] Table 9 of the plan projected 0.787 million SWU from Allocated HEU Down-blend during 2013, with an offset of -0.586 million SWU for DUF_6 processing.

"ERI does not believe that either (i) the potential price effect associate with the transfer… or (ii) the quantities of domestic enrichment services…are of a magnitude that they would constitute a material adverse impact on the domestic enrichment industry."

ERI Draft 2014 Market Analysis

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"In the context of a much stronger price environment, the market impact study conducted two years ago judged, at that time, that the impacts of the DOE inventory releases were small enough so as to not constitute a material adverse impact, even though an absolute definition of what impacts rise to the level of materially adverse does not exist. **Given the current weak state of the markets and the impacts described in this report, ERI can no longer make such a definitive statement.** Clearly, there have been production, employment and financial impacts on the domestic industry due to a variety of market factors culminating in the current oversupplied markets. Based on the analysis contained in this study, it is not clear that a reduction in DOE inventory releases would cause the overall market conditions to change enough to make a significant difference in the health and status of the domestic industries. **However, the uranium and conversion industries clearly feel that a reduction in the amount of DOE inventory enter the markets would make a difference, in part by sending a strong signal to the markets that DOE recognizes the current weak stat of the nuclear fuel markets and is responding."**

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ERI 2014 Final Market Analysis

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ERI-2142.17-1401

"In the context of a much stronger price environment, the market impact study conducted by ERI two years ago judged, at that time, that the impacts of the DOE inventory releases were small enough so as to not constitute a material adverse impact. DOE and ERI sought to clarify ERI's role in the development of this market impact study. ERI's role is to analyze the impacts associated with the release of DOE inventories into the commercial markets for the period 2014 to 2033. **In accordance with the USEC Privatization Act, any determination of "adverse material impact" is made by the Secretary of Energy. As such, this market impact assessment does not make any conclusion regarding whether or not the release of DOE inventories into the commercial markets will result in an adverse material impact.**"

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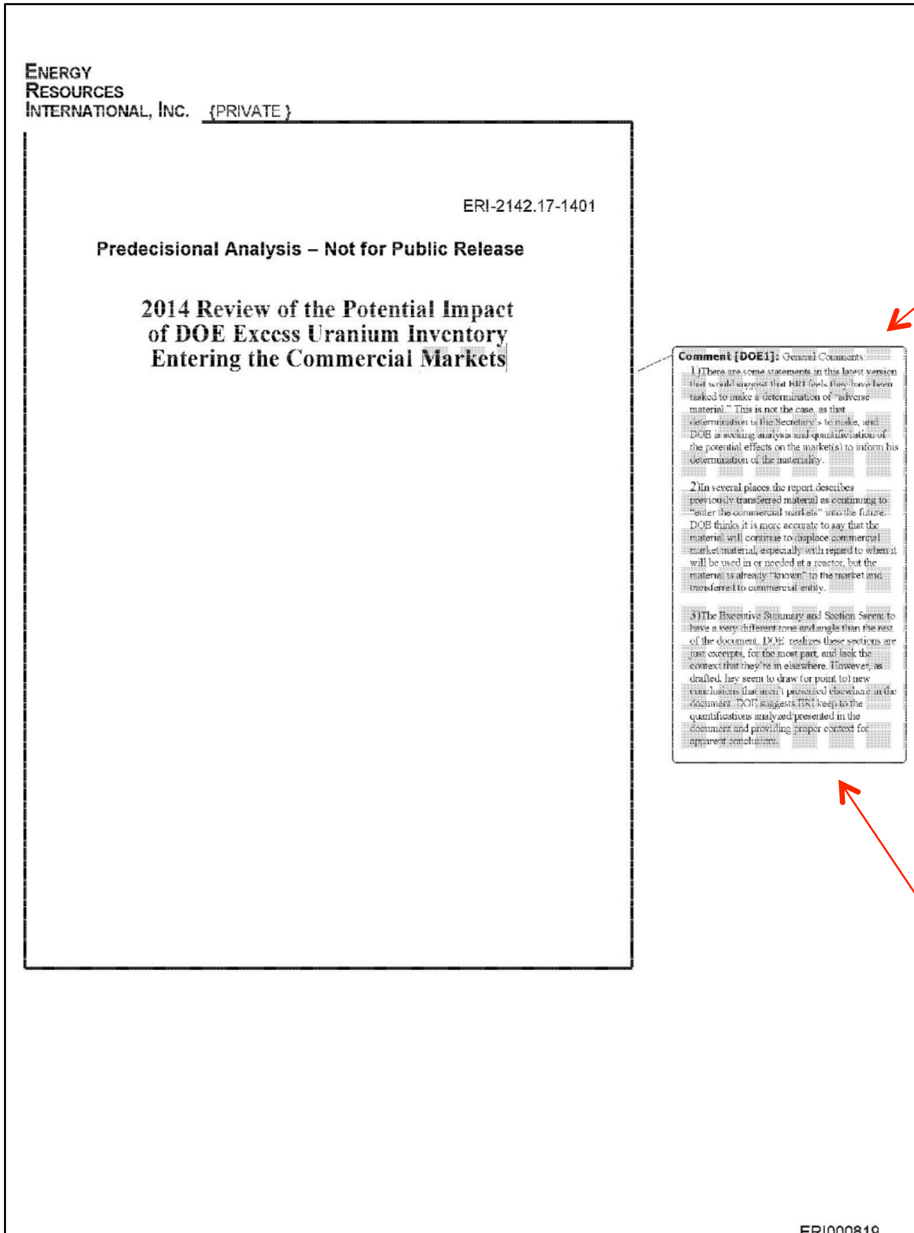
DOE comments on ERI Draft 2014 Market Analysis



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ERI-2142.17-1401

Predecisional Analysis – Not for Public Release

2014 Review of the Potential Impact of DOE Excess Uranium Inventory Entering the Commercial Markets

Comment [DOE1]: General Comments:

1)There are some statements in this latest version that would suggest that ERI feels they have been tasked to make a determination of "adverse material." This is not the case, as that determination is the Secretary's to make, and DOE is seeking analysis and quantification of the potential effects on the market(s) to inform his determination of the materiality.

2)In several places the report describes previously transferred material as continuing to "enter the commercial markets" into the future. DOE thinks it is more accurate to say that the material will continue to displace commercial market material, especially with regard to when it will be used in or needed at a reactor, but the material is already "known" to the market and transferred to commercial entity.

3)The Executive Summary and Section 5seem to have a very different tone and angle than the rest of the document. DOE realizes these sections are just excerpts, for the most part, and lack the context that they're in elsewhere. However, as drafted, hey seem to draw (or point to) new conclusions that aren't presented elsewhere in the document. DOE suggests ERI keep to the quantifications analyzed/presented in the document and providing proper context for apparent conclusions.

ERI000819

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