

Mastering Nuclear Fuel Markets:

MODULE NO. 1 *PROCUREMENT OF URANIUM CONCENTRATES AND URANIUM CONVERSION SERVICES*

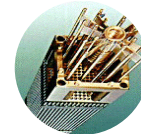
The uranium concentrates (U_3O_8) and U_3O_8 -to- UF_6 conversion services (conversion) markets have both changed dramatically over the past few decades. Reactor cancellations and deferrals in the 1970s and 1980s, coupled with take-or-pay-contracts, caused the build-up of excess inventories. This situation was exacerbated by the access by the commercial sector to significant quantities of government-owned material in the late 1980s and 1990s. As a result, spot market prices experienced a general downward trend through most of the 1990s. During the past few years, however, this trend has been reversed and prices have gradually strengthened.

Both supply industries, particularly U_3O_8 , have experienced considerable consolidation over the last ten years in response to the lower prices. The top three primary U_3O_8 producers accounted for 43 percent of worldwide production in 2001 compared to only 31 percent in 1989. Including the impact of feed derived from Russian HEU, the top three producers account for more than 50 percent of worldwide output. One of the four major Western converters will be closing its plant in 2006, and it has already ceased marketing conversion services. In the long-term, this trend in supply consolidation may ultimately have ramifications for utility procurement activities.

This module gives an overview of the current U_3O_8 and conversion markets including projections of future prices and summary profiles of key suppliers. It then focuses on evaluation of procurement options and preparation of the bidding documents; reviews the term bid evaluation process; and discusses negotiation of the final contract.

The objectives of the standard U_3O_8 and Conversion Services Procurement Module are as follows, but the training sessions can be customized to meet your specific needs. For example, they can be extended to provide a valuable review and discussion of your company's current U_3O_8 and conversion procurement strategy. The base module can be conducted in one day.

- ◆ Summarize and Discuss the Current Markets for U_3O_8 and Conversion Services
 - Current spot and term contract prices
 - Key factors currently impacting the market
 - Near-term supply/demand balances
 - Recent trends in commercial terms and conditions
- ◆ Forecast and Discuss Future Spot and Term Contract Prices
 - Projected supply/demand balances
 - Estimated costs of primary supply
 - Impact of secondary supply sources
 - Estimated range of future price levels
 - Sensitivity of prices to key supply and demand parameters
- ◆ Describe and Discuss Summary Profiles of Key Suppliers
 - Ownership structure
 - Existing production capacities
 - Anticipated production lifetimes
 - Marketing emphasis



- Potential for expansion
- Estimated costs of production
- ◆ Describe and Discuss Procurement Options and Preparation of Bidding Documents
 - Issues related to spot versus term contracting
 - Formal request for bids versus “off-market” inquiries
 - Potential role of brokers/traders
 - Factors in developing near-term and longer term procurement strategies
 - Spot and term contract bid specifications
 - Use of standard contract documents
- ◆ Describe and Discuss the Bid Evaluation Process
 - Market price contracts versus contract-specified pricing provisions
 - Quantitative evaluation of prices
 - Qualitative evaluation of non-price related items
 - Delivery flexibility
 - Quantity flexibility
 - Payment terms
 - Optional deliveries
 - Other contractual terms and conditions
 - Development of a “short list”
- ◆ Describe and Discuss Negotiation of the Final Contract
 - Negotiating strategy
 - Conducting the negotiations
 - Best and final offers
 - Letter of intent
 - Contract award
- ◆ Extended Scope: Review and Discuss Your Company’s Current U₃O₈ and Conversion Services Procurement Strategy
 - Is the strategy effective?
 - Is the strategy too conservative or too aggressive
 - Are there any industry or market-related factors that are not currently considered in the strategy?