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STATEMENT OF  
J. DEXTER PEACH  
DIRECTOR, ENERGY AND MINERALS DIVISION  
BEFORE THE  
SUBCOMMITTEE ON ENERGY CONSERVATION AND POWER  
HOUSE COMMITTEE ON ENERGY AND COMMERCE  
ON



[FAIR VALUE PRICING OF URANIUM ENRICHMENT SERVICES]

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, WE ARE PLEASED TO BE HERE TODAY TO DISCUSS CHANGING THE BASIS FOR THE GOVERNMENT'S PRICING OF URANIUM ENRICHMENT SERVICES FROM "COST RECOVERY" TO WHAT IS COMMONLY CALLED "FAIR VALUE PRICING."

THE DEPARTMENT OF ENERGY (DOE) IS THE SOLE SUPPLIER IN THIS COUNTRY OF URANIUM ENRICHMENT SERVICES. SINCE 1970, THE LEGAL BASIS USED BY DOE AND ITS PREDECESSOR AGENCIES IN SETTING ENRICHMENT SERVICE PRICES HAS BEEN RECOVERY OF THE GOVERNMENT'S COSTS OVER A REASONABLE PERIOD OF TIME. UNDER THE FAIR VALUE PRICING CONCEPT, DOE'S ENRICHMENT SERVICES PRICES WOULD BE ESSENTIALLY BASED ON WHAT A PRIVATE ENRICHER WOULD CHARGE IF IT OWNED AND OPERATED A URANIUM ENRICHMENT FACILITY. IN ADDITION TO RECOVERY OF CAPITAL AND OPERATING COSTS, AS IS CURRENTLY DONE, FAIR VALUE PRICING WOULD ALLOW DOE TO INCLUDE PRICE FACTORS FOR NORMAL BUSINESS CHARGES SUCH AS RETURN ON EQUITY, TAXES, AND INSURANCE. THE NET EFFECT OF THIS NEW PRICING BASIS, THEREFORE, IS TO PUT THE GOVERNMENT'S URANIUM ENRICHMENT ACTIVITY ON A BUSINESS-LIKE BASIS.

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GAO HAS LONG BEEN ON RECORD IN FAVOR OF CHANGING THE ENRICHMENT SERVICES PRICING BASIS TO PUT THE GOVERNMENT'S ENRICHMENT ACTIVITY ON A MORE BUSINESS-LIKE BASIS. IT IS IMPORTANT TO NOTE, HOWEVER, THAT AS EARLY AS 1975 THE FORMER ENERGY RESEARCH AND DEVELOPMENT ADMINISTRATION (ERDA) PROPOSED CHANGING THE PRICING BASIS TO FAIR VALUE PRICING. ONE REASON WAS TO PREPARE FOR AND EASE THE EVENTUAL TRANSFER OF ENRICHMENT TECHNOLOGY TO PRIVATE INDUSTRY. A SECOND REASON WAS TO INCREASE REVENUES FROM ENRICHMENT SERVICES.

FAIR VALUE PRICING WAS AGAIN PROPOSED BY ERDA IN 1977 AND BY DOE IN 1978 AND 1979. THE CONGRESS INCLUDED LEGISLATION TO CHANGE THE ENRICHMENT PRICING BASIS FROM COST RECOVERY TO FAIR VALUE PRICING IN THE DOE FISCAL YEAR 1978 AUTHORIZATION BILL. FORMER PRESIDENT CARTER VETOED THAT BILL, HOWEVER, BECAUSE IT ALSO AUTHORIZED FUNDS FOR THE CLINCH RIVER BREEDER REACTOR. WE UNDERSTAND THAT DOE NOW HAS RESERVATIONS ABOUT CHANGING TO FAIR VALUE PRICING BECAUSE OF GROWING COMPETITION RESULTING FROM THE EMERGENCE OF TWO EUROPEAN ENRICHMENT CONSORTIA--EURODIF, WHOSE PRINCIPAL MEMBERS ARE FRANCE, SPAIN, BELGIUM, AND ITALY; AND URENCO, WHOSE MEMBERS ARE THE UNITED KINGDOM, WEST GERMANY, AND THE NETHERLANDS--AS WELL AS THE SOVIET UNION.

IN APRIL 1978 THE CHAIRMAN, SUBCOMMITTEE ON ENERGY AND POWER, HOUSE COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE, ASKED US FOR OUR VIEWS ON THE FAIR VALUE PRICING PROPOSAL INCLUDED IN DOE'S FISCAL YEAR 1979 AUTHORIZATION LEGISLATION. ON APRIL 19, 1978, WE SUBMITTED A REPORT TO THE SUBCOMMITTEE CHAIRMAN WEIGHING THE ADVANTAGES AND

DISADVANTAGES AND RECOMMENDING THAT THE CONGRESS MAKE THE CHANGE TO FAIR VALUE PRICING. 1/

THE ADVANTAGES WE THEN SAW FOR CHANGING TO FAIR VALUE URANIUM ENRICHMENT PRICING WERE:

- ELIMINATING AN EXISTING SUBSIDY TO THE COMPANIES PURCHASING URANIUM ENRICHMENT SERVICES FROM DOE. THE COST RECOVERY PRICING BASIS CONSTITUTES A SUBSIDY TO THE EXTENT THAT ENRICHMENT SERVICES ARE PROVIDED AT A LOWER PRICE THAN RECIPIENTS WOULD PAY IN THE MARKETPLACE. REMOVING THE SUBSIDY WOULD ALSO BE ONE STEP TOWARD CLARIFYING THE TRUE COST OF ELECTRICITY PRODUCED FROM NUCLEAR ENERGY.
- LOWERING THE POTENTIAL BARRIERS TO PRIVATE INDUSTRY'S ENTRY INTO THE URANIUM ENRICHMENT BUSINESS.
- INCREASING FEDERAL REVENUES FROM URANIUM ENRICHMENT OPERATIONS. AS OF APRIL 1978, DOE ESTIMATED, BASED ON ITS PROJECTED SALES FOR FISCAL YEARS 1979 THROUGH 1983, THAT FAIR VALUE PRICING WOULD INCREASE ITS REVENUES BY ABOUT \$1.5 BILLION.

THE DISADVANTAGES WE SAW IN CHANGING TO FAIR VALUE PRICING WERE (1) A SLIGHT INCREASE--ABOUT 60 CENTS PER THOUSAND KILOWATT HOURS--IN THE CONSUMER COST OF ELECTRICITY GENERATED FROM NUCLEAR ENERGY, AND (2) THE POTENTIAL FOR ENCOURAGING CUSTOMERS TO SEEK SERVICES ELSEWHERE IF FAIR VALUE PRICES WERE EXCESSIVELY HIGH.

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1/"Fair Value Enrichment Pricing: Is It Fair," EMD-78-66, Apr. 19, 1978.

SINCE APRIL 1978, WE HAVE ISSUED SEVERAL OTHER REPORTS ON THE SUBJECT TO CONGRESSIONAL COMMITTEES, AND MOST RECENTLY TO THE SECRETARY OF ENERGY. THESE LATER REPORTS WERE INTENDED TO APPRISE THE COMMITTEES AND THE SECRETARY OF THE OPPORTUNITY AND POTENTIAL MAGNITUDE--WITH CERTAIN RESERVATIONS--TO INCREASE FEDERAL REVENUES FROM ENRICHMENT OPERATIONS. THESE RESERVATIONS RELATED TO CHANGES THAT HAVE AFFECTED ENRICHMENT SERVICES PRICES, DEMAND, AND CONSEQUENTLY, REVENUES.

THE EXTENT TO WHICH ADDITIONAL REVENUES FROM FAIR VALUE PRICING WOULD ACCRUE TO THE GOVERNMENT CANNOT NOW BE ESTIMATED WITH CONFIDENCE. DEMAND FOR ENRICHMENT SERVICES IS DOWN, DOE RECENTLY ANNOUNCED PRICE INCREASES, AND, AS I NOTED ABOVE, SUBSTANTIAL COMPETITION FROM FOREIGN COUNTRIES HAS EMERGED. UNDOUBTEDLY, SUCH CIRCUMSTANCES AFFECT THE PRICE THAT COULD BE CHARGED IN TODAY'S MARKET FOR ENRICHMENT SERVICES UNDER THE FAIR VALUE CONCEPT.

IN THIS REGARD, WE UNDERSTAND THAT DOE NOW HAS RESERVATIONS ABOUT CHANGING TO FAIR VALUE PRICING DUE TO THE EMERGENCE OF COMPETITION FROM FOREIGN ENRICHERS AND THE POTENTIAL ADVERSE IMPACTS ON DOE'S ABILITY TO ACQUIRE NEW CUSTOMERS AND RETAIN ITS EXISTING CUSTOMERS. WE BELIEVE THE POTENTIAL LOSS OF CUSTOMERS COULD BE MINIMIZED THROUGH CAREFULLY FORMULATED CRITERIA FOR IMPLEMENTING FAIR VALUE PRICING WHICH ALLOWS APPROPRIATE CONSIDERATION OF WORLD MARKET CONDITIONS.

FURTHERMORE, RECENT EXPERIENCE INDICATES THAT U.S. ENRICHMENT PRICES MAY NOT BE A DETERMINING FACTOR IN WHETHER OR NOT THE UNITED STATES GAINS NEW ENRICHMENT CUSTOMERS. EVEN WHEN

DOE'S PRICES WERE LOWER THAN THE FOREIGN ENRICHERS, IT WAS NOT VERY SUCCESSFUL IN GAINING NEW FOREIGN CUSTOMERS AFTER IT REOPENED ITS ENRICHMENT ORDER BOOKS IN 1978. IN THIS REGARD, IN OUR MAY 1981 REPORT ON THE NUCLEAR NON-PROLIFERATION ACT OF 1978 WE REPORTED THAT FOREIGN COUNTRIES WERE PRINCIPALLY INTERESTED IN SUPPLY ASSURANCE. FOR THIS REASON, AND BECAUSE MANY PLANNED NUCLEAR POWERPLANTS WERE CANCELLED, THE UNITED STATES LOST CUSTOMERS DURING THIS TIME THROUGH CONTRACT CANCELA-TIONS. DOE'S LATEST ANNOUNCED PRICE INCREASE FOR MOST OF ITS CUSTOMERS--INCREASING ITS PRICE ON OCTOBER 1, 1981, FROM \$110 TO \$130.75 PER SEPARATIVE WORK UNIT 1/--WILL EXCEED PRICES QUOTED BY EURODIF FOR THE FIRST TIME EVER. EURODIF'S RECENTLY ANNOUNCED PRICE WILL BE ABOUT \$127 PER SEPARATIVE WORK UNIT.

CERTAINLY, CIRCUMSTANCES SURROUNDING THE SUPPLY OF ENRICHMENT SERVICES HAVE CHANGED DRAMATICALLY IN RECENT YEARS. THIS DOES NOT, HOWEVER, CHANGE OUR BASIC VIEW THAT THE PRICE OF ENRICH-MENT SERVICES SHOULD BE BASED ON THE FAIR VALUE OF THOSE SERVICES IF A PRIVATE ENRICHER WERE OPERATING THE PLANT. STATED ANOTHER WAY, WE BELIEVE THE GOVERNMENT'S URANIUM ENRICHMENT ACTIVITY SHOULD BE HANDLED IN A MORE BUSINESS-LIKE WAY TAKING INTO CON-SIDERATION ALL ELEMENTS BUSINESSES WOULD CONSIDER IN ESTABLISHING A PRICE, INCLUDING THE COMPETITIVE CONDITIONS IN THE MARKETPLACE.

MR. CHAIRMAN, THIS CONCLUDES MY PREPARED REMARKS. I WILL BE PLEASED TO ANSWER THE SUBCOMMITTEE'S QUESTIONS.

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1/A separative work units is a measure of the effort needed to separate a given quantity of uranium fuel into two streams, one having a higher percentage of fissionable uranium-235