Cameco

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David Henderson
U.S. Department of Energy
Office of Nuclear Energy
Mailstop NE-52
19901 Germantown Road
Germantown, MD 20874-1290

Dear Mr. Henderson:

Notice of Issues for Public Comments – Excess Uranium Management: Effects of DOE Transfers of Excess Uranium on Domestic Uranium Mining, Conversion, and Enrichment Industries

Cameco Corporation ("Cameco") appreciates the opportunity to provide an industry perspective on the U.S. Department of Energy's ("DOE" or "Department") management of its excess uranium inventories. Cameco urges that DOE's Secretarial Determination establish clearly defined limits on uranium transfers, provide predictability to the uranium industry, and place any material into the long-term market.

Pursuant to Section 3112(d) of the United States Enrichment Corporation ("USEC") Privatization Act, DOE may not sell or transfer uranium unless it issues a Secretarial Determination that finds that such transfers "will not have an adverse material impact on the domestic uranium mining, conversion or enrichment industries." On March 18, 2015, DOE published a notice in the *Federal Register* requesting public comments on a framework that Department would use in developing a new Secretarial Determination, which would be released in May 2015

In addition, DOE released a new Energy Resources International, Inc. ("ERI") report that examined the economic impact of three proposed scenarios for the May Secretarial Determination. Finally, DOE released responses that the Department received to its December 8, 2014 Request for Information ("RFI") on "Excess Uranium Management: Effects of DOE Transfers of Excess Uranium on Domestic Uranium Mining, Conversion, and Enrichment Industries; Request for Information."

While we appreciate DOE's efforts in reaching out to the industry and other stakeholders, Cameco is disappointed that the Department failed to grant an extension of the deadline for submission of public comments. From Cameco's perspective, 20 days does not offer a sufficient amount of time to adequately review this material.

Nonetheless, Cameco wanted to offer its views on how DOE can mitigate the negative impacts of the Department's uranium sales and transfers, and ERI's analysis.

HARD CAP ON URANIUM TRANSFERS

As DOE contemplates a new Secretarial Determination, Cameco calls for the Department to establish a hard cap on sales and barters in order to enhance transparency and predictability for the industry. While Cameco appreciates that Congress has limited the time frame of Secretarial Determinations to two years, we believe that DOE, in conjunction with the a new Secretarial Determination, should consider issuing a new Management Plan, which would establish a hard cap on transfers extending beyond the 2015-2017 timeframe. A New Management Plan that establishes a hard cap on all DOE uranium sales and transfers would provide the industry with certainty as to future dispositions from the Department's inventory. Such certainty can aid the industry in attracting the capital necessary to sustain and expand existing production.

TRANSFERRING THE MATERIAL INTO THE LONG-TERM MARKET

DOE should ensure that all the uranium through the Department's sales and transfers are placed into the long-term market. Cameco believes that the manner in which the DOE material has been sold is disruptive to the market. Thus, in order to mitigate the damage to the uranium industry, DOE should ensure that the material is not being sold into spot or short-term contracts, given that there is very little, if any, primary demand from utility consumers for material in the short-term market, and sales focused in that period result in excessive downward pressure on the price of uranium.

An alternative to short-term sales is to enlist major uranium producers in helping to facilitate the entry of this source of secondary supply into the market. Cameco has a long history of managing secondary uranium supplies from many different sources as evidenced by the leading role it played in the U.S./Russia Highly Enriched Uranium Agreement (e.g., the "Megatons to Megawatts Agreement"). Cameco's participation in the Megatons to Megawatts Agreement allowed for this very large source of secondary supply to enter the commercial market in a manner that achieved the objectives of the U.S. and Russian governments for revenues, but also reduced the very significant, negative impact on the uranium market.

As to DOE's excess uranium inventories, Cameco possesses the capacity to facilitate the entry of this material into the long-term commercial market. Specifically, Cameco maintains a very large, long-term contract portfolio into which it can feed this material, thereby avoiding the need to place it into the spot or near-term markets. This type of arrangement would ensure that DOE and its contractors retain a predictable source of revenue to pay for the costs of cleanup and HEU down-blending, while at the same time significantly reducing the negative impact on market prices and uranium and conversion producers.

It is important to distinguish between long-term contracts and forward delivery contracts. Sales of material into forward delivery contracts are not long-term contracts – they are simply contracts along the forward price curve, which is essentially the spot price with a minor adjustment for carrying costs. In fact, some sellers into this "forward" market simply forfeit their forward delivery contracts after execution, thereby effectively selling the material on a spot basis. Without question, sales into the forward market are tied to, and directly impact, the level of the spot price.

In contrast, a long-term contract is typically one where the first delivery of material occurs three or four years after contract execution and the deliveries continue for more than three years thereafter.

As noted by ERI in the study it completed for DOE, "long-term prices are determined by production costs .....". Spot prices in today's oversupplied uranium market are in effect inventory clearing prices, without much, if any consideration as to cost of production. By directing the barter material to the long-term market instead of the spot or near-term forward delivery market, prices in the spot market can be expected to strengthen, thereby resulting in DOE securing a better price for its barter material.

SECRETARIAL DETERMINATIONS

In return for a meaningful hard cap for all DOE uranium sales and transfers and placing this material into the long-term market, Cameco would support any initiatives that resulted in the waiving of future Secretarial Determinations.

ADDITIONAL ISSUES

While there was insufficient time to conduct a full review the DOE notice and related documents, the Uranium Producers of America (UPA) has provided comments which highlight the main areas of concern identified in the brief period allowed for the review. Cameco has included its concerns in that submission.

ABOUT CAMECO

Cameco is one of the world's largest uranium producers, providing approximately 15 percent of the world's production from mines in the U.S., Canada, and Kazakhstan. The U.S. nuclear fleet depends on Cameco for about 30% of its uranium needs. Cameco is also a leading provider of nuclear fuel processing services, including UO_2 and UF_6 conversion services.

Cameco Resources, a U.S. subsidiary of Cameco, is the U.S.'s largest uranium producer, producing about one-half of the domestically produced uranium. Cameco Resources operates the Smith Ranch-Highland mine in Wyoming and the Crow Butte mine in Nebraska, and is exploring opportunities to expand operations in both states. Over the past 10 years, Cameco Resources has invested $396 million in Wyoming and Nebraska.

However, since 2012, Cameco Resources has:

- Delayed development of three planned new mining sites (two in Wyoming and one in Nebraska).
- Closed its headquarters office in Cheyenne, Wyoming, and consolidated administration to its existing Casper, Wyoming, office.
- Curtailed exploration activities.
- Ceased drilling at its Nebraska mine and idled 20 contract drillers who had been working steadily at the site for more than two decades.

Cameco Resources' operations support 47 jobs in Nebraska and 181 jobs in Wyoming. This level of workforce reflects an almost a 30% decrease since 2012 due to depressed market conditions. In 2010, a University of Wyoming study found that Cameco Resources' operations in the state generate an additional 1.6 jobs in the community through direct and indirect impacts.

Other U.S. subsidiaries include Cameco Inc., located in Eden Prairie, Minnesota, which is responsible for marketing both uranium and processing services on a worldwide basis, and Cameco Enrichment Holdings, which holds a 24% interest in Global Laser Enrichment, which is pursuing the deployment of laser enrichment technology along with Hitachi and GE, and the construction of a facility in Kentucky to re-enrich DOE tails.

Cameco has extensive experience dealing with large, unconventional secondary sources of uranium supply, including the UF_6 feed from the recently concluded U.S./Russian HEU agreement, UF_6 from the re-enrichment of European tails in Russia, and the Iraqi natural uranium stockpile.

CONCLUSION

Cameco recognizes that DOE has obligations to pursue environmental cleanup at legacy facilities, such as those in Paducah, Kentucky, and Portsmouth, Ohio, and down-blending of HEU into LEU. From Cameco's perspective, lower uranium prices not only hurt the domestic uranium industry, but also undermine the ability of DOE to accomplish its objectives of environmental cleanup and HEU down-blending. Cameco is willing work with DOE to garner increased Congressional appropriations for these activities. Moreover, to the extent that DOE will continue to rely on the barter program, Cameco remains committed to working with DOE on establishing a management plan that is transparent and predictable, with an absolute limit on the annual amount of transfers into the market, which would allow domestic uranium producers to plan appropriately for the future while permitting DOE to accomplish its objectives.

Yours truly,

Alice Wong

Alice Wong
Senior Vice President and Chief Corporate Officer