Written Testimony of John K. Welch
U.S. Senate Energy & Natural Resources Committee
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Good afternoon. My name is John Welch, and I am president and CEO of USEC Inc., a leading supplier of enriched uranium fuel for commercial nuclear power plants. Thank you Chairman Bingaman, Ranking Member Domenici and Members of the Committee for inviting me to testify on America's ability to maintain a domestic enrichment capability in light of the recent agreement between Russia and the United States on Russian uranium imports.

Let me begin by saying there is complete agreement within all sectors of the industry that where we want to end up is with expanded use of nuclear power in the United States; a strong domestic nuclear fuel industry; robust competition among domestic and international fuel suppliers; and a reinvigorated nuclear industrial manufacturing base in the United States needed to achieve all of the above. The question before us is how to get there.

In answering this question, one of the most pressing challenges we face is how to integrate Russia's huge nuclear fuel supply into the U.S. market without endangering our own nuclear fuel industry. Fortunately, I believe there is consensus throughout the industry that the principles reflected in the recent agreement are the way to move forward with Russia. The agreement provides a critical transition period to deploy new domestic capacity while giving Russia an opportunity to sell here without threatening the stability of the U.S. market.

The problem we face now – and the reason I am here today – is that the agreement between Russia and the United States may not be enforceable. A 2005 federal appeals court decision in a case involving French nuclear fuel declared that certain enrichment transactions between foreign enrichers and U.S. utilities are outside the scope of the U.S. trade law used to control imports of Russian fuel. This means that if the French case were applied to Russian imports, Russian fuel could be imported without limit as long as the contracts were written and the imports were carried out to qualify for the exception the appeals court created.

Today's stable market conditions will not hold if the U.S. government cannot enforce limits on Russian uranium imports. Without an enforceable agreement with Russia during the transition, our Paducah plant, our advanced technology project and, I suspect, all the projects underway to ensure America has a secure fuel supply face an uncertain future and may well fail.

No one, including USEC, wants to exclude Russia from the U.S. market. But we need Congress to give the Administration the authority needed to make the agreement work. The agreement gives Russia limited access to the U.S. nuclear fuel market starting in 2011, access to 20 percent of the market beginning in 2014 and full access by 2021. Further, it also allows Russia to sell unlimited quantities of fuel for new reactors and gives the Commerce Department the power to adjust the limits on Russian fuel in the event of a real supply shortage.

We believe the terms of the agreement are reasonable and reflect the broad consensus that exists in the U.S. nuclear fuel industry regarding a measured approach to Russia. For USEC, our United Steel Workers (USW) union, our workers and the communities we serve, the agreement provides the assurance of market stability that we need to finance and complete our new enrichment plant.

I think everyone here would agree that a successful American nuclear renaissance needs a corresponding growth in American nuclear fuel production. I am happy to report that USEC is one of four companies that are making or planning to make multi-billion dollar investments in new U.S. enrichment plants to meet America's fuel supply needs. This is unprecedented in the history of commercial nuclear fuel. No other country has more than one domestic producer, and all enrichers other than USEC are wholly or partially government owned. It is a testament to the openness of the U.S. market today that four commercial projects for new enrichment capacity are either under construction or being proposed.

It is vital that these efforts succeed. A domestic supply is a more secure supply. Our nation must have a secure fuel supply to ensure that an expanded reliance on nuclear power does not lead to increased dependence on yet another foreign source of energy. We currently import most of our oil and are becoming increasingly dependent on foreign LNG supplies for our natural gas – we cannot afford to let that happen with our nuclear fuel supply. Just as geo-political change can open up new energy supply sources as we saw with the collapse of the Soviet Union, geo-political change could just as quickly shut down access to foreign energy supplies.

I want to acknowledge the forward-thinking efforts of you, Mr. Chairman, Senator Domenici, Congress and the Administration to support the growth of nuclear power by passing the Energy Policy Act of 2005. This legislation provides important loan guarantees and tax credits to utilities who are working hard to proceed with building new nuclear reactors and modernizing America's nuclear industrial base.

USEC thanks the U.S. government for its support of efforts to close the gap in the coverage of U.S. trade law created by the federal appeals court decision. The U.S. government's support highlights the national interests at stake in this case.

I want to thank Kentucky Senators Mitch McConnell and Jim Bunning, as well as Congressman Ed Whitfield, for introducing legislation clarifying that all nuclear fuel imports are subject to U.S. trade law. This legislation will ensure that the agreement with Russia can be enforced according to the terms of the agreement. I also want to acknowledge the United Steel Workers for taking the lead in requesting the legislation and, in particular, the efforts of International Local 550 in Kentucky and Local 689 in Ohio in support of the legislation.

USEC will support any measure that will ensure that the terms negotiated with Russia can be enforced. Those terms provide an extremely reasonable market opportunity for Russia and for utilities. And they give USEC and others who want to provide a secure domestic fuel supply to support the nuclear renaissance in the United States the market stability we need to finance and complete our projects.

USEC is doing three things that are of vital importance to U.S. energy and national security.

First, we operate the only uranium enrichment facility on U.S. soil – a gaseous diffusion plant in Paducah, Kentucky.

Second, we are deploying the only U.S.-owned and U.S.-operated advanced uranium enrichment technology at USEC's American Centrifuge Plant in Piketon, Ohio.

Third, we are the U.S. government's executive agent for the Megatons to Megawatts nonproliferation program with Russia. This program has converted highly enriched uranium from almost 13,000 dismantled Russian nuclear warheads into fuel that generates approximately 10% of America's electricity annually. The program is on track to eliminate 20,000 warheads by 2013.

USEC supplies approximately one-half of the fuel used to power U.S. nuclear reactors today. USEC also employs more than 2,800 workers at its facilities in five states – Georgia, Kentucky, Ohio, Tennessee and Maryland.

Let me talk briefly about what USEC has been doing to meet our country's need for reliable uranium enrichment supply.

USEC has substantially improved operations at our Paducah plant, which is now operating at historically high levels of efficiency. Market prices for our product at current levels can support continued production from our existing plant.

USEC must also replace the fuel that today comes from dismantled Russian nuclear warheads under the Megatons to Megawatts program, and we are building new capacity using the world's most advanced enrichment technology, which is based on research and development done by the U.S. Department of Energy. USEC is investing billions of dollars in a new enrichment plant to produce the nuclear fuel that American utilities need.

The American Centrifuge Plant we are building in Ohio will use 95 percent less electricity than a comparably sized gaseous diffusion plant. The new plant relies on domestic technology and will employ highly skilled American workers. It will ensure a reliable and competitive domestic supply of nuclear fuel, help revitalize America's nuclear industrial base and create hundreds of new, well-paying U.S. jobs in more than 10 states.

I am personally committed to keeping the project economic for our investors and price competitive for our customers. However, there is an important national security dimension to the project that cannot be ignored. While other domestic plants based on foreign technology have been proposed, the American Centrifuge Plant is unique because it alone will employ U.S. technology. This technology is not only vital to our nation's energy interests, it is also the only technology available to meet U.S. national security needs, such as enriched fuel for defense purposes. Even if plants using foreign technology are deployed in the United States, only the American Centrifuge technology could be used to meet those defense needs. By international agreement, enriched uranium produced using such foreign technology may only be used for peaceful purposes.

Some contend that without immediate and unlimited access to Russian uranium imports, America will face a shortage in our nuclear fuel supply in the future. That is simply not the case.

First, our Paducah plant is setting new production records and can continue to operate throughout the next decade if needed, provided that market prices remain stable and are not depressed by dumped imports.

Second, our American Centrifuge Plant's modular architecture can be expanded years ahead of an increase in fuel demand, thus providing ample supply for utilities.

Third, LES and the other projects I mentioned before are planning to provide additional domestic capacity using foreign technology, which individually or together will provide substantial domestic supply in addition to the supply from the American Centrifuge Plant.

Fourth, we expect the United States will continue to import substantial amounts of nuclear fuel from Western Europe. See our chart, exhibit 1.

Fifth, as mentioned earlier, the terms of the recent agreement allow unlimited imports of Russian fuel for initial cores of new reactors and permit the Commerce Department to increase the quotas on Russian fuel in the event of a supply shortage for existing reactors.

Therefore, there should be more than sufficient fuel supply to meet domestic needs, provided U.S. market conditions remain stable and afford us the certainty needed to maintain and deploy domestic supply. It is important to note that, under these conditions, nuclear power is very attractive because, among other benefits, it does not put us in a position of being reliant on a single country or cohesive group of countries, like OPEC, for our fuel supply.

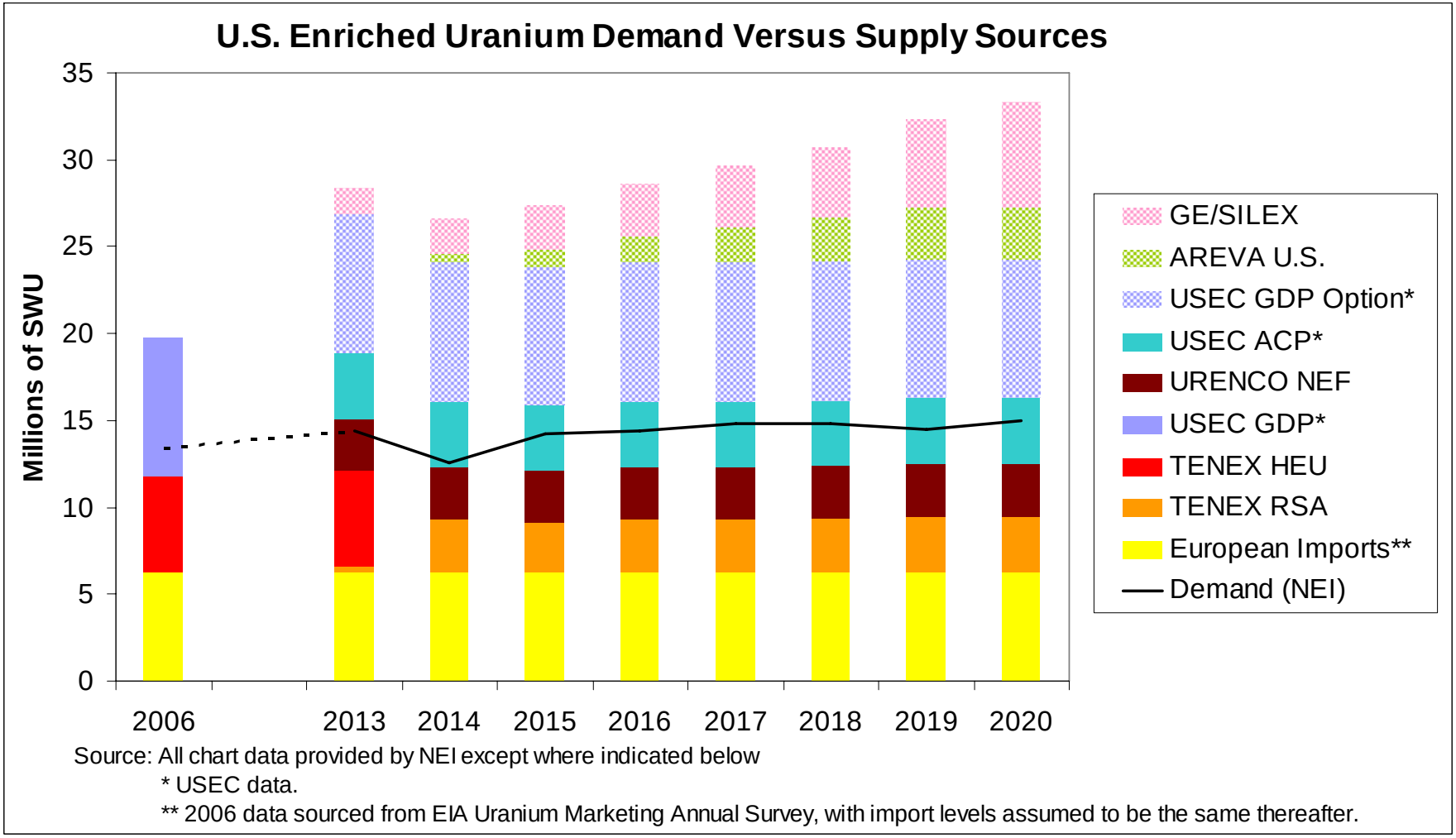
In this regard, Russia has the largest nuclear fuel supply in the world and is aggressively seeking to expand its share of the world market, particularly in the United States, as confirmed in the U.S. International Trade Commission's year-long investigation that was completed in 2006 (see exhibit 2). Russia can clearly play an important role in the U.S. nuclear fuel market in the long term, but given Russia's significant excess supply and propensity to use energy to further their policy objectives, unfettered access to the U.S. market would put the United States in the unacceptable position of being at the mercy of Russian fuel imports.

At the beginning of my remarks, I stated that we are all committed to the expanded use of nuclear power, a strong domestic nuclear fuel industry, robust competition among domestic and international nuclear fuel suppliers and a reinvigorated manufacturing base, and I raised the question of how do we get there.

We are at a critical juncture in our efforts to support the nuclear renaissance. Action is required now to assure the stable and strong U.S. nuclear fuel industry that is needed for this renaissance by ensuring that the recent agreement with Russia is enforceable.

The U.S. nuclear power industry, the Congress and the Administration must work together to prevent the United States from becoming dependent on foreign governments, the nuclear fuel companies they control or foreign enrichment technologies to keep America's nuclear plants operating. It would be a great irony if the nation that first harnessed the power of the atom became solely dependent on other nations to provide its nuclear fuel. A nuclear renaissance overly reliant on foreign-controlled fuel is a bad deal, and Congress has the power to ensure that does not happen.

Exhibit 1



Source: All chart data provided by NEI except where indicated below

* USEC data.

** 2006 data sourced from EIA Uranium Marketing Annual Survey, with import levels assumed to be the same thereafter.

Even under the temporary quotas on Russian enriched uranium, U.S. utilities will have sufficient sources of enriched uranium.

Exhibit 2:

Conclusions of the U.S. International Trade Commission

- The U.S. International Trade Commission identified the following consequences if restraints on Russian fuel imports were terminated:
  - "significant volumes of Russia's current enrichment capacity would be targeted to the U.S. market"
  - "aggressively priced shipments would likely undersell the domestic product and significantly depress the domestic industry's prices"
  - "a significant adverse impact on the production, shipments, sales, market share, and revenues of the domestic industry, particularly given its vulnerable condition"
  - "further erosion of the industry's profitability as well as its ability to make and maintain necessary capital investments, especially the two new planned enrichment facilities"
  - "commensurate employment declines in the industry"

Source: U.S. International Trade Commission, "Uranium from Russia", Investigation No. 731-TA-539-C (Second Review), Pub. 3872 (August 2006)