United States General Accounting Office

GAO Testimony

For Release
on Delivery
Expected at
10:00 a.m. EDT
Tuesday
July 31, 1990

Comments on Smith Barney's Uranium Enrichment Analysis

Statement of
Victor S. Rezendes, Director, Energy Issues
Resources, Community, and Economic
Development Division

Before the
Subcommittee on Energy and the Environment
Committee on Interior and Insular Affairs
House of Representatives

and the

Subcommittee on Energy and Power
Committee on Energy and Commerce
House of Representatives

GAO/T-RCED-90-101A

GAO Form 160 (12/87)

SUMMARY STATEMENT

We have pointed out in reports and testimonies over the last several years that the Congress needs to reevaluate the Department of Energy's (DOE) uranium enrichment program in light of its current business environment. Smith Barney reached this same conclusion and recommended that the program be restructured as a government corporation before a private company is formed. We too have supported the formation of a government corporation subject to the Government Corporation Control Act.

However, we differ with Smith Barney on the (1) extent to which past costs to modernize old plants and build additional capacity and future costs to clean up environmental contamination and decommission existing facilities should be borne by the new corporation and (2) feasibility of privatization in light of the changing market caused by increased competition. In particular, Smith Barney assumed a number of write-offs and adjustments and concluded that DOE's customers have overpaid about $1.2 billion in past costs. In reality, total costs have not been recovered through revenues but reduced by certain adjustments and policy decisions, which we believe should only be made by the Congress.

On the other hand, we do not want to see the program, regardless of its structure, burdened by past costs to the point of being noncompetitive. Clearly, as we have reported, the program cannot recover $9.6 billion and remain competitive. Consequently, we have supported the write-off of about $4.1 billion in past costs resulting from the gas centrifuge plant and gaseous diffusion plant upgrades. However, DOE estimates that the corporation could earn about $3 billion by the year 2000 and over $8 billion by 2008. Therefore, the Congress should consider a specific provision in any restructuring legislation to ensure repayment of the $3 billion that DOE has been pricing to recover, rather than rely solely on the receipt of unspecified dividends and/or uncertain stock sales, which may not materialize because of licensing uncertainties, increased competition, and billions of dollars in liabilities.

We also encourage the Congress to require the program to begin setting aside funds to decommission the three existing plants. Smith Barney implies that the corporation at most would be responsible for environmental compliance and decommissioning costs after its formation and that the government assume all prior costs. Smith Barney did not identify total costs and did not specify the method that should be used to allocate the costs between the government and the corporation. Since DOE estimates that government purchasers are responsible for 50 percent of decommissioning costs, we believe that restructuring legislation should require the government to match the corporation's fund contributions. This requirement should continue until the existing plants have been decommissioned.