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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-199909 August 12, 1980

The Honorable Melvin Price
Chairman, Committee on Armed Services
House of Representatives

Dear Mr. Chairman:

Subject: Uranium Enrichment Services Pricing

This responds to your June 19, 1980, letter in which you disagree with our June 9, 1980, letter stating that the present uranium enrichment services pricing policy constitutes a subsidy to the nuclear industry which should be eliminated. In part, you base your opinion on our own previous position, stated in a September 25, 1967, reply to a letter from the Joint Committee on Atomic Energy. In that letter we found no basis for asserting that the Atomic Energy Commission's proposed enrichment services charge provided the nuclear industry a subsidy.

We do not believe our September 1967 and present positions on subsidies in enrichment services pricing are inconsistent. We do, however, recognize the appearance of inconsistency; and appreciate the opportunity to further clarify our views.

First, and perhaps most important, we define "subsidy" to include not only the provision of financial aid at Federal expense, but also "the public provisions of loans, goods, services, etc., at lower prices than the recipients would have to pay in the market, such as interest subsidy." 1/ Our June 9, 1980, letter points out that present law requires the Department of Energy to recover the Government's cost for enrichment services over a reasonable period of time, but prohibits the Department from including factors in its enrichment services charge which would otherwise be included if uranium enrichment was a private enterprise. Thus, present

1/"Terms Used in the Budgetary Process," by the Comptroller General of the United States, July 1977, PAD-77-9.

law guarantees that any Department enrichment services charge will constitute a subsidy, using our definition of that term. Also, it is important to note that in 1967 there was no market place for uranium enrichment services. At that time, the Atomic Energy Commission was essentially the supplier of enriched uranium to the free world for use in nuclear powerplants. This is not true today, of course, with the emergence of two European consortia and the Soviet Union as competitors.

It is also important to put our September 1967 letter in the perspective of the events occurring at the time and on which our position was based. At that time, the Atomic Energy Commission was establishing, for the very first time, the price it would begin charging for uranium enriching services on January 1, 1969. At that time, the legal basis for setting the enrichment services charge was for the recovery of "reasonable compensation" rather than the present legal basis for recovery of the Government's costs. Under the "reasonable compensation" concept, the Commission computed a $22.50 basic unit cost, and then added a $3.50 contingency for risks and uncertainties, for a total charge of $26.00.

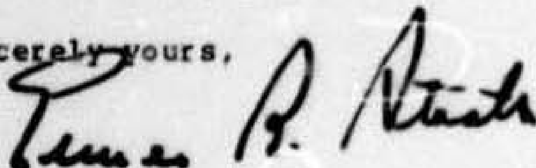
In announcing the proposed $26.00 charge, the Commission said the $3.50 contingency was computed based on a 7.5 percent rate of return, and noted that for this purpose the 7.5 percent rate of return could be considered as a possible composite cost of money from debt and equity sources associated with a privately financed enrichment enterprise, including an assessment of the business risks associated with such an enterprise. The Commission chairman emphasized that the $26.00 charge was established following analysis of unit costs averaged over various compaign periods and charges projected for possible situations of private ownership of enrichment plants.

As you stated, in our September 1967 report we saw no basis for asserting that a subsidy was being provided to the domestic or foreign nuclear industry. Our position at that time was largely based on (1) the Commission's provision of $3.50, or over 15 percent, of the basic unit cost for contingencies and (2) the inclusion of charges projected for possible private ownership situations in the contingency.

To sum up, our September 1967 position that the proposed enrichment service change did not constitute a subsidy was based on (1) the concept of charging "reasonable compensation" and (2) the provision of the contingency in the proposed charge, including charges projected for possible private ownership. On the other hand, our current position that the enrichment service charge constitutes a subsidy is based on (1) the present law limiting the basis for the charge to recovery of the Government's costs and (2) the fact that the Department is providing enrichment services at lower prices than the industry would likely have to pay in a private market.

We trust this clarifies the apparent inconsistency between our 1967 and present positions about which you were concerned.

Sincerely yours,



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of the United States