



Ken S. Canady
Vice President
Nuclear Engineering

November 13, 2002

Mr. Michael Lesar
Chief, Rules Review and Directives Branch
Division of Administrative Services
Office of Administration
U.S. Nuclear Regulatory Commission
Washington, DC 20555-0001

Reference: Docket No. 70-3103, Louisiana Energy Services Gas Centrifuge Enrichment
Facility Request for Comment 76 Fed. Reg. 61932

Dear Mr. Lesar:

On April 24, 2002, Louisiana Energy Services (LES) submitted six white papers to the NRC that were intended to clarify the license review process associated with its proposed domestic gas centrifuge facility. Subsequently, the NRC invited comments on the LES submissions in the referenced Federal Register notice. As owner and operator of a fleet of seven nuclear reactors, Duke Energy Corporation (Duke), is pleased to provide the following comments in response to this invitation. As the fuel buyer for a large nuclear system, Duke is uniquely positioned to provide relevant comments addressing the "need" for the new domestic enrichment capacity proposed by LES.

As a threshold issue, nuclear generators need reliable, economic fuel supplies to remain competitive and viable. Recent events in the enrichment services market have degraded the overall reliability and economics of fuel supplies. The deployment of advanced enrichment technology in this country is essential to restoring the reliability and economics of fuel supplies for domestic nuclear generators--both in the near term and long term. The fundamental importance of these market characteristics and their relationship with the need for new domestic centrifuge enrichment capacity is discussed in greater detail as follows:

Reliable Supplies

The primary means in which nuclear generators manage fuel supply risks is by diversifying supplies. Reliance on a single source to fill the demand for a given fuel product or service is simply not prudent given the exposure created by an unanticipated supply interruption from that source. Diversification minimizes the exposure related to an interruption from a single source and better positions the fuel buyer to cover the exposure by increasing his reliance on unaffected suppliers. As such, the addition of a new producer such as LES will enable nuclear generators to broaden their diversification efforts to increase reliability of supply.

Duke Energy Corporation
526 South Church St.
Charlotte, NC 28202
EC08H
P.O. Box 1006
(704) 382-4712 OFFICE
(704) 382-7852 FAX

RECEIVED

NOV 15 PM 2:02

Rules and Directives
Branch
U.S. NRC

10/2/02
61 FR 61932
330

Template = ADM-213

F-EDS = ADM-23
Add = J. Johnson (TCS)

Many of the risks that threaten to interrupt fuel supplies are specific to foreign sourced material. Such risks include i) the imposition of U.S. trade actions against certain foreign suppliers, ii) a change in foreign government policy to reduce or prevent exports to the U.S., iii) a change in U.S. government policy to embargo imports from specific countries, and iv) wars that either damage or interrupt foreign production and/or shipping routes. As a result, domestic nuclear generators consider domestic fuel sources to be less vulnerable to government intervention, and therefore more reliable. Of course, this ignores the financial condition of domestic suppliers, which can easily override the above considerations. In summary, U.S. nuclear generators prefer that supply sources to be cited domestically, as LES is contemplating, in order to further limit political and transportation related supply risks.

In addition to the generic reliability issues described above, current circumstances in the U.S. enrichment market underscore the need for deployment of an advanced enrichment plant such as that proposed by LES. Currently, the United States Enrichment Corporation (USEC) is the only supplier capable of delivering enrichment services to U.S. nuclear generators which are unfettered by trade action. Unfortunately, USEC's production is provided from high cost gaseous diffusion technology, which is becoming less reliable to operate given the age of its plant. The reliability and economics of LES's proposed gas centrifuge technology has been proven through decades of operations at Urenco's European production facilities.

Additionally, roughly half of the enrichment services supplied by USEC to its domestic customers are from Russia via the HEU program. The reliability of these Russian HEU supplies are potentially impacted by adverse changes in the political relationship between the U.S. and Russian governments or adverse changes in the relationship between Russia and the current U.S. Executive Agent of the HEU program. In the event of a protracted interruption in the supply of Russian HEU, USEC lacks the incremental production capacity to replace this supply. The proposed LES facility will provide a much needed reliable enrichment supply option to U.S. nuclear generators.

Economical Supplies

Nuclear generators compete with other forms of electric generation such as coal and gas-turbine generation. In order to remain competitive with these alternatives, nuclear power *requires* low fuel costs to offset its relatively high fixed, non-fuel production costs. Given that enrichment services comprise roughly half of all direct nuclear fuel costs, it is critical that the cost for these services remain economical. Future investment in existing or new nuclear generation becomes a far less attractive option to potential investors absent adequate available supplies of economical fuel. Such an environment runs counter to the energy policy initiatives supported by the Bush administration as it relates to the nuclear power.

At this time, domestic nuclear generators are largely dependent on USEC, which holds a 70% market share of the domestic market. USEC currently operates a single gaseous diffusion plant (GDP), which remains viable only as a result of its production being subsidized by uranium sales

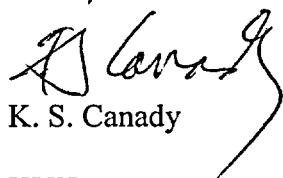
and low cost SWUs supplied to USEC through the Russian HEU program. The cost of production associated with USEC's GDP is well above the costs required for advanced centrifuge production. This is largely the result of the fact that the GDP technology is highly energy intensive, requiring far more electricity input than efficient advanced centrifuges. As a testament to the economics of Urenco's gas centrifuge technology, Urenco is the only entity in the world currently expanding its enrichment capacity.

The sustainability of the Russian HEU agreement is critical to serving this nation's long term energy security and non-proliferation interests. The addition of a new enrichment facility will not have a destabilizing impact on the Russian HEU agreement. The market price structure recently adopted under the program was developed in full recognition that changes in the marketplace over time are inevitable. Given the various available pricing alternatives, the parties willingly accepted the current market price structure due to its adaptability in preserving the interests of all involved parties in a varying marketplace environment into the future.

Further, it should be noted that the functions of the U.S. executive agent could be fulfilled by alternate parties in the event that USEC becomes unable or unwilling to perform this role. LES, as one example, would have the capability to serve this role in such an exit by USEC. In fact, numerous participants in the nuclear fuel industry have expressed interest in serving this role on behalf of the U.S. government over the past decade. Moreover, in its recent Memorandum of Agreement, the U.S. Department of Energy (DOE) and USEC contemplated the potential need to appoint an additional U.S. executive agent should certain events and market conditions create that need.

In summary, nuclear generators need reliable and economical fuel supplies and the current U.S. marketplace for enrichment services lacks these characteristics. The reliability of USEC's aging GDP is expected to deteriorate further jeopardizing overall supply reliability. Supplies of enrichment services via HEU and foreign production are more vulnerable to political and transportation disruptions than domestically produced supplies. The higher maintenance and power costs of the GDPs also drive production costs much higher than production from advanced centrifuge technology. For these reasons, an advanced technology centrifuge facility deployed domestically as proposed by LES is needed to address these current market conditions and would support the Bush Administration's energy policy initiatives regarding increased investment in nuclear power.

Very truly yours,



K. S. Canady

KYH