



ICF INTERNATIONAL, INC.

July 1, 1993

Memorandum

To: Jim Shepherd, NRC  
Fr: Rick Nevin, Vijetha Dasappa, Craig Dean, and Paul Bailey, ICF Incorporated  
Re: ConverDyn Funding of Sequoyah Fuels Decommissioning Costs

Per your request, ICF has analyzed certain proprietary documents related to Sequoyah Fuels Corporation (SFC) and an agreement to form a joint venture between SFC's parent company General Atomics Energy Services (GAES) and Allied Signal Incorporated (ASI).

The joint venture, called ConverDyn ("the Partnership") will market nuclear fuel (UF<sub>6</sub>) and other services to electric utilities and other customers. The Partnership will purchase its nuclear fuel from ASI, which will continue to own and operate its conversion facility in Metropolis, Illinois. Customers served by the Partnership will include existing contracts held by SFC and ASI, and new contracts sold by ConverDyn.

SFC will receive Standby Fees in exchange for serving its existing customer contracts with product purchased from the Partnership. SFC will also cease production at its conversion facility in Gore, Oklahoma, and maintain that facility in standby status. The definition of "standby status" is entirely determined by SFC, however, with legal agreements explicitly allowing for the possibility that SFC will decommission the Gore facility (including structures, equipment, and land), and that any subsequent restart of the facility could require reconstruction of structures, procurement and installation of equipment, hiring and training of personnel, and obtaining of license authorizations from the NRC and other regulatory agencies.

The specific assistance requested from ICF by NRC is as follows:

1. Review financial and other documents provided by SFC to demonstrate its funding plan for decommissioning;

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2. Review legal documents between SFC, GAES, and ASI to ascertain the relationship being proposed;
3. Review financial and market forecast assumptions as to their reasonableness, taking into account Department of Energy (DOE) forecast reports and other available data with regard to future demand for the conversion products being produced and sold;
4. If required, appear in person before the Licensing Board in a hearing to present testimony and defend ICF's views with assistance from OGC as may be necessary and appropriate; and
5. Treat all information reviewed as proprietary, in the manner prescribed by our contract.

ICF has examined the financial and legal documents provided by NRC. We have also examined DOE market data provided by NRC and conducted an electronic literature search to identify the most recent information available with regard to future demand for the conversion products being produced and sold.

Our findings are presented below in four sections. Section 1 describes the data sources used in our analysis, and the significant limitations of these data as a basis for evaluating whether the Partnership and related agreements will provide sufficient funds to pay for decommissioning of the Gore facility. Section 2 describes the most important financial aspects of the Partnership and related agreements, and explains how these financial terms are reflected in the financial projections of standby fees for SFC and income for the Partnership. Section 3 details the key determinants of whether the Partnership will achieve or exceed the financial projections provided, and specifies the additional information that is required in order to make such a determination. Section 4 presents a summary of the additional information that will be required in order to assess whether funds from this partnership are likely to cover the expenses of decommissioning the SFC facility of approximately \$21 million.

## **1. Available Data Sources and Limitations**

Our discussion below examines the data available for this analysis, and associated data limitations, in three subsections:

1. Financial data and projections;
2. Market data; and;
3. Legal agreements.

## 1.1 Financial Data

Three types of financial data were included in the legal agreements and other information provided by NRC for this analysis:

1. A one-page financial projection, from 1993 through 2003, for ConverDyn (the Partnership) unit sales and prices, revenues, nuclear fuel inventory, expenses, and income;
2. A one-page financial projection, from 1993 through 2003, for SFC costs including decommissioning costs and standby fees paid to SFC; and
3. Audited financial statements (i.e., balance sheets, income statements, cash flow statements, and notes to financial statements) for 1992, including comparable data for 1991, for Sequoyah Fuels International Corporation (SFIC), the immediate parent of SFC, and for SFIC's immediate parent, Sequoyah Holding Corporation (SHC).

The financial projections for ConverDyn and for SFC costs and standby fees are presented without any explanation or justification for a variety of assumptions relating to new contract sales, unit costs and prices, and other key financial variables. Our discussion under Section 2 describes our understanding of the key financial provisions of the Partnership agreement, and raises questions about how these legal terms are reflected in the financial projections. Our discussion under Section 3 and our summary under Section 4 specify additional types of information that are needed in order to evaluate the reasonableness of key assumptions underlying these projections.

The financial statements provided for SFIC and its immediate parent, SHC, are of only limited value in our analysis of funding provided to SFC under the ConverDyn partnership, because the summary financial statements for these two intermediate corporate parents include revenues and expenses that are not reflected in the projections for nuclear fuel sales to SFC by ConverDyn. For example, the projected 1993 ConverDyn sales of nuclear fuel for SFC contracts is \$21.6 million, and the total 1992 revenues reported by SFIC were \$33.1 million. Therefore, our summary under Section 4 notes that additional information is needed in order to assess whether projections for 1993 sales to SFC are consistent with SFC's 1992 sales under existing nuclear fuel contracts.

## 1.2 Market Data

ICF has examined the following four publications, provided by NRC, relating to the nuclear fuel market:

1. Integrated Data Base for 1992: U.S. Spent Fuel and Radioactive Waste Inventories, Projections, and Characteristics, prepared for the U.S. Department of Energy, October 1992;
2. Uranium Industry Annual 1991, Energy Information Administration, October 1992;
3. Domestic Uranium Mining and Milling Industry Annual 1990, Energy Information Administration, December 1991; and
4. World Nuclear Capacity and Fuel Cycle Requirements 1992, Energy Information Administration, December 1992.

ICF's review of these four publications indicates that World Nuclear Capacity and Fuel Cycle Requirements 1992, provides information relating to domestic and international markets for nuclear fuel, which is directly applicable to this analysis. We have focussed on their projections for the period 1992 through 2005 because the financial projections for ConvergDyn income and SFC standby fees only go out to 2003. The report makes projections for domestic nuclear fuel requirements under three demand scenarios -- no new orders, lower reference (assumes some growth in demand), and upper reference (demand-driven capacity growth case). The following projections for the period 1992 to 2005 are worth noting because of their pessimistic nature:

- U.S. average uranium requirements
  - Slight decline (about two percent) in the No New Orders case
  - Almost no change in the Lower Reference case
  - Slight growth (about three percent) in the Upper Reference Case, or an annual growth of 0.2 percent over the period
- U.S. average uranium enrichment service requirements
  - 8.33 percent increase in the No New Orders case, or an annual growth of 0.6 percent over the period
  - 10.4 percent increase in the Lower Reference case, or an annual growth of 0.74 percent over the period
  - 13.5 percent increase in the Upper Reference case, or an annual growth of 0.96 percent over the period

The report further makes projections for international nuclear fuel requirements under the lower reference and upper reference scenarios. The following projections for the period 1992 to 2005 are worth noting:

- World average uranium requirements
  - 7.8 percent increase in the Lower Reference case, or an annual growth of 0.55 percent over the period
  - 18.78 percent increase in the Upper Reference case, or an annual growth of 1.34 percent over the period
  
- World average uranium enrichment service requirements
  - 19.9 percent increase in the Lower Reference case, or an annual growth of 1.42 percent over the period
  - 30.9 percent increase in the Upper Reference case, or an annual growth of 2.2 percent over the period

Therefore, projections for the U.S. with respect to uranium and nuclear fuel indicate that demand may decline or grow slowly at about 10 percent, or less than one percent per year, over the period from 1992 to 2003. Even under the most optimistic scenario, demand is expected to grow by only 13.5 percent, which again translates to less than one percent per year. World demand (including the U.S.) is projected to grow at about 10 to 20 percent for uranium (i.e., about one percent per year) and about 20 to 30 percent for nuclear fuel (i.e., about two percent per year).

The above projections are a sharp contrast to the market assumptions embedded in the ConverDyn projections, which assume a sales growth of 50 percent over the period 1993-2003. Furthermore, all of this growth in partnership sales is projected to occur in the first year, between 1993 and 1994.

The report also emphasizes the enormous potential that exists in the CIS for selling uranium and uranium enrichment services. It is estimated that there exist about 160 million pounds of uranium in a strategic civilian inventory, of which 40 million pounds could be made available for sale. There also exist 660 million pounds of high-enriched uranium (HEU) in a military inventory. It is possible to dismantle nuclear warheads and dilute HEU to commercial grade low-enriched uranium (LEU) for use in civilian reactors. The report indicates that the United States has agreed to buy HEU from Russia's dismantled nuclear warheads and convert it into fuel for commercial nuclear power.

ICF has also conducted a literature search to identify relevant articles that have been published over the last two to three years on various aspects of the market for nuclear fuels, such as prices, trends, and international competition. We have obtained several articles from our library that provide the following insights into the market for nuclear fuel:

- In an article reporting on the formation of ConverDyn, the chairman of GAES stated that the consolidation of marketing operations was necessary in this period of static demand for  $UF_6$  conversion services, and the Vice-President of ASI stated that the creation of the joint venture makes sense because of the flat nuclear cycle market in the world today and the presence of significant capacity. (Chemical Marketing Reporter, November 30, 1992.)
- Nuclear engineers continue to improve the design of PWRs and BWRs to reduce fuel consumption. Consequently, since the mid-1980s, it has become possible to drop uranium requirements by 14 percent for PWRs and 18 percent for BWRs. (Modern Power Systems, December 1992.)
- Russian exports of nuclear fuel and nuclear technology are expected to soar in 1994. In 1993, sales could rise to one billion from \$600 million in 1992. The country sees these exports as a way to earn desperately needed hard currency. Russia plans to transform its vast military sector to civilian use. As part of this plan, one-third of the workers formerly employed in the military sector of the atomic industry were already working in the civilian sector. Finally, the country plans to double the capacity of its nuclear plants by 2010. (Journal of Commerce, January 5, 1993.)
- In 1991, a U.S. company named Concord entered into a joint venture with a Soviet trade association to market Soviet nuclear-fuel products and services to utilities in the U.S. and the Far East. (Wall Street Journal, June 7, 1991.)

The above observations indicate that the world market for nuclear fuel is beset with excess supply coupled with modest growth in demand. Given that nuclear fuel is a commodity traded on the international market, the potential competition from Russia does not augur well for producers in the United States.

### 1.3 Legal Documents

Three types of legal documents have been provided by NRC for this analysis:

1. **The Partnership Agreement:** This 77-page Agreement lays out the terms and conditions of the partnership between Allied Signal Energy Services (ASES) and General Atomics Energy Services (GAES), whereby the Partnership (ConverDyn) will buy  $UF_6$  from ASI, service existing contracts held by ASI and by GAES and its subsidiaries (SFC and SFIC), receive administrative services from GAES and ASES, pay standby fees to SFC, and market and service new contracts sold by ConverDyn.

2. **SFC Standby Agreement:** This 12-page agreement requires that SFC cease production at its conversion facility in Gore, Oklahoma, and maintain that facility in standby status. As compensation for this agreement, SFC will receive Standby Fees and Additional Standby Fees, as specified in a 4-page "Schedule B" attachment to the Standby Agreement. "Standby Fees" are designed to cover SFC's costs, including costs to decommission the Gore facility, subject to constraints on the amount of standby fees payable in any one month (e.g., available cash). If standby fees are not paid in any month, due to these specified constraints, then these unpaid fees become "Standby Fee Agreement Rollover Costs" payable in subsequent months, subject to similar constraints. The agreement also calls for SFC to receive "Additional Standby Fees" equal to the lesser of one-third of taxable income for the Partnership, or one-third of available cash.
  
3. **SFC/SFIC Conversion Services Agreement:** This 12-page agreement specifies the terms and conditions under which SFC and SFIC agree to receive from the Partnership (ConverDyn) all UF<sub>6</sub> conversion "and related services" required under existing SFC and SFIC customer contracts. This agreement allows SFC and SFIC to deplete (sell) any existing balance of UF<sub>6</sub> (including work-in-progress) before receiving conversion services from the Partnership, and specifies the cost paid by SFC at one-half of one cent (\$0.0005) less than the contract price/pound received by SFC from its customers. The agreement also specifies (on pp. 6-7) that the Partnership can terminate the agreement on 12 months prior notice if ASI elects to permanently shut down its Metropolis facility and cease to be in the UF<sub>6</sub> conversion business. Finally, the SFC/SFIC Conversion Services Agreement also includes four attached schedules A through D:
  - Schedule A lists the technical specifications for UF<sub>6</sub> received, and the conversion surcharges for UF<sub>6</sub> exceeding the specified maximum limits of specific concentrates (e.g., Silica in excess of 2.5 percent).
  - Schedule B is a 14 page Contract for Conversion Services, with five attached Exhibits A through E detailing contract terms and technical specifications. This schedule appears to be a template for contracts between SFC/SFIC and their existing customers, and does not provide any information relating to specific SFC/SFIC customer contracts.
  - Schedule C, a list of SFC/SFIC customer contracts is explicitly omitted from the materials provided. This omission makes it

impossible to verify the financial projections for ConverDyn sales to SFC under existing contracts.

- Schedule D is a security agreement pledging SFC/SFIC contracts as collateral in the event of a default by SFC or SFIC under the Conversion Services Agreement.

The Partnership Agreement refers to several related agreements attached as Exhibits A through G (cited on pages 8, 14, and 36-37), most of which were not included in the materials made available to ICF. Exhibit B refers to the SFC Standby Agreement, and Exhibit F refers to the SFC/SFIC Conversion Services Agreement, which have been provided as described above. The remaining exhibits, which have not been provided, include:

1. **Exhibit A: ASI Supply Agreement.** This agreement describes the terms and conditions under which ASI will provide UF<sub>6</sub> conversion services, and may include important product pricing information (i.e., product cost for the Partnership). Furthermore, the Partnership Agreement indicates (on pp. 13-14) that the ASI Supply Agreement also details the terms of ASI financing arrangements for the Partnership, which are important in determining the likely standby fee to SFC.
2. **Exhibits C and D: Administrative Services Agreements.** These agreements describes the terms and conditions under which ASI and GAES will provide administrative services to the Partnership. These agreements would be useful insofar as they provide information on the payments that will be made to ASI and GAES for the selling and administrative expenses the two partners render.
3. **Exhibit E: ASES Conversion Services Agreement.** As noted above, the Conversion Services Agreement for SFC/SFIC is included in the materials provided to ICF, but its counterpart for ASI/ASES has not been provided. Also, as noted above, the SFC/SFIC Conversion Services Agreement omitted Schedule C, which lists SFC's existing customer contracts.
4. **Exhibit G: Capital Contribution Agreement.** This Agreement provides information on the capital contribution of ASES and GAES to the Partnership (according to p. 8 of the Partnership Agreement). As explained in Section 3, below, these initial capital contributions are an important determinant of future cash flows to SFC, because the distribution of Standby Fees to SFC is constrained by the amount of "available cash" held by the Partnership, and available cash appears to include initial capital contributions by GAES and ASES. Knowledge

regarding such initial capital contributions may provide a rationale for the positive standby fee SFC expects to receive in 1993 despite the projected loss for that year.

## 2. Important Partnership Agreement Terms Reflected in Financial Projections

There are a variety of legal issues embedded in the agreement documents examined by ICF which may warrant further analysis,<sup>1</sup> but the financial projections for ConverDyn and for standby fees received by SFC appear to be directly related to just two specific sections of the available legal documentation: (1) the calculation of Standby Fees payable to SFC (as specified in the SFC Standby Agreement, Schedule B), and (2) payment priorities from available cash (as specified in the Partnership Agreement, pp. 14-16).

The amount of standby fees billable to the Partnership by SFC each month will be lesser of:

- (1) Actual expenses incurred by SFC, minus ASI Supply expenses (as explained in the missing ASI Supply Agreement), and minus ASES Disproportionate Capital Contributions (as explained in the missing Appendix G on capital contributions);
- (2) Estimated Standby fees (estimated each year by SFC), which may not exceed the following estimates (listed in Appendix B-1 of the SFC Standby Agreement):
  - 94-95: \$28.6 million, minus certain ASI costs and expenditures (specified in the missing ASI Supply Agreement), and minus ASES Disproportionate Capital Contributions (as explained in the missing Appendix G on capital contributions);
  - 1996: \$5.5 million
  - 1997: \$5.0 million
  - 1998: \$4.5 million
  - 1999: \$4.0 million
  - 2000: \$3.5 million
  - 2001: \$3.0 million
  - 2001+: \$2.5 million

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<sup>1</sup> For example, can ASI escape non-competition clause (p. 61) by transfer of rights (p. 45), dissolution (p. 52), or liquidation (p. 58)? Although ICF is prepared to examine such issues at the request of NRC, a detailed opinion on such legal issues is beyond the scope of this financial analysis.

- (3) 100% of Partnership cash available to pay standby fee.

The actual expenses incurred by SFC under (1) include decommissioning costs and other operating costs (e.g., personnel, NRC license fees, depreciation) detailed in the one-page projection provided for SFC costs and fees. The total standby costs shown in this financial projection (for 1993-2003) include approximately \$21 million in decommissioning costs and \$57 million in other costs, summing to \$78 million in total standby costs. However, the total standby fees detailed in the financial projection sum to \$52 million, leaving unrecovered standby costs of \$26 million. Although the unrecovered standby costs are apparently the result of restrictions under (2) and (3) above, it is not possible to verify whether the financial projections are internally consistent with the legal agreements, because important legal agreements are missing (e.g., Appendices A and G, which are the ASI Supply and the capital contribution agreements).

The Standby Agreement also provides that any standby costs under (1) which are not recovered due to constraints under (2) and (3) shall become Rollover Costs that can be recovered in future years. However, while the financial projections show some years when current standby costs are not fully recovered, and other years when standby costs equal standby fees, there is no clear indication that any portion of rollover costs are ever recovered. This apparent inconsistency between the projections and the legal documents is especially difficult to understand in light of the "Additional Standby Fees" reported in the financial projections for ConverDyn, as discussed below.

The Standby Agreement provides that SFC will also receive "Additional Standby Fees" equal to the lesser of one-third of the Partnership's taxable income, or one-third of the Partnership's available cash. The financial projections for ConverDyn indicate that SFC will begin to receive Additional Standby Fees in 1994, and receive a total of \$20 million in Additional Standby Fees through the year 2000. No Additional Standby Fees are paid in the last few years of the financial projections, because the Partnership Agreement also entitles ASES to a "Priority Payment" equal to one-third of available cash, with priority over any "Additional Standby Fee" after Jan. 1, 2005, or after SFC has collected \$20 million of Additional Standby Fees. Thus, the ConverDyn projections report total ConverDyn Fees to SFC of \$72 million, including \$52 million in Standby Fees and \$20 million in Additional Standby Fees.

The explicit projection for Additional Standby Fees, without any explicit recovery of standby fee rollover costs, is difficult to understand in light of the payment priorities from available cash, specified in the Partnership Agreement as follows:

- (1) Interest and principal (including ASI financing);
- (2) Marketing and other expenses under Administrative Services Agreement;

- (3) Current ASI costs under ASI Supply Agreement;
- (4) ASES additional voting interest I redemptions (i.e., ASI rollover costs under the ASI Supply Agreement which were not recovered by ASI in prior periods);
- (5) Current standby fees to SFC;
- (6) ASES additional voting interest II redemptions (the distinction between ASES additional voting interests I and II is unclear in the legal documents available to ICF, but should be clarified in the ASI supply agreement);
- (7) GAES voting interests (i.e., rollover standby fees not collected by SFC in prior periods);
- (8) Equalizing Investments of Partners (explained in the missing Appendix G on capital contributions).

The current standby fees in (i.e., the fifth payment priority) do not appear to include Additional Standby Fees (the Partnership Agreement explicitly refers to the standby fees discussed in Section 1 of Schedule B of the Standby Agreement, and Additional Standby Fees are discussed in Section 2 of Schedule B). Therefore, the Additional Standby Fees appear to have a payment priority after the GAES voting interests, or rollover costs not recovered in prior periods. Additional information and/or clarification is required in order to determine whether Additional Standby Fees can be paid in the amounts projected (or paid at all) if rollover costs are not fully recovered.

Although the omission of certain legal documents (e.g., the ASI Supply Agreement) creates some uncertainty about the significance of certain payment priorities (e.g., the distinction between ASES additional voting interests I and II), it is apparent that the payment of current SFC Standby Fees has a lower priority than the payment of any other current expense. Some ASI rollover costs from prior periods (i.e., ASES additional voting interests I) also have a higher payment priority than current SFC Standby Fees.

### **3. Key Determinants of Financial Projections and Additional Information Required for Further Evaluation of Projections**

Several factors underlying the financial projections play a key role in determining ConverDyn's expected cash flow and the calculation of SFC's Standby Fee. These factors are described below along with a brief analysis.

- (i) **A 50 percent jump in the expected sales volume between 1993 and 1994. The financial projections for ConverDyn are based on a sharp increase in the volume of sales from 8.3 million Kg in 1993 to 12.7 million Kg in 1994, which is the reported capacity of the ASI plant. Following this increase, sales remain constant at 12.7 million Kg per year through 2003. Projected sales to SFC and ASI increase from 8.3 million Kg in 1993 to 9.3 million Kg in 1994, and then decline to 0.2 million Kg in 2003. "New contracts" sales make up for the declining sales to SFC and ASI.**

The above projections need to be viewed in the context of a declining U.S market and slow growth expected for the world market. Also, the Former Soviet Union (FSU) has substantial capacity to compete in the world market. Therefore, the anticipated jump in 1994 sales to SFC and to new contracts is suspect, unless it is related to deals already in advanced stages of negotiation. After 1994, the ASI plant is projected to operate at full capacity. It is worth noting that neither the SFC nor the ASI plant currently operate at full capacity. In fact their combined volume amounts to only 65 percent of the ASI plant's capacity.

Further, the projected increase in new contract sales is probably reasonable only if ASI and SFC expect to rollover old contracts for existing customers into new contracts for the same customers. The subsequent decline in sales to SFC and ASI may be explicitly related to expiration terms for existing contracts, but we do not have the contracts to verify.

- (ii) **Decrease in unit costs of conversion. Between 1993 and 1994, unit conversion cost decreases by almost 20 percent, from \$4.87 per Kg to \$3.97 per Kg. Conversion cost further decreases to \$3.86 per Kg in 1995, \$3.75 per Kg in 1996, and finally appears to stabilize at \$3.70 per Kg starting in 1997.**

A possible explanation for this decline in unit costs of conversion is expected economies of scale that will accrue to the ASI plant as it expands production. There is no way to confirm this hypothesis, however; SFC has not provided any information on these cost projections or the rationale for their decline.

- (iii) **Unit prices for sales to SFC and ASI increase from about \$5/KG in 1993 to \$6 or \$7 per KG in 2003. Unit price for new contract sales remains steady at \$4.90/KG from 1993 to 2003.**

Unit prices for sales to SFC and ASI may be explicitly related to terms for existing contracts, but we do not have the contracts to verify. We will compare projected price for new contracts with available market data on world prices and trends.

- (iv) **Unit sales and unit price data account for about 96% of projected revenue, but there is also \$1.4 million in 1993 revenue, and \$2 million per year in subsequent year revenues, attributed to "sampling plant" activities.**

These revenues appear to be a direct percentage of total contract sales, but there is no justification or explanation for the values presented.

- (v) **SFC is slated to receive a standby fee of \$3.8 million in 1993, even though ConverDyn's net income before taxes in 1993 is expected to be a loss of \$6.0 million.**

According to Schedule B of the SFC Standby Agreement, the standby fee payable to SFC will be the lesser of three amounts, one of which is 100 percent of the partnership cash available to pay the standby fee. This clause in the Agreement implies that if the Partnership makes a loss in a given year, SFC stands to obtain nothing by way of a standby fee. Therefore, it is difficult to understand why SFC will receive a standby fee in 1993 unless each of the partners have put in a certain amount of cash upfront, which would make cash available for payment of a standby fee to SFC in 1993. There is, however, not mention of any such initial cash in any of the legal documents and we do not have the document that might provide this information (i.e., the Capital Contribution Agreement, also referred to as Exhibit G).

- (vi) **Close to 30 percent of the total standby fee that SFC is projected to obtain from the partnership from 1993 through 2003 is comprised of "Additional Standby Fee to SFC."**

According to the Partnership Agreement, following priority payments from "Available Cash," one-third of the remaining "available cash" is to be paid to SFC in the form of "Additional Standby Fees." The payment of this additional standby fee in any given year is contingent on the partnership earning positive net income in that year. Further, the fee is paid only after the payment of several priority payments. Therefore, the additional standby fee which comprises 30 percent of SFC's payment over the next ten years may be of a highly speculative and uncertain nature.

- (vii) **Selling and administrative costs remain flat at \$3.4 million even though new contracts are projected to grow between 1993 and 2003 and total sales increase by 50 percent between 1993 and 1994.**

SFC has not provided any justification for this anomaly.

#### **4. Additional Information Required**

ICF will require additional legal documentation and financial information in order to assess whether the partnership between ASES and GAES is likely to cover the expenses of decommissioning the SFC facility.

#### **4.1 Additional Legal Documentation Required**

ICF will require the following legal documents that were missing from the package we received:

1. ASI Supply Agreement (Exhibit A)
2. Administrative Services Agreements (Exhibit C and D)
3. Conversion Services Agreement for ASI (Exhibit E)
4. Capital Contributions Agreement (Exhibit G)
5. Schedule C of Conversion Services Agreement for SFC that lists SFC's customers

#### **4.2 Additional Financial Information Required**

ICF will require the following kinds of additional financial information to accurately assess the financial ability of SFC to meet its decommissioning obligations:

1. What is the basis for anticipating a 50 percent increase in sales between 1993 and 1994? This projection does not appear to be supported by domestic or world market projections for nuclear fuel. Does there exist contracts involving one or both partners or any additional data to support this expectation?
2. The financial projections for ConverDyn indicate a steady decline in sales to SFC and ASI and a concomitant increase in sales to new contracts, suggesting that both partners' contracts with customers to sell nuclear fuel are expiring. Do these expiring contracts get automatically rolled over into new contracts for ConverDyn? Is there any evidence supporting the fact that these new contracts get automatically rolled over? If existing contracts are not getting rolled over, do there exist contracts involving ConverDyn, or any other data, to support the growth in new contracts?
3. What is the reason for the decrease in unit costs of conversion? Are there economies of scale involved? In other words, are there fixed assets used in the production process that cost the same irrespective of

the volume, thereby explaining the decrease in unit costs of conversion as volume expands? What explains the decrease in unit costs of conversion beyond 1994 when volume has ceased to increase?

4. Schedule B of the SFC Standby Agreement states that standby fees will be the lesser of three amounts, one of them being 100 percent of the Partnership cash available to pay standby fee. How is it that SFC receives a standby fee in 1993 despite the projected loss for that year? Is there any information on cash available up-front that may have been contributed by each partner that enables SFC to receive a standby fee in a year with a projected loss? If not, is there any other documentation that may explain the payment of a standby fee to SFC in a year of loss for the Partnership?
5. The financial projections for ConverDyn assume no growth in selling and administrative costs despite the growth in total sales and growth in sales from new contracts. Is there any documentation that provides for a fixed payment to each partner for these costs despite any growth in sales or new contracts?
6. The payments of standby fees and additional standby fees to SFC do not appear to be entirely consistent with the correspond to payment priorities from "Available cash" that are stated in the legal documentation. Can we obtain a cross-walk between the legal documentation and the financial projections that explains the pattern of payments in the financial projections, such as the following:
  - Calculation of standby fees to SFC
  - Are rollover standby fees not collected by SFC in prior periods paid to them in later periods?
  - Payment of Additional Standby Fee if rollover standby fees are not paid (the legal documentation indicates that this additional fee has a lower payment priority than rollover standby fees)
  - Breakdown of payments made to ASI (to help verify the fees that SFC can expect to receive from the partnership)