

DOCKETED
March 29, 1999 NRC

UNITED STATES OF AMERICA
NUCLEAR REGULATORY COMMISSION

'99 APR -2 A11 :39

ATOMIC SAFETY AND LICENSING BOARD PANEL OFFICE OF SECRETARY
RULEMAKING AND
ADJUDICATION STAFF

In the Matter of)
)
HYDRO RESOURCES, INC.)
(2929 Coors Road, Suite 101)
Albuquerque, NM 87120)

Docket No. 40-8968-ML
ASLBP No. 95-706-01-ML

**ENDAUM'S AND SRIC'S RESPONSES
TO THE PRESIDING OFFICER'S MARCH 3, 1999 QUESTIONS**

INTRODUCTION

Eastern Navajo Diné Against Uranium Mining ("ENDAUM") and Southwest Research and Information Center ("SRIC") hereby respond to the questions in the Presiding Officer's March 3, 1999 Memorandum and Order ("the March 3 Order").

Question 1: Is HRI qualified by reason of training and experience?

The March 3 Order recognized that the NRC regulations mandate that HRI demonstrate that it *is* qualified; a showing that HRI will become qualified in the future is not sufficient. March 3 Order at 2; 10 C.F.R. §40.32. The March 3 Order also found no basis for a determination of qualification, and HRI's and the Staff's Responses to the March 3 Order do not provide any such basis.¹

¹ HRI's assertion that the Presiding Officer has already found HRI to be qualified (HRI's March 15, 1999 Response to Questions Posed by Presiding Officer's March 3, 1999 Order ["HRI's Response"] at 3, n. 1) is not well taken. The Presiding Officer's footnote 57 in LBP-98-9 (May 13, 1998) was written before the parties filed their presentations on the qualifications issue, and it hardly constitutes a decision by the Presiding Officer on the merits.

U.S. NUCLEAR REGULATORY COMMISSION
RULEMAKINGS & ADJUDICATIONS STAFF
OFFICE OF THE SECRETARY
OF THE COMMISSION

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The Staff's Response² indicates that the Staff's view that HRI is qualified was based upon: the experience of HRI's parent corporation, Uranium Resources, Inc., HRI's proposed organization chart, and HRI's plan to fill management positions. Staff's Response at 2-3. Similarly, HRI's Response relies for HRI's qualifications on the alleged expertise of Mark Pelizza, an employee of Uranium Resources, Inc., as well as "other experienced current and former URI and Uranium Resources, Inc. personnel." HRI Response at 1-2. None of these establishes that HRI is qualified.

As the March 3 Order recognized, the issue is whether HRI *is* qualified. It is not sufficient, as the Staff has alleged, for HRI to propose an organization chart or to plan to hire people with specified backgrounds. Those future measures do not establish qualifications. Moreover, the Staff's characterization of HRI's situation is accurate. According to HRI's Response, Mr. Pelizza "*will be* responsible for overseeing" the Project, and "*will be* assisted" by other personnel who are or used to be employed by Uranium Resources, Inc. and URI (emphasis added). Only three HRI employees, Richard Clement, Craig Bartels, and Salvador Chavez, have experience. In addition, Mr. Bartels is still employed by URI. HRI Response at 2.

Moreover, the four individuals mentioned in HRI's Response are hardly adequate for a determination that the entire company is qualified by reason of training and experience. According to the organization chart set forth in HRI's Consolidated

² Letter of March 15, 1999 from John T. Hull to Administrative Judges Peter Bloch and Thomas Murphy and attached affidavit of Robert D. Carlson ("Staff's Response"). Because Mr. Hull's letter is a cover letter, references to the Staff's Response will be to Mr. Carlson's affidavit.

Operations Plan,³ and relied upon by HRI in its Response, there are five key positions in HRI's structure, but the individuals whom HRI has cited for their experience will fill only three of those; there is no information in HRI's Response about who will be HRI's Environmental Manager, Radiation Safety Officer, or Plant Superintendent. More importantly, peak HRI employment at the Crownpoint Project is projected to be about 214 people, with 61 employees at the Church Rock site, 57 at the Unit 1 site, and 66 at the Crownpoint site.⁴ Long-term employment, including drill-rig operators is projected to be 153 people. *Id.* HRI's assertions about three people hardly demonstrate that this entire work force is qualified.⁵

Question 2: Is HRI's financial condition relevant to its qualifications?

HRI cannot be qualified by training and experience if it is not financially

³ Rev. 2 to Crownpoint Uranium Project Consolidated Operations Plan (August 15, 1997) (ACN 9708210179) ("COP").

⁴ NUREG-1508, Final Environmental Impact Statement to Construct and Operate the Crownpoint Uranium Solution Mining Project, Crownpoint, New Mexico (February, 1997) ("FEIS") (ACN 9703200270) Table 4.27 at 4-97.

⁵ HRI itself has no qualifications because HRI has never done anything. ENDAUM and SRIC pointed out at pages 5-6 of their January 11, 1999 Brief in Opposition to Hydro Resources, Inc.'s Application for a Materials License with Respect to: Hydro Resources, Inc.'s Lack of Technical and Financial Qualifications ("ENDAUM's and SRIC's Qualifications Brief") that HRI exists solely for the purpose of conducting the Crownpoint Project and HRI has not disputed that.

It also is not persuasive for HRI to assert that it will hire "skilled" graduates of the Crownpoint Institute of Technology. Hydro Resources, Inc.'s March 25, 1999 Response to ENDAUM and SRIC's Brief with Respect to NEPA Issues Concerning Project Purpose and Need, Cost/Benefit Analysis, Action Alternatives, No Action Alternative, Necessity to Supplement EIS, Mitigation, and Cumulative Impacts at 21 and supporting affidavit of Mark Pelizza at 3. Neither of those documents indicates whether that Institute is accredited or what training it provides.

capable of hiring and providing necessary training for employees.⁶ The Staff's and HRI's Responses rely on future hiring and training of employees, and that reliance is indicated in the COP, the Safety Evaluation Report,⁷ and the license issued to HRI.⁸ This hiring and training cannot occur if HRI is insolvent.

The financial condition of Uranium Resources, Inc. also is relevant to HRI's qualification by reason of training and experience. As HRI has indicated, it relies heavily on Uranium Resources, Inc. for qualifications of that company's personnel. Dr. Michael Sheehan has pointed out in his attached testimony (Exhibit 1), however, that this reliance is not well placed. Uranium Resources, Inc. is in financial trouble; it is in such significant financial trouble that on January 20, 1999 it filed with the Securities and Exchange Commission a Form 8-K, occasioned by the company's relinquishment of its Alta Mesa uranium deposit in Texas. Exhibit 1.A. The company also recently released a statement indicating that its accountants:

will issue a modified opinion relating to an uncertainty regarding the Company's ability to continue operating as a going concern.

Exhibit 1.B at 1. Dr. Sheehan has explained that these items indicate that Uranium

⁶ The March 3 Order did not request that the parties address whether HRI's financial condition is relevant in any context other than HRI's qualification by reason of training and experience. As ENDAUM and SRIC have pointed out, and as is confirmed in the attached testimony of Dr. Michael Sheehan (Exhibit 1), HRI's financial condition is relevant because of the need for adequate capital to conduct the Crownpoint Project. ENDAUM's and SRIC's Qualifications Brief at 16-18 and supporting testimony of Dr. Sheehan; Exhibit 1 at 3-7.

⁷ Safety Evaluation Report (December 5, 1997)("SER").

⁸ See e.g., COP at 128-134, 154-157, SER at 3-7, and License (SUA-1508) conditions ("L.C.") 9.7, 9.8, and 9.10.

Resources Inc. has very serious financial problems. Exhibit 1 at 7-9.

The gravity of Uranium Resources, Inc.'s financial situation is also indicated by the company's failure to enter into employment contracts with key individuals, individuals on whom the company's operations depend. Exhibit 1 at 6. HRI has not revealed whether it has contracts with the individuals referred to in its Response or with other individuals on whom it relies for its qualifications. As Dr. Sheehan has pointed out, however, it is significant that HRI has provided no contracts with personnel it alleges are important.⁹ Exhibit 1 at 6.

HRI's argument that it should be able to use its license to resolve these problems and become qualified is absurd. HRI is effectively asking that it be licensed so that it can become qualified to be licensed. Such a process renders licensure meaningless. *Id.* Exhibit 1 at 10. Moreover, as David Osterberg has explained in his testimony, the costs of the project and the market for uranium are such that HRI will not be able to operate the Crownpoint Project profitably even with a license. Exhibit 2 at 2-6. The Project simply is not economical, and the grant of a license will not result in funding or revenues adequate to hire or train a qualified work force. HRI's position that the license will enable HRI to solve all of its financial problems is unrealistic and it should not be a basis for licensure.

⁹ As Dr. Sheehan also has testified, as a wholly owned subsidiary of Uranium Resources, Inc., HRI is jeopardized by that company's financial difficulties because HRI's assets may be used to pay Uranium Resources, Inc.'s debts. Exhibit 1 at 7. For that reason, any reliance by HRI on Uranium Resources, Inc. employees is misplaced because all Uranium Resources, Inc.'s employees are jeopardized by its problems. All of these considerations should be taken into account in determining whether HRI is qualified to conduct the Crownpoint Project.

Question 3: Is Uranium Resources, Inc.'s and URI's Texas experience relevant?

The record of HRI's parent and sister corporations, Uranium Resources, Inc. and URI, should be taken into account in determining HRI's qualifications.¹⁰ HRI relies upon Uranium Resources, Inc. for the personnel it claims demonstrate its qualifications by reason of training and experience. HRI's and the Staff's Responses state that the individuals who allegedly provide HRI with qualifications to conduct the Crownpoint Project are all current or former Uranium Resources, Inc. personnel. HRI Response at 2; Staff Response at 2. Moreover, HRI's allegations that it is qualified by reason of training and experience are based upon the experience of Uranium Resources, Inc. *See* HRI Response at 2, 5-6. Uranium Resources, Inc. also is responsible for HRI's conduct. HRI's Response at 2; COP at 129.¹¹

Contrary to the HRI's assertions in its Response and in Mr. Pelizza's affidavit, URI has had significant problems in South Texas. HRI's assertions that URI's record in South Texas is "sterling" and that each of the violations for which URI has been cited were "minor administrative violations" (HRI Response at 4; Pelizza Affidavit [Exhibit A to HRI Response] at 10) are belied by the language of the letter the Texas Department of Health sent to Mr. Pelizza on November 20, 1998. The Department

¹⁰ Alternatively, if the experience of Uranium Resources, Inc. and URI are not to be considered, HRI has no experience on which to base any claim to qualification by reason of training and experience.

¹¹ As ENDAUM and SRIC pointed out in their Qualifications Brief, the NRC should disregard corporate forms here because Uranium Resources, Inc., URI, and HRI are one entity. Disregarding the corporate forms of Uranium Resources, Inc., URI, and HRI is appropriate to achieve the purposes of the Atomic Energy Act. ENDAUM's and SRIC's Qualifications Brief at 2-10.

of Health stated that the violations had resulted in a:

significant, unacceptable deficiency with regard to the application and overall effectiveness of [HRI's] radiation safety program.

ENDAUM's and SRIC's Qualifications Brief Exhibit 3 at 1. It is significant that one of the best things HRI can say about URI's experience in South Texas is that URI has never been assessed a fine or penalty. HRI Response at 4. That is hardly praise.¹²

The experience of Uranium Resources, Inc. and URI in Texas indicates that HRI will face more difficulty at the Crownpoint Project. URI's Texas mining has not been in conditions similar to those at the Crownpoint Project. ENDAUM's and SRIC's Qualifications Brief at 11-12. Most importantly, the ground water in the South Texas aquifer subject to uranium leaching is substantially poorer quality than the natural water quality in the Westwater Canyon aquifer at the proposed Crownpoint sites.¹³ The Staff properly concluded that the Texas operation is not "representative for demonstrating restoration at the New Mexico sites." FEIS at 4-37.

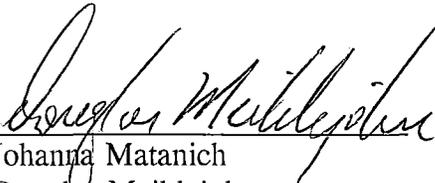
CONCLUSION

The Presiding Officer should rule that HRI is not qualified by reason of training and experience.

¹² See also ENDAUM's and SRIC's Qualifications Brief at 12-14.

¹³ FEIS, 4-37; see also testimony of Dr. Richard J. Abitz and Dr. William P. Staub, Exhibit 1 (at 9-26) and Exhibit 2 (at 23-25) to ENDAUM's and SRIC's January 11, 1999 Written Presentation in Opposition to Hydro Resources, Inc.'s Application for a Materials License with Respect to: Groundwater Protection.

Dated: March 29, 1999.



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Bloch in this matter. Specifically, ENDAUM and SRIC asked me to respond to the second of the questions posed in that Memorandum and Order: To what extent is the financial condition of HRI relevant to a determination that HRI is qualified?

My response is directed at four issues:

- 1) The relevance of the financial condition of HRI and its parent corporation, Uranium Resources, Inc. to HRI's qualifications to conduct the proposed Crownpoint Uranium Project;
- 2) The financial condition of HRI and Uranium Resources, Inc. as it has evolved since my January testimony;
- 3) The relevance of my experience and expertise to an analysis of the financial condition of a company engaged in uranium recovery operations; and
- 4) HRI's argument that it should be able to use its license to gain the capital that it needs in order to conduct the Crownpoint Project.

Q.3. WHAT MATERIALS HAVE YOU REVIEWED IN PREPARATION FOR YOUR TESTIMONY?

A.3. In addition to the materials I reviewed for my January testimony, I have now reviewed the March 15, 1999 filings by HRI and the Staff in response to the March 3, 1999 Memorandum and Order ("HRI and Staff Responses") and the documents filed with those responses. I also have reviewed the Form 8-K filed by Uranium Resources, Inc. with the U.S. Securities and Exchange Commission on January 20, 1999, a three page article published in *Business Wire* on March 5, 1999, and an October 19, 1994 letter from United Nuclear Corporation to the Mining and Minerals Division of the New Mexico Energy, Minerals, and Natural Resources Department. These are attached Exhibits A, B and C, respectively. I also have discussed the questions raised in the March 3d Memorandum and Order and the HRI and Staff

responses to that Memorandum and Order with David Osterberg.

Q.4. IS THE FINANCIAL CONDITION OF URANIUM RESOURCES, INC. AND ITS ALTER EGO HRI RELEVANT TO A DETERMINATION WHETHER HRI SHOULD BE LICENSED TO CONDUCT THE CROWNPOINT PROJECT?

A.4. Yes. First, as developed in some length my January testimony (p.17), the poor financial condition of a company undertaking a project such as the Crownpoint Project is always relevant to whether the company should be licensed for the project for at least the following reasons:

- (1) The company's poor capitalization or financial condition will often mean that there will be a tendency to cut corners on expenditures related to safety, thereby increasing the risk of events adversely affecting public health and safety or the environment;
- (2) Greater risk means an increase in the expected number of such adverse events and an increase in expected losses from such events;
- (3) Poor capitalization, especially if prices are low relative to costs in product markets, will mean the company will be less able to provide a full and comprehensive response out of operating funds to events affecting public health and safety and the environment; and,
- (4) Operating fund stress due to the need to cope with more and more severe public health and safety and environmental problems will tend to produce a downward spiral in performance.¹

Q.5. ARE THESE CONSIDERATIONS RELEVANT TO THE SITUATION INVOLVING HRI AND THE CROWNPOINT PROJECT?

A.5. These considerations are particularly relevant to HRI's proposal here because once the operation begins, any lack of continuity in operation will substantially increase

¹ A company in poor financial condition will have a tendency to make risky strategic decisions in an effort to stem losses or cover corporate overhead--for example starting up production prematurely in a highly volatile market--which a better financed firm would feel able to reject as being too environmentally risky.

environmental risk. So, for example, the License issued to HRI requires that injection pressure be maintained (license condition ["L.C."] 10.3); that emergency generator capacity be provided continuously at Crownpoint (L.C. 10.6); (although interestingly there is no such requirement at any of the other sites); and that under certain conditions monitoring wells be completed and sampled (L.C. 10.14 and 10.25).

The Safety Evaluation Report ("SER") itself mandates that vacuum pressure be maintained at the manufacturer's recommended level in the drying chamber during all periods of yellowcake drying operations; and that HRI implement and maintain a training program for all site employees; and that HRI establish and follow emergency procedures for potential accidents and unusual occurrences. SER p.36.

The Consolidated Operations Plan ("COP"), whose mandatory provisions are incorporated by reference into the License (LC 9.3), also requires compliance on an ongoing basis with specified measures. The COP requires that corrective actions be taken to deal with excursions (COP, 90-91); that monitoring be conducted for radiation and exposure records be kept for employees (COP, 101-107); that quality control measures be in place (COP, 112-113); and that procedures be in place to control contamination and to deal with contamination that does occur. COP, 113-115.

Successful compliance with these requirements depends upon a substantial degree of financial readiness and depth; a financially troubled company will hesitate to take the

necessary measures to protect the environment if such a course would put the company in greater financial trouble.

Q.6. WHY ARE THESE REQUIREMENTS AFFECTED BY THE FINANCIAL CONDITION OF HRI/URANIUM RESOURCES, INC.?

A.6. Safe construction and operation requires an adequately financed company with an adequate revenue stream. In this case, the applicant admits that it is in financial trouble, and also admits that the market for produced uranium will not allow it to operate at a profit for the foreseeable future. The Project can be built and operated safely only if HRI has the funds with which to meet these requirements on a continuous basis. All the evidence, including that supplied by the company, supports a conclusion that this can not be assured. See, e.g. bottom of the first page of Exhibit B (company may not be able to continue as a going concern), as well as the materials cited in my January testimony and here below.

Q.7. ARE THERE OTHER REASONS WHY THE FINANCIAL CONDITION OF HRI AND URANIUM RESOURCES, INC. ARE RELEVANT TO THE ABILITY OF HRI TO CONDUCT THE CROWNPOINT PROJECT?

A.7. Yes. The financial condition of Uranium Resources, Inc. is relevant for two other reasons. First, HRI says in its Response that it will rely heavily on the experience and expertise of Uranium Resources, Inc. For example, Mark Pelizza, who is a Uranium Resources, Inc. employee and who reports directly to the President of Uranium Resources, Inc., will be responsible for overseeing HRI's operation of the Crownpoint Project. HRI Response, 2. HRI also will rely on other personnel from Uranium Resources, Inc. as well as personnel from URI, which is a wholly owned subsidiary of Uranium

Resources, Inc. *Id.* Yet we see that Uranium Resources, Inc. is looking for a buyer or for some other entity to buy out or otherwise bail out the company.

"The Company continues to evaluate its core uranium assets in * * * New Mexico * * *. Possible alternatives for these uranium assets may include the sale or joint venturing of certain of these properties or the termination of the Company's rights for those properties whose holding costs are determined to be in excess of their expected value." Third Quarter 1998 10-Q, p.11.

and,

"The Company has entered into discussion with a number of domestic and international uranium production companies regarding the divestiture of all or a portion of the Company or its assets." Third Quarter 1998 10-Q, p.11.

The Company's efforts in this direction have resulted in,

"certain of these uranium production companies expressing an interest in certain of the Company's projects and assets." Third Quarter 1998 10-Q, p.11.

Note also that while the company makes a great deal about its key employees that it has also reported to the SEC and the financial community that:

"Certain of the Company's employees have significant experience in the ISL mining industry. The number of individuals with ISL experience is small. The continued success of the Company is dependent upon the efforts of these key individuals, and the loss of any one or more of such persons' services could have a material adverse effect on the Company's business operations and prospects. **The Company has not entered into employment contracts with * * * any of these individuals.**" Third Quarter 1997 10-K, p.28. (Emphasis added).

While the company has certainly provided resumes for several people, it is significant that it has provided no **contracts**, this in a situation where it has specifically noted to the SEC that it is laying off key people and has no contracts with these people it is telling the NRC will be available.

Q.8. WHAT IS THE IMPORTANCE OF HRI'S RELIANCE ON URANIUM RESOURCES, INC.?

A.8. There seems to be no argument that Uranium Resources, Inc. is in financial trouble and close to being unable to continue as a going concern. Exhibit B, p.1 (last several lines). HRI's response to Judge Bloch's questions relies heavily on Uranium Resources Inc. for the availability of human resources and the financial backing to maintain those resources in action for its response. Given this reliance, the ability of Uranium Resources Inc. to provide those resources is critical to the credibility of HRI's response.

Q.9. IS THERE ANOTHER REASON WHY THE FINANCIAL CONDITION OF URANIUM RESOURCES, INC. IS IMPORTANT?

A.9. HRI is a wholly owned subsidiary of Uranium Resources, Inc. For that reason, if Uranium Resources, Inc. is in serious financial trouble, HRI's cash flow and/or assets may be called upon to pay those debts. HRI's ability to conduct the Crownpoint Project therefore depends upon the ability of Uranium Resources, Inc. to stay financially stable.

Q.10. IS URANIUM RESOURCES, INC. FINANCIALLY STABLE?

A.10. No. As I pointed out in my January testimony, Uranium Resources, Inc. and HRI are companies in financial trouble. January testimony, 19-23. That conclusion is confirmed by recent information concerning the companies and Uranium Resources, Inc.'s other wholly owned subsidiary, URI.

On January 20, 1999, Uranium Resources, Inc. filed a Form 8-K with the U.S. Securities and Exchange Commission ("SEC") (Exhibit 1). A Form 8-K is filed when there is an extraordinary financial event that must be brought to

the attention of the SEC and potential and actual investors. In this case, as Exhibit A indicates, the extraordinary event was that Uranium Resources, Inc. relinquished its rights to the South Texas Alta Mesa uranium *in situ* leach deposit. Exhibit A, p.1.

This is significant for two reasons. The first is that this entails a substantial reduction in the book value of the company's properties. But second, and perhaps more important, the company has previously claimed that the Alta Mesa property could be exploited with costs "under \$10 per pound." 1997 10-K p.32. This is substantially lower than production costs at Church Rock and Unit 1 and may be lower than costs even at Crownpoint. FEIS Table 5.1. It also appears that the Church Rock project will be even less profitable than I estimated in my testimony submitted in February as Exhibit C to ENDAUM's and SRIC's February 19, 1999 Written Presentation² because I have just become aware that United Nuclear Corporation claims that it is entitled to a production royalty from HRI. Exhibit C, p.3.

It is ominous that a property with substantially lower costs per pound is being disposed of as uneconomic, when the project at issue here involves substantially higher costs of production. Where are the resources going to come from to safely construct and operate the New Mexico properties when they can only be operated at a

² ENDAUM's and SRIC's Written Presentation in Opposition to Hydro Resources, Inc.'s Application for a Materials License with Respect to: NEPA Issues Concerning Project Purpose and Need, Cost/Benefit Analysis, Action Alternatives, No Action Alternative, Failure to Supplement EIS, and Lack of Mitigation.

loss for the indefinite future?

Q.12. DO YOU HAVE OTHER INFORMATION ON THE CURRENT FINANCIAL CONDITION OF THE COMPANY?

A.12. Yes. Additional information about the company's situation is given in the March 5, 1999 *Business Wire* report that is attached as Exhibit B. It indicates that Uranium Resources, Inc. lost \$18,980,000 during 1998 (compared to a loss of \$1,325,000) in 1997), and that the company continues to implement "cost reduction and other strategies." Although the report states that Uranium Resources, Inc. projects that it will be able to maintain positive liquidity through 1999, the company's very serious financial condition is confirmed by the company's own accountants, who have stated that the company will be issuing a modified opinion concerning whether the company can continue as a going concern. Exhibit B p.1.

Q.13. WHAT IS THE SIGNIFICANCE OF THAT STATEMENT BY THE COMPANY'S ACCOUNTANTS?

A.13. What the company's accountants are saying is that there is substantial doubt about whether the company can continue to operate as a going concern. If it can't continue to operate as a going concern, it can't assure the NRC that it can provide and fund the personnel with the necessary background and training to operate safely.

Q.14. IS YOUR ABILITY TO ANALYZE THE FINANCIAL CONDITION OF HRI AND URANIUM RESOURCES, INC. AFFECTED BY THE FACT THAT THEY ARE IN THE BUSINESS OF URANIUM RECOVERY?

A.14. No, it is not. The basic economic and financial review and analysis I have provided here and in my January testimony are standard and applicable to the review of the financial condition of any for-profit business corporation. There is nothing about

mining or uranium mining that makes basic financial analysis irrelevant. And, moreover, as set forth in my statement of qualifications in the January testimony, I have significant experience in mining economics and mining related issues as well.

Q.15. WHAT IS YOUR ANALYSIS OF HRI'S POSITION THAT IT SHOULD KEEP ITS LICENSE BECAUSE THAT WILL FACILITATE RAISING MONEY FOR THE CROWNPOINT PROJECT?

A.15. The company's position appears to be that the license should be issued regardless of whether or not HRI is qualified under the criteria of Part 40 in order to create a speculative asset for the company to vend to some other unknown entity with unknown qualifications.³ Yet the Part 40 licensing criteria are clearly applicant specific; HRI cannot duck the need to meet the requirements of Part 40 by arguing that it does not intend to operate the properties anytime soon. Furthermore, the need to demonstrate compliance is at the time of license application, otherwise there would be no need to have a licensing process at all, and any entity--qualified or not--could receive a license just for the asking.

Q.16. DOES THIS COMPLETE YOUR TESTIMONY?

A.16. Yes it does.

³ Recall that the company has announced that it is trying to find a buyer. See p.6 above.

UNITED STATES OF AMERICA
NUCLEAR REGULATORY COMMISSION

BEFORE THE ATOMIC SAFETY AND LICENSING BOARD

Before Administrative Law Judge Bloch

In the Matter of:)

HYDRO RESOURCES, INC.)
2929 Coors Road, Suite 10)
Albuquerque, NM 87120)

) Docket No. 40-8968-ML
) ASLBP No. 95-706-01-ML
)
)
)
)

STATE OF OREGON)

County of Columbia)

) ss:
)
)

AFFIDAVIT OF MICHAEL F. SHEEHAN

I, Michael F. Sheehan, being sworn, depose and say as follows:

The attached prefiled written testimony was prepared by me or under my direct supervision for submission in the above captioned proceeding. The statements contained in this testimony are true and correct to the best of my knowledge, information and belief.

FURTHER AFFIANT SAYETH NOT.



Michael F. Sheehan

Subscribed and sworn to before me March 25, 1999.





Notary Public for Oregon

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

DATE OF REPORT (DATE OF EARLIEST EVENT REPORTED): December 16, 1998

URANIUM RESOURCES, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

| | | | |
|----------|--|-----|--------------------------|
| <TABLE> | | | |
| <S> | Delaware | <C> | 0-17171 |
| | (STATE OR OTHER JURISDICTION OF INCORPORATION) | | (COMMISSION FILE NUMBER) |
| </TABLE> | | <C> | (I.R.S.) |

12750 Merit Drive, Suite 1020, Dallas, Texas
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

75251
ZIP CODE

972-387-7777
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

Not Applicable
(FORMER NAME OR FORMER ADDRESS, IF CHANGED SINCE LAST REPORT)

Exhibit Index Begins on Sequentially Numbered Page 4

<PAGE> 2

ITEM 5. OTHER EVENTS.

Uranium Resources, Inc. has relinquished its rights to the South Texas Alta Mesa uranium in-situ leach deposit. Attempts to renegotiate the terms of the lease were undertaken in December 1998 with definitive notice received mid-January 1999 informing the Company of the landowners intention not to amend the original lease terms. The properties covered by the lease were estimated to contain approximately 4.0 million pounds of recoverable proven and probable uranium reserves. The termination of this lease will result in a pre-tax charge against earnings of approximately \$5.0 million in the fourth quarter of 1998. The reduction in the holding value of the Company's uranium properties will be a non-cash charge and will not impact the Company's cash position or liquidity.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS

(c) EXHIBITS.

99.1 Press Release issued January 20, 1999, by the Registrant announcing the relinquishment of the Alta Mesa lease.

EXHIBIT

1 A

tabbies

<PAGE> 3

2

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

URANIUM RESOURCES, INC.

Date: January 20, 1999

/s/ PAUL K. WILLMOTT

Paul K. Willmott, President, Chief Executive Officer and Chairman of the Board of Directors

<PAGE> 4

3

EXHIBIT INDEX

| <TABLE> | <CAPTION> | EXHIBIT DESCRIPTION | PAGE |
|-------------|-----------|---|------------|
| EXHIBIT NO. | ----- | ----- | ----- |
| <S> | 99.1 | <C> Press Release issued January 20, 1999, by the Registrant announcing the relinquishment of the Alta Mesa lease. | <C> E-1 |

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<PAGE> 1

EXHIBIT 99.1

URANIUM RESOURCES, INC.

PRESS RELEASE
FOR IMMEDIATE RELEASE

DALLAS, TEXAS

NASDAQ STOCK SYMBOL-URIX

January 20, 1999

URANIUM RESOURCES, INC. ANNOUNCES ABANDONMENT OF URANIUM PROPERTY

DALLAS, January 20, 1999 -- Uranium Resources, Inc. ("URI") announced that it has relinquished its rights to the South Texas Alta Mesa uranium in-situ leach deposit. Attempts to renegotiate the terms of the lease were undertaken in December 1998 with definitive notice received mid-January 1999 informing the Company of the landowners' intention not to amend the original lease terms. The properties covered by the lease were estimated to contain approximately 4.0 million pounds of recoverable proven and probable uranium reserves. The termination of this lease will result in a pre-tax charge against earnings of approximately \$5.0 million in the fourth quarter of 1998. The reduction in the holding value of the Company's uranium properties will be a non-cash charge and will not impact the Company's cash position or liquidity.

Paul K. Willmott, Chairman and CEO, stated "Given the outlook of future market conditions, the decision to drop the Alta Mesa property was made after careful consideration of the project's remaining permitting uncertainties, the high capital cost required to place the property into production and the property's high cash cost when compared to the Company's existing licensed production alternatives. The Company concluded that the uranium market would not have sufficiently rebounded in 1999 to allow for the timely commencement of production within the remaining period of the lease term (December 1999) and made the decision to forego the payment required to retain its rights to the property into 1999."

Uranium Resources, Inc. is a Dallas based uranium mining company, whose shares trade on the NASDAQ National Market System under the symbol URIX. The Company specializes in in-situ solution mining and holds substantial uranium reserves in South Texas and New Mexico.

CONTACTS: Paul K. Willmott, President, or
Thomas H. Ehrlich, Vice President - CFO
Uranium Resources, Inc.
(972) 387-7777 (30)

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Business Wire, March 5, 1999

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March 5, 1999, Friday

DISTRIBUTION: Business Editors

LENGTH: 2639 words

HEADLINE: Uranium Resources, Inc. Announces 1998 Results

DATELINE: DALLAS

BODY:

March 5, 1999--Uranium Resources, Inc. (URI) (Nasdaq/NMS:URIX) announced a net loss for the fourth quarter of 1998 of (\$ 3,209,000) or (\$ 0.27) per share. These results included a non-cash, pre-tax write-down of (\$ 5,077,000) attributable to the previously announced termination, during the quarter, of the Company's lease on the South Texas Alta Mesa in-situ leach uranium deposit. The Company's income from operations for the quarter, excluding this event, would have been \$ 1,947,000. The results for the fourth quarter of 1997 generated a net income of \$ 221,000 or \$ 0.02 per share. Revenues in the fourth quarter of 1998 totaled \$ 10,336,000 on uranium deliveries of 726,000 pounds compared to the fourth quarter 1997 revenues of \$ 13,257,000 from deliveries of 1,076,000 pounds. The year ended December 31, 1998, had revenues of \$ 23,347,000 on deliveries of 1,586,000 pounds compared to 1997 annual revenue of \$ 29,740,000 from deliveries of 2,240,000 pounds. Results for the year ended December 31, 1998, were a loss of (\$ 18,980,000) or (\$ 1.57) per share compared to a year-end 1997 loss of (\$ 1,325,000) or (\$ 0.11) per share. For 1998, the Company recorded total pre-tax, non-cash write-downs in the carrying value of its South Texas producing assets plus the Alta Mesa abandonment of (\$ 23,112,000). Absent these write-downs, the Company would have recorded income from operations in 1998 of \$ 2,061,000, as compared to income from operations of \$ 471,000 for the year 1997. Net cash provided by operations for the year ending December 31, 1998, increased by \$ 3,271,000 from 1997 levels to \$ 8,201,000. Cash and cash equivalents increased to \$ 3,714,000 at December 31, 1998, from \$ 2,325,000 at December 31, 1997. Uranium production for the fourth quarter of 1998 decreased to 103,000 pounds as the Company began the implementation of its planned shut-in and placement of its Kingsville Dome and Rosita production facilities on stand-by in response to present and near-term projected market conditions. The Company intends to maintain nominal production from each of these sites for as long as the incremental production cost of operating is at or below the cost of purchasing uranium to fulfill its 1999 delivery requirements. For the year, production costs remained at unprofitable levels as the Company continued to operate the older wellfields (which operated using the traditional main plant methodology) in order to re-capture sunk capital costs. Costs associated with the new remote ion exchange facilities or satellite technology, however, were at levels almost 40% below those experienced in the older wellfields. Over 67% of the Company's production during the fourth quarter of 1998 came from the new satellite facilities. Paul K. Willmott, Chairman and CEO, commented, "The volatility of the uranium marketplace saw spot prices that ranged from \$ 12.00 per pound in January to lows at year-end of \$ 8.75. The steady decline during the year, which was attributed primarily to low utility demand, has begun to firm somewhat to the current \$ 10.50, but remains below the level needed by the Company to obtain the necessary financing to allow development of new production areas at our Kingsville Dome and Vasquez sites. In response, the Company continues to implement its announced cost reduction and other strategies, and subject to successful implementation, still projects its ability to maintain a positive liquidity position through at least 1999." Given the lack of certainty on the successful implementation of the Company's strategies, and the resulting questions concerning the ability to support its operations and repay its long-term debt obligations, the Company's independent public accountants have advised the Company that it will issue a modified opinion relating to an uncertainty regarding the Company's ability to continue operating as a going concern. Compounding the uncertainty is the unknown relative to the projected future uranium market prices. -0-

EXHIBIT

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URANIUM RESOURCES, INC.
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(in thousands except per share data)

| | Three Months Ended December 31, | | Year Ended December 31, | |
|---|------------------------------------|----------------|----------------------------|-------------------|
| | 1998 | 1997 | 1998 | 1997 |
| REVENUES FROM URANIUM SALES: | | | | |
| Produced revenue | \$ 2,294 | \$ 2,459 | \$ 10,984 | \$ 14,737 |
| Produced revenue | \$ 2,294 | \$ 2,459 | \$ 10,984 | \$ 14,737 |
| Purchased revenue | 8,042 | 10,798 | 12,363 | 15,003 |
| Total revenue | 10,336 | 13,257 | 23,347 | 29,740 |
| COST OF URANIUM SALES: | | | | |
| Purchased uranium | 5,154 | 9,753 | 8,745 | 13,258 |
| Royalties | 172 | 150 | 579 | 833 |
| Produced uranium | 3,063 | 2,406 | 11,962 | 15,178 |
| Income from operations before property write down | 1,947 | 948 | 2,061 | 471 |
| Write down of uranium properties | 5,077 | -- | 23,112 | -- |
| Income (loss) from operations before corporate expenses | (3,130) | 948 | (21,051) | 471 |
| CORPORATE EXPENSES | 908 | 683 | 2,730 | 2,936 |
| INCOME (LOSS) FROM OPERATIONS | (4,038) | 265 | (23,781) | (2,465) |
| OTHER INCOME (EXPENSE): | | | | |
| Interest expense, net | (38) | (35) | (152) | (169) |
| Interest and other income | 64 | 104 | 208 | 1,036 |
| INCOME (LOSS) BEFORE INCOME TAXES | (4,012) | 334 | (23,725) | (1,598) |
| FEDERAL INCOME TAX EXPENSE (BENEFIT) | (803) | 113 | (4,745) | (273) |
| NET INCOME (LOSS) | \$ (3,209) | \$ 221 | \$ (18,980) | \$ (1,325) |
| NET INCOME (LOSS) PER SHARE | \$ (0.27) | \$ 0.02 | \$ (1.57) | \$ (0.11) |

URANIUM RESOURCES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

December 31,

1998 1997

ASSETS

| | | |
|------------------------------------|-----------|-----------|
| Current assets: | | |
| Cash and equivalents | \$ 3,714 | \$ 2,325 |
| Short-term investment (restricted) | 583 | 465 |
| Receivables, net | 1,483 | 4,507 |
| Inventories | 1,049 | 2,351 |
| Prepaid and other | 244 | 254 |
| | ----- | ----- |
| Total current assets | 7,073 | 9,902 |
| Property, plant and equipment, net | 39,552 | 61,445 |
| Long-term investment (restricted) | 3,067 | 2,840 |
| Other assets | 4 | 677 |
| | ----- | ----- |
| TOTAL ASSETS | \$ 49,696 | \$ 74,864 |
| | ----- | ----- |
| | ----- | ----- |

LIABILITIES & SHAREHOLDERS' EQUITY

| | | |
|---|-----------|---------------|
| Current liabilities | | |
| Accounts payable | \$ 1,829 | \$ 3,233 |
| Notes payable | 1,685 | 1,950 |
| Accrued interest payable | 114 | 5 |
| Royalties payable | 633 | 630 |
| Other accrued liabilities | 680 | 924 |
| | ----- | ----- |
| Total current liabilities | 4,941 | 6,742 |
| Other long-term liabilities and deferred credits | 4,969 | 4,788 |
| Long-term debt, net or current portion | 6,189 | 6,462 |
| Deferred federal income taxes | .264 | 4,967 |
| TOTAL SHAREHOLDERS' EQUITY | | 33,333 51,905 |
| | ----- | ----- |
| TOTAL LIABILITIES & SHAREHOLDERS' EQUITY | \$ 49,696 | \$ 74,864 |
| | ----- | ----- |
| | ----- | ----- |

Revenues, earnings from operations and net income for the Company can fluctuate significantly on a quarter to quarter basis during the year because of the timing of deliveries requested by its utility customers. Accordingly, operating results for any quarter or year-to-date period are not necessarily comparable and may not be indicative of the result which may be expected for future quarters or the entire year. Except for historical information contained in this press release, the matters discussed herein contain forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking statements. Such forward-looking statements are inherently uncertain, and investors must recognize that actual results may differ from management's expectations. Key factors impacting current and future operations of the Company are discussed in detail in the Company's reports filed under the Securities Exchange Act of 1934 and include, without limitation, the spot price of uranium, weather conditions, operating conditions at the Company's mining projects, government regulation of the mining industry and the nuclear power industry, the world-wide supply and demand of uranium, availability of capital, timely receipt of mining and other permits from regulatory agencies. Uranium Resources, Inc. is a Dallas-based **uranium mining** company, whose shares trade on the NASDAQ National Market System under the symbol URIX. The Company specializes in in-situ solution mining and holds substantial uranium reserves in South Texas and New Mexico.

CONTACT: Uranium Resources, Inc., Dallas
Paul K. Willmott/Thomas H. Ehrlich, 972/387-7777

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UNITED NUCLEAR CORPORATION



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Albuquerque, New Mexico 87110
Telephone 505/883-6901
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OLD CHURCH ROCK

October 19, 1994

Mr. John Lingo
Acting Director
Mining and Minerals Division
New Mexico Energy, Minerals and Natural Resources Department
2040 South Pacheco Street
Santa Fe, New Mexico 87505

RE: Reply to August 25, & Various August 31, 1994 Letters

Dear Mr. Lingo:

This letter is in reply to your August 25, 1994 letter regarding United Nuclear Corporation's (United Nuclear) position concerning the extent of its obligations, if any, under the New Mexico Mining Act with respect to several mines. This also responds to the several letters dated August 31, 1994 regarding your notification that certain mining operations may require a site assessment.

We appreciated the opportunity to meet with your staff, Messrs. Shepherd, Jager, and Martinez, on September 16, 1994 to discuss these issues and clarify the circumstances, locations, and history of several of the mines. The following summarizes United Nuclear's position with respect to the mining Act.

United Nuclear made a decision in 1984, several years before the Act was passed, to discontinue its mining operations, and has been and remains in the process of liquidating the remaining assets of its former mining operations. As such, United Nuclear believes that all of the mine properties it operated are "abandoned" mines as contemplated by the Mining Act. United Nuclear currently holds no ownership or leasehold interest in these mines, and does not currently operate any of the mines.

United Nuclear believes that it has no obligation to comply with the permitting and other regulatory requirements of the New Mexico Act for these mines. The New Mexico Mining Act was never intended to cover the reclamation of abandoned mines, except to the extent that Section 19 of the Act creates the "inactive or abandoned non-coal mine reclamation fund" which was established "to conduct reclamation activities on abandoned or inactive non-coal mining areas." § 69-36-19 NMSA. Although it is apparent that an "existing mining operation" is defined in a manner that could include an inactive mining operation, there is no provision in the Act which establishes that a person who has no current ownership interest and is not currently an operator of an inactive mine is required by law to undertake the obligations of the Act. The Act refers to "the owner or operator" in the present tense, and makes no reference to any liability for former owners or operators. Absent any clear statutory provision stating that the Mining Act applies retroactively to cover an owner or operator of an abandoned mine, New Mexico case law is clear that the law will not be construed to apply retroactively. *Psomas v Psomas*, 661 P.2d 884, 887 (N.M. 1987). Federal laws containing similar language imposing regulatory liability

EXHIBIT

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1 C

October 19, 1994

Page 2

upon owners and operators have been construed to apply only to current, and not former, owners and operators. See *Coburn v. Sun Chemical Corporation*, 28 E.R.C. 1668 (E.D. Pa. 1988) (regulatory requirements of the federal hazardous waste management regulations apply only to current owners and operators, and past operators are not liable for current regulatory violations).

The definition of "existing mining operations" serves an important purpose other than arguably subjecting inactive mines to reclamation requirements under the Mining Act. It establishes a cutoff regarding how recently an inactive mine must have been operated and in production to qualify as an "existing mining operation," rather than a "new mining operation", if mining begins again. An inactive mine that does not meet the definition of "existing mining operation" does not qualify for the "grandfathered" authorization to operate before a permit is issued, and unless it was in operation when the Act was passed, would have to obtain a permit as a "new mining operation" before mining could be renewed. Therefore, this definition alone does not establish that persons who are not current "owners or operators" of inactive mining operations are subject to the regulatory requirements of the Mining Act and the rules.

In addition to the arguments presented above, parts or all of United Nuclear's former uranium mines may be exempt from the Mining Act and the rules pursuant to the definitions of "mineral" and "mining" in the Act. While this letter focuses on certain arguments and provisions of the Act, United Nuclear does not intend to waive any other legal arguments it may have with respect to the New Mexico Mining Act's application to United Nuclear with respect to these mines. For example, we understand that MMD is still considering its position with respect to the application of the Act upon Indian lands.

Our position notwithstanding, the following is a discussion of each of the mines for which MMD had requested information.

Mac #1 and Section 31 Mines

At the September 16 meeting, we discussed with your staff the August 31, 1994 notices received for the Mac#1 Mine and the Section 31 Mine (Section 31, T13N R9W). The Mac#1 Mine, to the best of United Nuclear's knowledge, is not an existing mining operation because it did not have at least two years of production after 1970. Furthermore, we understand that Homestake Mining Company, the successor to the UNHP Partnership, and to which Homestake is the successor in interest, has provided correspondence to MMD addressing this mine.

Regarding the Section 31 Mine, our information indicates that it was not operated by United Nuclear after 1970. Even so, at the meeting, MMD staff clarified that this mine is covered under an application submitted by Santa Fe Pacific Gold Corporation for inspection of the mine to evaluate prior reclamation.

October 19, 1994

Page 3

Anne Lee, John Bill and Sandstone Mines

As acknowledged during the meeting, United Nuclear has submitted applications dated August 26, 1994 for inspection of "prior reclamation" for three mines in the Ambrosia Lake District, the Anne Lee Mine (Section 28, T14N, R9W), John Bill Mine (Section 34, T14N, R9W), and Sandstone Mine (Section 34, T14N, R9W). These applications were submitted inasmuch as United Nuclear is the owner of the surface of these properties and the Mining Act is vague as to responsibility for such properties.

As discussed in the August 26 application and during the meeting, the Anne Lee Mine is located in the area determined to be a "Vicinity Property" by the U.S. Department of Energy (DOE). DOE is in the process of cleaning up and reclaiming this property, pursuant to Title I of the Uranium Mill Tailings Radiation Control Act ("UMTRCA") as part of the cleanup, stabilization, and reclamation program being undertaken by the DOE for the Ambrosia Lake uranium mill and tailings facility. While our application requests a prior reclamation inspection for the Anne Lee Mine, United Nuclear asserts that this property should be determined to be subject to the exemption in the Act for facilities subject to regulation by the Nuclear Regulatory Commission. This exemption would clearly apply to facilities subject to NRC regulation under UMTRCA, the only difference being the agency that is administering the cleanup.

Old Church Rock Mine

As acknowledged during the meeting, United Nuclear understands that the current operator, Hydro Resources, Inc. (HRI), has submitted a site assessment and prior reclamation application for the Old Church Rock Mine. This mine property is currently held by HRI, pursuant to a lease with Santa Fe Pacific Gold Corp. United Nuclear's only remaining interest in this property is a contractual royalty interest in any future production by HRI. United Nuclear understands that HRI is responsible to fulfill any and all obligations under the New Mexico Mining Act with respect to the Old Church Rock Mine.

Northeast Church Rock, Section 27, and St. Anthony Mines

United Nuclear leased the mineral estate for the Northeast Church Rock Mine (Section 35, T17N, R16W and Section 3, T16W, R16W) from what is now Santa Fe Pacific Gold Corporation, the current owner of the mineral estate. The surface of Sections 35 and 3 is owned by the United States in trust for the Navajo Tribe. United Nuclear owns a portion of the surface of Section 34, T17N, R16W, by virtue of patented claims. Section 34 contains a small portion of the total NECR mine workings. All of the surface disturbance on Section 34 has been reclaimed.

United Nuclear's lease, expired as of December 31, 1993. As discussed at the September 16 meeting, United Nuclear and Santa Fe Pacific Gold Corporation have not yet resolved all issues regarding United Nuclear's remaining obligations, if any, under the lease.

October 19, 1994

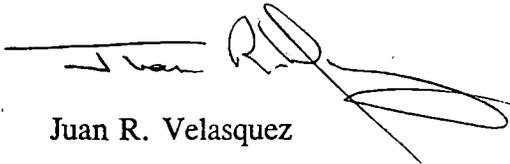
Page 4

United Nuclear leased the mineral estate for the Section 27 Mine (Section 27, T14N, R9W) from what is now Hecla Mining Company, which, to the best of our knowledge, is the current owner of the mineral estate. To the best of our knowledge, the Marquez family owns the surface. United Nuclear's mineral lease for this property was released in March 1988, and United Nuclear has had no interest in this mine since then.

United Nuclear leased the mineral estate for the St. Anthony Mine (portions of Sections 19, 20, 29 and 30, T11N, R4W and Sections 23, 24, 25 and 26, T11N, R5W) from the Cebolletta Land Grant, which was and is the owner of both the surface and mineral estates. United Nuclear released this lease in November 1988, and United Nuclear has had no interest in this mine since then.

Once again, thank you for the opportunity to meet with your staff and to clarify United Nuclear's position on these matters. If you have any additional questions or comments regarding this letter or United Nuclear's position, please feel free to contact us.

Sincerely,



Juan R. Velasquez

UNITED STATES OF AMERICA
NUCLEAR REGULATORY COMMISSION
ATOMIC SAFETY AND LICENSING BOARD PANEL

| | | |
|-----------------------------|---|------------------------|
| In the Matter of |) | |
| |) | |
| HYDRO RESOURCES, INC. |) | Docket No. 40-8968-ML |
| (2929 Coors Road, Suite 101 |) | ASLBP No. 95-706-01-ML |
| Albuquerque, NM 87120) |) | |
| |) | |

WRITTEN TESTIMONY OF DAVID OSTERBERG

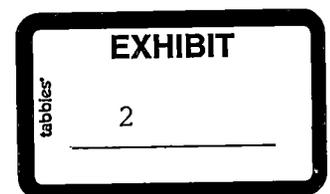
On behalf of Eastern Navajo Diné Against Uranium Mining ("ENDAUM") and Southwest Research and Information Center ("SRIC"), David Osterberg submits the following testimony concerning the financial qualifications of Hydro Resources, Inc. ("HRI") to conduct the proposed Crownpoint Uranium Solution Mining Project.

Q.1. Please state your name and qualifications.

A.1. My name is David Osterberg. My qualifications are set forth in the testimony that I filed in January, 1999 as Exhibit 1 to ENDAUM's and SRIC's January 11, 1999 Brief in Opposition to Hydro Resources, Inc.'s Application for a Materials License with Respect to: Hydro Resources, Inc.'s Lack of Technical and Financial Qualifications ("ENDAUM's and SRIC's Qualifications Brief"), and in my resume which is attached to that testimony.

Q.2. What is the purpose of your testimony?

A.2. ENDAUM and SRIC asked me to comment on the Presiding Officer's questions posed in his March 3, 1999 Memorandum and Order ("March 3 Order") concerning the Crownpoint Uranium Solution Mining Project ("the Project"). Specifically, ENDAUM and SRIC asked that I respond to the second question, which concerns the relevance of HRI'S financial condition to its qualifications to conduct the Project. I analyzed that question, and I



have worked with my partner Michael Sheehan on this issue.

My analysis complements Dr. Sheehan's analysis indicating that HRI has to be adequately capitalized to conduct the Project, and that HRI is depending for its technical qualifications upon its ability to market the uranium that would be mined. In my professional opinion, the Project is not viable economically because there is little likelihood that the company could sell uranium at prices that would exceed its actual total cost of producing uranium at the Church Rock Section 8 mine or at the entire Crownpoint Project.

Q.3. What materials did you review in preparation for your testimony?

A.3. In addition to the materials that I reviewed for my earlier testimony, I reviewed HRI's Response to ENDAUM's and SRIC's Qualifications Brief. I also reviewed the materials submitted by HRI in its Response to Questions Posed by Presiding Officer's March 3, 1999 Order ("HRI's Response"), including the attachments to that Response, the Presiding Officer's March 9 Memorandum and Order denying ENDAUM's and SRIC's Motion for Reconsideration, and recent material published in uranium industry news sources.

Q.4. What is the relevance of the financial condition of HRI, Uranium Resources, Inc., and URI to HRI's qualifications?

A.4. As Dr. Sheehan has pointed out in his testimony, the financial condition of those companies is relevant to HRI's qualifications because the operator of the Crownpoint Project, which requires ongoing expenditure of funds, must be adequately capitalized. HRI also indicated in its Response that it is relying on the license for the Project to facilitate the company's ability to raise money for the Project. Both of these necessary conditions depend upon an increase in the price of uranium. My analysis indicates that one should not expect such an increase in the level required for HRI's Project to become economically viable.

Q.5. Does it continue to be your expert opinion that mining the Crownpoint Project will not be financially beneficial to HRI?

A.5. Yes. If one looks at the last ten years of data, the recent prices for uranium that I discussed in my January testimony have not been particularly low. The most recent Historical Price Graphs from the Uranium Exchange Company show prices well below \$10 in nominal terms have existed for much of the 1990s. Exhibit A. Thus prices below the \$11-12 range (which Joe H. Card claimed are needed to make HRI's business plan work¹) are not unusual in the last decade.² Exhibit B. Furthermore, prices have been highly variable and even if they rose above Card's required range, they might quickly fall again putting the operation in jeopardy. *Id.*

Q.6. Have there been any developments since your earlier testimony that change your conclusions in that testimony?

A.6 No. Although the Energy Information Administration of the U.S. Department of Energy has come out with a study indicating a need for nuclear energy to combat global warming, there is nothing to indicate that this need (or perceived need) will in fact keep nuclear power plants open. Signing the Kyoto Treaty in late 1997 did not keep several nuclear units in the U.S. and Canada from going out of service. In addition, as I stated in my January testimony, a study by Rothwell found that approximately a dozen nuclear units

¹ See Affidavit of Joe H. Card filed as Exhibit F to HRI's Response to ENDAUM's and SRIC's Qualifications Brief.

² Mr. Card asserted that there is a trend toward higher prices. Card Affidavit at 5. If the term "trend" means the predicted values along a trend line that is calculated using the method of least squares (the results of a simple regression), Mr. Card is wrong. Using the last four years of data, the trend of prices is downward. Uranium Information Centre Ltd. Newsletter #1, 1999, p.10 "Uranium Market Turnaround?", January-February 1999 available at www.uic.com.au/news199.htm.

are at risk of early shutdown even if the U.S. government imposes new CO2 restrictions next year. If CO2 restrictions are delayed until 2008, Rothwell predicts that twice that many nuclear units will close before the year 2006.³ Thus, even with a quick response by the U.S. government to institute carbon penalties on coal-fired units (which should help nuclear units be more competitive), one to two dozen nuclear units will be going out of service before the end of their planned life.

Q.7. Have recent events in the nuclear industry or the uranium industry changed your earlier conclusions?

A.7. No. Articles in the most recent issues of three industry news sources listed in the industry news section of the Uranium Exchange (Ux) web site (NucNet News, UIC Bi-monthly News, and UI news Briefings) give information that demonstrates that my earlier conclusion of continuing long term downward pressure on uranium prices is correct.

Nucnet News Focus, which describes itself as an information source for top nuclear managers, executives and public relations personnel, reports that the London-based Uranium Institute concluded that primary uranium production which now meets well under 60% of world nuclear fuel demand, could soon drop to less than 50%.⁴ Secondary sources, which now include a great deal of nuclear fuel derived from military sources, continue to take on the important role we laid out in our January testimony.

Articles in the second industry source, UIC Bi-monthly News, prepared by the

³ Geoffrey Rothwell, (1998 "Air Pollution Fees and the Risk of Early Retirement at U.S. Nuclear Power Plants", Department of Economics, Stanford University, October, p. 12.

⁴ NucNet News Focus, "World Uranium Production Drops", March 11, 1999, available at <http://aey.ch/nucnet/news.html>.

Uranium Information Centre Ltd. of Melbourne, confirms that military nuclear materials are meeting their potential. The most recent UIC Bi-monthly News, reports that not only has the first batch of Russian weapons grade plutonium been made into mixed-oxide ("MOX") fuel, some of this fuel is now in use.⁵

In addition to an increase in MOX fuel, there is news that highly-enriched uranium ("HEU") is continuing to be blended down into nuclear power plant fuel in both Russia and the U.S. A March issue of Uranium Institute ("UI") News Briefing reports that four test assemblies of downblended contaminated HEU are to be loaded into TVA's Sequoyah-2 unit when it is refueled in May of 1999.⁶ This is significant because it is another step toward utilizing 38 metric tons of U.S. military HEU that does not meet specifications required for other U.S. and Russian HEU. [Success here can increase the amount of nuclear power plant fuel that can be gleaned from weapons.]

Another UI News Briefing reports that an agreement is near on Russian Feed, which I discussed at length in my January testimony.⁷ U.S. Vice President Al Gore is expected to frame if not formalize an arrangement between the Russian uranium export company and three western fuel suppliers. An agreement will ensure the orderly movement of Russian

⁵ Uranium Information Centre Ltd. UIC Newsletter #1, 1999, "First military plutonium made into reactor fuel". January-February 1999, March 16, 1999, p. 11, available at www.uic.com.au/news199.htm.

⁶ Uranium Institute News Briefing, "US: Four test assemblies of downblended contaminated HEU will be loaded" 3-9 March, 1999, p. 1, available at www.uilondon.org/nb/nb9910.htm.

⁷ Uranium Institute News Briefing, "The contract for the HEU feed deal between Cameco, GOGEMA, Nuken and Tenex" 24 February - 2 March, 1999 (March 18, 1999), p. 3, available at www.uilondon.org/nb/nb99/nb9909.htm.

Feed, the uranium content of the Russian HEU being purchased by the U.S., into the world uranium market. The bottom line with respect to the supply side for nuclear power plant fuel is that secondary supplies of nuclear power plant fuel continue to grow.

Q.8. Please comment on the demand side of the market for nuclear power plant fuel.

A.8. My earlier testimony noted that nuclear energy production had declined in 1997 for the first time in 25 years. Data for 1998 finds a decrease in both nuclear unit numbers and overall capacity. "World reactor capacity fell about 1850 MWe (0.5%) in 1998 as new grid connections were eclipsed by several reactor retirements."⁸

Q.9. What do you conclude from recent industry news sources?

A.9. Both the supply side and the demand side of the uranium market have continued to produce bad news for uranium producers during the months since my January testimony.

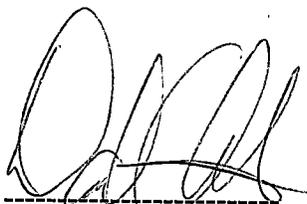
Q.10. What is your final conclusion?

A.10. The trend of uranium prices is downward over the last four years, the call for more nuclear power plants to combat global climate change has not led to any policy that would keep reactors on line, and secondary supply of power plant fuel continues to expand, and there has been a downturn in nuclear power plants. I have seen nothing recently that changes my professional opinion. Uranium Resources, Inc. and HRI will be unable to successfully go forward to develop the Crownpoint Project because world prices are not likely to cooperate.

⁸ Uranium Information Centre Ltd. UIC Newsletter #1, 1999, "Slight reduction in reactor numbers and capacity in 1998", January-February 1999 (March 16, 1999), p. 10, available at www.uic.com.au/news199.htm.

AFFIRMATION

I declare on this 24th day of March, 1999, at Mt. Vernon, Iowa, under penalty of perjury that this testimony is true and correct to the best of my knowledge, and that the opinions that I have expressed are based upon my best professional judgment.



David Osterberg

Subscribed and sworn to before me on this 24 day of March, 1999 at Mt. Vernon, Iowa by David Osterberg.



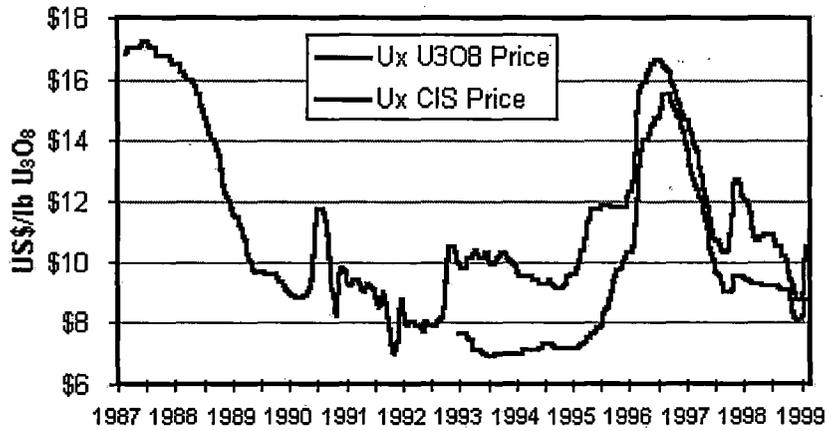
Debra K. Kauger

Notary Public

My Commission Expires: 11-20-01

U The Ux Consulting Company, LLC & The Uranium Exchange Company

Ux U₃O₈ vs. CIS Prices 3/2/87 - 2/22/99



Updated: 2/22/99
Frequency: Monthly



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EXHIBIT

2 A

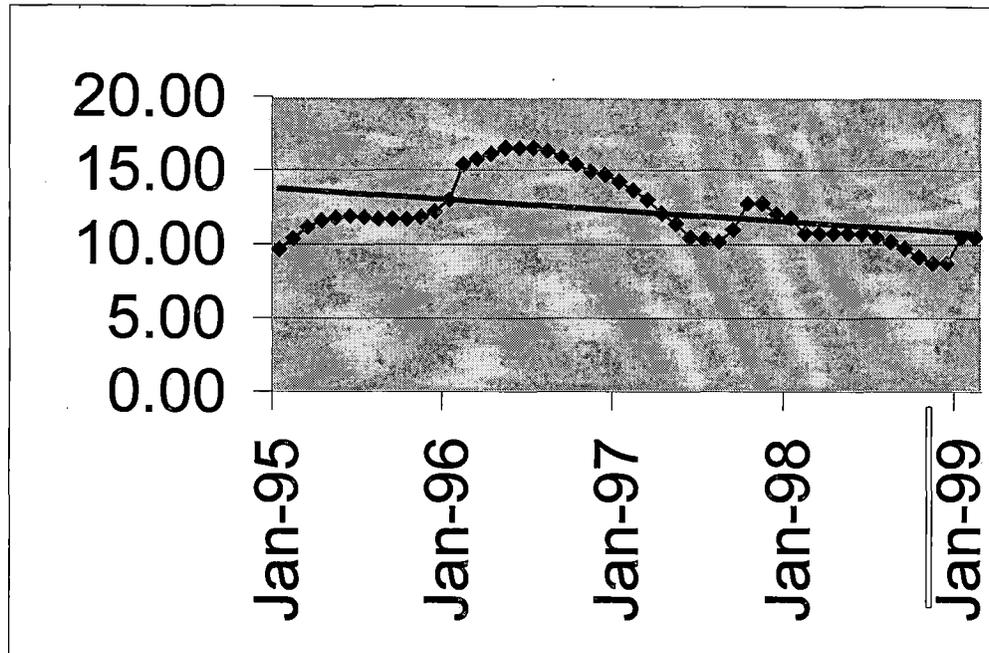
tabbles

3/24/99

| Month end | Restricted |
|-----------|------------|
| Jan-95 | 9.65 |
| Feb-95 | 10.40 |
| Mar-95 | 11.15 |
| Apr-95 | 11.60 |
| May-95 | 11.80 |
| Jun-95 | 11.90 |
| Jul-95 | 11.85 |
| Aug-95 | 11.70 |
| Sep-95 | 11.70 |
| Oct-95 | 11.70 |
| Nov-95 | 11.85 |
| Dec-95 | 12.20 |
| Jan-96 | 13.00 |
| Feb-96 | 15.40 |
| Mar-96 | 15.75 |
| Apr-96 | 16.10 |
| May-96 | 16.50 |
| Jun-96 | 16.50 |
| Jul-96 | 16.50 |
| Aug-96 | 16.30 |
| Sep-96 | 15.90 |
| Oct-96 | 15.40 |
| Nov-96 | 14.90 |
| Dec-96 | 14.70 |
| Jan-97 | 14.25 |
| Feb-97 | 13.65 |
| Mar-97 | 13.00 |
| Apr-97 | 12.10 |
| May-97 | 11.40 |
| Jun-97 | 10.50 |
| Jul-97 | 10.40 |
| Aug-97 | 10.20 |
| Sep-97 | 11.00 |
| Oct-97 | 12.75 |
| Nov-97 | 12.75 |
| Dec-97 | 12.05 |
| Jan-98 | 11.80 |
| Feb-98 | 10.75 |
| Mar-98 | 10.75 |
| Apr-98 | 10.75 |
| May-98 | 10.75 |
| Jun-98 | 10.75 |
| Jul-98 | 10.50 |
| Aug-98 | 10.20 |
| Sep-98 | 9.75 |
| Oct-98 | 9.15 |
| Nov-98 | 8.75 |
| Dec-98 | 8.75 |
| Jan-99 | 10.50 |
| Feb-99 | 10.50 |

URANIUM PRICES (U3O8)

Last Four Years



Data for the last four years demonstrates that prices are trending down. While uranium prices have gone up in the last months this is no indication that this is a trend. Taking the basic definition of a trend as a simple regression, the trend is downward.

EXHIBIT

tabbles

2 B

UNITED STATES OF AMERICA
NUCLEAR REGULATORY COMMISSION

ATOMIC SAFETY AND LICENSING BOARD

DOCKETED
USNRC

'99 APR -2 A11 :39

OFFICE OF SECRETARY
RULEMAKING AND
ADJUDICATIONS STAFF

In the Matter of)
)
HYDRO RESOURCES, INC.)
(2929 Coors Road, Suite 101)
Albuquerque, NM 87120)
_____)

Docket No. 40-8968-ML
ASLBP No. 95-706-01-ML

CERTIFICATE OF SERVICE

I hereby certify that on March 29, 1999 I caused to be served copies of:

**ENDAUM'S AND SRIC'S RESPONSES TO THE PRESIDING OFFICER'S
MARCH 3, 1999 QUESTIONS**

upon the following persons by U.S. mail, first class, and in accordance with the requirements of 10 C.F.R. §2.712. Service was also made via facsimile to the parties marked below with a + and by electronic mail to the parties marked below by an asterisk. The envelopes for first class mail service were addressed as follows:

Office of the Secretary
U.S. Nuclear Regulatory Commission*
Washington, D.C. 20555-0001
Attn: Rulemakings and Adjudications
Staff

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Administrative Judge
Atomic Safety and Licensing Board
Mail Stop - T-3 F23
U.S. Nuclear Regulatory Commission
Washington, D.C. 20555

Mitzi Young*
John T. Hull*
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U.S. Nuclear Regulatory Commission
Washington, DC 20555

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Dated at Santa Fe, New Mexico
March 29, 1999.


Douglas Meiklejohn