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STATEMENT TO THE SELECT COMMITTEE
OF THE LEGISLATURE
BY THE
MINISTER OF ENERGY
ON

ONTARIO HYDRO'S URANIUM SUPPLY CONTRACTS WITH
DENISON MINES LIMITED & PRESTON MINES LIMITED

JANUARY 11, 1978

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APPENDICES

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I AM PLEASED TO HAVE THIS OPPORTUNITY TO ADDRESS THIS SELECT COMMITTEE OF THE LEGISLATURE WITH RESPECT TO THE LONG-TERM URANIUM SUPPLY AGREEMENTS RECENTLY NEGOTIATED BY ONTARIO HYDRO WITH DENISON MINES LTD., AND PRESTON MINES LTD.

AS YOU KNOW, THE PREMIER, IN HIS LETTER OF DECEMBER 19, 1977, TO YOUR CHAIRMAN, MR. MACDONALD, HAS ASKED THAT THE SELECT COMMITTEE CONSIDER THE FINDINGS OF THE MINISTRY OF ENERGY'S CONSULTANTS IN ORDER TO CONFIRM THAT ENTERING INTO THE ABOVE AGREEMENTS IS IN THE PUBLIC INTEREST OF ONTARIO.

PRIOR TO THE PREMIER'S LETTER, ATTACHED AS APPENDIX 1, I HAD RECOMMENDED TO THE EXECUTIVE COUNCIL, ON THE BASIS OF THIS EXPERT INDEPENDENT ANALYSIS AND ADVICE, THAT ONTARIO HYDRO BE AUTHORIZED, UNDER SECTION 24 OF THE POWER CORPORATION ACT, TO ACQUIRE URANIUM FROM DENISON MINES LTD. ON RECEIPT OF SIMILARLY FAVOURABLE REPORTS FROM THE MINISTRY'S CONSULTANTS, I RECOMMENDED TO THE EXECUTIVE COUNCIL EARLIER THIS WEEK THAT AN ORDER-IN-COUNCIL BE ISSUED AUTHORIZING ONTARIO HYDRO TO ENTER INTO AN AGREEMENT WITH PRESTON MINES LTD.

BECAUSE OF THE SIZE AND IMPORTANCE OF THESE AGREEMENTS, HOWEVER, IT IS FELT THAT IT WOULD BE DESIRABLE FOR

THE MINISTRY TO SHARE WITH THE SELECT COMMITTEE AND THE PUBLIC GENERALLY THE REASONS WHY THE GOVERNMENT BELIEVES THESE AGREEMENTS ARE IN THE PUBLIC INTEREST.

WHILE THERE WILL, NO DOUBT, BE MANY MATTERS ABOUT WHICH THE SELECT COMMITTEE MAY WISH TO ASK QUESTIONS OF EITHER MYSELF, THE MINISTRY STAFF AND ITS CONSULTANTS, OR ONTARIO HYDRO, THERE ARE SIX BASIC ISSUES WITH WHICH I SHOULD LIKE TO DEAL IN THIS OPENING STATEMENT. THESE ARE AS FOLLOWS:

1. WHAT ARE THE FACTORS WHICH CAUSED ONTARIO HYDRO TO DECIDE THAT IT WAS IN THE INTEREST OF ELECTRICAL CONSUMERS THAT LONG-TERM URANIUM SUPPLY AGREEMENTS SHOULD BE MADE?
2. HAVING MADE THE DECISION, DID ONTARIO HYDRO NEGOTIATE, IN EACH CASE, A GOOD DEAL ON BEHALF OF ELECTRICAL CONSUMERS?
3. IN NEGOTIATING THESE AGREEMENTS, DID ONTARIO HYDRO CONFORM TO GOVERNMENT POLICY?
4. WHY WAS IT FELT NECESSARY FOR THE GOVERNMENT TO REVIEW THESE PARTICULAR CONTRACTS WHEN, AS A GENERAL RULE, THIS IS NOT THE PRACTICE? WHAT WAS THE NATURE OF THE GOVERNMENT'S REVIEW?

5. EVEN THOUGH THE INTERESTS OF THE ELECTRICAL CONSUMERS MAY HAVE BEEN WELL PROTECTED, WHAT PROTECTION IS THERE FOR OTHER PUBLIC INTERESTS?

6. WHAT WOULD BE THE IMPLICATIONS OF THE GOVERNMENT NOT ISSUING ORDERS-IN-COUNCIL AUTHORIZING THE ACQUISITION BY ONTARIO HYDRO OF THESE URANIUM SUPPLIES, AND WHAT ARE THE IMPLICATIONS OF NOT AUTHORIZING THE DENISON AGREEMENT BY FEBRUARY 28, 1978?

I HAVE PREPARED THIS OPENING STATEMENT AND THE ATTACHED APPENDICES WITH THESE SIX ISSUES IN MIND SO AS TO PROVIDE AN OVERALL FRAMEWORK AGAINST WHICH PARTICULAR MATTERS MIGHT BE ADDRESSED.

COPIES OF THE AGREEMENTS WITH DENISON MINES LTD., AND PRESTON MINES LTD., ALONG WITH THE REPORTS BY THE MINISTRY OF ENERGY'S CONSULTANTS AND RELATED CORRESPONDENCE, HAVE ALREADY BEEN TABLED WITH THE SELECT COMMITTEE'S COUNSEL. A LIST OF THESE DOCUMENTS IS PROVIDED IN APPENDIX 3.

IN BRIEF, THE MINISTRY'S INDEPENDENT CONSULTANTS HAVE CONCLUDED THAT BOTH AGREEMENTS ARE FAVOURABLE TO ONTARIO HYDRO AND ACHIEVE ITS PRIME OBJECTIVE OF SECURE SUPPLIES OF URANIUM AT REASONABLE PRICES.

IN COMING TO THAT CONCLUSION THE MINISTRY'S CONSULTANTS HAVE BEEN GUIDED IN PART BY THE FOLLOWING FACTORS:

- A) ONTARIO HYDRO'S DEMAND FOR URANIUM, GIVEN PRESENT AND COMMITTED NUCLEAR STATIONS.
- B) THE GENERAL URANIUM SUPPLY OUTLOOK AND PRICING TRENDS IN CANADA AND THE WESTERN WORLD.
- C) CANADIAN (FEDERAL) URANIUM POLICY GUIDELINES.
- D) COMPARABILITY WITH OTHER URANIUM SUPPLY CONTRACTS.

FOR THE CONVENIENCE OF THE SELECT COMMITTEE, I SHALL OUTLINE EACH OF THESE FACTORS; THE POLICY GUIDELINES PROVIDED BY THE GOVERNMENT TO ONTARIO HYDRO; THE ONTARIO GOVERNMENT'S APPROVAL OF ONTARIO HYDRO'S CONTRACTS; THE MINISTRY OF ENERGY'S REVIEW PROCESS, INCLUDING A DISCUSSION OF PRODUCER MARKETING ARRANGEMENTS; THE PROTECTION OF INTERESTS IN ADDITION TO THOSE OF ELECTRICAL CONSUMERS; AND SOME IMPLICATIONS ARISING FROM THESE AGREEMENTS.

FIRST, HOWEVER, I SHOULD LIKE TO OUTLINE THE BASIC OBLIGATIONS UNDER BOTH THE DENISON AND PRESTON CONTRACTS.

2.

OUTLINE OF
DENISON AND PRESTON CONTRACTS

APPENDICES 4 AND 5 PROVIDE A DETAILED SUMMARY OF THE MAIN PROVISIONS OF THE DENISON AND PRESTON CONTRACTS. IN BRIEF, THE PRINCIPAL OBLIGATIONS UNDER THE TWO CONTRACTS ARE AS FOLLOWS:

A) THE DENISON CONTRACT

1. DENISON CONTRIBUTES ITS UNCOMMITTED URANIUM RESERVES IN ELLIOT LAKE.
2. DENISON ALSO CONTRIBUTES ITS EXISTING MINE, PLANT AND SUPPORTING FACILITIES IN PART TO THE PROJECT FROM 1980 TO 1993, AND IN TOTAL FOR THE REMAINDER OF THE AGREEMENT TO THE YEAR 2011.
3. DENISON COMMITS ITS MANAGEMENT AND KNOW-HOW TO THE EXPANSION OF ITS EXISTING MINE, PLANT AND SUPPORTING FACILITIES AND TO SUBSEQUENT OPERATION.
4. ONTARIO HYDRO UNDERTAKES TO PURCHASE 126 MILLION POUNDS OF URANIUM CONCENTRATE ON AN AGREED DELIVERY SCHEDULE FROM 1980 TO 2011, SUBJECT TO CERTAIN PROVISIONS COVER-

ING THE PRICE COMPETITIVENESS OF THE URANIUM AND ONTARIO HYDRO'S ABILITY TO USE IT.

5. ONTARIO HYDRO PURCHASES URANIUM AT THE HIGHER OF A BASE PRICE (DENISON'S AGREED AVERAGE COSTS OF PRODUCTION AT ELLIOT LAKE PLUS \$5 (1975) PER POUND) OR BASE PRICE PLUS ONE-HALF OF THE DIFFERENCE BETWEEN THE BASE PRICE AND AN AGREED-UPON OR ARBITRATED PRICE REFLECTING WORLD MARKET CONDITIONS AT THE TIME OF SUPPLY (NEGOTIATED PRICE).
6. ONTARIO HYDRO ADVANCES TO DENISON, BETWEEN 1978 AND 1984, THE COST OF THE EXPANSION OF DENISON'S EXISTING FACILITIES, ESTIMATED AT \$151 MILLION (1975), INCLUDING AN INITIAL ADVANCE OF \$25 MILLION. THESE ADVANCES TO BE REPAYED TO ONTARIO HYDRO AS A CREDIT AGAINST URANIUM DELIVERED.
7. IN TERMS OF VALUE, USING COSTS IN TODAY'S DOLLARS AND PRESENT DAY PRICES, THE DENISON CONTRACT IS WORTH ABOUT \$4.1 BILLION.

B) RIO ALGOM/PRESTON CONTRACT

1. PRESTON CARRIES OUT AN ENGINEERING STUDY TO CONFIRM THE COSTS AND PLANS FOR RE-OPENING ITS STANLEIGH MINE IN

ELLIOT LAKE. ONTARIO HYDRO FINANCES THE COST OF THIS ENGINEERING STUDY, UP TO A LIMIT OF \$1.5 MILLION.

2. PRESTON DEDICATES THE ENTIRE STANLEIGH ORE BODY OF AN ESTIMATED 72 MILLION POUNDS OF U_3O_8 TO ONTARIO HYDRO.
3. PRESTON CONSTRUCTS THE NECESSARY FACILITIES, WITH RIO ALGOM MANAGING THE CONSTRUCTION AND THE SUBSEQUENT OPERATION ON BEHALF OF PRESTON.
4. ONTARIO HYDRO PURCHASES SOME 2 MILLION POUNDS PER YEAR STARTING IN 1983 AND CONTINUES TO DO SO (SUBJECT TO THE TERMINATION PROVISIONS) UNTIL THE RESERVE IS EXHAUSTED. ALSO, AT ONTARIO HYDRO'S OPTION, THE PRODUCTION RATE MAY BE INCREASED TO 4 MILLION POUNDS PER YEAR STARTING AT ANY TIME BETWEEN 1988-1994.
5. ONTARIO HYDRO PURCHASES URANIUM AT THE HIGHER OF A BASE PRICE (AGREED PRODUCTION COST PLUS \$5 (1975) PER POUND) OR BASE PRICE PLUS ONE-THIRD OF THE DIFFERENCE BETWEEN BASE PRICE AND AN AGREED-UPON OR ARBITRATED PRICE REFLECTING WORLD MARKET CONDITIONS AT THE TIME OF SUPPLY (NEGOTIATED PRICE).
6. ONTARIO HYDRO ADVANCES THE FUNDS NEEDED TO CONSTRUCT THE MINING, MILLING AND SUPPORTING FACILITIES, ESTIMATED AT

\$188 MILLION (1975) FOR THE BASIC PROJECT AND AN ADDITIONAL \$140 MILLION (1975) IF ONTARIO HYDRO OPTS TO EXPAND TO THE HIGHER PRODUCTION LEVEL AFTER 1988. THESE ADVANCES TO BE REPAID BY CREDITS AGAINST URANIUM DELIVERED.

7. IN TERMS OF VALUE, USING COSTS IN TODAY'S DOLLARS AND PRESENT DAY PRICES, THE PRESTON CONTRACT IS WORTH ABOUT \$2.4 BILLION.

I WILL TURN NOW TO THE BACKGROUND AGAINST WHICH THESE CONTRACTS HAVE BEEN NEGOTIATED.

3. ONTARIO HYDRO'S URANIUM REQUIREMENTS
AND AVAILABLE SUPPLIES

IN 1973, THE ONTARIO ENERGY BOARD RECOMMENDED APPROVAL, IN PRINCIPLE, FOR ONTARIO HYDRO'S SYSTEM EXPANSION PROGRAM FOR THE PERIOD 1977-1982, CONTAINED IN THEIR LONG-RANGE FORECAST (LRF 32). THIS FORECAST WAS SUBSEQUENTLY UPDATED BY ONTARIO HYDRO, IN APRIL, 1977, TO LRF 48A. THE NUCLEAR PLANTS IN OPERATION OR COMMITTED, FOR WHICH FUEL IS REQUIRED, ARE DOUGLAS POINT, PICKERING 'A' AND 'B', BRUCE 'A' AND 'B', AND DARLINGTON, AND REPRESENT AN INVESTMENT OF SOME \$14 BILLION. THE TOTAL LIFETIME REQUIREMENTS OF THESE OPERATING AND COMMITTED STATIONS (BASED ON AN 80% LOAD FACTOR OVER 30 YEARS) AMOUNTS TO 156 MILLION POUNDS OF U_3O_8 . CURRENT URANIUM CONTRACTS PROVIDE FOR A BALANCE OF 13 MILLION POUNDS TO BE DELIVERED TO ONTARIO HYDRO TO MEET ITS ANNUAL SYSTEM NEEDS TO 1980 AND PART OF ITS REQUIREMENTS THROUGH 1985.

IN ORDER TO PROTECT THIS SUBSTANTIAL INVESTMENT IN NUCLEAR PLANT, AN ADEQUATE AND SECURE SUPPLY OF URANIUM FUEL HAD TO BE OBTAINED. SINCE THE ELLIOT LAKE AREA IN NORTHERN ONTARIO CONTAINS APPROXIMATELY 75% OF KNOWN CANADIAN RESERVES, ACCESS TO THOSE DEPOSITS IS CLEARLY ESSENTIAL.

THE ATTACHED CHART IN APPENDIX 6 ILLUSTRATES ONTARIO HYDRO'S FORECAST OF ANNUAL URANIUM REQUIREMENTS FOR OPERATING AND COMMITTED STATIONS, AS WELL AS THE CONTRIBUTION TO BE MADE BY CURRENT CONTRACTS AND DENISON AND PRESTON CONTRACT SUPPLIES.

IT SHOULD BE NOTED THAT THE PROPOSED CONTRACTS CONTAIN PROVISIONS THAT WILL ALLOW ONTARIO HYDRO TO CURTAIL ITS SUPPLIES, IF NECESSARY, FROM EACH PRODUCER TO COMPLY WITH THE FUTURE NEEDS OF THE SYSTEM. ALSO, THERE IS STILL A SIGNIFICANT SHORT-FALL IN ANNUAL SUPPLIES OVER THE PERIOD 1981 TO 1993 INCLUSIVE OF ABOUT 10 MILLION POUNDS IN TOTAL, EVEN WITH BOTH THE DENISON AND PRESTON SUPPLIES. IF THE COMMITTEE WISHES, ONTARIO HYDRO WILL BE PREPARED TO ADDRESS THE QUESTION OF HOW THIS SHORT-FALL WILL BE MET.

4.

THE GENERAL URANIUM OUTLOOK

IT IS IMPORTANT THAT THESE CONTRACTS BE JUDGED IN THE CONTEXT OF THE OVERALL URANIUM OUTLOOK FOR THE WESTERN WORLD. IN PARTICULAR, ARE THE VOLUMES INVOLVED, THE LENGTHS OF THE CONTRACTS AND THE FINANCIAL TERMS APPROPRIATE, GIVEN THE PROJECTED MARKET CONDITIONS IN THE INDUSTRY IN THE YEARS AHEAD?

AN EXAMINATION OF THE WESTERN WORLD OUTLOOK FOR URANIUM SUPPLY AND DEMAND BY CONSULTANTS FOR ONTARIO HYDRO AND THE MINISTRY OF ENERGY INDICATES THAT EXISTING DELINEATED WORLD RESERVES ARE MODEST IN RELATION TO PROJECTED WORLD REQUIREMENTS, AND THAT A SUBSTANTIAL RATE OF DISCOVERY AND EXPLOITATION WILL BE NEEDED TO ENABLE CONTINUED INTERNATIONAL NUCLEAR POWER GROWTH IN AND BEYOND THE MID-TO-LATTER 1980s. AS A RESULT, THE URANIUM MARKET WILL CONTINUE TO BE UNDER PRESSURE IN THE FUTURE. THIS IS ILLUSTRATED IN THE REPORTS IN APPENDIX 7.

THE CONCLUSIONS REACHED FROM THESE ASSESSMENTS ARE:

- . THAT A HIGH VALUE IS TO BE PLACED ON SECURING ACCESS TO ESTABLISHED RESERVES TODAY, RATHER THAN GAMBLING ON FUTURE AVAILABILITY AND PRICE, AND

THAT IT IS IN THE INDIVIDUAL UTILITY'S INTEREST TO COVER ITS FORWARD REQUIREMENTS FOR AS LONG A TERM AS FEASIBLE FROM A CONTRACTING STANDPOINT.

WITH RESPECT TO URANIUM PRICES, WITH MANY RECENT SALES BEING MADE ON A "GOING MARKET" BASIS, ESTABLISHED SHORTLY BEFORE THE TIME OF DELIVERY, IT IS DIFFICULT TO DEFINE TODAY'S PRICE LEVEL WITH ANY PRECISION. HOWEVER, IT IS ROUGHLY ESTIMATED TO HAVE BEEN \$42 (U.S.) PER POUND IN MID-1977. WE HAVE ATTACHED AS APPENDIX 8 THE LATEST ESTIMATE OF PRICES ISSUED BY THE NUCLEAR EXCHANGE CORPORATION.

THE MINISTRY'S CONSULTANTS CONSIDER THAT, IN THE IMMEDIATE FUTURE, SOME MODEST AND TRANSIENT DOWNWARD PRICE ADJUSTMENT IS POSSIBLE, BUT, IN THE LONGER TERM, THE RISING COST OF EXPLORATION, DEVELOPMENT AND PRODUCTION WILL RESULT IN A GENERALLY UPWARD PRICE TREND IN CONSTANT DOLLAR TERMS.

5. PRODUCER MARKETING ARRANGEMENTS

AGAINST THE BACKGROUND OF RECENT DISCLOSURES OF DETAILS OF URANIUM PRODUCER MARKETING ARRANGEMENTS (OR "CARTEL") KNOWN TO HAVE BEEN IN EFFECT DURING THE 1972-74 PERIOD, AND OF THE INFLUENCE THE ACTIONS TAKEN BY THESE PRODUCERS MAY HAVE HAD ON URANIUM PRICES, I RAISED WITH THE MINISTRY'S CONSULTANTS THE FOLLOWING QUESTIONS:

1. HAS THE "CARTEL" HAD AN IMPORTANT INFLUENCE ON THE URANIUM PRICE MOVEMENT THAT HAS TAKEN PLACE TO DATE?
2. WHAT AFTERMATH EFFECT, IF ANY, ARE THESE SAME ARRANGEMENTS AND ACTIONS LIKELY TO HAVE ON THE PRICES THAT HYDRO WILL BE PAYING UNDER THE DENISON/PRESTON CONTRACTS?
3. WHAT SAFEGUARDS COULD BE PROVIDED AGAINST THE POSSIBILITY THAT FUTURE MARKETING ARRANGEMENTS AMONG URANIUM PRODUCERS MIGHT ADVERSELY AFFECT THE PRICE HYDRO WILL BE PAYING UNDER THE DENISON/PRESTON CONTRACTS?

THE MINISTRY'S CONSULTANTS' ANSWERS TO THESE QUESTIONS ARE, IN SUBSTANCE, AS FOLLOWS:

1. THE SUBSTANTIAL URANIUM PRICE INCREASE THAT HAS TAKEN PLACE IN RECENT YEARS, THE BULK OF WHICH OCCURRED IN 1974, 1975 AND EARLY 1976, IS ATTRIBUTABLE IN THE MAIN TO FACTORS SEPARATE AND APART FROM THE PRODUCER MARKETING ARRANGEMENTS IN QUESTION.

2. AS DEFINED IN THE DENISON/PRESTON CONTRACTS, THE "BASE PRICES" WILL BE DIRECTLY REFLECTIVE OF ACTUAL PRODUCTION COSTS IN ESTABLISHED PROPERTIES AND HENCE WILL NOT THEMSELVES BE SUBJECT TO INFLUENCE BY EXTERNAL MARKET FACTORS.

THE PRICES HYDRO ACTUALLY PAYS FOR DELIVERIES UNDER THE CONTRACTS WILL LIE BETWEEN THE "BASE PRICES" AND THE PREVAILING WORLD MARKET PRICE AND TO THIS EXTENT COULD, IN PRINCIPLE, BE ADVERSELY AFFECTED IF THE PREVAILING WORLD MARKET PRICE WERE AT AN ARTIFICIALLY HIGH LEVEL.

IT IS THE MINISTRY'S CONSULTANTS' VIEW THAT TODAY'S URANIUM PRICE LEVEL IS VERY CLOSE TO THAT REQUIRED TO PROVIDE REASONABLE INCENTIVE FOR NECESSARY EXPANSION OF WORLD URANIUM SUPPLY CAPABILITY AND, FURTHER, THAT IN ALL PROBABILITY INCREASING COSTS WILL CARRY PRICES TO HIGHER LEVELS IN THE YEARS AHEAD. ON THIS BASIS, THE MINISTRY'S CONSULTANTS BELIEVE THAT PAST URANIUM PRODUCER MARKETING ARRANGEMENTS AND ACTIONS WILL NOT HAVE AN ADVERSE AFTERMATH EFFECT ON THE PRICES HYDRO WILL BE PAYING UNDER THE DENISON/PRESTON CONTRACTS.

3. THE PRICING PROVISIONS OF THE DENISON/PRESTON CONTRACTS -- IN PARTICULAR THE PROVISIONS FOR DETERMINING BY NEGOTIATION AND/OR ARBITRATION THE PRICE VALUE TO BE CONSIDERED AS REFLECTIVE OF "WORLD PRICE" FOR THE PURPOSES OF THE CONTRACTS -- PROVIDE A VEHICLE FOR DEALING WITH PROBLEMS WHICH MIGHT CONCEIVABLY ARISE IN FUTURE BY REASON OF FUTURE CARTELIST ACTIVITY. THE MINISTRY'S CONSULTANTS CANNOT SUGGEST ANY ADDITIONAL SAFEGUARD WHICH WOULD ALTOGETHER ELIMINATE SUCH POSSIBLE FUTURE PROBLEMS.

ASIDE FROM THE MINISTRY'S CONSULTANTS' ANSWERS TO THE AFOREMENTIONED QUESTIONS, ATTACHED TO THIS STATEMENT ARE COPIES OF REPORTS PREPARED BY HYDRO'S OWN CONSULTANT (DAVID S. ROBERTSON & ASSOCIATES) AND BY NUCLEAR EXCHANGE CORPORATION WHICH INDEPENDENTLY CONCLUDE THAT THE PRODUCER MARKETING ARRANGEMENTS IN QUESTION HAVE HAD LITTLE OR NO SIGNIFICANT IMPACT ON URANIUM PRICE MOVEMENT.

MY OWN CONCLUSION, REACHED AFTER EXTENSIVE DISCUSSION WITH OUR CONSULTANTS, IS THAT, AS A PRACTICAL MATTER, THE URANIUM SUPPLY CONTRACTS AT ISSUE IN THIS PROCEEDING CAN AND SHOULD BE EVALUATED ON THEIR OWN INTRINSIC MERITS AND THAT THE BASIC URANIUM SUPPLY/DEMAND CIRCUMSTANCES AND OUTLOOK WHICH MAKE THESE CONTRACTS ADVANTAGEOUS TO HYDRO AND THE COMMUNITY IT SERVES HAVE NOT BEEN SIGNIFICANTLY AFFECTED BY PAST PRODUCER MARKETING ARRANGEMENTS AND ACTIONS.

6. CANADIAN URANIUM POLICY GUIDELINES

THE PROPOSED SUPPLY ARRANGEMENTS MUST ALSO BE VIEWED WITHIN THE URANIUM POLICY GUIDELINES OF THE CANADIAN GOVERNMENT IN ORDER TO PLACE IN PROPER PERSPECTIVE THE QUANTITIES AND SCHEDULES BEING CONTEMPLATED AND THE SECURITY OF SUPPLY FOR ONTARIO HYDRO'S REACTOR COMMITMENTS.

THESE GUIDELINES WERE ANNOUNCED BY THE FEDERAL MINISTER OF ENERGY, MINES AND RESOURCES ON SEPTEMBER 5, 1974, AND PROVIDE FOR EXPORT CONTROLS, UTILITY OBLIGATIONS WITH RESPECT TO CONTRACTING FOR PRODUCTION CAPACITY, AND PRODUCER ALLOCATION OF RESERVES. A COPY OF THE STATEMENT IS INCLUDED AS APPENDIX 11 AND THE LATEST APPRAISAL OF CANADA'S URANIUM SUPPLY AND DEMAND BY THE FEDERAL GOVERNMENT AS APPENDIX 12.

ONTARIO HYDRO IS OBLIGED TO DEMONSTRATE TO THE ATOMIC ENERGY CONTROL BOARD THAT IT HAS, AND MAINTAINS, CONTRACTS COVERING AT LEAST 15 YEARS' OPERATION OF EXISTING AND COMMITTED REACTORS AND, AT THE APPROPRIATE TIME, PROVIDE SIMILAR COVERAGE FOR EACH NEW NUCLEAR REACTOR PRIOR TO RECEIVING A CONSTRUCTION LICENSE. THE POLICY ALSO ENCOURAGES SUPPLY COMMITMENTS BY UTILITIES BEYOND THE MINIMUM 15-YEAR PERIOD.

FOR ONTARIO HYDRO, THIS MINIMUM REQUIREMENT NOW AMOUNTS TO 78 MILLION POUNDS WITH DELIVERIES RUNNING THROUGH THE YEAR 2002.

WHILE THE TOTAL VOLUMES CONTEMPLATED UNDER THE DENISON CONTRACT OF 126 MILLION POUNDS FULFILL THE FEDERAL GOVERNMENT'S MINIMUM REQUIREMENTS FOR FORWARD COMMITMENTS, THE PROPOSED DELIVERY SCHEDULES DO NOT MEET ONTARIO HYDRO'S ANNUAL NEEDS UNTIL THE MID-1990S, AS NOTED EARLIER.

WHILE ONTARIO HYDRO WILL RECEIVE QUANTITIES OF URANIUM FROM THE ELLIOT LAKE RESERVES IN EXCESS OF THOSE WHICH THE PRODUCERS ARE REQUIRED TO SET ASIDE FOR CANADIAN USE UNDER THE FEDERAL GOVERNMENT GUIDELINES, IN THE JUDGEMENT OF THE MINISTRY'S CONSULTANT, A CONTRACT COVERING THE MINIMUM QUANTITY TO BE SET ASIDE BY THE PRODUCER COULD NOT BE STRUCTURED ON TERMS AS FAVOURABLE AS THOSE CURRENTLY UNDER CONSIDERATION, NOR WOULD THERE BE ANY ASSURANCE THAT A SMALLER QUANTITY OR SHORTER PERIOD WOULD MEET ONTARIO HYDRO'S ANNUAL NEEDS.

THUS, THE EXECUTION OF URANIUM SUPPLY CONTRACTS OF THE TERM AND MAGNITUDE OF THOSE UNDER CONSIDERATION ADEQUATELY DISCHARGES ONTARIO HYDRO'S OBLIGATIONS UNDER THE CANADIAN GOVERNMENT GUIDELINES AND, FURTHERMORE, ASSURES ITS ACCESS TO ADDITIONAL ONTARIO URANIUM THAT THE PRODUCERS NEED NOT CURRENTLY DEDICATE TO CANADIAN CONSUMERS.

FULL RESPONSIBILITY FOR OPERATIONS AND HAVING A FINANCIAL INCENTIVE TO PERFORM WELL.

OUR CONSULTANTS ALSO CONSIDERED THE DESIRABILITY OF ONTARIO HYDRO ENTERING INTO SUCH LONG-TERM CONTRACTS COMPARED TO A DIFFERENTLY STRUCTURED PURCHASE ARRANGEMENT OR A COMBINATION, OR SERIES, OF SMALLER CONTRACTS, PERHAPS WITH MORE SUPPLIERS. THEIR CONCLUSION WAS THAT THERE WERE OVERRIDING ADVANTAGES TO ONTARIO HYDRO IN SECURING LONG-TERM COMMITMENTS.

OVER THE PAST FOUR YEARS THE GOVERNMENT HAS PROVIDED PERIODIC POLICY DIRECTION OR ADVICE TO ONTARIO HYDRO ON ITS URANIUM SUPPLY REQUIREMENTS.

IN LATE 1973, THE MINISTER OF ENERGY MET WITH THE CHAIRMAN OF ONTARIO HYDRO TO REVIEW THE OPTIONS OPEN TO ONTARIO HYDRO IN SECURING ADDITIONAL SUPPLIES OF URANIUM FUEL. ONTARIO HYDRO WAS ADVISED TO MAKE EVERY EFFORT TO COME TO TERMS WITH POTENTIAL SUPPLIERS ON THE BASIS OF PURCHASE CONTRACTS.

AT A SUBSEQUENT MEETING IN OCTOBER, 1974, ONTARIO HYDRO REPORTED TO THE MINISTER ON THEIR NEGOTIATIONS WITH THE TWO MAJOR ELLIOT LAKE PRODUCERS AND THE DIFFICULTY IN SETTLING ON REASONABLE PRICING TERMS. THE MINISTER SUBSE-

QUENTLY MET WITH BOTH PRODUCERS IN SUPPORT OF ONTARIO HYDRO'S POSITION.

DURING THE SUMMER OF 1975, THE MINISTRY OF ENERGY MADE REPRESENTATIONS TO THE FEDERAL GOVERNMENT ON THE QUESTION OF PROTECTION FOR ONTARIO HYDRO THROUGH POSSIBLE EXPORT RESTRICTIONS. REFERENCE WAS ALSO MADE TO THE DIFFICULTIES BEING EXPERIENCED IN THE ONTARIO HYDRO NEGOTIATIONS.

IN AUGUST OF 1975, THE STATUS OF THE NEGOTIATIONS BETWEEN ONTARIO HYDRO AND THE TWO ELLIOT LAKE PRODUCERS WERE REVIEWED BY CABINET. ONTARIO HYDRO WAS INSTRUCTED TO CONTINUE TO SEEK ACCESS TO ADDITIONAL ELLIOT LAKE URANIUM THROUGH LONG-TERM CONTRACTUAL ARRANGEMENTS WITH THE PRODUCERS, AND NOT TO PURSUE THE ACQUISITION ROUTE. THIS POSITION WAS ENDORSED AGAIN BY CABINET IN NOVEMBER, 1976.

THROUGHOUT THIS PERIOD, MINISTRY OF ENERGY STAFF WERE KEPT INFORMED BY ONTARIO HYDRO OF THE PROGRESS OF THE NEGOTIATIONS BUT DID NOT PARTICIPATE IN THE NEGOTIATIONS THEMSELVES.

9.

ONTARIO GOVERNMENT
RESPONSIBILITY FOR THE APPROVAL
OF ONTARIO HYDRO CONTRACTS

AS ONTARIO HYDRO IS BEST EQUIPPED TO PROVIDE DETAILS OF THEIR NEGOTIATIONS WITH DENISON MINES AND PRESTON MINES, I SHALL NOT DEAL WITH THESE MATTERS EXCEPT INsofar AS GOVERNMENT ACTION MAY HAVE BEEN INVOLVED. NEGOTIATIONS OF THE TERMS AND CONDITIONS OF ALL CONTRACTS ARE CONDUCTED BY ONTARIO HYDRO STAFF IN ACCORDANCE WITH THE INTENT OF THE POWER CORPORATION ACT, WITH THE ONTARIO HYDRO BOARD ASSUMING FULL RESPONSIBILITY FOR THE OVERALL APPROVAL OF ANY CONTRACTUAL COMMITMENTS.

BECAUSE OF THE INTEREST WHICH HAS BEEN EXPRESSED RECENTLY ABOUT HYDRO CONTRACTS GENERALLY, AND THE IMPRESSION WHICH APPEARS TO BE WIDESPREAD THAT THE LIEUTENANT GOVERNOR IN COUNCIL MUST APPROVE ALL HYDRO CONTRACTS, I SHOULD LIKE TO TAKE THIS OPPORTUNITY TO REVIEW BRIEFLY THE POWERS AND RESPONSIBILITIES WHICH THIS LEGISLATURE HAS GIVEN TO ONTARIO HYDRO'S BOARD OF DIRECTORS AND ITS OFFICERS, AND TO THE LIEUTENANT GOVERNOR IN COUNCIL, BY MEANS OF THE POWER CORPORATION ACT.

THE KEY SECTIONS, INSOFAR AS THE HYDRO BOARD ARE CONCERNED, ARE:

SECTION 4

WHICH STATES, IN PART, THAT "THE BUSINESS AND AFFAIRS OF THE CORPORATION ARE UNDER THE DIRECTION AND CONTROL OF THE BOARD."

SECTION 5

WHICH STATES, IN PART, THAT "THE BOARD MAY PASS RESOLUTIONS REGULATING ITS PROCEEDINGS, SPECIFYING THE POWERS AND DUTIES OF THE OFFICERS AND EMPLOYEES AND GENERALLY FOR THE CONDUCT AND MANAGEMENT OF THE BUSINESS AND AFFAIRS OF THE CORPORATION."

SECTION 58

WHICH STATES THAT "THE PURPOSES AND BUSINESS OF THE CORPORATION INCLUDE THE GENERATION, TRANSMISSION, DISTRIBUTION, SUPPLY, SALE AND USE OF POWER AND, EXCEPT WITH RESPECT TO THE EXERCISE OF POWERS REQUIRING THE PRIOR AUTHORITY OF THE LIEUTENANT GOVERNOR IN COUNCIL UNDER THIS ACT, THE CORPORATION HAS POWER AND AUTHORITY TO DO ALL SUCH THINGS AS IN ITS OPINION ARE NECESSARY,

USUAL OR INCIDENTAL TO THE FURTHERANCE OF SUCH PURPOSES AND TO THE CARRYING ON OF ITS BUSINESS."

HYDRO MUST, HOWEVER, SEEK LIEUTENANT GOVERNOR IN COUNCIL APPROVAL FOR 26 AREAS OF ACTIVITY. THESE AND OTHER SIGNIFICANT MATTERS WITH RESPECT TO THE RELATIONSHIP OF ONTARIO HYDRO AND THE GOVERNMENT, ARE SET OUT IN MORE DETAIL IN THE MINISTRY OF ENERGY'S SUBMISSION TO THE ROYAL COMMISSION ON ELECTRIC POWER PLANNING (RCEPP) ON JULY 26, 1976, AND SUBSEQUENTLY TABLED IN THE LEGISLATURE A YEAR AGO.

ONTARIO HYDRO'S PURCHASE OF URANIUM FOR EXISTING REACTORS, SUCH AS THOSE AT THE PICKERING GENERATING STATION, HAVE BEEN AUTHORIZED UNDER ORDERS-IN-COUNCIL, WHICH APPROVED THE CONSTRUCTION, OPERATION AND MAINTENANCE OF THOSE STATIONS.

THIS IS THE USUAL PROCEDURE FOR APPROVING ONTARIO HYDRO PURCHASES OF FUEL. IT IS A PRACTICE WHICH HAS WELL SERVED THE PUBLIC INTEREST AND THE INTEREST OF ELECTRICAL CONSUMERS IN THIS PROVINCE, AND IT IS CONSISTENT WITH THE ESSENTIALLY COMMERCIAL NATURE OF THE ONTARIO HYDRO CORPORATION AS RECOMMENDED BY TASK FORCE HYDRO.

IT IS A PRACTICE WHICH LEAVES THE RESPONSIBILITY FOR THE APPROVAL OF THE MAJORITY OF FUEL CONTRACTS TO THE ONTARIO HYDRO BOARD, WITH THE LIEUTENANT GOVERNOR IN COUNCIL

REVIEWING THE APPROPRIATENESS OF ONLY THOSE CONTRACTS WHICH, BECAUSE OF THEIR NATURE, REQUIRE A HIGHER AUTHORITY THAN THE BOARD OF DIRECTORS OF ONTARIO HYDRO.

THE BASIC CRITERIA FOR SEEKING SPECIFIC LIEUTENANT GOVERNOR IN COUNCIL APPROVAL RELATE TO THE SIZE OR UNUSUAL NATURE OF THE CONTRACT, OR WHEN A FUEL CONTRACT CANNOT BE RELATED TO EXISTING AUTHORITY FOR THE OPERATION OF A GENERATING STATION.

IN THE CASE OF THE URANIUM CONTRACTS UNDER REVIEW BY THIS COMMITTEE, BOTH THE GOVERNMENT AND ONTARIO HYDRO FELT THAT THE SIZE AND VALUE OF THE FUEL SUPPLIES INVOLVED ARE SUFFICIENTLY LARGE TO WARRANT SPECIFIC APPROVAL BY THE GOVERNMENT. ACCORDINGLY, ONTARIO HYDRO HAS REQUESTED SEPARATE ORDERS-IN-COUNCIL TO PERMIT THEM TO ACQUIRE THE QUANTITIES OF URANIUM CONTEMPLATED IN THE AGREEMENTS WITH DENISON MINES AND PRESTON MINES.

10. REVIEW BY THE MINISTRY OF ENERGY

FOLLOWING RECEIPT OF THE REQUEST FROM ONTARIO HYDRO TO ACQUIRE URANIUM FROM DENISON MINES LTD. ON DECEMBER 21, 1976, AND AFTER DISCUSSION WITH MINISTRY STAFF, I CONCLUDED THAT, IN ORDER TO MAKE A REASONED RECOMMENDATION TO THE EXECUTIVE COUNCIL ON ONTARIO HYDRO'S REQUEST, I WOULD REQUIRE AN INDEPENDENT REVIEW AND EVALUATION OF THE TERMS OF THE PROPOSED AGREEMENT. AT THE SAME TIME, I FELT THAT NEGOTIATIONS WITH THE RIO ALGOM/PRESTON MINES GROUP WERE SUFFICIENTLY ADVANCED TO WARRANT SOME PRELIMINARY ASSESSMENT OF THAT PROPOSAL.

ACCORDINGLY, ON FEBRUARY 10, 1977, I REQUESTED MY DEPUTY MINISTER TO TAKE STEPS TO RETAIN SUITABLE INDEPENDENT CONSULTANTS, AND THE FOLLOWING FIRMS AND INDIVIDUALS WERE SUBSEQUENTLY ENGAGED BY THE MINISTRY:

<u>FIRM</u>	<u>PRIME RESPONSIBILITY</u>
THE S.M. STOLLER CORPORATION, NEW YORK. J.F. HOGERTON J. GINGOLD	URANIUM OUTLOOK, PRODUCTION AND MARKETING
McMILLAN, BINCH, TORONTO. W.A. MacDONALD, Q.C. R.K. MacDERMOTT	LEGAL
DELOITTE, HASKINS & SELLS TORONTO. P.H. LYONS E.R. JOHNSON J.F. UTLEY	FINANCIAL

THE TERMS OF REFERENCE FOR THE CONSULTANTS,
SETTING OUT THE OBJECTIVES, SCOPE AND SPECIFIC ASSIGNMENTS,
ARE DESCRIBED IN APPENDIX 13. BIOGRAPHICAL MATERIAL ON EACH
OF THE CONSULTANTS IS ATTACHED AS APPENDIX 14.

I SHOULD STATE, AT THIS POINT, THAT I BELIEVE THE
MINISTRY OF ENERGY WAS FORTUNATE IN BEING ABLE TO ENGAGE, ON

SUCH SHORT NOTICE, CONSULTANTS OF HIGH CALIBRE AND INTERNATIONAL STATURE.

THE INDIVIDUAL REPORTS FROM THESE CONSULTANTS HAVE BEEN PROVIDED TO THE COMMITTEE.

IN ESSENCE, THE CONSULTANTS WERE REQUESTED TO PROVIDE AN INDEPENDENT EVALUATION OF THE PROPOSED CONTRACTUAL ARRANGEMENTS WITH BOTH PRODUCERS IN THE CONTEXT OF NORMAL COMMERCIAL PRACTICE IN THE URANIUM INDUSTRY, AND A COMPARISON WITH OTHER LONG-TERM CONTRACTS OR ALTERNATIVE MEANS OF SECURING THE NEEDED SUPPLIES.

WHILE OUR CONSULTANTS ARE AVAILABLE TO PROVIDE INFORMATION ON THEIR DETAILED FINDINGS, SOME OF THEIR GENERAL OBSERVATIONS ARE WORTH NOTING.

THESE ARE AS FOLLOWS:

- A) THE DOCUMENTS REVIEWED ARE THE RESULTS OF NEGOTIATIONS EXTENDING OVER MORE THAN TWO YEARS DURING WHICH A GREAT NUMBER OF DIFFICULT ISSUES WERE ONLY SLOWLY RESOLVED. NO ATTEMPT WAS MADE, THEREFORE, TO SECOND-GUESS THE INDIVIDUAL COMPROMISES WHICH WERE MADE DURING THE ACTUAL NEGOTIATIONS IN ORDER TO ARRIVE AT THE BASIC AGREEMENTS.

- B) THE CONSULTANTS WERE IMPRESSED WITH BOTH THE QUALITY OF THE DRAFTS OF THE FINAL DOCUMENTS, WITH THE NEGOTIATING COMPETENCE OF THE ONTARIO HYDRO OFFICIALS, AND WITH THEIR DEDICATION TO THE PUBLIC INTEREST. THE CONSULTANTS ALSO INDICATED THEIR HIGH REGARD FOR THE PROFESSIONAL COMPETENCE OF ONTARIO HYDRO'S ADVISERS INVOLVED IN THESE NEGOTIATIONS.
- C) SINCE BOTH ARRANGEMENTS PROVIDE FOR LARGE VOLUMES OF URANIUM OVER LONG PERIODS OF TIME, THE AGREEMENTS MUST BE EQUITABLE. SHOULD EITHER PARTY TO AN AGREEMENT FEEL THE CONTRACTS ARE INEQUITABLE, THE POTENTIAL EXISTS FOR DIFFICULTIES IN ADMINISTRATION, POSSIBLE DISRUPTIONS IN ESSENTIAL SUPPLIES OF URANIUM, AND, IN THE EXTREME, LEGAL ACTION BY ONE OR BOTH PARTIES.

OUR CONSULTANTS REPORTED THEIR FINDINGS BY JULY, 1977, AND AFTER FULL DISCUSSIONS WITH THEM, I ADVISED THE CHAIRMAN OF ONTARIO HYDRO ON JULY 25 THAT A NUMBER OF MATTERS SHOULD BE RESOLVED BEFORE I COULD RECOMMEND AUTHORIZATION OF THE DENISON CONTRACT.

THESE MATTERS WERE TAKEN UP BY ONTARIO HYDRO WITH THE MANAGEMENT OF DENISON MINES AND ON OCTOBER 6, THE CHAIRMAN OF ONTARIO HYDRO WROTE TO ME SETTING OUT THE DISPOSITION OF ALL THE POINTS I HAD RAISED.

ON OCTOBER 11, THE REVISED DENISON CONTRACT, INCORPORATING THE CHANGES MADE AS A RESULT OF MY JULY 25 LETTER, WAS SENT TO ALL THREE CONSULTANTS FOR FINAL REVIEW. SUPPLEMENTARY REPORTS WERE SUBMITTED BY THE CONSULTANTS, WITH THE LAST REPORT BEING RECEIVED ON DECEMBER 14, 1977.

THE CONSULTANTS CONFIRMED THEIR EARLIER OVERALL ASSESSMENT THAT THE DENISON CONTRACT WAS FAVOURABLE TO ONTARIO HYDRO, AND THAT THE CHANGES TO THE CONTRACT GENERALLY SATISFIED THE POINTS I HAD RAISED.

ON THE BASIS OF THIS INDEPENDENT ANALYSIS AND ADVICE, I ADVISED THE CHAIRMAN OF ONTARIO HYDRO ON DECEMBER 15 THAT THE CONTRACT WAS IN A SATISFACTORY FORM FOR ME TO SEEK AN ORDER-IN-COUNCIL.

BECAUSE OF THE DELAY OF ALMOST A YEAR IN CONCLUDING THE AGREEMENT, ARISING FROM THE MINISTRY'S INDEPENDENT REVIEW AND HYDRO'S SUBSEQUENT RENEGOTIATION, DENISON HAD INDICATED AN URGENT NEED FOR A DECISION WITH RESPECT TO THE EXECUTION OF THE CONTRACT PRIOR TO ITS MAKING FURTHER

COMMITMENTS TO THE EXPANSION OF ITS MINING FACILITIES NEEDED TO MEET THE DELIVERY SCHEDULES. CONSEQUENTLY, I SUGGESTED TO ONTARIO HYDRO THAT ITS BOARD MIGHT WISH TO TAKE WHATEVER STEPS IT THOUGHT APPROPRIATE TO SAFEGUARD THE TERMS AND CONDITIONS OF THE CONTRACT UNTIL SUCH TIME AS THE NECESSARY ORDER-IN-COUNCIL COULD BE OBTAINED.

ONTARIO HYDRO WAS ABLE TO WORK OUT AN ARRANGEMENT WHEREBY, IF AN ORDER-IN-COUNCIL IS ISSUED BY FEBRUARY 28, 1978, DENISON WILL HAVE TO PERFORM ITS OBLIGATIONS UNDER THE AGREEMENT. IF AN ORDER-IN-COUNCIL WERE NOT ISSUED BY FEBRUARY 28, THE CONTRACT WOULD BE VOID. THE GOVERNMENT FEELS THAT THE ARRANGEMENT AGREED TO BETWEEN ONTARIO HYDRO AND DENISON IS NOT UNREASONABLE.

DURING 1977, OUR CONSULTANTS WERE ALSO ASKED TO EXAMINE PRELIMINARY CONTRACTUAL INFORMATION RELATED TO THE PRESTON MINES LTD. AGREEMENT. THE NEGOTIATIONS ON THIS AGREEMENT WERE NOT AS FAR ADVANCED AS WITH DENISON MINES LTD. CONSEQUENTLY, THE ONTARIO HYDRO NEGOTIATORS WERE ABLE TO TAKE ADVANTAGE OF THE COMMENTS MADE BY THE MINISTRY OF ENERGY'S CONSULTANTS AND INCORPORATE THOSE, AS APPROPRIATE, IN THE NEGOTIATIONS WITH PRESTON MINES LTD.

DURING THE PAST TWO MONTHS, OUR CONSULTANTS HAVE BEEN REVIEWING THE PRESTON MINES LTD. CONTRACT AS IT HAS

DEVELOPED AND HAVE ADVISED ME THAT THE TERMS ARE SATISFACTORY. I HAVE, AS A RESULT OF THIS ADVICE AND A REQUEST FROM THE ONTARIO HYDRO BOARD, RECOMMENDED TO THE EXECUTIVE COUNCIL THAT AN ORDER-IN-COUNCIL BE ISSUED TO AUTHORIZE ONTARIO HYDRO TO ACQUIRE THE VOLUME OF URANIUM CONTRACTED FOR WITH PRESTON MINES.

11. OTHER PUBLIC INTERESTS

ONTARIO HYDRO'S PRIMARY OBLIGATION IS TO PROTECT THE INTERESTS OF ELECTRICAL CONSUMERS. HOWEVER, IN NEGOTIATING THESE AGREEMENTS, ONTARIO HYDRO HAS BEEN CONSCIOUS OF ITS OBLIGATIONS CONCERNING OTHER PUBLIC INTERESTS.

BOTH DENISON MINES AND PRESTON MINES WILL, OF COURSE, BE REQUIRED TO COMPLY WITH ALL ENVIRONMENTAL AND OTHER STANDARDS THAT MAY BE IMPOSED ON URANIUM MINING AND RELATED DEVELOPMENTS. BOTH AGREEMENTS CONTAIN CLAUSES WHICH EXPRESSLY PROVIDE FOR COMPLIANCE WITH SUCH STANDARDS AND THE GOVERNMENT IS SATISFIED THAT THERE IS NOW IN PLACE LEGISLATION AND VARIOUS REVIEW PROCESSES TO ADEQUATELY PROTECT THESE OTHER PUBLIC INTERESTS. FOR EXAMPLE, AS MEMBERS OF THE SELECT COMMITTEE ARE AWARE, THE ENVIRONMENTAL ASSESSMENT BOARD IS NOW IN THE PROCESS OF CONDUCTING PUBLIC HEARINGS INTO THE EFFECTS OF EXPANSION AT ELLIOT LAKE ON THE ENVIRONMENT.

THE ANALYSIS OF OUR CONSULTANTS CONFIRMS THAT THE EXPANSION OF THE MINES AT ELLIOT LAKE IS REQUIRED, BASED ON THE NEED FOR ADDITIONAL URANIUM FOR PRESENT AND COMMITTED REACTORS.

12.

SOME IMPLICATIONS

THERE ARE A NUMBER OF IMPORTANT IMPLICATIONS WHICH FLOW FROM THESE AGREEMENTS WHICH I SHOULD LIKE TO BRING PARTICULARLY TO THE ATTENTION OF THE SELECT COMMITTEE. I MIGHT ADD THAT WHILE THESE ARE EXPRESSED HERE AS BENEFITS, THEY CAN, EQUALLY, BE EXPRESSED AS OPPORTUNITIES LOST IF THESE AGREEMENTS ARE NOT AUTHORIZED.

FIRST, WHILE THESE ARE VERY LARGE AGREEMENTS BY ANY MEASURE, THEY REPRESENT THE CHEAPEST SOURCE OF FUEL AVAILABLE TO ONTARIO TODAY FOR THE GENERATION OF ELECTRICITY.

IN TERMS OF RELATIVE VALUE, THE TWO CONTRACTS WILL PROVIDE THE ELECTRICITY EQUIVALENT OF ABOUT ONE AND A HALF BILLION TONS OF U.S. COAL WHICH, AT TODAY'S PRICES, WOULD BE WORTH ABOUT \$50 BILLION. A MORE COMPLETE COMPARATIVE ANALYSIS OF ALTERNATE FUEL COSTS IS TO BE FOUND IN APPENDIX 15.

I WOULD ALSO LIKE TO PUT ON THE RECORD THE IMPACT OF THESE URANIUM CONTRACTS ON ONTARIO HYDRO'S BULK POWER COST. AGAIN, CONSIDERING BOTH CONTRACTS, THE COST OF URANIUM WILL REPRESENT LESS THAN 5% OF TOTAL BULK POWER COST IN 1985, AND STILL ONLY 5% BY 1995.

IF THIS IS CONVERTED INTO THE IMPACT ON THE TYPICAL RESIDENTIAL MONTHLY BILL TODAY, IT WOULD REPRESENT ONLY 75 CENTS PER MONTH.

SECOND, THESE CONTRACTS PROVIDE AN OPPORTUNITY FOR ONTARIO TO RECEIVE LONG-TERM BENEFITS IN THE ELLIOT LAKE REGION BY THE CREATION OF A SUBSTANTIAL NUMBER OF NEW JOBS. THE LONG-TERM NATURE OF THE CONTRACTS ALSO ADDS STABILITY TO A REGION WHICH HAS EXPERIENCED THE EFFECTS OF RECESSION IN THE MINING INDUSTRY IN RECENT YEARS.

THIRD, SINCE THERE IS NO SUBSTITUTE FUEL FOR NUCLEAR REACTORS AND CURRENT CONTRACTS WILL NOT MEET ONTARIO HYDRO'S REQUIREMENTS FOR EXISTING AND COMMITTED REACTORS IN AND BEYOND 1980, THESE CONTRACTS PROVIDE ASSURANCE THAT A SECURE SUPPLY OF FUEL WILL BE AVAILABLE TO MAINTAIN THE DESIRED BASE-LOAD OPERATION OF ONTARIO HYDRO'S NUCLEAR STATIONS.

FOURTH, THESE CONTRACTS INTRODUCE A NEW PRINCIPLE INTO THE PRICING OF URANIUM IN CANADA. AS A RESULT OF RESOURCEFUL AND TOUGH NEGOTIATING, ONTARIO HYDRO WILL NOT PAY WORLD PRICES FOR THIS URANIUM. SINCE THE CONTRACTS MEET A LARGE PROPORTION OF ITS KNOWN FUTURE URANIUM REQUIREMENTS, THIS COULD REPRESENT A SIGNIFICANT SAVING TO ELECTRICAL CONSUMERS OVER THE LIFE OF THE CONTRACTS.

13.

CONCLUDING REMARKS

MR. CHAIRMAN, THE MINISTRY OF ENERGY HAS CARRIED OUT A THOROUGH REVIEW OF THE TWO URANIUM CONTRACTS PROPOSED BY ONTARIO HYDRO, AND I AM CONFIDENT THE COMMITTEE WILL CONFIRM THAT ENTERING INTO THESE CONTRACTS IS IN THE OVERALL BEST INTERESTS OF ONTARIO.

IN MY REMARKS TODAY, I HAVE IDENTIFIED THE PRINCIPAL FACTORS WHICH CAUSED ONTARIO HYDRO TO DECIDE TO SEEK LONG-TERM URANIUM SUPPLY CONTRACTS. MY STAFF OR CONSULTANTS WOULD BE PLEASED TO PROVIDE ANY ADDITIONAL DETAILS YOU MAY REQUIRE.

HAVING MADE THE DECISION TO SEEK LONG-TERM SUPPLY CONTRACTS, ONTARIO HYDRO, IN THE VIEW OF OUR CONSULTANTS, SUCCESSFULLY NEGOTIATED A GOOD DEAL ON BEHALF OF THE ELECTRICAL CONSUMERS OF ONTARIO.

IN NEGOTIATING THOSE CONTRACTS, ONTARIO HYDRO CONFORMED TO GOVERNMENT POLICY, CARRIED OUT ITS OBLIGATIONS UNDER, AND OPERATED WITHIN, THE AUTHORITY CONFERRED ON IT BY THE POWER CORPORATION ACT.

ONCE THE MAIN FEATURES OF THE CONTRACTS WERE SETTLED, THE MINISTRY'S REVIEW PROCESS, WHICH I HAVE DESCRIBED, WAS PUT INTO PLACE. IT WAS ON THE BASIS OF THE RESULTING INDEPENDENT ANALYSIS AND ADVICE THAT I MADE RECOMMENDATIONS TO THE EXECUTIVE COUNCIL FOR AUTHORIZING ORDERS-IN-COUNCIL UNDER SECTION 24 OF THE POWER CORPORATION ACT.

I HAVE ALSO STATED THAT THE GOVERNMENT BELIEVES THAT ADEQUATE PROTECTION IS AFFORDED OTHER PUBLIC INTERESTS, INCLUDING ENVIRONMENTAL INTERESTS, AS A RESULT OF THE WAY ONTARIO HYDRO HAS NEGOTIATED THESE CONTRACTS AND AS A RESULT OF EXISTING LEGISLATION AND REVIEW PROCESSES.

FINALLY, THERE IS NO DOUBT THAT THESE CONTRACTS PROVIDE MANY ATTRACTIVE BENEFITS TO ONTARIO, INCLUDING THE MOST COMPETITIVE FUEL COSTS AVAILABLE TO THIS PROVINCE, ADDED EMPLOYMENT AND INVESTMENT OPPORTUNITIES, FREEDOM FROM PAYING HIGHER WORLD PRICES FOR URANIUM, AND THE UTILIZATION OF AN IMPORTANT ENERGY RESOURCE LOCATED IN THIS PROVINCE.

MR. CHAIRMAN, I AM SATISFIED THAT THESE CONTRACTS REPRESENT SOUND COMMERCIAL ARRANGEMENTS FOR ONTARIO HYDRO. I WOULD URGE THE COMMITTEE, THEREFORE, TO GIVE THIS MATTER ITS URGENT CONSIDERATION, AND I AM CONFIDENT THAT YOU WILL AGREE THAT THEY ARE IN THE PUBLIC INTEREST.