# UNDERTAKING J4.11
## (NON CONFIDENTIAL)

## *Undertaking*

To provide materials on procurement strategy, in confidence.

(Note: This undertaking was expanded (Tr Vol 15 page 63-66) to provide a summary of the recommendations from an independent external study of OPG's uranium procurement strategy and OPG's response. As explained at Tr Vol 15 page 65, an external study reviewing OPG's uranium procurement strategy had been undertaken by the Ux Consulting Company (UxC) in 2007 and presented to OPG's Nuclear Supply Chain in March 2008, which Mr. Mauti only became aware of while reviewing the company's records to respond to this undertaking.)

## *Response*

In response to the significant events occurring in the uranium market (Ex. F2-T5-S1 page 6 Section 3.5.2), OPG undertook a number of actions with respect to its uranium supply planning which subsequently was incorporated into Uranium Procurement Plans on an ongoing basis, including:

- The development of uranium market risk guidelines – **Attachment 1** provides a presentation by OPG's Market Risk & Quantitative Analysis and Strategic Sourcing/Nuclear Supply Chain departments to the Enterprise Risk Committee dated August 5, 2008 regarding Uranium Risk Limits. The Enterprise Risk Committee is a senior management committee within OPG that has oversight over key risks faced the company.

- An independent review of OPG's uranium supply status and procurement strategy – **Attachment 2** provides the final report of this study which was conducted by the Ux Consulting Company (UxC), dated March 13, 2008. A summary and discussion of the recommendations is provided below.

- The approval of the 2009 Uranium Procurement Plan **- Attachment 3** provides OPG's current approved Uranium Procurement Plan dated January 14, 2009. This document examines the status of OPG's uranium supplies versus the risk limits, discusses market conditions, and provided the procurement plan moving forward.

  Based on this plan, OPG accessed the uranium spot market in mid 2009 and purchased 400,000 pounds from 2 suppliers.

- A review of its Uranium Procurement Plan **- Attachment 4** is the Memorandum on Uranium Procurement Plan dated March 15, 2010, which was prepared prior to entering the market for new uranium supplies and reviewed the status of the plan based on then current information.

Based on this review, it was determined that [redacted] A request for proposals for long term uranium supply was issued in mid 2010. Supply arrangements based on this request are currently being finalized.

Summarized below are the general conclusions from the UxC independent review **(Executive Summary - Attachment 2)** along with OPG's response.

[redacted]

The UxC review also included specific future contracting recommendations (**Section 9, page 19 – Attachment 2)**. These recommendations and OPG's response follows:

[redacted]

[redacted]

## Contract Renegotiation

During the proceeding (Tr Vol 5 page 99 line 7; Tr Vol 15 page 112 line 24), Ms. Hare enquired if OPG had explored renegotiation of its fuel contracts, such as termination or extending the life of the contract for a lower rate.

When existing contracts are unfavorable relative to market conditions, OPG does investigate and evaluate the possibility of terminating the contract or renegotiating the price.

However, termination has not been a viable option since the contracts commonly contain provisions that compensate for the difference between contract price and market price in the event of default or termination, thus making the termination neutral from a cost standpoint.

An incentive that can be offered to a supplier to renegotiate (i.e., lower) the indexed price is to extend the term and hence quantity of the contract. However, the option of renegotiating price by extending the term and quantity of the contract must be evaluated relative to the option of maintaining the original contract price and acquiring additional quantities at current prices from an alternative supplier. To-date, renegotiating price by extending the term of existing contracts has not competed favorably against other options.