Board Staff Interrogatory #243

Interrogatory

Reference:
Exhibit F2 / Tab 5 / Schedule 1 / p. 8
Exhibit F2 / Tab 5 / Schedule 1 / p. 3

Preamble:

OPG stated that following the 2016 review, the range of the limit for "fixed" price arrangements was changed from a minimum / maximum of 50% to 70% to a minimum / maximum of 45% to 65% to reflect the downward pressure in uranium prices at the time.
OPG also stated that the internal review of the uranium coverage risk limits was completed in 2020, and no changes were made to the risk limits.

OPG also stated the forecast price of uranium concentrate over the Custom IR term increases from CDN $117.30 (KgU) / U308 to CDN $136.33 (KgU) / U308 (or 32%).

Question(s):

a) Please explain why OPG did not increase its share of fixed price arrangements following the 2020 review given its forecast of a 32% increase in uranium prices in the context that it reduced its share of fixed price arrangements following the 2016 review on the expectation of lower uranium prices. On what basis did OPG decide to make no changes to the fixed price limits following the 2020 review?

Response

This most recent review of the risk limits indicates that the current market risk limits in place for purchasing uranium are appropriate for the physical amounts contracted by year and the fixed versus market pricing structure. The target range of 45% to 65% fixed price under contract is used to ensure that the portion of supply under contract is at known fixed prices for future delivery. At present, OPG's existing contract portfolio is within the 45% to 65 % range over the IR term, with the remaining volumes at market price at the time of delivery. OPG will increase or decrease the level of fixed price supply within the range in the event there is a rising trend in market prices. By establishing a portfolio which contains both fixed and market pricing arrangements with range limits, OPG has protection in a rising price environment but will also benefit if market prices fall.

The review of the risk limits was based on information from industry publications, expected forward prices, and the demand and supply outlook. The most recent review shows that OPG market risk limits were appropriate and in line with those of the European and U.S. based nuclear generators.

In general, forward prices will be higher than spot prices.[1] Therefore, locking in more fixed volume today for the future will be at a large premium to spot prices.

[1] For historical variance between Uranium spot prices and Uranium long term prices see http://www.cameco.com/invest/markets/uranium-price.