

THE COMPLETE LOWDOWN ON LOUISIANA ENERGY SERVICES

A Candid Conversation with President Jim Ferland and His Company's New Mexico Uranium Enrichment Facility



After more than 15 years, Louisiana Energy Services has begun construction of the company's uranium enrichment facility, aptly called The National Enrichment Facility (NEF).

By James Finch

Leave no stone unturned. That's how professionals execute a program to get a project launched. The turnaround of Louisiana Energy Services (LES) is nothing short of spectacular. Resurrected from the dead, the LES enrichment facility is quickly moving forward. After being shunned by two states, in a grueling saga lasting fifteen years, LES finally found a home in New Mexico for its uranium enrichment plant. Our brief encounter with LES President Jim Ferland and his right hand man, Marshall Cohen, Vice President of Communications, demonstrated they are serious players with a no-nonsense approach to making the LES uranium enrichment facility operational. How did we reach that conclusion? It began with a story we wrote.

While vacationing in Maine, an alert Marshall Cohen phoned StockInterview's offices, within hours after the pub-

lication of our Market Outlook Journal article, entitled, "Will Cameco Supply the Uranium for New Mexico's Proposed Enrichment Facility?" He believed we got the story wrong and quickly scheduled an afternoon interview with Jim Ferland, President of LES to clarify the matter. It would have been even sooner, but Mr. Ferland was on an airplane at the time.

When we finally talked, we didn't mince words that Thursday afternoon. Ferland wanted to make it perfectly clear there was no secret deal between Cameco and LES. "Cameco thought, at one time, about investing in the project," Ferland explained. "Cameco had a memorandum to basically investigate whether or not it made sense to invest, and chose not to." Still, Ferland agreed Canada would be the likely source of the uranium, "The majority of the uranium mined today is coming from either Canada or Australia." He admitted, "I don't know exactly where it is going to be coming from, I'm just guessing, because obviously no utility is delivering



Construction of the Urenco/LES National Enrichment Facility begins this week.



Author and Energy Expert Julian Steyn weighs in on the LES uranium enrichment facility. Steyn thinks the enriched uranium would remain in the United States.

anything to us at this point, that most of it is coming from Canada or the (ConverDyne, Illinois) Metropolis facility.”

Another eye caught our article. Julian Steyn, head of DC-based Energy Resources International and co-author of U.S. Senator Pete Domenici’s book, *“A Brighter Tomorrow: Fulfilling the Promise of Nuclear Energy,”* fired us an email. He wrote, “The uranium to be enriched in the Lea County LES plant will be provided by that plant’s utility customers, who are all expected to be U.S. utilities. It will be the U.S. utilities that enter into supply arrangements based strictly on commercial considerations.” Steyn pointed out, “Yes, Cameco will undoubtedly be one of those producers, but so too will Hydro Resources (a subsidiary of Uranium Resources, Inc.)” Steyn also didn’t believe there were any unusual deals cut between Cameco and LES.

Other potential producers might also include Strathmore Minerals, Energy Metals Corporation and U-R Energy. They are aggressively moving forward with their In Situ Recovery operations in New Mexico, Wyoming, and/or Texas. Hydro Resources (HRI) President Craig Bartels told us, “With so much uranium left in northwestern New Mexico, we certainly hope it helps supply LES.” HRI’s In Situ Recovery (ISR) uranium projects have undergone intense regulatory scrutiny, over many years. As was found with LES, HRI’s projects have also been found safe for the environment. Bartels heartily endorsed the LES project, saying, “It is not only good for New Mexico, but also for the United States.”

Which Countries Could Source Uranium for the New Mexico Facility?

We asked Ferland if the uranium could come from Kazakhstan, Niger, Namibia or elsewhere. He couldn’t say from

where, “Again, it’s coming from the U.S. utilities. I’m sure the U.S. utilities will comply with whatever laws or regulations that are out there, about where the source material can come from.”

Julian Steyn shed some light on the subject, “The uranium that gets sent to New Mexico’s LES plant for enrichment will probably come from many countries around the world, including the US, Canada, Australia, Niger, Uzbekistan, and Kazakhstan. The last named country is fast becoming a major supplier.”

Based upon what both are saying, uranium to be enriched could come from anywhere. In fact, on January 27th of this year, John Borshoff, managing director of Australian-based Paladin Resources, announced the company had secured a sales contract from an unspecified U.S. utility for the purchase of more than 2 million pounds of U3O8 for delivery between 2007 and 2012. The uranium would come from the company’s Langer Heinrich uranium mine in Namibia, which has been scheduled to be opened this September. Some thirty kilometers away is Rio Tinto’s Rossing uranium mine, in which ironically the country of Iran continues to own a minority interest. Could Namibian uranium be heading for the New Mexico’s future uranium enrichment facility? As Ferland reminded us, “I don’t know at this point.” Ferland added, “As far as LES is concerned, it is being delivered by the utilities to our site.”

When we asked Uranium Producers of America Executive Director Jon Indall about the LES entry into New Mexico, he told us, “They’re welcome in New Mexico, as long as it is U.S. uranium they are enriching.” Indall, a highly respected attorney who is based in Santa Fe, is eager to help rebuild the U.S. uranium industry. We posed his comments to Ferland, who

responded, "There is very little uranium mined in the U.S. But, I sure hope that there will be, whether it is mined in Arizona, Colorado, Wyoming, New Mexico, or wherever. If the U.S. wants to be energy independent, and we want nuclear to be a part of that, then we probably need to have some mines re-opened in this country."

Strathmore Minerals President David Miller was quick to respond, "We are through the prefeasibility phase on some of our uranium properties. By the time LES reaches full capacity in 2013, we could be producing more than two million pounds per year." Miller pointed out the speed of the permitting process will mainly determine how quickly his company surpasses the two-million production level. Other companies, developing properties in New Mexico, Wyoming and Texas, would also contribute between one and two million pounds of uranium in the years leading up to the National Enrichment Facility reaching full capacity.



LES President Jim Ferland acts quickly and decisively; most importantly he gets things done.

Will Uranium Enriched in New Mexico End up in Foreign Hands?

Boldly, we asked Jim Ferland for a guarantee that LES-enriched uranium would not be shipped to rogue nations, which may have their own opinions on proliferation issues. He explained, "We certainly will comply with every rule and regulation that's out there. Certainly, we will not sell any of our material to places it's not supposed to go. That includes Iran, Pakistan, North Korea - the list could be very long."

But, he could not guarantee it. Ferland added, "Will our enriched uranium end up outside the United States? Certainly, there is no restriction on that as long as it goes to the right place. For example, the Japanese buy enriched ura-

nium from the U.S." Steyn, who has consulted for numerous countries, including Taiwan, disagreed, "After the enriched uranium leaves New Mexico, it is expected to be totally consumed in the US."

The problem with the incoming uranium is that it could conceivably come from any uranium-producing country. Its source and final destination is decided by fuel managers, fuel traders and utilities, who resell or consume the enriched uranium. As Ferland reminded us, "We are simply taking what the utilities deliver to us."

At no time do we suggest Ferland is neither patriotic nor involved in anti-American activities. He explained his position, "If the U.S. utilities can find U.S.-sourced uranium, that makes perfect sense to us. An important element that we add to the nuclear fuel cycle is we are a domestic enricher. The piece that is missing right now, not entirely but almost entirely missing, is U.S. sourced, U.S. mined, uranium. I think the country needs it. I think it would be good for the industry. We would love to take U.S. sourced uranium. If there just was some, it would be great. A very small percentage of the uranium that's mined in the world today comes from the U.S. as I understand it."

Ferland may get his wish. On Monday, SXR Uranium One announced the company had been named as the preferred bidder for Wyoming's Sweetwater Uranium Mill, owned by the U.S. subsidiary of Rio Tinto plc. As part of the acquisition SXR may also purchase the subsidiary's Green Mountain properties in south central Wyoming's Great Divide Basin. In 1992, one consulting firm confirmed the Jackpot Deposit on these properties might contain more than 57 million pounds of U3O8. With the number of pounds such uranium juniors as Strathmore Minerals, Energy Metals and UR-Energy hope to bring onstream before 2013, Ferland may need to depend less upon non-U.S. uranium than he currently imagines.

What about the Uranium Tailings?

After the uranium is enriched, about 90 percent becomes waste. "Initially, it will be stored on site in the form of depleted UF6," Ferland explained. "Obviously, the majority of the U-235 will be taken out of the tailings at that point. Certainly, there will be a little bit left." But where will the tailings go? Ferland didn't skip a beat in his answer, "We have two options for disposing of the tails. Where we are headed right this minute, and I would anticipate this is where we will end up, is we will build a private deconversion facility. Or someone else will build one for us, a private entity."

And who would build the deconversion facility? "As far as who builds and operates that plant, it might be us or somebody else," Ferland answered. "We do have a Memorandum of Understanding in place with Areva, which would allow us access to their technology. They have a running deconversion plant in France that we could well choose to copy." According to Ferland, the plant won't be built in New Mexico,

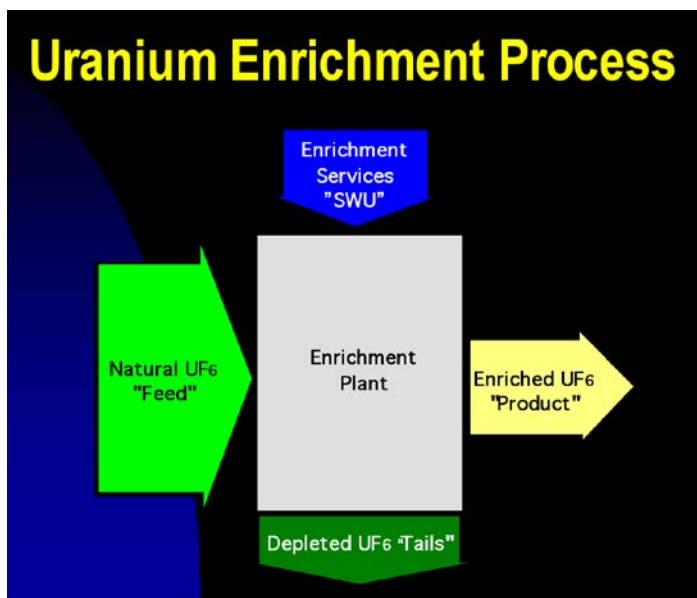


Illustration Courtesy of Gene Clark, TradeTech LLC

“Part of the settlement agreement with Governor Richardson and (New Mexico) Attorney General Madrid was we agreed to not build a deconversion plant in the state.”

Ferland suggested the plant site could be in Texas, but possibly elsewhere. He believes it could take a couple of years to build, and would cost between \$100 and \$200 million to construct. Ferland added, “It would create between 50 and 80 new jobs.” Ferland said LES would begin the licensing process for the deconversion plant over the next couple of years. “You have to go through the entire NRC licensing process in order to build one of those,” he pointed out. “We’re looking at two to three years, roughly. And then we would start construction and start operation at that facility. That’s where we are headed with deconversion.” That meshes with the enrichment facility’s operational plan. “I wouldn’t be surprised to see the deconversion plant online within a year or two after we reach full capacity (with the enrichment facility),” Ferland said.

Failing to provide us with a more accurate forecast as to how long the tailings will remain in storage in New Mexico, at the LES enrichment facility, Ferland suggested a few possible destinations for the waste, “You simply send that to any of a variety of low-level waste disposal sites that are around the country. The closest one is in Utah. There could someday be one in Texas at Waste Control Specialists (WCS) facility. They are in the process of getting licensed.” Will the deconversion plant be located in Texas? “It could well be,” he answered. “The facility is only a few miles from our site. Inherently, it makes some sense. The missing link is obviously that the WCS facility is not licensed today.”

Strolling Down the LES Memory Lane

Who better than to explain the LES puzzle than Jim Ferland? As president of Louisiana Energy Services, Ferland

came onboard nearly three years ago. At the time, the LES project was still in Tennessee, but rapidly losing traction. Ferland admits the situation had gotten so bad in Tennessee that his management team had to look elsewhere.

First, we wanted to clarify exactly who owns LES. Conflicting news reports, found in the news items after LES was awarded the first NRC license for a nuclear facility in nearly thirty years, confused us. Ferland straightened us out on this point, too. “LES is incorporated in Delaware. It’s a limited partnership. I’ll give you a quick rundown on the ownership. It is confusing.” Six months ago, Westinghouse Electric owned 24.5 percent of LES. British Nuclear Fuels, which owns a one-third stake in Urenco, owned Westinghouse. On March 3rd of this year, Urenco bought Westinghouse’s minority interest in LES.

Wait, it gets more confusing. “Back in the original LES, which was back in Louisiana in the early 1990s, the utilities did have an equity share at that time,” Ferland explained. “When the Urenco picked the project back up, to restart it in 2002, the utilities tagged along. The utilities, though, did not have an equity ownership share.” According to Ferland, Urenco bought out the three U.S. utilities – Entergy, Exelon and Duke – in exchange for some cash and more cash payments going forward. “All that is happening now is the utilities earn the rest of their money back as LES meets certain milestones going forward,” said Ferland. “One of those milestones was (achieved) the day LES received the NRC license. As of 2002, these three utilities had no management say and no equity participation. They simply had some rights to some future cash flows, depending upon whether or not LES was successful. Essentially, we’re paying the utilities back for the investment they made in the early 1990s.”

The upshot is simple. Louisiana Energy Services is a wholly owned subsidiary of Urenco Ltd. But then again, get ready for a tad more confusion on the ownership issue.

Urenco’s British partner wants to sell its one-third stake in the company. We asked Ferland if perhaps British Nuclear Fuels (BNFL) was unhappy with the New Mexico enrichment facility. “I don’t think so,” he answered. “This is my personal opinion because I’m certainly not a member of management of BNFL. BNFL is looking to get out of the nuclear business completely. Recognize that BNFL is a government-owned entity. I think the government has decided they don’t need to be in the nuclear business. They’ve done many things. They are in the process of closing the transaction of selling Westinghouse. Their nuclear decommissioning group is up for sale. The last major piece of the BNFL nuclear business is the one-third ownership they have in Urenco. Naturally, given that they’re selling the other two, they have some interest in divesting that ownership piece as well.”

Who will finally own BNFL, and thus become one-third owner of Urenco, and indirectly an owner of the New Mexico enrichment facility? Last week, London’s *Daily Telegraph* reported the French power company, Electricité de France



NM State Senator Gay Kernan



NM State Senator Carroll Leavell

New Mexico State Senators Gay Kernan and Carroll Leavell strongly advocated the Urenco/LES uranium enrichment facility after visiting Urenco's enrichment plant in Almelo, Netherlands.

(EDF), had offered to buy the BNFL stake for about two billion pounds sterling. An EDF spokesman denied an offer had been made. According to Reuters, both the German and Dutch stakeholders would oppose EDF's participation.

This latest wrinkle is just one in another of several disruptive episodes as LES moves forward into operations. We talked with Ferland about charges of environmental racism in Louisiana, where LES first began its long journey to obtain an NRC license. As with every question and concern we voiced, Ferland did not dither or back down, but instead methodically responded, "Urenco and its partners did begin the licensing process for LES around 1990. Come 1997, they still did not have the NRC license. Seven years pursuing a license is a long time. There were a variety of issues. One of them was environmental justice."

Ferland hadn't yet arrived at the time, but he had studied the charges. "Here's my take as to why they took so long," he began. "Environmental justice, at that time, was a relatively new concept. There were not a lot of rules or regulations in place about how you approve whether or not environmental racism was going on. They spent a long time, arguing back and forth about how to make that decision. How do you do those calculations?"

So what happened? "It is my understanding, at the end of all that, LES was found to be in the clear on that particular issue." What took so long and why the unusual accusation? "I think it was," Ferland started, but paused for a moment. "Anti-nuclear opponents will do whatever they can to slow down the licensing process. It was a successful effort by the anti-nuclear folks to put massive delay into the licensing process to the point where the owner finally walked away."

Finally, how did Louisiana Energy Services end up in New Mexico? Abandoning the project in Louisiana, the company moved to Tennessee. Some report the locals chased LES out of the state. Ferland surprised us with his answer, "LES never submitted the license application to the NRC."

But what's the real story, here? "I'll be very blunt about it," Ferland warned us. "Management credibility was lost with the local population in Tennessee. A company like ours doing a project like this, even though it's extremely safe and extremely environmentally friendly, it's a nuclear project." And this is advice to anyone hoping to cash in on the nuclear renaissance, "And if you don't have the credibility and trust of the public, in all honesty, you can not proceed with the project." Ferland cleared the air, "Management had some issues in the way they addressed the public and the press in Tennessee that caused them to lose credibility, and probably rightly so." The situation had gone so bad, Ferland admitted, "We could not turn that around."

Based upon our interviews with state senators and representatives, New Mexico's reaction was magical compared to what LES endured for the past 16 years. "Marshall Cohen and his team did a very good job in New Mexico," Ferland explained. "We have, if it is done correctly, a relatively good project to sell. We can take folks to see the operating enrichment facility in Europe, which we are essentially copying." LES did that just that. We interviewed New Mexico State Senators Leavell and Kernan, who both gave Urenco's Almelo facility their blessing. "It's ultra clean, ultra high tech and has an extremely good environmental record for as long as it's been in existence, which is 25-plus years." Ferland said with steel in his voice, "If you do it right, it's a pretty easy project to sell, and if you do it wrong, you can drive it into the ditch very quickly."

Conclusion

The LES project has gone past the "selling phase." Ground breaking is in late August. Ferland told us construction began this past week. LES will provide Lea County, New Mexico



By winning local support for the project LES performed PR magic, succeeding after their predecessors failed in both Louisiana and Tennessee.

Websites and Trading Symbols of companies mentioned in this report:		
Uranium Resources	www.uraniumresources.com	OTC BB: URRE
SXR Uranium One	www.uranium1.com	TSX: SXR
Strathmore Minerals	www.strathmoreminerals.com	TSX: STM
Energy Metals	www.energymetalscorp.com	TSX: EMC
UR-Energy	www.ur-energy.com	TSX: URE
Paladin Resources	www.paladinresources.com.au	TSX: PDN

and Andrews County, Texas with more that 800 construction jobs to build the National Enrichment Facility (NEF). “We expect the first cascade to go online in late 2008,” said Ferland. Because this is a modular design, more cascades will go online through 2013, when the plant reaches its full capacity.

“We hope to deliver our first product in early 2009,” he added. This will be a relatively small amount. “Ballpark, we’ll roughly come up with 20 percent of our output per year,” Ferland explained. This comes to about 600,000 SWU (Separative Work Units).

It takes about 10 pounds of U3O8, which utilities provide to the enrichment facility, to create one SWU. “It’s a three million SWU facility,” Ferland told us. Three million SWU is about 25 percent of the U.S. requirement, he added.

From all indications, Ferland is running a tight ship. Urenco appears to be solidly behind this tenacious, but level-headed corporate executive. He knows how to run this business, he’s built his team, and they’ve made a breakthrough in New Mexico – the first step in New Mexico’s nuclear renaissance.

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