

Uranium A Hot Topic

“You can’t make an omelet without breaking eggs.” -- Josef Stalin, as quoted by Walter Duranty, 1933

Is there a greater source of discomfort in political economy than the tradeoff between energy production and environmental degradation? I think not. Moreover, even a casual familiarity with thermodynamics is sufficient to prove - and that’s *prove*, not *suggest* - that it will take ever-greater investment in terms of money, energy and various negative externalities to produce the next BTU of useable energy.

No matter how much people recognize you cannot get something for nothing, we persist in trying to do so when it comes to energy production, both here in the U.S. and worldwide. Consider the recent vote on allowing drilling in the Arctic National Wildlife Refuge. Many of those voting to preserve the sanctity of ANWR are also those who complain the most about rising gasoline and home-heating bills. The same applies for drilling off the coast of California, for allocating water to coal-mining projects in Wyoming’s Powder River basin, for building windmills off Martha’s Vineyard, etc. And for what it is worth, Congress loves net energy-losing projects such as converting corn into ethanol.

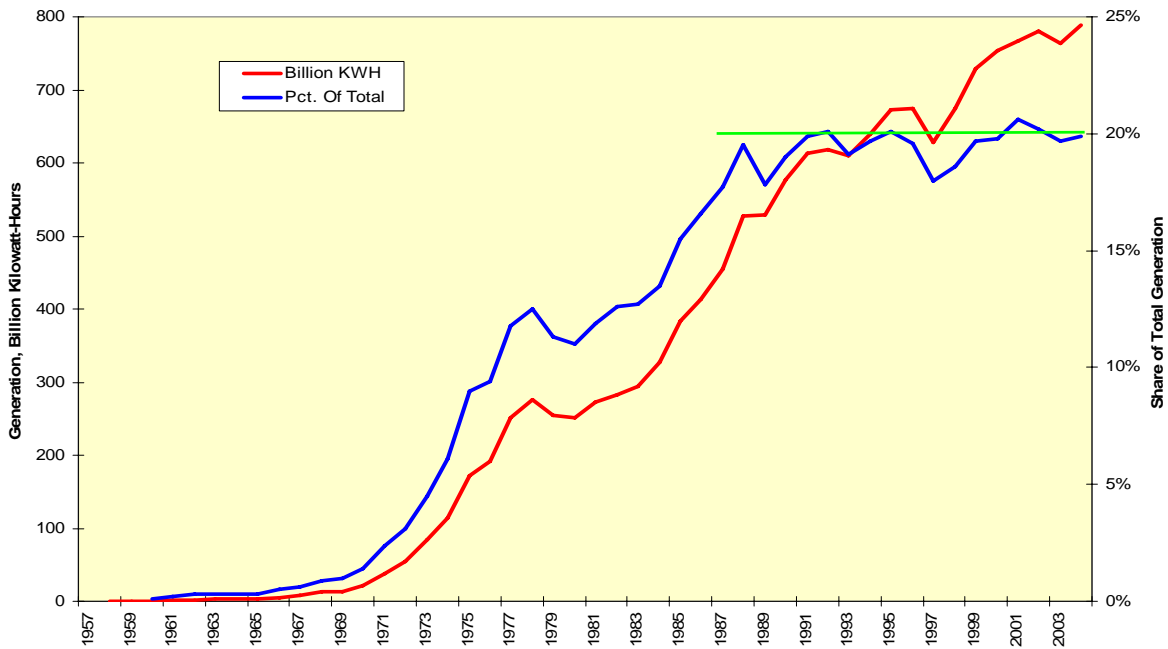
All this is a long-winded introduction to a topic suggested by a *RealMoney* reader: Why don’t you write about uranium and nuclear power? My short answer to myself was, “because this is where even rational people start to resemble radio talk-show hosts.” So before we move along further, please: I am not trying to nuke the planet, destroy the ozone layer, melt the ice-caps, soak the tuna in mercury, annoy the caribou, befoul the beaches, kill the birds, multiply birth defects, enrich the corporate chieftains or anything else you do not like. Save the hate-mail, donate it elsewhere, and take a valuable tax deduction before 2005 ends.

I should add my personal opinion on nuclear power is highly ambivalent. Commonwealth Edison, now part of Exelon, was a national leader in developing commercial nuclear electricity. They used a cartoon light-bulb called “Little Bill” to advertise what they called “electricity too cheap to meter.” Yeah, right. They also assumed that some smart person somewhere would figure out how to handle the waste and decommission the aged power plants; that did not work, either. But the electricity they produced from nuclear would have been produced otherwise by coal, and coal is anything but environmentally benign.

Watts Up?

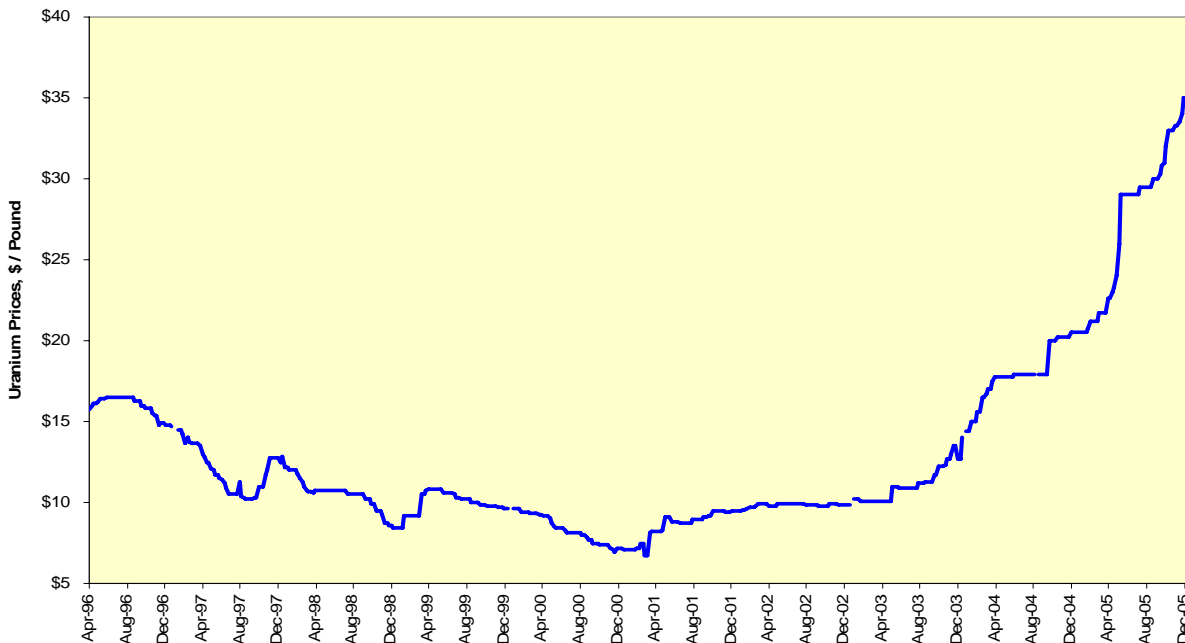
Despite the fact we have not commissioned a new nuclear reactor in the U.S. since the mid-1970s, and no new stations have come on-line since 1996, nuclear power still accounts for nearly 20% of our electricity. This 20% share has represented a resistance level of sorts over the past 15 years; it is no doubt safe to assume given the increasing capacity utilization of existing plants and their increasing output since 1990 that nuclear power could have accounted for 25-30% of total U.S. electricity generation had we not ceased building new plants. And given electricity’s increasing role in the [natural gas market](#), it would no doubt be true natural gas prices would be lower today had we kept adding nuclear capacity.

Nuclear's Share Plateaus



The U.S. remains the largest producer of nuclear-generated electricity. However, nearly all the growth in demand for nuclear power is coming from new plants elsewhere, such as France, Japan, Sweden and, yes, China. Their increasing fuel demands have put uranium prices into a bull market since 2001. This price, as reported by *Metals Week*, is a “restricted” price for un-enriched uranium oxide representing supply balancing transactions to utilities and other accredited buyers who normally buy on long-term contract. To paraphrase Groucho Marx, I would not want to live in a country that would let me buy uranium, no questions asked.

Another Bullish Energy Market



The Ultimate Hot Commodity

Does the familiar hyperbolic curve of the price chart indicate we are in a new order for uranium prices? Maybe not; this is the third major bull market for uranium since the end of World War II. The first occurred during the late 1950s and the second occurred during the mid-1970s. Both ended by virtue of the normal cycle for resources:

Higher prices stimulated new supply. Higher prices really did not shut down demand, nor should we expect them to in this case. The cost of uranium fuel is a relatively minor part of the cost structure for an electric utility, and utilities are quite adept at passing their higher costs on to their customers.

As there is no shortage of uranium reserves, we should expect investment in new production capacity to come on-stream fairly quickly in response to the current jump in prices. Who is in position to benefit from these investment flows? A large number of respectable mining firms are Canadian; many U.S. firms historically linked to uranium have been delisted or are very thinly capitalized. This detritus should tell you something about the business.

Canadian firms of interest include Cameco, the world's largest uranium producer, and Denison Mines. If your tastes run to the exotic and you want a good cocktail party zinger, go for UrAsia Energy, a Canadian firm whose production is solely in Kazakhstan. It is a thinly-capitalized issue, true, with a Canadian dollar capitalization of only \$835 million, but its one-year total return of 485% is, well, hot.