STANDARD FORM NO. 64

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Office Memorandum • UNITED STATES GOVERNMENT

FOIA

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TO : J. C. Clarke, Contract Coordinator DATE: February 2, 1950

FROM : DeK. Hunter, Production Division DeKH

SUBJECT: REQUEST FOR SUPPLEMENTAL AGREEMENT TO HARSHAW CONTRACT W-7405 eng-276 FOR PRODUCTION - JANUARY, FEBRUARY AND MARCH 1950.

REFER TO SYMBOL: PU:DeKH

CLASSIFICATION CANCELLED OR CHANGED TO BY AUTHORITY OF DOE/DPC BY V. U. Derahuz 9/14/79 DATE

a.45

It is requested that a supplemental agreement to the above contract be prepared for the following production and unit prices for the period of January, February and March 1950. The rates for brown (PB-13) and green (HL-7) are firm. The rate of hex (RT-12) production is still under discussion and negotiations were based on several rates of production.

PB-13 - 100,000 lbs. ± 10% per month at 55¢/lb.

HL-7 - 5,500 lbs. ± 5% per day at 30¢/lb.

RT-12 - (a) 6500 lbs. ± 5% per day at 51¢/lb.

(b) 7500 lbs. ± 5% per day at 47¢/lb.

(c) not less than 641,250 lbs. nor more than 765,000 lbs. for the three months period at 47¢/lb. for the first 641,250 lbs., 45¢/lb. for the next 33,750 lbs., and 13.5¢/lb. for the remaining 90,000 lbs.

Following is a discussion of the items covered in the negotiating for the unit prices.

Distributed Overhead

This item is charged to Area "C" as a whole and is then distributed to brown, green and hex in percentages of 50%, 17% and 33% respectively.

The administrative general projected charges were slightly above the average experienced costs. This was due to a new accountant at $250/mo. who is being added to the force on January 1.

The laboratory charges were normal and also contained $150/mo. (total $450) estimated to cover the cost of two specialists coming from Oak Ridge to repair and check the infra-red gas analyzer.

The health charges were discussed at length. Harshaw now has their own bio-chem. laboratory and retain a doctor part time. There has been an upward trend in health costs which were expected. A number of outside

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medical charges will not appear in the future because of the new lab and the doctor. An assistant health physicist is to be hired. The charges to this item will appear here or in housekeeping and safety as a matter of choice. Discussion resulted in an agreed projection of $2,255/mo., a reduction of $320, the estimated amount that will be saved by the elimination of outside lab (urine) tests over the figure as originally presented.

All other items were well in line with experienced costs, no radical changes either up or down could be foreseen, and so they were accepted as presented.

The distributed overhead figure as agreed totalled $36,525/mo. as compared to $36,845/mo. projected and was prorated in amounts of $12,045, $7,655 and $16,825 to brown, green and hex respectively.

Wage Increase and Bonus - General

On December 21, the day prior to the negotiation with the Harshaw representatives, an agreement was reached with the Union for a new wage rate which involves a 2½¢ per hour increase across the board retroactive to October 1, 1949. In addition, the Harshaw Company has given each of its employees a $25.00 net Christmas bonus. This bonus was also a factor which was taken into consideration by the Union in accepting the new contract. Neither of these costs were included in the Harshaw projected cost figures for January, February and March as supplied to us several days prior to the negotiation, since the agreement with the Union had not been reached at that time. Accordingly, these items were treated as extras in the negotiation.

It should be pointed out that no costs had been allowed for these items in the negotiations covering October, November and December quarter since no agreement had been reached with the Union even though the Union contract expired on October 1. In these earlier negotiations, Harshaw had proposed that an allowance in the projection for the quarter be made to cover the expected wage increase during the three-month period. The Commission negotiators refused to allow any additional labor cost to cover this. The attitude was "Show us your Union Agreement before we allow additional labor costs." Since Harshaw expected their negotiations with the Union to take several months, they agreed to postpone wage discussions until an agreement was reached with the Union. As stated

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above, the agreement was finally reached late in December. The agreement provided that the increase should be retroactive until the first of October, and that this retroactive payment be made as a lump sum in January. Thus the retroactive payment is actually a cost for the January, February and March quarter since it is to be paid in January.

Even under the above circumstances, the retroactive payment was not allowed without further trading. Harshaw requested inclusion of $6,000 to cover the cost of the previously mentioned bonus. However, we agreed to allow the retroactive wage increase (which amounts to a total of $2100 and which we believe is justified under the circumstances) only if Harshaw would eliminate the bonus cost. This they finally agreed to do. Had we allowed the bonus, which has been defined as an acceptable type of cost for inclusion in projected unit prices, instead of the retroactive increase, our costs would have been $3900 more.

Brown (PB-13)

The material costs were accepted as projected since they agreed with October and November experience which was lower and more realistic than earlier experience. The material costs as projected were based on agreement that feed would continue to consist of approximately 1/3 from Vitro, 1/3 from Colorado, and 1/3 from Eldorado.

Labor costs took into consideration the addition of one man and also $230/mo. and $115/mo. were added for the wage increase and the retroactive increase respectively.

Direct overhead costs were in good agreement with past experience and no change was foreseen. The repair labor reflected the addition of one man to the group at $350/mo. above actual experience. The only reduction was $125 per month in factory supplies which was due to the use (starting January 6, 1950) of CO_2 in place of N_2 as the inert gas in the process. Otherwise, the items were accepted after discussion.

As a result, the accepted costs for brown production was agreed to be $39,840 per month at a rate of 100,000 lbs. ± 10%.

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Green Salt (HL-7)

Material costs were projected lower than experienced costs since the new HF recovery system would be installed for this period. On this basis, costs were accepted as projected ($14,800/mo.).

The labor costs were slightly higher due to the addition of two men. Also added were the wage increases as explained previously.

Direct overhead was accepted as projected in general. The repair labor was higher than experienced because of the addition of one maintenance man. The repair material costs reflected $400 per month for reactor tube replacement plus $1,000 for general maintenance, which was in agreement with experienced. The factory supplies costs as projected were reduced $225 from $2,800 to $2,575, in order to reflect the savings in the use of CO_2 in place of N_2 for purging. All other projections were satisfactory and accepted.

Thus the costs for the green production at a rate of 5500 lbs. per day totalled $36,270 per month.

Hexafluoride (RT-12)

Material costs reflected experience for similar rates. No different conditions could be foreseen and they were accepted.

Labor costs were as experienced and the increases were added in as discussed in an amount of $525/mo. for wage increases.

At a 7500 lb/day rate, factory supplies reflected costs at rates somewhat higher than the 7500 lbs., and therefore the projections were reduced accordingly from $5,070 to $4,500 per month. Utilities were reduced slightly in order to agree better with the 7500 lbs. per day rate or from $8,340 to $7,930/mo. Other charges were normal and were agreed upon as projected.

With the adjustments agreed upon, a total cost of $76,935/mo. was obtained at a rate of 7500 lbs. of RT-12 per day.

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Simultaneously, the costs at a rate of 6500 lbs. per day were negotiated. Factory supplies were reduced $300 and electricity, gas and water totals by $720 in order to conform more closely with experienced costs at this rate. Other charges were normal, conforming with experience, and were accepted.

With the adjustments as agreed, a total cost of $72,490 per month was obtained at the 6500 lb. rate.

The mark-up in the new prices agreed upon is 27.5%, which was the mark-up included in the previous contract prices. A reduction from 37½% to the present figure of 27½% has been obtained over the past several years, although no further concessions have been obtained recently.

Based on such information and observations as we have gained in administration of the Harshaw contract, it is considered that at least 8% of the 27.5% mark-up covers G&A expense and no more than 19½% is profit to the contractor. The basic cost does not include the cost of raw materials furnished by the Commission to the contractor. If the raw material furnished to the Harshaw brown plant consists of 1/3 Vitro material, 1/3 Colorado, and 1/3 Eldorado, a cost of $10.95 per lb. of U_3O_8 in feed is obtained by calculation. It is normal for an industrial concern to take their mark-up on the complete cost including all raw materials. On this basis, using weighted values of the U_3O_8 for each product the following approximate figures are obtained:

	Brown	Green	Hex
Raw Material (U_3O_8) cost	11.75	9.18	8.90
Processing Costs	.40	.22	.34
Mark-up	.15	.08	.13
Total Sales Price	$ 12.30	$ 9.48	$9.37
Mark-up % of Sales Price	1.22%	.84%	1.39%

The figures just given are only to show the extreme in markup as argued by the contractor. In order to compare the mark-up on unit price service contracts (such as ours where basic raw materials are supplied by the Government) with commercial operations some consideration should be given to this difference. Contractors argue that they do substantially as

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much work when raw materials are supplied as when they procure them. Our position, of course, is that they have no procurement responsibility for the raw materials, that their capital is not tied up in raw material inventory, and that losses of material are not borne by the contractor.

Using the 27.5% mark-up on the costs discussed previously, a selling price of \$.55 and \$.306 per lb. of brown and green respectively is obtained. On the hex (RT-12) a selling price of \$.513 and \$.473 is obtained for hex at rates of 6500 lbs. and 7500 lbs. per day respectively. The final figures as rounded off and agreed upon are \$.55, \$.30, \$.51 and \$.47 for brown, green, 6500 lb. rate hex and 7500 lb. rate hex respectively.

Also it was agreed that some arrangement would be worked out between the parties for prices of hex over and above the 7500 lbs/day rate. Later the following agreement was reached. During the three month period of January, February and March, 1950, a minimum of 641,250 lbs. and a maximum of 765,000 lbs. of hex would be manufactured. Harshaw would be paid \$.47 per lb. for the first 675,000 lbs., \$.45 for the next 33,750 lbs., and \$.135 for the remaining 56,250 lbs.

The 675,000 represents the 7500 lbs. per day rate at the \$.47 per lb. agreed upon. The \$.45 for the next 33,750 lbs. represents the slightly lower overall price if run at a slightly higher rate than 7500 lbs/day. The \$.135 for the remainder represents the chemical and supply costs plus a small profit for incentive.

Attachment:
Cy ltr frm Harshaw dtd 12/19/49 w/ Schedule