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Office Memorandum • UNITED STATES GOVERNMENT

TO : J. C. Clarke, Contract Coordinator

DATE: October 6, 1949

FROM : DeKoven Hunter, Production Division *DeK*

SUBJECT: REQUEST FOR SUPPLEMENTAL AGREEMENT TO HARSHAW CONTRACT NO. W-7405-ENG-276 FOR PRODUCTION OF MATERIAL IN OCTOBER, NOVEMBER AND DECEMBER 1949

REFER TO SYMBOL: FU;DeKH

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A meeting was held in NYOO between representatives of Harshaw and the ABC to negotiate the prices for producing FB-13 (brown oxide), HL-7 (green salt and RT-12 (hexafluoride) for the second quarter of fiscal 1950, (October, November, December 1949). The following attended the meeting:

<u>Harshaw</u>	<u>ABC</u>
W. D. Stillwell	J. P. Morgan
G. R. Fernelius	E. M. Velten
	C. Milberg
	C. H. Sullivan (part time)
	E. C. Sargent
	DeK Hunter

The negotiations were held in order to set the unit prices for the ensuing quarter. Production rates upon which these prices were to be based were as follows:

CANCELLED
 TO
 AUTHORITY OF DOE/DPG
 BY *W. V. Gendron*
 DATE *1/26/74*
 REVIEWED BY

FB-13	100,000 Pounds Per Month
HL-7	5,500 " " Day
RT-12	6,500 " " "

The unit prices as finally agreed upon are as follows:

FB-13 (Brown Oxide)	.55 per pound
HL-7 (Green Salt)	.25 " "
RT-12 (Hexafluoride)	.45 " "

It is requested that a supplemental agreement to the contract be prepared covering the above stated unit prices and approximate production rates for the period of October, November and December 1949.

The first item discussed was the distributed overhead. Since this distributed overhead is apportioned between the three products on a standard proration system, the total for the plant was discussed as a whole. This avoided a separate discussion on the same items for each of the three products.

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PDR

Office Memorandum for the DIRECTOR, UNITED STATES GOVERNMENT

TO : J. C. Cl... .. August 6, 1949

FROM : DeKoven Hunter

SUBJECT: Report on... .. 1405-ENG-276 FOR PRODUCTION OF MATERIAL IN OCTOBER, NOVEMBER AND DECEMBER 1949

REFER TO
SYMBOL: PU:SERV

2. Green Salt was the next product considered.

- a. The direct overhead charges applied to green salt were the next item considered. The greatest portion of repair, labor and materials is due to the reactor furnace repairs. Based on past experience as shown in actual cost records and on the amount of repairs which would be required, the projected cost was satisfactory. The charges to... .. nitrogen costs. The projected cost agreed well with average experience costs and was the best estimate that could be made of continuing operations. However, it may well determine whether they can reasonably substitute N_2 for nitrogen since the cost of N_2 would be much less. Gas, electricity and water is based on metered flows. There is a slight increase over the past quarter to allow for operation of the unit heaters, winter lights and so forth. The rest of the charges under direct overhead were very nearly averages of past experience costs and were considered reasonable.
- b. The projected labor charges on green salt appeared favorably with past experience costs and showed negligible change.
- c. Material charges on green salt were discussed at length. As a result of a number of circumstances, it has been found that the HF recovery unit may be operated in order to obtain consistently satisfactory green salt without the necessity of rerunning a substantial percent of the material. The experienced costs for July and August were such higher than normal due to this increased flow which in turn sent more material to the HF recovery system. Because of the hot weather, the water used in this system was not cool enough to give good recovery, thus lowering the credit received for returned anhydrous HF. With the arrival of cooler weather with the accompanying cooler water, recovery should show improvement and the experienced costs of July and August could not be used as a criterion. Therefore, the projected costs were

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recalculated based on an increased AHF feed of 10% but with a greater portion of the excess HF being recovered. These calculations indicated an average cost of \$11,000 per month and this figure was agreed upon and substituted for the projected cost of \$13,000 per month. Based on above changes in projected costs which were agreed upon between AEC representatives and the contractors an actual cost of \$.1835 per pound of HL-7 produced was obtained.

3. Projected costs for RT-12 (hexafluoride) were then discussed at length.
 - a. The repair, labor and projected was not questioned since it compared favorably with average past experience.
 - b. Repair materials were finally approved after a discussion of the component parts making up these charges. Harshaw feels that it will be necessary to take down and repair at least one fluorine cell per week in order to keep them in efficient operating condition. This will result in each cell being completely overhauled approximately once a year. When a cell is overhauled, a new charge of electrolyte is usually necessary since certain components of the electrolyte precipitate out of solution as the material cools, and heating will not bring them back into solution again. Such an electrolyte charge costs approximately \$460 to renew. A total of approximately \$600 per month is spent for Teflon gaskets and the labor involving each change and repair is considerable as there are 100 gaskets used per cell. Considering the extremely corrosive properties of fluorine gas, these charges are not unreasonable.
 - c. Gas, electricity and water are metered and allowances were made for increases in the winter weather and also include recent rate increases in electrical charges by the utility company.

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TO : J. C. Clarke

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- d. The remainder of the items under direct overhead were merely projections based on average experienced costs in the past and were reasonable.
- e. The projected labor costs were based on the staff in the plant as of the month of August which will be their standard operating crew. The projected costs were therefore satisfactory.
- f. The projected material costs were much higher than past experience and were immediately questioned. As a result of this questioning the Harshaw representatives called their chief auditor in Cleveland and found that one of their past actual cost figures used in their projection was in error. Thus a correct figure of \$.0646 per pound of RT-12 was used for the projection. This figure was in agreement with that calculated by the AEC representatives. Multiplying this unit cost by an estimated production rate of 195,000 pounds per month, a monthly material cost of \$12,600 was obtained. This figure was then used in place of the projected figure of \$14,050.

The adjustments agreed upon were taken into consideration and the unit cost recalculated to \$.3491 per pound.

4. The estimated costs for FB-13 (brown oxide) were based entirely on the average costs as experienced. The only increase of consequence was one of about 10% in steam and heating to take care of the colder weather anticipated. As a result of the slight change in distributed overhead as discussed previously, the actual cost for brown was calculated to be \$.3960 per pound.

Based on the Harshaw mark-up of 27½% the actual costs as stated previously resulted in selling prices of \$.545 per pound, \$.293 per pound and \$.481 per pound for brown, green and hexafluoride respectively. The final prices agreed upon rounded off these

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figures to the following:

1. PB-13 (Brown Oxide) 3.55 per pound
2. HL-7 (Green Salt) .25 per pound
3. RT-12 (hexafluoride) .43 per pound

Attached is a letter from the Harshaw Chemical Company setting forth their projected costs for the period under discussion. This letter is to be considered a part of this record of negotiations.

Attachment:

Ltr from Harshaw Chemical Co.

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