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General Manager

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Division of Raw Materials

NEGOTIATION OF TERMINATION OF URANIUM PRODUCTION CONTRACT WITH TENNESSEE CORPORATION

Tennessee Corporation has a contract for the sale to the Commission of up to 200,000 pounds U_3O_8 per year as a byproduct from phosphate operations at East Tampa, Florida. The contract provides for a fixed price of $14.00 per pound U_3O_8 subject to escalation for changes in labor and chemical costs which have brought the current price to $14.17. The contract expires June 30, 1961 unless the Commission exercises an option to extend the contract for an additional two years at $12.00, or negotiates an extension on some other basis.

The phosphate rock from which the uranium is derived is too low grade (generally about 0.01% U_3O_8) to qualify as ore under Commission circulars. Therefore, the Commission has no commitment to purchase uranium produced from Florida phosphates beyond the present contractural obligations.

We have discussed with Tennessee Corporation the possibility of closing down the uranium production unit in advance of its present expiration date of June 30, 1961. They have indicated a willingness to do so provided the Commission will reimburse them for the unamortized balance of the cost of plant and the amount of profit they could reasonably expect to make by continuing to operate. In order to establish a basis for the estimated anticipated profits the Contractor furnished complete cost information for the three years the plant has been operating. This data was checked by examination of the Contractor's records at East Tampa by a Staff Auditor of the Division of Finance and the Contract Administrator from the Division of Raw Materials. With the exception of the method of allocating overhead costs, the Contractor's figures were verified.

Based on continued performance at the 1959 level and termination as of March 31, 1960, the Contractor's and the AEC's estimates of future performance are as follows:

	Tennessee Corp.	AEC
Est. Production - Pounds U_3O_8	197,115	197,115
Sales	$2,783,000	$2,783,000
Costs a) Direct	1,236,000	1,236,000
b) Overhead	79,000	229,000
c) Depreciation	523,000	523,000
d) Total	1,837,000	1,987,000
Anticipatory profit	946,000	796,000
Gross claim	1,493,000	1,343,000
Less - allowance for early repayment		36,000
Net Claim	1,493,000	1,307,000

To terminate as of March 31, 1960, depending on which of the bases indicated above is used, would reduce the payments under the contract by $1,290,000 to 1,476,000. However, the uranium which will be obtained if the contract is continued has a value. Since the AEC is the only substantial purchaser, this value must be set on the basis of estimated cost of aquisition from other sources. As we can presently obtain uranium readily at $8.00 per pound, and our future 1962-66 purchase program is based on $8.00, we consider this to be a value that can be adequately supported. The Controller in a memorandum of February 10, 1960, attached hereto, suggests that the uranium be valued at our present average cost of about $10.20 per pound.

If we value uranium at $8.00 per pound, a settlement of $1,206,000 or less would be satisfactory to the government. However, if uranium has a value of $10.20 per pound, the settlement offer to the company should not exceed $772,000.

In our preliminary discussions with Tennessee Corporation we indicated we would be willing to terminate on the basis of paying the company for the unamortized balance of the cost of plant. They were not willing to settle on this basis, as they were reasonably sure of a substantial profit by continuing to operate. After a careful analysis of the operation we have no reason to doubt that the Contractor should be able to perform at least as well in the future as in 1959, when their profit after amortization was about $660,000 on 161,000 pounds U_3O_8, and possibly somewhat better. Our maximum obligation under the contract is 200,000 pounds U_3O_8 per year of approximately $3,540,000. Therefore, any settlement offer which is much less than the Contractor is reasonably certain of making through continued operation will probably be rejected.

In view of our present uranium supply position, we can see no merit in continuing this contract if a mutually satisfactory basis for termination can be found. However, we do not consider the offer the Contractor has made to be acceptable, nor are we convinced that the will not settle for somewhat less. In view of the potential of a substantial reduction in expenditure, we believe that a sincere effort to terminate the contract in advance of its expiration date should be made.

Assuming a termination date of March 31, 1960 and projecting 1959 plant performance, the various bases of settlement are as follows:

	Payment	Potential Saving
Tennessee Corp. offer	$1,490,000	$1,293,000
AEC estimate of profit	1,310,000	1,473,000
Excess of price payable over $8.00 per pound	1,210,000	1,573,000
Excess of price payable over $10.20 per pound	770,000	2,013,000

In view of the demonstrated high performance level of the plant over the last two years, and the fact that they have contracts covering the full production capacity for their principal products for at least a full year in advance, we consider their ability to perform to be beyond reasonable doubt.

Recommendation: I recommend that you authorize the Division of Raw Materials to negotiate a termination of Contract No. AT(49-6)-912 with Tennessee Corporation, effective as soon as possible, for a sum not to exceed $1,200,000 as of March 31, 1960 or proportionately less if terminated later.

Comments: The comments of the Controller on Tennessee Corporation's offer are attached.

Attachment:
As stated.