With regards to the replacement of the five New Britain Gridley lathes and the Despatch furnace, at the time our request was made for this replacement, all indications which we had from the Navy were that there would be a requirement of unknown duration for the production of the 2.75'' general purpose rocket at the rate of 100,000 per month. It was our opinion that it would be in the best interest of the Government to replace the above equipment as we could not guarantee such high production quantities with the existing equipment.

You asked for our position as to the Navy continuing to maintain the facility contract with us. We would like to point out that the equipment under this contract is special purpose equipment with a limited number of applications. Over the several years we have worked with the cold forming process, we have been able to develop commercial applications making use of much of the facility. We feel that the Navy should continue on this basis since we have proven that we could produce military items on short notice without having to go through the reactivation expense and the start-up time required to place heavy production equipment back into operation. At the same time there has been no cost to the Navy since 1958 for the maintenance of this facility on a stand-by basis. For your information, these costs would have exceeded $200,000 per year based on prior amendments to the contract. During this same period of time, we paid over $500,000 in the form of rental for the commercial application of these facilities.

We recognize the right of the Navy to review at any time their commitment under this contract, but we respectfully submit that any changes to the present agreement would have to be agreeable to both parties.

If you feel that there is any further information we can supply that will be helpful to you to completely evaluate our position concerning both the Air Force and Navy contracts, please do not hesitate to contact the writer.

Very truly yours,

JOSEPH F. MCMAHON, *Controller.*

HEINTZ DIVISION, KELSEY-HAYES CO.,
December 9, 1966.

Subject: Justification of Retention of Equipment.

Mr. LEON RUDERMAN,
General Accounting Office,
Philadephia, Pa.

DEAR MR. RUDERMAN: The Heintz Division of the Kelsey-Hayes Company is a complex and diversified jobbing shop. Over the years, the Aircraft & Defense Products Department has had many jobs, both of long and short duration, requiring all types of equipment and many varied processes. Since the Heintz Division is not a prime contractor and is bidding on a very competitive basis as a means of giving the Government the best possible cost, the Heintz Division can not, at any time, forecast or commit any particular unit or group of equipment to any specified utilization. In general, the Heintz Division maintains a facility that is flexible and equipment usage that past experience tells is a good, useful, and competitive resource to the prime contractors who, in turn, can supply the Government with quality products at competitive prices.

By nature of this type of operation, there are some problems in scheduling since many jobs require specialized set-ups and specialized tooling. Due to the many and varied reasons forthcoming from the customer, these jobs are in a continual state of flux; i.e., engineering changes, testing, supply problems, etc. As this indicates, the Heintz Division is at the beck and call of its customers and this leaves very little room for definite determination of machine utilization over a prolonged period of time. A good job is done by scheduling equipment in such manner as to limit the cost to any particular job. Long set-ups and specialized set-ups are changed as infrequently as possible; i.e., low utilization but in the interest of efficiency and cost this is the proper method of operating. Short set-ups and simple set-ups are grouped together and these are made as often as possible. This results in a higher utilization of that particular equipment.

Another area of equipment usage is that of repair and correction of machine tools, fixtures, dies, etc. This equipment is used as "support" to the actual production equipment and, as such, utilization is not recorded.