

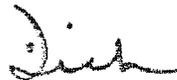
CENTRAL INTELLIGENCE AGENCY

OFFICE OF THE DIRECTOR

10 August 1972

MEMORANDUM FOR: Dr. Henry A. Kissinger

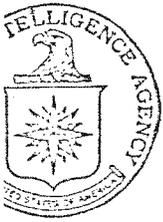
Per our discussion yesterday, I thought it important to respond to your memorandum promptly. Since Secretary Rush is out of town, I have not coordinated this with the other members of the NRO EXCOM. The Director of NRO, Dr. John McLucas, however, has reviewed it at my request and agrees with the presentation of the costs and the judgments about program confidence.



Richard Helms
Director

cc: Secretary Rush
Dr. David
Mr. Weinberger
Dr. McLucas

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10 AUG 1972

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MEMORANDUM FOR: Dr. Henry A. Kissinger
Assistant to the President for National
Security Affairs

In reference to your July 27 memorandum, subject: KENNEN Program Guidance, I believe there may be a misunderstanding about the Kennen cost and schedule estimates, and I would like to suggest an approach to you which would be consistent with the situation that I believe exists. Although your memorandum assumes that there have been sufficiently large changes in program estimates to suggest the need for adjustment of program priorities, the facts are that after six months into the development program, the total cost has changed very little from that presented to the NRO EXCOM by the Program Office in November 1971. I have attached a letter that was recently sent to Caspar Weinberger describing the program's fiscal history and fund requirements in detail.

While a cost comparison between our current estimate and the November EXCOM fiscal guidance would show an [redacted] I believe a more realistic reference from which to measure cost or schedule changes is the one prepared by the Program Office after the completion of the System Definition Studies in October 1971 based on a January 1976 first launch. Against this reference the cost increase has only been [redacted] Part of this was caused by inflationary effects of the EXCOM's decision in November 1971 to delay first launch from January to the fall of 1976; the remainder is due to administrative decisions concerning contractor and budget structure and to labor rate increases negotiated by the contractors after the October estimates were made. None of the increase is attributable to reassessment of the substance of the work that has to be done.

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Therefore, I do not believe that a change in program emphasis is warranted at this time and would like to see us continue on our current October '76 schedule. We should retain a flexible position on this and be willing to adjust the schedule if significant cost growth is imminent or if technical problems arise. There are no such indications at the present time.

We are therefore recommending to EXCOM that NRO proceed along these lines for two reasons:

First, Kennen represents a sufficiently important improvement to our collection capability, particularly in the potential SALT environment in the late 70's, that I would very much like to have it become operational in 1976 as long as that schedule is consistent with a sensible, well structured development program. This is in fact the situation at the present time. We have now completed all our negotiations with our contractors on the assumption of an October '76 first launch and have signed contracts which are favorable to the Government from a cost standpoint. Thus there is every reason to believe that an October '76 schedule is a comfortable one.

Second, and perhaps even more important, we have all been concerned for a long time about the Government's inability to make reasonable estimates about the cost of new system development. In both the CIA and Defense elements of the NRO we have placed great pressure on our program managers and our contractors to make realistic projections. If we ever hope to be successful in instilling this discipline, we must take care to recognize a good job when it comes along. I think it is important that the President and you understand that in the Kennen program at this time we have such an example. You will recall that before going ahead with the Kennen program we spent considerable money on technology and component development to reduce the technical risk and we were careful in our system studies and our cost analysis to be sure we were realistic and objective. As a result, the Kennen program appears to be technically sound, on an achievable schedule with an acceptable cost base.

In view of this, I recommend holding to the October '76 operational date. I think this will be more economic in the long run than stretching out the development to relieve near term budgetary pressures. As indicated earlier in this memorandum, we recognize that we should reconsider this schedule whenever significant cost increases are imminent, unexpected technical problems arise, or a restructuring of NRP priorities is indicated for any other reason.



Richard Helms
Director

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The Honorable Caspar Weinberger
Director
Office of Management and Budget
Washington, D.C. 20503

Dear Cap:

Pursuant to our conversation at lunch on Wednesday, here is the situation with regard to the KENNEN schedule, funding requirements and technology.

Our contractors are currently working on a schedule which would lead to the start of operations in October 1976. If we are to assure the President of 1976 operations, I do not think we should plan first flight any later than that. To maintain this schedule we need to program the following funds:

	<u>FY</u>	<u>72</u>	<u>73</u>	<u>74</u>	<u>75</u>	<u>76</u>	<u>77</u>
Imaging Satellite/ Ground Facility							
Play Satellite							

This does not represent a significant change or cost growth over the program constructed at the completion of our system definition competition last October. Although our total six-year cost estimate for the Imaging Satellite/Ground Facility has changed from the [redacted] we projected in October to [redacted] now, this increase is not due to technical problems or to revised thinking about the substantive tasks that need to be accomplished, but can be attributed to administrative decisions about how contracts would be managed and where certain funds would appear in the budget, to labor union negotiations that were beyond our control, and to the out-year inflationary effects of an Executive Committee decision in November to stretch the schedule.

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The funding plan approved by the Executive Committee last vember and currently programmed in the NRP for the Imaging tellite/Ground Facility is:

<u>FY</u>	<u>72</u>	<u>73</u>	<u>74</u>	<u>75</u>	<u>76</u>	<u>77</u>
Imaging Satellite/ Ground Facility						

his plan would not give us first flight until about March 1977 and would eventually cost more money than the October '76 schedule after we bought equivalent operations and satellite assets.

And so our most important immediate fiscal problem is that we need to add [redacted] in FY 74 to our currently programmed funds to stay on the 1976 schedule. In essence, the additional funds are those needed to return to a general fiscal profile along the lines originally recommended by the Program Office.

There is a long story about why in November the Executive Committee approved a program that was less than needed to maintain 1976 operations and we can go into the details of that with your staff if you wish. Suffice it to say here that in the interest of keeping the overall intelligence budget as low as possible we arbitrarily reduced the levels recommended by our KENNEN Program Office (which was at that time planning for early 1976 operations) and we hoped that even with the reduced levels we could maintain a 1976 schedule. This did not turn out to be the case when the schedule was worked out in detail by the Program Office with our contractors.

From a technical standpoint, we know of no problems that cannot be dealt with in the development program that has been laid out. The satellite sensor, optics, communications and attitude control specifications are being met and the ground equipment engineering is proceeding as planned. Test data, including aircraft missions with the sensors, verifies that the overall system will perform effectively.

In sum, we remain confident that the difficult technology problems have been worked out as a result of our efforts over the past three years and that we are dealing with a high confidence schedule and cost projection.

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As a final thought, let me comment on your question last Tuesday about the effect of the current arms limitation agreement on our ability to use KENNEN in a SALT environment. During the SALT negotiations we gave special attention to those provisions of the agreement which had to do with maintaining the viability of our planned as well as our current collection capabilities. I believe the agreement signed on May 26 will protect KENNEN to the same degree that they assure non-interference with our current reconnaissance satellites.

/s/ Richard Helms

Richard Helms
Director

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MEMORANDUM FOR DR. KISSINGER

In reference to your July 27 memorandum, we believe there may be a misunderstanding about the Kennen cost and schedule estimates, and we would like to suggest an approach to you which would be consistent with the situation that we believe exists.

The forecast costs thru FY 1977 for a Kennen first launch objective of October 1976 have increased about [redacted]. However, since the previous magnitude estimates, which were not developed with the contractors, contracts have been negotiated, and part of the increase is related to an improvement in the contractor management structure. Only about 4% is attributable to price increase, which should not be considered abnormal after six months into the development program. These costs are in relation to a June to Dec 76 first launch basis in November 1971, so the October 76 date is a refinement, rather than a change, and with similar schedule lengths and performance goals.

Based on present information, schedule and performance goals appear realistic and similar to estimates last Fall. The cost estimates are considerably better, and indicate a growth of less than 9% thru FY 1978. Therefore, we would like to continue the option for an October 76 schedule, as well as other choices which might be budget-driven or influenced later by significant cost growth or schedule problems.

We seek your agreement to proceed along those lines for two reasons:

First, Kennen represents a sufficiently important improvement to our collection capability, particularly in the potential SALT environment in the late 70's, that we would like to have it become operational in 1976 as long as that schedule is consistent with a sensible, well-structured development program, and within reasonable costs.

Second, before going ahead with the Kennen program we spent over [redacted] on technology and component development to reduce the technical risk. As a result, the Kennen program appears to be schedule-achievable, technically sound, and with an acceptable cost base.

At our July 72 meeting, we agreed to establish FY 1973 funding on the basis of protecting the October 76 first launch objective, but deferring FY 1974-1978 funding consideration to our November 72 meeting. We would like to continue on this basis. If later significant cost increases are indicated, unexpected technical problems arise, or the budget situation requires a Kennen adjustment, the schedule would be reconsidered. We request the concurrence of the President in this approach.

Edward David

Richard Helms

Kenneth Rush

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