



November 8, 1996

John Wagoner, Manager
U.S. Department of Energy, Richland Operations
P.O. Box 550 (A7-50)
Richland, WA 99352

Subject: Project Hanford Management Contract (PHMC)

Dear Mr. Wagoner:

The Hanford Advisory Board (HAB) continues to review the Project Hanford Management Contract (PHMC) awarded to a team led by Fluor Daniel Hanford, with the Dollars and Sense Committee conducting detailed review to propose advice. The HAB has found that the cost saving and schedule acceleration claims for the contract, when it was announced, were based on schedules already accelerated in approved work plans. As a result, there remain a number of concerns that need to be addressed in the Management and Integration Plan and performance expectations to be negotiated in 1997 and subsequent years following consultation with the Board and regulators including:

There is a need for independent validation of cost estimates. DOE and Fluor Daniel need to involve Ecology, EPA, and the Board early in the process.

Claimed cost savings and rewards for schedule acceleration need to be based on the most recently updated and independently validated baseline.

Activity Based Cost (ABC) estimating is being used for direct costs and has been initiated for indirect costs. ABC estimating should continue to be used by DOE for "indirect" baselines. Given our concern with potential increased overhead under this contract, we believe early emphasis must be given to both ABC estimating and independent validation for overhead costs.

The new PHMC provides no overall incentive to achieve cost savings and budget reductions since it is based on award fees for meeting specific objectives. The contract is cost reimbursable and creates an incentive for shifting costs to receive award fees which will not provide for overall cost efficiencies. Since new baselines are being established with the PHMC, they should be used to negotiate incentives for overall cost savings in the second half of FY97 and all of FY98.

The appearance is that DOE and PHMC are achieving cost savings at the expense of employees. These savings should be justified with life-cycle cost analysis and assessment of program impacts.

The use of multiple contractor layering should not reduce accountability or increase the cost of DOE-initiated changes.

The economic transition goals specified in the PHMC contract should be implemented to create fundamental and long-term economic diversification. The methods used to measure achievement of the

goals must be reasonable, including that the goal of 3000 new jobs should not include transfer of Hanford employees. DOE should present these measurement methods to the HAB for resolution in the PHMC Management and Integration Plan.

The Board looks forward to your written response, as called for in our charter.

Very truly yours,

Merilyn Reeves, Chair
Hanford Advisory Board

cc: Alice Murphy, Designated Federal Official
Linda Lingle, Site Representative
The Oregon and Washington Congressional Delegations
Chuck Clarke, EPA Region X
Mary Riveland, Washington Department of Ecology

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For questions or comments, please send [email](mailto:Hanford_Advisory_Board@rl.gov) to Hanford_Advisory_Board@rl.gov
HAB Consensus Advice #55
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