



November 7, 1997

Al Alm, Assistant Secretary
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Subject: Project Hanford Management Contract (PHMC) Performance Measures

Dear Messrs. Alm and Wagoner:

The Hanford Advisory Board, and particularly the Dollars & Sense Committee, have spent significant time in recent months obtaining and analyzing elements of the current PHMC contract. DOE has been helpful in facilitating this activity, sorting through some of the legitimate constraints and interpreting the provided information. While there was not always full agreement on the availability of some details, we are satisfied that DOE/RL has made a good faith effort to support our role and we are appreciative.

We look upon these recommendations as candidate performance measures for FY 1998. The basis of each recommendation is either from what the Board feels to be lessons learned in a dynamic FY 1997 transition, or was gleaned from current PHMC requirements which need additional recognition or emphasis.

OVERALL COST AND CONTRACT PERFORMANCE MEASURES:

1. A specific way to provide for institutionalization of cost savings would be to implement Section H-45 of the contract, the cost savings clause. This was not applicable in FY97 because of the lack of an independently validated baseline. Now that the baseline is in place, the cost savings clause should be implemented. Experience shows that cost-saving programs are very successful in motivating contractors.
2. The contract should then include an overall cost savings performance measure, with independent validation of baselines and savings. Some ways to implement this recommendation are, for example:
 - a. Develop rules for defining cost savings
 - b. Develop procedures for determining cost savings
 - c. Ensure auditability
 - d. Ensure ability to report externally
 - e. Share cost savings with workers; and furthermore ensure that all cost savings stay (and are usable) at the site.

3. Performance measures should be directly linked to Tri-Party Agreement schedules as reflected in the Multi-Year Work Plan and compliance requirements.
 - a. Tie to critical path for year
 - b. Create performance incentives to accelerate work
4. Workscope reductions or deferrals should not be considered efficiencies for purposes of fee award calculations.
5. Do not award fee for claimed savings achieved by simultaneous layoff/rehire of the same persons doing the same work at lowered salaries and/or benefits.
6. Award fees for cost savings should be based on innovative business practices.
7. Carry out the Integrated Safety Management Plan to the lowest-tiered contractor; adding a performance measure to implement safety corrective actions, including those identified from the PFP accident.
8. Add a performance measure to enhance consideration of employee concerns and improve employee communications, openness, and workforce participation in planning.

ENTERPRISE COMPANY PERFORMANCE MEASURES:

9. There should be an incentive fee to encourage enterprise companies to reduce costs and decrease cost layering. Work scope of enterprise companies (e.g., 23% of Hanfords work scope) should not be outside the total fee pool cap.
10. Any new or revised contracts with the enterprise companies should reflect additional cost and performance controls, and maximize use of incentivized fixed-price terms and conditions. Areas of concern include growth of the enterprise companies and resulting new jobs, gaining new business, and plans for non-Hanford marketing.

ECONOMIC TRANSITION PERFORMANCE MEASURES:

11. Add a performance measure for FY 1998 that considers FY 1997 experience with local capital investment goals (Columbia Basin Ventures); tie investment goals to meeting specific economic development criteria (e.g., job creation). DOE must require compliance with Clause H.2(24) of the PHMC to establish a \$10 million investment fund. It is recommended that the fund be established and maintained in the Tri-Cities and investments be determined by local fund management.
12. Provide a performance measure for non-Hanford job creation that requires the PHMC contractor to do more than assist; it needs a positive commitment to achieve real job growth.

We look forward to your response and to periodic progress updates on this matter.

Very truly yours,

Merilyn B. Reeves, Chair
Hanford Advisory Board

cc: Alice Murphy, Designated Federal Official
Chuck Clarke, Regional Administrator, U.S. EPA
Tom Fitzsimmons, Director Washington Department of Ecology
The Oregon and Washington Congressional Delegations
Randy Smith, Environmental Protection Agency
Dan Silver, Washington Department of Ecology

This advice represents HAB consensus for this specific topic. It should not be taken out of context to extrapolate Board agreement on other subject matters.

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HAB Consensus Advice #77

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