



Department of Energy
Richland Operations Office
P.O. Box 550
Richland, Washington 99352

01-IPI-032

DEC 5 2000

Ms. Marilyn B. Reeves, Chair
Hanford Advisory Board
723 The Parkway, Suite 200: B1-41
Richland, Washington 99352

Dear Ms. Reeves:

PROJECT HANFORD MANAGEMENT CONTRACT (PHMC)

Thank you for your advice regarding the possible extension or competition of the Project Hanford Management Contract (PHMC) and related transition issues.

At the February 2000 Dollars & Sense Committee meeting, and at subsequent committee meetings, we candidly discussed the options that could be considered regarding the possible extension or competition of the current PHMC. These discussions were open, forthright, and insightful. Your advice reflects the months of hard work and fruitful discussions regarding the Richland Operations Office (RL) contracting strategy.

We agree that cleanup progress, schedule impacts, cost savings, contractor performance, and impacts to our workforce are of concern. We share these concerns, and will consider them in the overall decision-making process. Once a final decision is rendered by the U.S. Department of Energy Headquarters (DOE-HQ) office, we will share information and criteria with you.

In making the decision to enter into meaningful discussions with Fluor Hanford Inc. on an extension, we considered the following variables all of which were cited in your advice to us:

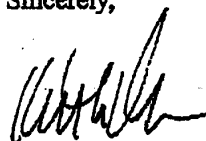
- Progress on cleanup over the first three years
- Cleanup progress over the past year
- Cost effectiveness—life cycle
- Reorganization effectiveness
- Progress against economic development commitments

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We weighed each of the above against such factors as impact on cleanup momentum, impact on employee morale and benefits, and transitional costs. The net result was a decision to negotiate an extension, including enhanced performance requirements, coupled with a more focused cleanup effort (reduced scope). If these negotiations are not completed to the satisfaction of the government, we will then exercise our option to compete.

As to your recommended principles, we are today as we were before, in general agreement. We will have very specific work scope and performance criteria built from established baselines. The government will conduct an independent evaluation of the contractor's baselines. We will develop multi-year incentives for performance from the baselines. In our comprehensive performance agreement, incentives for Integrated Safety Management System (ISMS) and environmental compliance; sound project management; proactive technology management; and a bias for fixed price contracting will be included. DOE will control both strategic and tactical planning and will prioritize the budget and set performance measures. The contract will contain a good neighbor clause that will encourage the contractor to work with the community on economic development matters. This will utilize fee dollars ensued by the contractor. Employment levels will adjust to baseline progress and skill requirements. Finally, our new strategy for the river and central plateau clearly respects TPA milestones and these will be part of any project baselines.

Sincerely,



Keith A. Klein
Manager

IPI:GMM

cc: W. W. Ballard, DOE
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