

1 something unusual that we haven't seen before.

2 VICE CHAIRMAN EGGENBERGER: Well, and
3 those may be the easy problems because you're making
4 the transfers, you're doing the mixing, you're
5 attempting to adjust the chemistry, and those are
6 difficult problems, and I think it's going to be more
7 difficult than what everybody believes it's going to
8 be. Adjusting the chemistry is not going to be easy.
9 We talked about this with Roy a couple of days ago.

10

11 CHAIRMAN CONWAY: Mr. Henschel.

12 MR. HENSCHEL: Good afternoon, Mr.
13 Chairman, members of the Board.

14 CHAIRMAN CONWAY: Yes, it's 12:15 now.

15 MR. HENSCHEL: May I have the first slide
16 please?

17 CHAIRMAN CONWAY: Again, if I may Jim, if
18 you would be -- I'll put your whole statement in the
19 record, and if you could sort of hit the highlights,
20 if you will.

21 MR. HENSCHEL: I'll be brief. First of
22 all, I wanted to point out that we're a little bit
23 different than some of the other projects in the
24 complex, and that we are building something that's a
25 design-build construction project. Safety is the

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1 overriding concern to us. That's a core value of our
2 company and of the project, and then quality is right
3 under that. In my view, those two attributes go hand
4 in hand. You can't have a high-quality job unless
5 you also have a safe job, and vice versa, so they do
6 go together. Next slide please. We're out of order.

7 Okay.

8 This is kind of a pyramid we put
9 together, and this is an older version. I think we
10 gave you the other one we can put in the record, but
11 I've added some things. We've got a hierarchy of our
12 assessment process, and what's missing in this one is
13 below the QA audit, we also have industrial and
14 academic reviews, and we have corporate oversight for
15 safety and quality as well, so we've got the internal
16 from the QA down. Then we've also got our external
17 regulators, including the Defense Board, and the
18 State Department of Ecology and the State Department
19 of Health. I really think that this project is the
20 most regulated project in the country right now, as
21 it should be. Next please. Yeah, this is really
22 going to be tough with a different view.

23 In 2003, we performed 105 management
24 assessments, including engineering, construction,
25 procurement, QA, training, operations, industrial

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1 safety, environmental and nuclear safety, research
2 and technology. I'm on slide seven on the handout.
3 I jumped ahead to fit this one. We did ten project
4 QA audits, we have three in progress. We did 730
5 project QA surveillances of project activities and
6 corrective action follow-ups. We've done 87 supplier
7 QA program qualification audits and surveys and 706
8 supplier quality verification visits so far. Next
9 please.

10 This slide shows the kinds of assessments
11 we've done on engineering, the functional self-
12 assessments. We also have an external assessment
13 program where we call in the industry and academic
14 experts. We've done 60 of those assessments on
15 engineering and nuclear sciences, or nuclear safety,
16 composing 10,000 hours. This is just the year 2003.

17 In construction we've done 10 assessments of 800
18 job-hours.

19 Procurement: we've done 6000 job-hours worth of
20 assessments, and that's an area that we're spending
21 an increasing effort and more focus as we get more
22 into that phase of the job. Then in the research and
23 technology, we've done three peer reviews, 380 hours.
24 Those are only the external hours. Those don't
25 include all of the internal hours we spent on those

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1 things. I want to mention also, this job is the most
2 important in our company. It is the biggest in our
3 company. We've got 1100 engineers assigned to this
4 project. That's just -- when I say 1100, that's not
5 counting the clerical people and the procurement
6 people. That's 1100 people in the engineers.

7 Two weeks ago we had our external board
8 of counselors out to the project for two days. We
9 had the CEO, the CEO Emeritus, that's Steve Bechtel,
10 the COO, the Deputy COO; we had them all out to the
11 job to provide us with some oversight at the highest
12 levels of the company, and also for our management to
13 assure, to know from me, whether I needed anymore
14 resources so that we had everything we needed. Next
15 slide, please.

16 DR. MATTHEWS: Mr. Chairman, we can't get
17 the correct viewgraphs on here and maybe it would be
18 easier if you just worked through the books since we
19 do have the correct version.

20 MR. HENSCHTEL: That would be easier, I
21 tell you.

22 CHAIRMAN CONWAY: Why don't we just turn
23 that thing off then.

24 MR. HENSCHTEL: Turn that thing off.
25 Okay.

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1 CHAIRMAN CONWAY: Why don't you stay with
2 your book?

3 MR. HENSCHEL: Kill that off and we'll
4 go with the book. That will be easier for me. Let's
5 go to slide five, I think. I covered the pyramid in
6 slide four.

7 CHAIRMAN CONWAY: I'm already up at
8 seven.

9 MR. HENSCHEL: I'll go through them quick
10 because I did jump around, but I just wanted to
11 mention slide five. That shows the basis of our
12 program, and how it flows from the contract through
13 the DOE regulations to our Authorization Basis and
14 then into the project policies and procedures that we
15 implement on the job.

16 On slide six, you know, our quality and
17 safety expectations are to identify the deficiencies
18 and the opportunities for improvement, and to develop
19 the corrective actions to fix those deficiencies, and
20 to fix the process to prevent the reoccurrence, and
21 then to maintain a continuous improvement approach.
22 That's very important to us, that we continue to
23 improve, and overall our objective is to deliver a
24 project that meets the objectives of safety, quality,
25 compliance, technical, cost, and schedule. And I'll

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1 say it again, I think these things all fit together.
2 They're not competing. The way to get to the lowest
3 cost and optimum schedule is to do the job safely,
4 and to do it right.

5 Okay. Slide seven: I talked to the
6 number of self-assessments we performed in 2003.

7 Slide 8: I talked to, but I also want to
8 mention that, you know, a lot of the corporate assets
9 available to us from the Bechtel group are assigned
10 to this project full-time. We've made a lot of
11 changes over the last year. Our manager of
12 engineering on the project used to be the Bechtel
13 National Manager of Engineering. The same manager of
14 procurement on that project was the Bechtel National
15 Manager of Procurement, so we've taken our best
16 people and our top people, and we've assigned them
17 full-time to this job, and as I said, we did that
18 because this is our biggest project, and it is the
19 most important project in the company.

20 Slide page nine: findings. Findings are
21 things we -- results of our assessments, where
22 there's something significant to safety. It's a
23 breakdown in our system. We also have observations
24 that are lesser items, but the findings are the big
25 items that we focus on correcting these. My

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1 objective is to get this little, this pie chart where
2 it says DOE and regulators, they find seven percent
3 of them. Of the findings that occurred in 2003, to
4 date, in this the calendar year January to November,
5 of the over 200 of them, seven percent were found by
6 our customer or by you or by others outside my
7 organization. My objective is to get that number
8 down to zero. We want to find them all -- first of
9 all we want to prevent them, but the ones that aren't
10 prevented, we want to have a system in place that
11 finds all of those.

12 CHAIRMAN CONWAY: I'll make a between
13 with you. You're not going to get down to zero.

14 MR. HENSCHER: Just like we may not ever
15 get to zero accidents, but we'll still go for it.

16 CHAIRMAN CONWAY: That's your goal.

17 MR. HENSCHER: That's our goal. We're
18 still -- we'll never give up until we get as low as
19 we can, and zero is the goal. But also, we want to
20 also reduce the number of these findings by improving
21 our processes.

22 Page ten: we've been working with you,
23 and we've been working with the DOE, and I believe
24 we've made significant progress in 2003 to both
25 increase the quality and the depth of our self-

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1 assessments, and the increased utilization of
2 technical experts on the job. We believe that our
3 program as it is today meets the proposed Policy
4 226.1, and that's something that we needed to do
5 ourselves, regardless of whether that policy is
6 implemented or not, that's something that we needed
7 to do internally to assure that we deliver a quality
8 product in a safe manner.

9 Slide 11: I mentioned the 1100 engineers
10 and all of the different skills that we have there.

11 Number 12: the oversight from the
12 quality, the QA organization that reports to me. We
13 have registered professional engineers that have both
14 master's and bachelor's degree, former NRC licensed,
15 senior reactor operators, we currently have 46
16 Quality Assurance engineers on the project, 40
17 quality control inspectors, and 31 shop inspectors,
18 and those numbers will be increasing as the amount of
19 procurement activity and construction activity
20 continues to increase for the next several years on
21 this job.

22 For safety, we also have registered
23 professional and degreed engineers, certified safety
24 professionals, industrial hygienists, health
25 physicists, fire protection engineers, and that staff

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1 currently numbers 26 safety assurance engineers, and
2 again, that will increase as the construction
3 activity picks up.

4 Slide 13 is just a brief description of
5 our corrective action program, a very important part
6 of our quality program, so that when we do identify a
7 finding or a failure or an error, that we have a
8 very rigorous program to correct that, and we also
9 incorporated our Six-Sigma system in there, a
10 scientific approach to redesigning or improving our
11 work processes to prevent those in the future.

12 Slide 14 is just a little flow chart of
13 how that process works.

14 Slide 15 are some of the attributes.
15 Anyone working on the project may initiate a
16 condition adverse to quality report. We track these
17 things in a computerized Web-based system that we
18 call RITS [Recommendation and Issue Tracking Action
19 System] so that we can follow them and make sure they
20 get closed out in a timely manner. All CARs
21 [Condition Adverse to Quality Report] are reviewed
22 for significance and potential PAAA [Price-Anderson
23 Act Amendments] applicability. On all the CARs, we
24 do perform a root cause analysis. We perform a
25 causal analysis on CARs that are not significant or

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1 PAAA related.

2 I'm the only one that can grant an
3 extension to a response or implementation of the
4 corrective action. I review these every week with my
5 direct reports, and the people responsible for either
6 developing the corrective action or implementing it,
7 and requests for extensions can only be approved by
8 myself. So everybody knows when I look at them --

9 DR. MANSFIELD: Who does the reviewing of
10 the CARs? At what level?

11 MR. HENSCHER: It comes to me.

12 DR. MANSFIELD: So do you -- all CARs are
13 reviewed for significance. Do you get 100 e-mails a
14 day?

15 MR. HENSCHER: I get plenty. I get a
16 lot. Not 100. I mean, there's -- not related to
17 CARs, but there is a lot. But I don't -- e-mails
18 don't come to me with that. I review them all every
19 week in a formal meeting.

20 DR. MANSFIELD: Okay, but somebody's got
21 to process a whole bunch of e-mails to make sure that
22 you get the right information on CARs, right?

23 MR. HENSCHER: I get all the reports of
24 all the deficiencies that are discovered every day,
25 okay? And then some of those deficiencies do not

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1 lead to a corrective action. The ones that do lead
2 to a corrective action, we review those every week
3 then we also conduct a PAAA meeting to determine if
4 it's reportable to NTS [Noncompliance Tracking
5 System] or not, and that also, I'm the chairman of
6 that, and I make the final decision on that. This is
7 really where I spend most of my time. My job is to
8 get the process working right, and to eliminate the
9 defects, okay, and these CARs, in my view, are the
10 statistics of the defects. It's what's wrong with
11 the process that needs to be fixed. My job is done
12 when the process is working perfectly and there's no
13 more defects.

14 Page 16: I just wanted to point out the
15 future challenges that we have, and it really has to
16 do now is in the procurement area, the materials that
17 we procure. As you're well aware, there's thousands
18 and thousands of widgets that go into this plan, and
19 there are a few domestic suppliers that do have NQA-1
20 programs. The domestic supplier capacity for the
21 materials that we need is insufficient for the
22 project needs, so we often have to go to foreign
23 suppliers. The foreign suppliers usually limit their
24 quality programs to ISO-9000 [International
25 Organization for Standards]. There's also a smaller

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1 number of suppliers that were able to get qualified
2 for NQA-1, so that has implication on the competitive
3 bidding process, and we have to reach down to sub-
4 suppliers. We have to have a very thorough and
5 rigorous system that just goes beyond just the prime
6 supplier.

7 CHAIRMAN CONWAY: This is a major project
8 that you pointed out, the most important one you've
9 got. I think it's the most important one right now
10 that DOE has. Is there any effort being made either
11 through you or through DOE to try to qualify --

12 MR. HENSCHER: Yes, we have a very large
13 program in that place. We have a traveling roadshow
14 --

15 CHAIRMAN CONWAY: That's out trying to
16 qualify new suppliers --

17 MR. HENSCHER: Yes, sir.

18 CHAIRMAN CONWAY: -- that will meet these
19 --

20 MR. HENSCHER: Yes, sir. We help them
21 develop their program, and then we monitor their
22 performance and help them all the way through the
23 process.

24 DR. MANSFIELD: What are some of the
25 components for which defense suppliers no longer

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1 exist?

2 MR. HENSCHEL: We're the only big
3 nuclear project going in the country, so valves, for
4 example. Okay, valves. I think our valves are
5 coming from Korea because the Koreans have a --
6 they're still building nuclear power plants over
7 there.

8 CHAIRMAN CONWAY: Are you getting any
9 from the French?

10 MR. HENSCHEL: I think the French are
11 involved in some of the --

12 CHAIRMAN CONWAY: Okay. Well, you
13 indicated DOE is also participating in this program
14 to try to get qualified.

15 MR. HENSCHEL: Yes. We work with
16 Bechtel on that. I'm not pointing this out to be
17 whining, I'm just pointing out that we've got, we're
18 focusing extra effort in this area in order to make
19 it work.

20 The next page, 17: 90 percent of the
21 suppliers we evaluate for Q equipment require our
22 assistance. It takes an average of four QA manuals
23 submittals before we get it right for each of those
24 suppliers. A review takes about eight hours each.
25 It takes us two to three visits up front before we

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1 even select a supplier to put them on the bidder's
2 list before they're qualified, before we allow them
3 to bid, of about 80 hours each, and then we average
4 approximately three problem resolution visits after
5 award where something didn't go right that needs
6 fine-tuning, and that does not include the shop
7 inspections as the equipment is being manufactured to
8 verify that the equipment meets the requirements.

9 In summary, we have a very robust self-
10 assessment process in place. The self-identification
11 of findings is encouraged and fostered in our
12 organization. We incorporate and expect continuous
13 improvement, and we're working with the DOE and
14 regulators to improve not only our work processes,
15 but to improve the final product and to insure that
16 WTP operates as advertised. That concludes my
17 prepared remarks.

18 CHAIRMAN CONWAY: Dr. Eggenberger.

19 VICE CHAIRMAN EGGENBERGER: Very briefly,
20 we've been briefed by you and Mr. Schepens on your
21 oversight, and what you're doing, and we, the Board
22 has been encouraging you not only to do detailed
23 oversight, but to look at the big picture to see how
24 systems operate, the reliability of systems, and so
25 on. You said that you had your corporate governing

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1 board in just recently, and I'd like to ask you what
2 you told them as far as your self-assessment of this
3 project, and where you, what you thought were the big
4 ticket items that have risen to the top of your
5 problem list because that's directly related to
6 safety?

7 MR. HENSCHER: I gave them three items
8 in three different areas. One was technical, one was
9 commercial, and one was political, because I had a
10 group of people that worked, all engineers, so I
11 thought by covering the technical --

12 VICE CHAIRMAN EGGENBERGER: Technical we
13 can discuss.

14 MR. HENSCHER: Technical, commercial,
15 and political. The technical issue is the pulse jet
16 mixers, and the hydrogen evolution related to that.
17 I discussed that process with them, what we're
18 currently doing, and our research and technology and
19 how it impacts the current schedule of the job, and
20 what potential work-arounds we might have to go
21 through if the resolution doesn't come as soon as we
22 hope it does.

23 From the commercial aspect, are you not
24 interested in that or are you? The commercial aspect
25 just had to do with, as I understand, the bill that's

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1 going through Congress that they might take some of
2 the money that was held back that was unspent from
3 past years, take some of that, and that would have a
4 schedule impact on us as well. Because we didn't
5 spend our entire \$690 million cap over the last two
6 years, we have \$400 million unspent to carry over
7 into 2004 and 2005, and we're getting into the real
8 meaty part of the project now where there's a lot of
9 work going on where we'll spend more than \$690
10 [million] in 2004 and 2005, and if some of that \$400
11 million is taken away and not given back, it will
12 have an impact on our future work.

13 The third, the cultural or political
14 issue, is -- this is a long-term project, ten-year
15 contract, it's probably the last major construction
16 at Hanford, and so we're going have to deal with, on
17 this job, life after Hanford, and the local
18 community, and the impact on the performance of the
19 workforce as we get to that point, and that's
20 something else we need to worry about as well.

21 VICE CHAIRMAN EGGENBERGER: Thank you.

22 CHAIRMAN CONWAY: Dr. Mansfield?

23 DR. MANSFIELD: I've already asked my
24 questions.

25 CHAIRMAN CONWAY: Dr. Matthews.

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1 DR. MATTHEWS: Yes. Maybe you can help
2 me with confusion, and it's not with what you said,
3 it's an overall impression I'm getting, and I just
4 want to solicit some comments if you're willing to do
5 it. Listening to the previous testimonies at the
6 earlier meetings and looking at the policy, there
7 doesn't seem to be an objective to streamline
8 oversight, to eliminate redundancy and to sort of
9 down-select requirements so we don't have -- so it's
10 easier to do the job. Now I've just heard a very
11 complex and detailed, comprehensive oversight coming
12 out of the Office of River Protection, I heard some
13 very comprehensive detailed oversight from Kaiser-
14 Hill and Bechtel. Now I'm looking at your triangle,
15 Jim, and this is really what took me to the question
16 is, you know, I know the Defense Board isn't going to
17 cut you any slack, I doubt if EPA [Environmental
18 Protection Agency] or Washington State will, so the
19 only place I can see for streamlining in this whole
20 thing is from Headquarters, DOE Headquarters, and I
21 don't know if that's true or not, but if the original
22 goals are as I understand them, are going to happen,
23 it sounds like more oversight, and more redundancy,
24 and I'm not saying that's good or bad, I'm just
25 curious what your reaction to that observation is,

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1 any of you.

2 MR. HENSCHTEL: I can't make a comparison
3 to before me since I came on the job, but I can tell
4 you what I've seen since May, and that is, I mean,
5 we're an EPC [Engineering Procurement and
6 Construction] project. Our schedule has not been
7 accelerated. We're going to come online 2011. In
8 fact, the last re-baselining that was just performed
9 in the springtime, before I got on the job, actually
10 provided a little bit more time between the
11 engineering and the construction period, so I
12 wouldn't say in our case there's been an acceleration
13 of our work. As far as what I've heard discussed and
14 what I've observed, there was a lot -- it was -- I
15 think there was a leadership problem in the past,
16 where there was direction coming from multiple people
17 on the DOE side, at all levels, coming to all levels
18 in our organization, some of it conflicting, not all
19 headed in the same direction, and I understand from
20 other people I've talked to in the complex that
21 that's been pretty typical of the kind of M&O
22 [management and operating] contract that used to
23 occur, and what the real change is, is there's been
24 more of a focus now that the formal communication, if
25 there's going to be a change in direction, or

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1 something contrary to what's in the contract that
2 will require a contract change, it's going to flow
3 from Roy to me. Not one of Roy's people to one of my
4 people without he and I knowing about it. It's got
5 to flow up to him, over to me, back down to my guys,
6 and back up to me and over. It may seem a little bit
7 more cumbersome because there's more steps than just
8 a direct exchange, but it does ensure consistency,
9 and it also ensures that we're both doing what the
10 contract says rather than the personal preferences of
11 4000 people out there. That's what I think the big
12 change is.

13 MR. SCHEPENS: I agree.

14 DR. MATTHEWS: Okay. Thank you.

15 CHAIRMAN CONWAY: Just one comment.
16 Going back to the 1950s, 1960s, I know the quality of
17 workmanship that Bechtel has brought to jobs, but
18 bringing in excess of 1000 new engineers on a job is
19 a major, major undertaking, particularly training.
20 How do you get them trained on the way Bechtel does
21 its work and the details that you do, and I think --
22 I would assume -- you've got a major problem there.

23 MR. HENSCHER: We did. I don't know
24 that we still do. I think we've made a tremendous
25 improvement there. I mean, that was one of the major

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1 tasks that we had to perform, and I think perhaps we
2 were a little bit optimistic at how fast that was
3 going to occur, and consequently we had some growing
4 pains. I mean, not only do we have engineers from
5 different divisions within Bechtel, those with a
6 power background that are mining the metals, or
7 petroleum and chemical or building bridges or
8 whatever, and I don't know whether you realize it or
9 not. We don't all do things the same way in the
10 company. The power people, especially the nuclear
11 power people, do things different. In the petroleum
12 and chemical, their work processes are driven by the
13 oil company, so there's a difference there.

14 Not only did we have that, we also had
15 the integration of people from different companies.
16 One of our major partners on the job is Washington
17 Group, and we've also picked up people from the local
18 area, so we had to integrate all that into a cohesive
19 workforce that does things the same way, and that
20 took us -- we do have some very rigorous training
21 programs. Part of the thing that helps us today is
22 the technology, the fact that in the engineering, a
23 lot of the design that's done is using the computer
24 tools and the CAD [computer-assisted design] systems,
25 and a lot of the calculations are done using our

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1 standardized programs. The engineers have to use
2 those tools, and you're restricted to the level of
3 freedom you have on how to do something when the
4 computer will only accept certain input, so that's
5 helped some, but we did have to do, and still do,
6 perform a lot of training.

7 CHAIRMAN CONWAY: Okay. Thank you.
8 Thank you, gentlemen.

9 MR. HENSCHER: You're welcome.

10 CHAIRMAN CONWAY: And how we'll get to
11 the last two of the witnesses this morning. Mr.
12 Lockhart?

13 MR. LOCKHART: Yes. Thank you. My name
14 is Fraser Lockhart. I'm the Manager of the Rocky
15 Flats Field Office. I've been Manager now for six
16 weeks, and I met with all of you on my first day on
17 the job, and thank you for the opportunity to come
18 back six weeks later and present some of my views on
19 how I'm going to conduct oversight. I don't have a
20 prepared testimony. I've organized my slides and
21 presentation along your lines of inquiry, and I hope
22 by going through that to give you also the
23 perspective on my philosophy and approach to
24 oversight.

25 Looking at the top level, starting from

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