



December 5, 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 is encouraged by the steps taken by the U.S. Department of Energy (DOE) to achieve contract reform at the Hanford site through the new Project Hanford Management Contract (PHMC). There has not been sufficient time to assess the effectiveness of the new PHMC contract to meet stakeholder and public expectations. Your letter dated December 3, 1996, indicates an integrated sitewide technical cost and schedule baseline will be delivered July 31, 1997. The Board is concerned that not having an integrated baseline for FY 97 until July 1997 will severely impact the ability of the contractor to identify and the DOE and stakeholders to understand and assess the achievement of performance and cost improvements. Until DOE establishes a stable baseline, the Board will continue to be concerned about the issues and values previously outlined in our letter of November 8, 1996.

We therefore offer this additional consensus advice with the following three objectives in mind:

- To ensure that the Board and the public fully understand the impacts and implications of existing PHMC terms, provisions and incentives;
- To re-emphasize the importance of an integrated program baseline and meaningful cost and management efficiency initiatives; and,
- To communicate the Board's concerns and recommendations to ensure a contract structure that provides effective incentives for performance and overall cost efficiency.

The award of the PHMC was based in part on a commitment by Fluor Daniel Hanford to save \$1 billion over 5 years. Early announcements influenced by media/press office interpretations of this commitment have confused the reality of this initiative. The Board does not believe there is an adequate budget and workscope baseline upon which to propose or measure any incentive award for achieving this magnitude of a cost savings. Further clouding this aspect of the PHMC are responses to the Dollars and Sense Committee that the cost savings proposed by the contractor are based on workscope reductions and accelerated scheduling already included in the multi-year plans published by the former Management and Operation Contractor. Claimed cost savings and rewards for schedule acceleration need to be based on the most recently updated and independently validated baseline.

The Board recommends DOE establish and publish a stable baseline upon which the contractor's proposed cost savings will be judged and measured, and upon which the incentive fees are based. As the

Board recommended in its advice letter #55, there is a need for independent validation of cost estimates. DOE and Fluor Daniel Hanford need to involve the other TPA agencies and the Board early in the process. The baseline must be controlled through formal change controls. The Board believes this may require a revision to the current PHMC. At a minimum, this action will necessitate a formal re-affirmation of this provision in the current PHMC. As a consideration when evaluating this aspect of the PHMC, the Board strongly urges DOE to accept only those performance and cost-savings measures that do not compromise the milestones established in the TPA or the health and safety of workers and the public.

The new PHMC provides no incentive to achieve overall cost savings and budget reductions since it is based on incentive fees for meeting specific objectives. Because the contract is cost reimbursable, it creates an award for shifting costs to receive award fees which will not provide for overall cost efficiencies. The effect of “layering” subcontractors below the Management and Integration contractor may result in substantial increases in overhead and indirect costs. Reductions in overheads should be a specific incentive for the PHMC and accomplished through setting function efficiency goals and independent cost validation, rather than attempting to reduce overheads solely on the backs of employee benefits, and workscope reductions.

DOE should work with regulators as soon as possible to review the PHMC performance objectives, measures, expectations, budgets, and incentives in order to determine the extent that TPA and other regulatory requirements are funded and emphasized.

The Board encourages DOE to move away from the concepts of cost reimbursement contracting. DOE is urged to conduct an annual PHMC business strategy review to assess the success of existing contract type, terms, provisions, and incentives in motivating the contractor(s) in meeting TPA and other regulatory requirements, and cost and management efficiency objectives, and expectations. An opportunity for regulator, stakeholder, and public comment is strongly urged prior to development of such business strategies, and any subsequent contract renegotiation and/or unilateral contract changes issued by DOE.

The Board is concerned about current transition related costs under the PHMC to date and desires assurances that subsidiary contract awards in the future should not include payment of corporate officer and other corporate headquarters’ administrative, overhead, fringe benefit, and other costs during a transition period following DOE’s award of the contract to the successful bidder. Continuous contract transition and those related costs distract from clean-up progress.

The Board is not persuaded that DOE policy adequately addresses the whistleblower rights of workers transitioned to “enterprise companies,” the health monitoring of privatized employees, and the possible use of environmental management funds for private contractor activities. The Board recommends that DOE review its policies and assurance measures to ensure that the following are adequately addressed:

- Fair and flexible criteria are used for the assignment and redeployment of employees from the site to private companies;
- The rights of employees in “privatized” subsidiaries or spin-off companies under DOE’s legal obligations for contractor employee whistleblowers are protected;
- Continuity of worker protective measures, including health monitoring and appropriate safety training and indoctrination as employees are assigned and re-assigned to various contractors, are provided; and,

- Oversight mechanisms and contractual provisions ensure that the creation of private business enterprises, marketing efforts, or use of equipment and personnel are not subsidized with Hanford clean-up funds.

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

Very truly yours,

Merilyn B. Reeves, Chair  
Hanford Advisory Board

cc: Alice Murphy, Designated Federal Official  
The Oregon and Washington Congressional Delegations  
Chuck Clarke, EPA Region X  
Randy Smith, EPA  
Mary Riveland, Washington Department of Ecology  
Dan Silver, 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*  
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