



Department of Energy

Richland Operations Office
P.O. Box 550
Richland, Washington 99352

FEB 1 1995

Ms. Marilyn B. Reeves, Acting Chair
Hanford Advisory Board
22250 Boulder Crest Lane S.E.
Amity, Oregon 97101

Dear Ms. Reeves:

FY 1995 FUNDING REALLOCATIONS

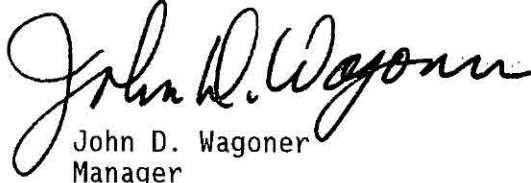
This is in response to the Hanford Advisory Board's December 12, 1994, letter addressed to me concerning the above subject. Thank you very much for your comments.

Beginning this year, the U.S. Department of Energy (DOE) is embarking on a new policy of broader stakeholder involvement in the development of its budget. This new policy will serve us well as we struggle with the substantial cuts that DOE is facing in its Fiscal Year (FY) 1996 and outyear budgets. We look forward to the Board's input as we deal with these fiscal realities.

The program specific responses to the comments included in your above mentioned letter are attached.

Should you have any questions concerning the contents of this letter, please feel free to contact either myself or Jim Peterson, Five-Year Plan Manager on (509) 376-6731.

Sincerely,


John D. Wagoner
Manager

BUD:JMP

Attachment

RICHLAND OPERATIONS OFFICE (RL)
FY 1995 ALLOCATION RESPONSE TO
THE HANFORD ADVISORY BOARD

PRIORITIZATION PROPOSALS:

It is our intention to use the Prioritization Planning Grid (PPG) as we continue the development of our FY 1996 budget as well as in the preparation of our FY 1997 budget submittal. Input from the Board will be welcomed.

WASTE MANAGEMENT (NON-TWRS):

We appreciate your support for the WRAP 2A privatization initiative and we will pursue it under our revised strategy.

TWRS:

Representatives from the TWRS program office will be briefing the Board's Dollars and Sense Committee during their February meeting.

Due to programmatic issues and uncertainties concerning the Multi Function Waste Facility final decisions on this project have not been made at this time. We are certainly reconsidering the need for the new tanks given the success of the evaporator and the planned construction of a new onsite waste transfer line.

Funding decisions are made based upon many factors, including best waste form and pollution prevention. We look forward to continuing to work with the Board on this program.

SPENT NUCLEAR FUEL:

1. RECOMMENDATION: Keep visibility on the program high by proclaiming achievements and by identifying problems and vulnerabilities; be fully accountable for expenditures. Be prepared to illustrate how the U.S. Department of Energy; Richland Operations Office (RL) has successfully fulfilled the productivity challenge.

RESPONSE: RL concurs with this recommendation. All accomplishments and problems will be made visible to interested stakeholders via a combination of media releases, one-on-one briefings, written correspondence or periodic scheduled meetings.

The Spent Nuclear Fuel Project, via its management within RL, DOE-HQ and WHC, will be held fully accountable for controlling expenditures and for achieving the productivity objectives assigned. The budget expenditures and productivity achievements will be demonstrable.

2. RECOMMENDATION: Strive to develop accomplishments to support a sound and confident position at mid-year, in order to enhance RL's opportunities to receive the \$13.9 million augmented funding.

RESPONSE: RL will continue its efforts to secure additional funding needed to fully execute the program in Fiscal Year (FY) 1995. In response to concerns that reallocation of \$13.9M in expense funds would impact TPA milestones, RL determined that all but \$.5M of the additional expense workscope and funding could be deferred into 1996 with acceptable risk. However, the path forward does require construction funds in 1995 which are not currently available to the project. RL and WHC are currently working with DOE-HQ on a proposal to reprogram these funds from other projects to the Spent Fuel program.

3. RECOMMENDATION: Try not to impose any major changes to RL's Path Forward strategy. Credibility is at stake. Fine tune the scope, and show how USDOE/RL is thinking smarter and saving costs.

RESPONSE: Major changes to the Path Forward are not anticipated. Beneficial changes that reduce costs or accelerate achievement of project goals will, however, be aggressively pursued when and if they arise. The scope will become increasingly fine-tuned as the design and alternatives are developed.

4. RECOMMENDATION: The deteriorated condition of essential support systems could result in serious operational consequences and threats to public and worker health and safety. Carefully evaluate vulnerabilities, and restore funds to upgrade critical systems.

RESPONSE: Efforts to secure full funding for the Essential Systems Restoration Project are being undertaken. No funding source has been identified to date. RL and WHC will continue to pursue other options.

5. RECOMMENDATION: Fully fund the Path Forward for removal of spent nuclear fuel, based on the Board's advice at its November meeting. FY 1995 reallocation, and FY 1996 and FY 1997 budget requests should not jeopardize achieving this goal.

RESPONSE: The full funding of the Path Forward is a common objective of RL, WHC and all stakeholders. Budget realities in FY 1995, FY 1996, and FY 1997 appear to raise significant challenges to achieving that objective. As more information becomes available it will be shared with the HAB and other stakeholders.

FACILITIES TRANSITION:

We agree with all issues/concerns addressed on Facility Transition. Our first priority is continued safety and compliance with legal requirements. Our second priority is emphasis on actions with the nearest-term pay-back in order to decrease long-term mortgage by transition into the Surveillance and

Maintenance mode. Our recent vacating of the UO₃ Plant is an example of success in the transition process. Emphasis on the early drain of sodium from FFTF is expected to result in significant cost savings.

We welcome your detailed input on this and similar efforts.

TECHNOLOGY DEVELOPMENT:

As stated by DOE representatives to the members of the Dollars and Sense Committee on October 5, 1994, we are willing to provide more in-depth presentations to members of the HAB concerning various technologies sponsored by the DOE National Program. These presentations may consist of seminars or mini-field trips with HAB, DOE and specific technologists or technology teams in attendance. Through this format, the HAB members would be able to ask questions directly of the technologist, therefore, enhancing communication and board member understanding pertaining to the benefits of the technology as well as potential future cost savings. In addition, presentations provided in the proposed format would allow DOE to show technologies at various stages of development to demonstrate the "life-cycle" of a technology. This "life-cycle" would consist of conceptualization, bench scale testing, field demonstration, commercialization, and field adaptation and implementation. In October, members of the Dollars and Sense Committee appeared to be receptive to our proposal. Therefore, we propose to initiate presentations provided the HAB supports this activity.

OVERHEAD AND INDIRECT FUNDED BUDGETS:

As we reported to you at your January meeting, we are in the midst of a very aggressive overhead/indirect reduction program.

We agree with the Board's request concerning Recommendation 6, which states "the Board requests presentation of evaluations and any resulting plans to reduce dollars wasted or inappropriately charged to overhead and indirect".

Indirects are reviewed on a yearly basis. Any findings of waste or inappropriate charging are brought to the attention of the Chief Financial Officer. In the future, should the Board desire, a similar reporting process to the Board could be initiated.

We have the following concerns regarding other recommendations in the December 12, 1994, letter:

- a) "USDOE should break out the overhead and indirect funded activities' budgets in all Hanford Cleanup budget presentations to the public, news media and oversight bodies."

USDOE is willing to break out the overhead and indirect funded activities' budgets for all Hanford Cleanup activities. However, while programs could continue to identify their portions of indirect costs in HAB presentations, it would only represent a fragment of the entire indirect funding. Using this approach, programs may not be able to

provide the detailed answers to indirect questions that the Board may require.

USDOE feels the understanding of the indirect activities would be best facilitated if they were consistently presented as a separate "program". The RL Budget Division seeks continued dialogue to enhance understanding of indirects and is prepared to answer any questions regarding any indirect funding. This approach would allow a central point of contact for meeting the Board's indirect data needs and facilitate a clear and consistent approach to indirect funding presentations.

- b) "Because of the immense quantity of dollars involved, because of the hidden nature of the current overhead and indirect funded budgets and activities, and because of the limits on U.S. DOE review or oversight of the Overhead and Indirect funded budgets..."

RL indirect budgets are submitted to governmental and public entities as requested and required; and therefore, are not hidden. Indirects are part of the normal authorization and appropriation process. Indirects are reviewed at DOE-HQ through various crosscuts and reporting documents required from the field offices. At the field, indirects have a similar process as direct funded activities. A cognizant program monitor is assigned to manage the activities. This manager is required to validate and manage a Site Support Program Plan (SSPP). The SSPP is the indirect document comparable to the programmatic Multi-Year Program Plan which delineates the scope, cost, and schedule of the indirect activities. Both RL and their M&O contractors complete budget validations and various reviews. Additionally, representatives from each of the programs participate in overhead/indirect review boards. Their input is utilized in budget formulation, midyear reviews, and rate application.

- c) Recommendation 3 implies that funding programmatic activities in the indirects is currently acceptable to us. This practice is not acceptable to RL. Programmatic activities should not be funded through company level overheads, whether reviewed by the public or not. Federal Cost Accounting Standards provide guidance on the charging of direct and indirect costs and are utilized by DOE contractors. These standards allow for a more precise and accurate picture of the true cost of a program and do not allow direct programmatic activities to be charged as indirect costs.
- d) Recommendation 5 states "...there should be a comparison made by U.S. DOE, regulators and Congressional committees between Hanford's 22% and other facilities, agencies or contractors' standards for:...."

Rate comparisons between sites typically are not pursued by DOE as each site may account for costs in a differing manner. A hypothetical example is the cost of financial staff could be accounted for in either the direct program they support or in the Controller's indirect budget depending on the site's charging policies. Both would be correct; however, the rates would be incomparable. Because sites account for

costs differently which impacts the rate calculation, the rate comparison is futile.

Presently, there is a yearly submission to DOE-HQ which is a compilation of all indirect costs on each DOE site. While this report is not used for comparison purposes, for the reasons stated above, it allows DOE-HQ the opportunity to view each site's indirect costs for several consecutive years. Additionally, since the report is submitted yearly, each site can be monitored on how the budget compares to actual performance. This report, the Allocable Cost Report, is specifically designed for the review and scrutiny of indirect budgets and actuals at all DOE sites. The information is consolidated by DOE-HQ Chief Financial Officer staff. Allocable costs include overhead, organizational burden, distributed cost and service centers. The end product of this report and associated reviews is a contractor allocable cost budget which is reasonable, supportable, and acceptable to DOE. This report requires the field office to identify any issues or major uncertainties that may materially impact the budget estimates and bring these issues to the attention of the DOE Headquarter CFO.