



Department of Energy
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Ms. Marilyn B. Reeves, Chair
Hanford Advisory Board
% Colette Casey, Administrative Support, TRI
723 The Parkway, #200, MSIN B141
Richland, Washington 99352

Dear Ms. Reeves:

PROGRAM IMPACTS UNDER U.S. DEPARTMENT OF ENERGY, RICHLAND OPERATIONS OFFICE'S
(RL) FY 1997 BUDGET

This is in response to the Hanford Advisory Board's (HAB) February 7, 1997, letter, "Unacceptable Program Impacts Under FY'97 Budget." Our responses to your recommendations, in the order that they appear in the referenced letter, are enclosed. As always, we appreciate the HAB's input and remain available to discuss these matters further. Should you have any questions, please contact me or you may contact Jim Peterson, Budget Division, on (509) 376-6731.

Sincerely,

Alice Q. Murphy, Assistant Manager
for Business Management and CFO

BUD:JMP

Enclosure

RL'S RESPONSE TO HAB ADVICE #65

I. CAUSES OF UNFUNDED WORKSCOPE IN FY 1997

Your letter stated "...The vast majority of the shortfall, however, appears to be caused by such reasons as indirect and overhead costs exceeding budgets in the following ways:

- Unbudgeted PHMC transition and WHC close-out costs at least \$9.5M above budget, with unknown additional transition costs to come.
- Added management-level positions.
- Unbudgeted PHMC fees in the amount of \$11M.
- Higher than budgeted overhead costs for PHMC site-wide indirects currently \$6.5M over budget.
- Increases in direct program charged overhead rates under the PHMC, which may continue to diminish funds for direct cleanup workscope in future years as well as 1997.

The Board has understood that PHMC's performance-based contract was intended to save money at Hanford, rather than add costs....

The Board therefore recommends that:

- DOE's first priority should be meeting milestones, not covering overhead overruns and contract transition or awards. DOE should not reduce workscope to fund unbudgeted and overrun transition and overhead costs.
- PHMC should be required to live within established transition and overhead budgets. The PHMC is supposed to be a performance-based contract."

RL's RESPONSE

RL's priorities remain unchanged. They are: address urgent risks, reduce costly mortgages, treatment and disposal of wastes, and environmental restoration. We do use compliance as a specific factor/criteria in the Unit of Analysis/Integrated Priority List to develop priorities. However, where there is a legal requirement for the payment of certain costs, we have no alternative but to pay those costs.

The HAB should note that when reviewing individual projects, an indirect increase to one project does not necessarily indicate an indirect increase to the site. The Fluor Daniel Hanford, Inc. (FDH) indirect structure is not the same as Westinghouse Hanford Company (WHC) and creates gains and losses for various programs based upon the new structure of FDH. Individual projects tend to highlight indirect increases to their programs, not the decreases. Overall, the calculated indirect increase from WHC to the PHMC is \$26M. These are allowable costs under a cost-reimbursement type contract and must be reimbursed by DOE.

Indirect budgets, as well as direct budgets, are based on estimated costs. If actual costs exceed the estimated/budgeted amount, these costs are still

reimbursable. Likewise, if actual costs are less than the estimated/budgeted amount, the contractor is not allowed to keep the difference. The primary goal is to have performance based on outcomes and total costs - more cleanup for the same or fewer dollars.

To address your specific concerns:

Transition and Closeout: RL expects the PHMC to maintain transition budgets at approximately \$18M. This amount excludes WHC close-out costs of approximately \$8M. RL is performing a transition invoice review to determine allocability of costs, consistency with the proposal, and use of appropriate indirect rates. Should exceptions exist, RL may not provide payment of these costs. RL wishes to reinforce our earlier commitment to provide HAB with actual allowable transition cost data.

WHC contract closeout is expected to maintain their cost at the budgeted level. WHC is currently underrunning. Barring future claims from subcontractors, or other litigation, WHC should perform within the \$8.4M.

Management positions: RL has established indirect targets that challenge the PHMC to reduce ALL indirect costs. This pressures the PHMC to not only eliminate/reduce overhead costs, but to find more efficient ways to provide services that are driven solely by the programs/projects.

PHMC Indirect Targets
(using two possible funding scenarios)
(\$ in millions)

	<u>FY99 \$5.5B Case</u>	<u>FY99 \$6.0B Case</u>
FY97 Target	\$314	\$314
FY98 Target	\$270	\$270
FY99 Target	\$250	\$265
FY00 Target	\$245	\$260

FY01 - 06 Target: Reduce additional \$5M each year.

PHMC Fee: The maximum PHMC fee exceeded the WHC budgeted amount by \$11M. The maximum fee available increased under the PHMC because Fluor Daniel Hanford, Inc., assumed a substantial amount of risk by tying all fee to the performance measures and objectives and not deviating from proposed fee clauses. Should it be determined that fee is not earned at the proposed \$54M level, programs may use these funds to complete additional programmatic workscope. RL requires that unearned indirect fee will not be used to fund additional indirect scope; rather, it will be provided to the programs.

Sitewide Indirects: The HAB's statement related to Sitewide Indirects is specific to the Spent Nuclear Fuels (SNF) project. There are two main reasons for SNF's increased indirect cost.

- (1) The allocation of the material procurement rate, which covers cost related to purchasing and storage of materials, was changed to simplify the rate structure and provide a more straightforward cost allocation. This does not necessarily represent an increase in material procurement

cost, but rather, SNF is receiving a larger share of the total, based on the new allocation methodology.

- (2) SNF received approximately six staff which were charged indirectly in the past. This was the result of a WHC Reengineering recommendation that indicated the workscope could be performed more effectively if directly controlled by the program. Overall, the direct budget increases are offset by indirect budget decreases. (These types of transfers were accounted for in the WHC to PHMC comparison.)

Direct Program Charged Overheads: The direct program charged overheads are activities that have been determined through Reengineering efforts or through the PHMC structure to be more effectively performed if directly controlled by the programs, such as the Spent Nuclear Fuels (SNF) example above. Any increase in programmatic cost were offset by indirect decreases.

II. SHIFTING CLEANUP FUNDS

The Board is concerned that cleanup funds may be used for non-cleanup work. The Board recommends that Defense Programs and Nuclear Energy funds be used for non-cleanup activities at Hanford.

RL's RESPONSE

We are in agreement with the HAB that Environmental Management (EM) cleanup funds should not be used for non-cleanup activities at the Fast Flux Test Facility (FFTF). The funds proposed to be transferred from EM to Nuclear Energy are for "surveillance and maintenance" (S&M) for the FFTF and Fuels and Materials Examination Facility (FMEF). Workscope and funding for FFTF was originally transferred by Congress from NE to EM in FY 1991. Now that a decision has been made to maintain FFTF in standby until December 1998, the S&M workscope and funding will come under the programmatic oversight of NE. The S&M workscope is associated with maintaining the facilities in safe and compliant conditions. The "deactivation" funds for FFTF, which will remain within the EM budget, are to be used for continued cleanup work such as washing non-reusable fuel and irradiated long core components, which would have to be conducted regardless of any future decision relative to the FFTF. As indicated to members of the HAB during the March 13, 1997, budget workshop we will keep the HAB informed of developments concerning FFTF.

III. TPA COMPLIANCE VIEWED CASUALLY

RL'S RESPONSE

RL most assuredly does not view slippage of Tri-Party Agreement (TPA) milestones casually. We believe your comments concerning regulator enforcement of milestones are best addressed to Washington State Department of Ecology and the Environmental Protection Agency.

The RL Tank Waste Remediation System (TWRS) Program agrees with the concept that prioritization of Characterization activities should be based upon their impact to TWRS as a whole. In order to ensure that critical characterization activities proceed in an unhindered manner, TWRS has prioritized these activities in accordance with the work that they support. This has resulted

in some characterization and sampling activities being of higher priority than others. Characterization in support of organics and Organic Safety Resolution were low on the priority list due to existing controls.

Per the interim, the contractor has preliminarily confirmed/identified enough funding in savings/cuts/efficiencies, that will allow Organic Characterization and Organic Safety Issue Resolution to remain unaffected by budget shortages. Thus, the characterization crews will remain intact.

The activities to support TPA Milestone M-61 (alternate path identified for the TWRS privatization contracts) are fully funded in FY 1997.

IV. VADOSE ZONE CHARACTERIZATION

As stated in your letter: "...Funding should be provided for additional TWRS vadose zone characterization and monitoring work..."

RL'S RESPONSE

DOE concurs with the HAB that vadose zone characterization near the tank farms is an important issue with potential implications for the overall remediation of the tank farms. In response to emerging information from the TWRS vadose zone characterization program, DOE has:

- Convened a panel of independent experts to review the findings and advise DOE on the implications
- Reallocated funds to drill two experimental wells based on the advice of the independent team
- Increased the funding and scope of the vadose zone program
- Directed DOE contractors to address the findings in analysis that is currently underway
- Advised stakeholders, Tribal Nations, and regulators of the data

DOE has been cautious to make substantial programmatic redirection based on preliminary and inconclusive analysis. However, as new data has been made available, DOE has conferred with internal and external experts, stakeholders, and regulators and determined the next appropriate step to address this important issue. As of February 1997, the data from the second borehole is just over two months old and the independent expert panel, which issued a draft report in December 1996, has yet to transmit its final report to DOE. DOE is now evaluating the recent data, considering the draft advice of the panel, and will consider the final recommendation of the expert panel when the report is issued. Based on all of this information DOE will implement appropriate actions to improve our understanding of contaminants in the vadose zone, migration of contaminants in the vadose zone, and the potential implications of the data on future cleanup decisions in a timely manner.

IN CONCLUSION

Our response to your ending statement, "In general and specifically for the AX tank farm, funding should be made available to obtain sufficient field data..." is below.

RL'S RESPONSE

Modeling is one instrument used by DOE to predict potential impacts from existing and potential future contaminant transport from the tank farms. Prior modeling, conducted to analyze impacts of tank farm operations, used the best available data at the time the modeling was conducted. As new data become available, models are modified to incorporate the data and improve their reliability. The modeling results are then used to help direct future data collection to prevent the collection of unnecessary data. This process is well established in the scientific and regulatory community as the best method to support decision making for complex environmental issues such as those at Hanford. The models used at the Hanford Site are state-of-the-art models that have been approved for use by the TPA agencies. Moreover, the analysis supported by the modeling is peer reviewed prior to publication and then made available to stakeholders, Tribal Nations, regulators, and the scientific community for review and comment.

Modeling and data collection complement each other on complex environmental restoration projects. Neither field data collection nor modeling alone can provide the answer to the complex issues involved with the TWRS program.

The challenge for analysis of environmental impacts is to find the best balance between field data and modeling to ensure cost-effective solutions are implemented. For the AX Tank Farm, analysis is underway to determine potential contaminant migration. DOE is considering the new data generated by the vadose zone characterization program, recommendations by the independent expert panel, and potential implications for contaminant transport modeling.

New approaches to assess the potential impacts of phenomena, such as preferential contaminant transport via man-made or naturally occurring features and the effect that the unique makeup of the tank wastes itself may have on contaminant mobility, are being incorporated into planned modeling efforts. Plans for data collection at the AX Tank Farm and elsewhere to support analysis of contaminant transport are being coordinated with the vadose zone characterization program to ensure the best available data is incorporated into any modeling effort in a manner that ensures compliance with TPA milestones.