



STATE OF WASHINGTON
DEPARTMENT OF ECOLOGY

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February 26, 1997

Merilyn Reeves, Chairperson
Hanford Advisory Board
723 The Parkway #200
MSIN - B1-41
Richland, WA 99352

Dear Ms. Reeves:

The Department of Ecology would like to share some thoughts stimulated by Consensus Advice Letter #62, relating to the Project Hanford Management Contract (PHMC). Thank you for sending us a copy of your letter to John Wagoner, Manager, U.S. Department of Energy, Richland Operations, dated December 5, 1996.

Since the Board drafted Advice #62, we have observed significant growth in workscope and budget estimates developed by the PHMC contractor team for the Hanford cleanup in Fiscal Year 1997. As the Board astutely observed, it is difficult, if not impossible, to assess the impacts of these estimates upon Tri-Party Agreement (TPA) requirements and milestones, as well as public and stakeholder expectations, because of the lack of an integrated site-wide technical, cost and schedule baseline for the Hanford cleanup. Until such a baseline is established, DOE-RL, regulators, stakeholders and the public will have difficulty in measuring true technical, schedule and cost performance. Accountability on the part of the PHMC contractor team will be hard to assess. The lack of an integrated, sitewide baseline makes it more difficult to assess outyear impacts.

We commend the Board for highlighting the critical importance that the PHMC has in achieving an effective, timely and cost efficient Hanford cleanup. The PHMC must be carefully structured and effectively monitored by DOE-RL to ensure that the Hanford contractor team is optimally incentivized to achieve expected results in an effective and timely manner. This must be done in a way that does not sacrifice management and cost efficiency.

DOE-RL must guard against a natural, and generally unintended tendency of new contractors to mitigate their performance risk (and accompanying profit risk), by correspondingly increasing the cost of performance due to workscope escalation and



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"learning curve" impacts. Carefully structured contract cost incentives, with more emphasis upon fixed price contracting techniques, as the Board has pointed out, can effectively guard against such tendencies by making profit contingent upon a balanced achievement of technical, schedule and cost efficiency performance goals.

Therefore, we support the Board's advice that DOE-RL 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." Ecology is prepared to work with DOE-RL and stakeholders to implement such a review.

We hope the Board will continue to monitor the PHMC contract, and the performance and accountability of the PHMC contractor team.

Sincerely,



Michael A. Wilson, Manager
Nuclear Waste Program

cc: Alice Murphy, Controller, Richland Operations Office
Mary Lou Blazek, State of Oregon Department of Energy
Ross K. Sockzehigh, Chairman, Confederated Tribes & Bands of the
Yakama Indian Nation
Don Sampson, Chairman, Confederated Tribes of the Umatilla Indian Reservation
Samuel N. Penney, Chairman, Nez Perce Tribe
Members of Washington Congressional Delegation
Members of Oregon Congressional Delegation