Ms. Merilyn Reeves, Chair  
Hanford Advisory Board  
c/o Confluence Northwest  
800 NW Sixth Ave, Suite 342  
Portland, Oregon 97209-3715

Dear Ms. Reeves:

FY 1998 SUPPLEMENTAL BUDGET ADVICE (HAB ADVICE #48)

This letter is in response to HAB Advice #48 as transmitted in your letter dated May 3, 1996.

Responses to the comments contained in Advice #48 are in Enclosure 1 to this letter. Enclosure 2 is a copy of the U.S. Department of Energy, Richland Operations Office’s (RL) May 10, 1996, memorandum "Revised FY 1998 DOE Richland Operations Office (RL) Planning Request" from John Wagoner, Manager, RL, to Alvin L. Alm, Assistant Secretary for Environmental Management, DOE-Headquarters.

We look forward to continuing dialogue with you and the HAB concerning these and other subjects. Should you have any further questions, please do not hesitate to contact me or Jim Peterson of the Budget Division on (509) 376-6731.

Sincerely,

Alice Q. Murphy  
Chief Financial Officer

BUD: JMP

Enclosures

cc w/encls:
D. Sherwood, EPA  
D. Silver, Ecology  
R. Smith, EPA
ENCLOSURE 1

High-Level Nuclear Waste Tanks/Tank Waste Remediation System (TWRS)

Comment 1, paragraph 1 and 2:

The Hanford Advisory Board's advice on FY 1998 budget proposed that USDOE consider an alternative to its current privatization reserve funding of 100% of all potential liabilities for the privatized construction and operation of the TWRS low and high activity waste vitrification plants.

We (HAB) are encouraged by Under Secretary Grumbly's commitment to examine our "insurance pool" proposal. We urge that USDOE consider this on the fastest of tracks, as it offers the potential to save significant funds and budget authority for the Department complex-wide cleanup (EM) budget and to enable USDOE to meet it Hanford Cleanup Agreement obligations.

Response:

These comments are related and we will respond to them jointly.

DOE has examined the HAB's national liability pool proposal as well as other alternatives to 100% funding of liabilities for privatized construction and operation of immobilization plants.

The advantage of the pool proposal is that it would provide a pool of funds that would be available for termination costs for several privatization projects. The amount in the pool would be less than the sum of the amounts that would be required if the termination costs were set-aside individually. The pool argument is that realistically only some of the privatization projects would be managed to successful completion and funds would not have to be set aside to cover full termination costs for all projects.

a. The pool proposal and other alternatives that suggest less than full funding for termination for convenience risk noncompliance with the Federal Anti-Deficiency Act, which requires appropriations in advance of a contractual obligation. Under the Act, DOE cannot obligate itself contractually, in advance of appropriations, to pay termination costs in the event of termination by DOE. Entering into several privatization contracts does not reduce the degree of contingency for any single contract. Pooling of termination risks is not allowed under the law. Any legislative proposal to amend the Anti-Deficiency Act to accommodate the pooling proposal will not likely be acceptable to Congress.

b. Even if there were no legal barrier to the pool proposal, there is the policy problem that contractors would be less willing to commit to privatization if there is insufficient funding up-front to cover fully the costs of governmental termination for convenience. If the potential privatization contractors believe that they may have to rely on future congressional appropriations—rather than budget authority already available—to recover their investment, they will be much less likely to
A. Whether USDOE can disclose the project cost range of the privatization reserves: and,

Response:

DOE-RL will disclose a projected cost range for TWRs privatization after the privatization contracts are awarded in August or September. We will also provide a schedule of annual budget authority amounts required for privatization.

B. Whether USDOE must set aside in the privatization reserve fund 100% of all costs and potential liabilities incurred by, or potentially incurred on behalf of, privatization contractors.

Response:

For our response to this statement refer to our response to Comment 1, paragraph 1 and 2 above.

Comment 2

The Board requests that USDOE clearly disclose to the public a cost comparison for the privatization initiative path versus similarly configured options for vitrification utilizing performance based contracting, which do not necessitate creation of a privatizing reserve. Please disclose the potential impacts from the privatization reserve path to: employment levels, budget authority to meet TPA milestones, safety and compliance requirements, Hanford budget priorities.

Response a:

A comparison of cost estimates for the privatization and incentive based cost-plus contracting methodologies has not been done. DOE-RL has the option of asking the incoming Management and Integration contractor to prepare a cost estimate for the same work scope that we contemplate a privatized contractor would perform under a fixed price contract.

An estimate provided by the M&I contractor (or the current M&O) would be of limited utility. The nature of cost-plus contracting is that the contractor has limited risk associated with his initial estimate and therefore will tend to discount the estimate. Under a cost reimbursement contract, the contractor is not liable for cost overruns. Consequently, their cost risks are discounted after resulting inaccurate cost estimates.

Also, since DOE under a cost-plus arrangement bears more risk than under a fixed price arrangement, it follows that a cost-plus contractor would have less incentive efficiently to build, test, and operate immobilization facilities. Cost plus contractors will be reimbursed their costs by DOE regardless of work scope accomplished.
in additional liabilities for the federal government under the privatization initiative. Schedule slippage has direct and environmental consequences. The Board request that USDOE-RL ensure that irreversible decisions are not taken which prevent accelerating characterization and analyses to meet the TPA milestones. USDOE must plan to meet its legal obligations under the Hanford Clean-up Agreement for characterization.

*The Dollars and Sense Committee has requested a review of the comparative costs of using the Westinghouse 222-S lab and the Battelle 325 lab for analyzing tank core samples. The review should not only consider why there are cost differentials, if there are any, but also whether completion could result in additional cost savings and incentives, and the funding needed for lab capacity to meet the TPA requirements.

Response:

The Characterization Project is comprised of two major parts - production and strategy. Production entails mainly field sampling and analysis in the laboratory. The strategy portion of the program involves integrating various customer (retrieval, safety, regulators) needs into an overall sampling program, compiling results for customer use, and reporting results in the form of Tank Characterization Reports.

The efficiency of sampling in the field and the laboratory analysis has increased markedly in recent years. For example, the number of 19'' segments per shift has increased from .23 to .67 in the last year; almost achieving the goal of .71 segs/shift. In fact at the beginning of this fiscal year, based on past efficiencies, it was thought only 21 of the 40 TPA required tank characterization reports could be generated. However, with the increased level of productivity in the field and in the laboratory, there is a good possibility that all 40 tank characterization reports will be completed this year.

As information has become available from the characterization program, our understanding of the problems to be solved has matured. For instance, it was once thought that all 18 ferroanide tanks would need to be sampled and analyzed in order to remove them from the Watch List. However, the data from the characterization program has enabled us to understand the mechanisms by which tank chemistry conditions and radiation result in the destruction of ferroanides. As a result of this newfound understanding, we now are in the final process of removing tanks from the FeCN Watch List prior to sampling all FeCN tanks. Of course, the removal of tanks from the Watch List will be reviewed by independent parties. Nonetheless, FeCN provides an example of how the knowledge gained by sampling and analysis can be used to refine the characterization project itself.

The refinement of the Characterization Project is occurring on a large scale with the DOE's revision to our original response to
Our advice urged continuing emphasis upon overhead cost reductions, and the utilization of credible external reviews of overhead, baseline and capital costs.

Cost reviews should be by qualified parties that are truly external to USD OE in order to be credible.

The regulators and the Board should be consulted as to the nature of these reviews.

Response:

The USD OE continues to support the review of indirect baselines and costs by credible, external parties. At present, the indirects are being reviewed by an Atlanta, GA, company named Project, Time, and Cost. This company is completing a review of the present adequacy of Activity Based Estimating documentation. Activity Based Estimates are not required; however, are encouraged by DOE-HQ to be implemented by FY 1998.

Project, Time, and Cost has performed reviews of Corp of Engineers, Hyatt Corporation (IL), John Portman and Associates (GA), and Vantage Southeast Property Co. (GA). Locally, they have a staff of approximately 90 cost estimators, most of which are certified through a nationally recognized association.

No findings or recommendations are available to report to the Board, as Project, Time, and Cost has not issued an Adequacy of Activity Based Estimating Documentation report yet.

RL is considering a second review of FY 1996 cost estimate reasonableness, which would specifically address the issues of the HAB. As requested, it would include a review of the reasonableness of indirect baseline cost estimates and workscope appropriateness. RL welcomes further HAB input regarding the scope of the review and the activities to be reviewed.

2. The Board urges USD OE to move expeditiously with independent external cost reviews and critical work analyses to avoid budget reductions or decrement cases from harming USD OE’s ability to perform essential safety or Tri-Party Agreement work. Contracts or work scope for reviews being launched should be shared as soon as possible with the Board and regulators for early input in order for the reviews and analyses to be credible. The Board should be consulted immediately as to the proposed "independent" baseline cost review for TWRS and for overhead costs.

Response:

As stated above, USD OE is considering procurement of another review to specifically address the HAB's advice for cost reviews and critical work analyses. While the Board's advice combines TWRS and overhead reviews,
The HAB's concern about the continued viability of the environmental restoration program is well known and shared by RL.

Comment 1, paragraph 2:

The Board stated in its original FY'98 Budget advice (#44, adopted March 14, 1996):

"It appears that the target level funding for Environmental Restoration is the minimum amount needed to fulfill requirements of the TPA and support Stakeholder values. Any funding level below the target level would not only seriously jeopardize TPA requirements and stakeholder values, but would, over time, increase costs related to clean up.

The Board is concerned that savings from mortgage reductions will not be returned to the site, and seeks assurances this will not happen. In addition, when facilities are transitioned to the ER Program, money needs to go with them to complete the D&D activities.

The Board is concerned that "natural attenuation, decay, institutional controls" and other alternatives to actual clean up are being shown preference by the DOE. Discussion and agreement about these alternatives have not yet occurred between stakeholders, regulators, and the DOE. The Board is concerned that these alternatives may go beyond the following stakeholder values and advice: accelerate remediation along and protection of the Columbia River; contain the spread of contamination; develop a culture committed to supporting the TPA and complying with applicable laws; and, protect workers; the public and the environment from harm."

Response:

The subject of savings resulting from mortgage reductions remaining at the sites that achieve such reductions is being discussed at DOE-HQ. We will keep you informed of developments in that area.

We also want to assure you that "natural attenuation, decay, institutional controls" and other alternatives to actual clean up are not being shown preference by DOE. Part of DOE's reason for forming the HAB was to provide a forum for a continuing dialogue between DOE and the HAB concerning strategies and possible alternatives which may be considered.
DATE: MAY 10 1996

REPLY TO: BUD: RRT

ATTN OF:

SUBJECT: REVISED FY 1998 DOE RICHLAND OPERATIONS OFFICE (RL) PLANNING REQUEST

TO: Alvin L. Alm, Assistant Secretary
   for Environmental Management, EM-1

In preparation for the upcoming Corporate Board meeting on May 21, 1996, RL will be presenting a revised FY 1998 Planning Level request of $1,561,138K, equal to the planning guidance from EM/HQ, dated April 3, 1996. After reserving $48,498K for "National Programs," the RL planning request is reduced to $1,512,640K (vs the $1,578,125K identified in the April 15, 1996, budget submission). At this revised planning level, RL will be able to fully support the Tank Waste Remediation System (TWRS) privatization initiatives for Low-Level Waste and High-Level Waste, as well as deliver on our Spent Nuclear Fuels, Mortgage Reduction, Environmental Restoration, and Waste Operations commitments in FY 1998 to HQ, Regulators, and Stakeholders.

Attached is a revised Integrated Priority List (IPL) which deletes reference to "Estimated Decrement" and "Estimated Target" levels and includes the items below the revised RL planning request for "Information Only." The only significant changes to the IPL are related to the TWRS revisions of compliance estimates and the addition of Hazardous Materials Management and Emergency Response Training Center (HAMMER), raising our compliance level to $1,555,374K. All changes from the previously submitted IPL have been highlighted for easy identification.

If you have any questions regarding this information, please contact me or your staff may contact Bob Tibbatts, Acting Director, Budget Division, on (509) 376-8669.

[Signature]

John D. Wagoneer
Manager

Attachment

cc w/attach: See Page 2
<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
<th>FY 96PC</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,561,138</td>
<td>Revised RL Planning Request</td>
<td>4.3/96 Hg Planning Guidance for RL</td>
</tr>
<tr>
<td>46,948</td>
<td>Site Operations</td>
<td></td>
</tr>
<tr>
<td>1,512,640</td>
<td>Subtotal NMFS</td>
<td></td>
</tr>
<tr>
<td>52,447</td>
<td>Environmental Restoration</td>
<td></td>
</tr>
<tr>
<td>1,761,856</td>
<td>Total Waste Mgmt</td>
<td></td>
</tr>
<tr>
<td>514,902</td>
<td>Program Direction</td>
<td></td>
</tr>
<tr>
<td>145,003</td>
<td>Subtotal Waste Mgmt</td>
<td></td>
</tr>
<tr>
<td>44,720</td>
<td>Non-TWAS (Non-Privatization)</td>
<td></td>
</tr>
<tr>
<td>98,310</td>
<td>TWAS Privatization</td>
<td></td>
</tr>
<tr>
<td>32,836</td>
<td>TWS (Non-Privatization)</td>
<td></td>
</tr>
<tr>
<td>188,491</td>
<td>Waste Management</td>
<td></td>
</tr>
<tr>
<td>32,641</td>
<td>TWAS Privatization</td>
<td></td>
</tr>
<tr>
<td>70,122</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(5000s)

SUMMARY BY PROGRAM
REVISED FY 1996 PLANNING REQUEST
RICH LAND OPERATIONS OFFICE