

**Post-Hearing Questions for the Record
Submitted to Frank Sheppard, Jr.
From Senator Claire McCaskill**

**“Contract Management by the Department of Energy”
June 27, 2013**

1. The Department of Energy has been on GAO’s high risk list for its contract management for over 20 years. The Department’s projects have had chronic cost overruns and schedule delays.

Q: What do you think the impact of bringing more oversight to the management of your contracts would be?

A. The current amount of DOE oversight is more than adequate to protect the Government’s interests. Providing more management oversight could be counter-productive and possibly create more inertia. Focusing more on the proper level of oversight and on critical budget and schedule sensitive issues would be more meaningful and productive.

Q: Would it be worthwhile for the Department to obtain more independent cost estimates of its projects?

A. Not necessarily more independent cost estimates, but rather ensuring that the correct cost factors associated with first-of-a-kind projects be considered and that adequate contingency be included in the estimates. Establishing a truly independent cost analysis group that does not answer to the program may help ensure that requirements and risks are adequately identified and maintained in the cost estimate.

Q: Have you ever felt any pressure, direct or indirect, from the Department to keep cost estimates or bids beneath what you felt the true cost of the project would be?

A. We always provide estimates of what we believe the true cost of the project will be. There have been instances where the Department’s position is below what we have felt the true cost of the project to be. While the Government and contractors work hard to provide value for the taxpayers, these complex first-of-a-kind projects are very difficult to estimate and unpredictable given the state of the nuclear supply chain.

2. It appears that Environmental (EM) contractors cooperate as much with other firms on joint ventures as much as they compete with them for contracts. The industry has coined a term, “competimates,” to describe this relationship.

Q: Why shouldn’t this level of cooperation raise eyebrows among taxpayers who expect strong competition between contractors?

A. EM projects are bid by a small, very technical and highly specialized community of contractors where both competition and cooperation are critical to successful program

execution. While there is a relatively small group of large companies that have performed DOE-EM work, Government technical requirements drive team composition for each solicitation. When the decision is made to team, it is usually to leverage the capabilities of the teaming partners to ensure success on the project. Even after a teaming decision is made, there is still adequate technical and cost competition available from the remaining contractors to ensure a healthy, competitive environment.

3. The Department is moving to first consider firm-fixed-price contracts in the future, rather than the cost-plus contracts in use today.

Q: Would you have bid on a firm-fixed-price contract on any of your current major EM projects?

A. It is highly doubtful that we would bid a firm-fixed price EM contract after careful consideration of the risks involved and the likelihood of success. Bidding on a firm-fixed-price major EM project entails taking extraordinary risk and there is tremendous uncertainty inherent in both complex large nuclear construction projects and major environmental cleanup work.

Q: Is EM realistic in considering firm-fixed-price contracts will for remediation work?

A. Employing a firm-fixed price approach requires a complete design with specifications that clearly describes the scope of work to be performed. For EM sponsored remediation work there typically is no design or set of requirements. These contracts are typically structured to frame the extent of the contamination (through characterization) and then define an end state. It is then up to the contractor to achieve the end state in the most efficient manner. A firm-fixed price design-bid-build or design-build approach would not work without a contractor including significant contingency to compensate for unknowns. Typical EM remediation projects do not have adequately and accurately defined and bounded scopes of work that provide confidence in the cost estimate to successfully complete them. This approach may be more suitable for much smaller remediation contracts where the scope of work can be well defined, the level of characterization is mature and costs are more reasonable.

4. The Salt Waste Processing Facility is currently estimated to cost about \$1.2 billion. According to the GAO, an independent estimate by the Department's Office of Cost Analysis extrapolated data from a similar project and determined the Salt Waste Processing Facility would cost \$2.7 billion.

Q: Was Parsons aware of this independent cost estimate and did it attempt to reconcile the independent estimate with its own?

A. Parsons was aware of the independent cost estimate by the Office of Cost Analysis cited in the GAO report. Parsons' review of this independent estimate concluded that it contained numerous factual inaccuracies regarding the project technology and design status that severely limited its relevance. The actual cost and schedule issues experienced by the SWPF project were due to criteria revisions, supply chain failures to achieve nuclear quality requirements and subsequent funding constraints. They were not related

to the assertions regarding technology and design risks that drove the Office of Cost Analysis estimate.

Q: Does Parsons reconsider its own estimates when presented with significantly different independent estimates?

A. Parsons has reconsidered our own estimates relative to other significantly different independent estimates and normally would reconsider its estimates when presented with a significantly different independent estimate.

5. The Department's Office of Enforcement and Oversight found that Parsons and the Department have an "adversarial relationship" at the Salt Waste Processing Facility project site.

Q: What does the Department need to do to improve its relationship with its contractors?

A. DOE has adopted a "Partnering" approach to improve relations on the SWPF project. The key to success on any large project is effective communications. "Partnering" is designed to ensure effective two-way communications to ensure a project progresses to completion smoothly and with minimum disruptions. In the future, implementing "Partnering" at the onset of the project would do much to ensure there is a positive relationship at the very start of the project. "Partnering" provides an opportunity to discuss and develop mutually acceptable approaches to how the project can be managed to ensure success.