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August 16, 2013

The Honorable Claire McCaskill  
Chairman  
Subcommittee on Financial and Contracting Oversight  
United States Senate  
Washington, DC 20510-6250

**RE: Response to Questions for the Record (QFRs) submitted to Mr. McKelvy by Senator McCaskill from 27 June 2013 hearing into contract management by the Department of Energy's (DOE) Office of Environmental Management (EM)**

Dear Chairman McCaskill:

CH2M HILL is pleased to provide you and the Senate Subcommittee on Financial and Contracting Oversight our Response to the Questions for the Record as requested. I hope this information addresses your questions.

As requested, we have also reviewed the hearing transcript for minor clarifying changes and have included that as well.

Please let me know if you have any additional questions for CH2M HILL.

Respectfully,

A handwritten signature in blue ink, appearing to read "Robert R. Hood".

Robert R. Hood  
Vice President  
U.S. Government Affairs  
CH2M HILL

cc: Senator Ron Johnson, Ranking Member

**Post-Hearing Questions for the Record  
Submitted to Michael McKelvy  
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?**

CH2M HILL believes that DOE has the resources and procedures in place to conduct efficient contract management of its EM programs and projects, setting both performance and partnering expectations, contractor accountability for cost growth, and DOE responsibility for tailored, effective oversight. Adding more government oversight requirements to existing contracts typically increases costs and decreases efficiencies in project practices. In our experience, the mutual success of the government and contractor on performance-based incentivized contracts is achieved through “effective” rather than “more” oversight. Effective oversight requires significant up-front planning and clear government and contractor partnering for delivery of mutual contract objectives. In our experience, contractors desire to work within reasonable and equitable contract terms and be incentivized to safely, efficiently and effectively deliver work.

A successful oversight model not only elevates a balanced focus on management and performance, but helps to build a collaborative approach between the DOE and the contractor in enhancing the enterprise-wide approach to planning and execution. Effective oversight would allow DOE to focus on setting the objectives and standards to be met, while allowing the contractor flexibility as to how to accomplish work. This enables DOE to more clearly assess performance and hold contractors accountable for results. DOE is also able to attract and reward the best high-value professionals and companies resulting in more predictable performance. We support improvements in effective oversight and feel both the contractor and government should be accountable for contract success, but do not believe more oversight is the solution for cost overruns and schedule delays.

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

Consistent with the recent testimony “Observations on Project and Program Cost Estimating in NNSA and the Office of Environmental Management” dated May 8, 2013, we agree there are opportunities for improving the confidence in capital cost estimates and operating budgets. From our perspective, and due to the unique nature of the DOE-EM scope, including but not limited to the technical and regulatory uncertainty, more “independent” cost estimates are not necessarily the answer. Rather, a greater emphasis on consistency in

the structure and scope of the contractor's proposed estimates, comprehensive risk and uncertainty analysis, and conducting sensitivity analyses are more likely to improve overall estimate accuracy and confidence in contractor and DOE budgets.

**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?**

There is always a strong joint DOE and contractor interest to control costs and stay within established contract funding levels but we do not feel pressured, directly or indirectly, to misrepresent cost estimates or projections.

- 2. It appears that Environmental Management (EM) contractors cooperate as much with other firms on joint ventures 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?**

The overall nuclear supply chain for the DOE-EM cleanup market has a very limited number of companies with the capabilities to efficiently and effectively execute the work. On the large and complex cleanup sites, two or more companies sometimes come together to form a joint venture and act as a single potential prime contractor providing diversity in corporate skill sets and bringing value to the DOE in the form of greater corporate reach back for project support. By bringing together the best contractors and coordinating their contributions to program and project activities, joint ventures achieve cost efficiencies and schedule adherence with ongoing verification of quality that single entities or small businesses may not be able to achieve. In short, partnering provides dependability and ensured responsibility to the DOE in managing the rapid changes in resource requirements and schedule that are encountered during various stages of complex, broad scopes of work. The Federal Acquisition Regulation (FAR) Subpart 9.6 recognizes contractor team arrangements may be appropriate and desirable because they "(1) Complement each other's unique capabilities; and (2) Offer the Government the best combination of performance, cost, and delivery for the system or product being acquired." Additionally, large firms like CH2M HILL participate in the DOE Mentor Protégé program to develop capable subcontractors, who in turn add competition into the cleanup market for increased value to the taxpayer.

- 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?**

The majority of our large DOE-EM contracts are cost reimbursable with performance-based incentives, based in part because of scope, cost, and schedule risks and uncertainties. By comparison, we could not have bid any of our current major DOE-EM projects without material changes in contracting terms and conditions and significant increases in estimate contingency because of the uncertainty of the work scope and requirements. Firm-fixed-

price contracts are only appropriate when scope, requirements and performance risk are well defined.

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

CH2M HILL, along with the other Energy Facility Contractors Group (EFCOG) members, concluded that fixed-priced contracting for large scale DOE-EM cleanup projects or first-of-a-kind waste treatment projects might be considered with additional, extensive, up-front scope and design definition, firm regulatory requirements, clear risk analysis and ownership, strict avoidance of directed changes, and a commitment to multi-year, stable funding. Meeting these significant and challenging prerequisites, including accurate and comprehensive site characterization, would bound risk and contingency and theoretically enable fixed-pricing of new contracts for remediation work, just like any other project scope. A significant challenge in setting firm-fixed-price contracts for large and complex DOE-EM projects is the uncertainty in funding and changing priorities due to the high number of stakeholders with competing needs and the changing site dynamics. It is important to note that we do not believe DOE-EM could effectively modify existing cost-reimbursable DOE-EM contracts to fixed-price without an increase in price.

**4. The clean-up of the Rocky Flats site was completed on time and on budget.**

**Q: Why was this project able to reach a successful completion while so many of EM's other projects were not?**

Rocky Flats was considered the most complex environmental cleanup project completed in U.S. history. It was the first large nuclear-weapons facility to be decommissioned and closed anywhere in the world. This high-hazard project was completed within strict safety and environmental parameters 56 years ahead of original government estimates, and 14 months in advance of our own aggressive schedule. The final cost was more than \$29 billion less than original 1994 U.S. government estimates. The aggressive plan to close the site in 10 years and for a total estimated cost of approximately \$7 billion required an end-state vision agreed upon by Congress, DOE, the regulators, and all affected stakeholders. The success of the Rocky Flats Closure Project was a result of many factors, including the development of a strong collaborative partnering process between Kaiser-Hill Company (KHC) and DOE that established credible, positive relationships with local citizens, the regulatory and business communities, and the workers, and resulted in a unified end state vision. Identification of interim or final end state in the contract provided clear direction and, more importantly, set the stage for both contractual and technical innovation in achieving closure. Beyond any specific innovation, it was through unparalleled cooperation among the interested parties that a conservative and compliant cleanup and closure of Rocky Flats was enabled, ahead of schedule, under budget, and with an exceptional safety record.

**Q: What, if anything, was different about the way the Department managed this project, and how can it be repeated?**

The challenge of repeating the same success as Rocky Flats, Miamisburg Closure, and Fernald Closure projects at the current cleanup projects is that the existing sites have ongoing

missions. However, all three completed closure programs offer experience and lessons learned directly relevant to the ongoing DOE-EM efforts, including socio-economic implications, community and regulatory collaboration, end state options, workforce retraining and re-employment, and regional considerations which ultimately manifest themselves in a series of choices to create a successful completion. Building a successful project model and workforce that embraces the attainment of cleanup outcomes requires two key inputs: (1) a clear end-state vision with associated criteria that define its economic, social, and environmental underpinnings; and (2) a relentless commitment to apply the basic tenants of schedule, cost and quality every day and as part of every decision made by every team engaged in the project.

In addition to collaborative working relationships, the success of Rocky Flats was achieved through defined roles and responsibilities, partnering and effective oversight. The DOE Rocky Flats Field Office managed to the contract and not the work, which allowed KHC to work safely and compliantly in accordance with clearly defined contract requirements.

Establishing a performance-based approach to contracting and incentivizing contractor execution and completion of work, consistent with clearly established performance expectations, was the first step in setting the stage for successful contract management by DOE. It is also important to note that it took several years to develop site characterization sufficient enough to establish a credible and achievable baseline and scope of work needed to achieve the vision and the regulatory end points. Success at Rocky Flats relied on a series of innovative, high-risk strategies in regulatory reform, contract reform and strategic orientation and planning. Rocky Flats developed and maintained a credible project plan and demonstrated steady progress towards closure, which gave Congress and the political leadership of DOE the confidence to provide steady funding for the project and provide the support needed to keep the project on track.

5. **The DOE IG reported that at the Richland Remediation project, CH2M Hill did not notify EM until October 2010, more than 18 months after the EM deadline, that the cost for the Plateau Remediation contract would increase by over \$500 million.**

**Q: Why did CH2M Hill take so long to notify EM of this change?**

Given the size, complexity and interrelated nature of the scopes and cost increases, the normal timeframe for submittal was not achievable for the Plateau Remediation Contract. CH2M HILL agrees 18 months is too long a period for a definitive alignment of estimates, but PRC did pose a unique and unforeseen cost estimating challenge. During the contract transition and early execution period, identified material differences, DOE directed Changes, significant ARRA scope additions as well as regulatory decisions and other items affecting cost were experienced simultaneously. The interrelated nature of the scope and cost increases required extensive estimating and planning. During the estimate development period, the estimate basis was evolving as actual costs were incurred and cost and pricing information were required to be updated accordingly. CH2M HILL kept DOE apprised of its estimate developments with interim submittals and maintained baseline control during this period. In October 2010, CH2M HILL submitted a formal reconciliation (~\$500m notification referenced above) estimate to DOE of the increases that were due to either scope maturity,

regulator decisions since award, unaccepted technical approach(es) and/or cost increases. In summary, during the period 2008-2010, CH2M HILL and DOE did struggle with managing and segregating complex changes to the Contract and accurately assessing the impact of all cost increases within the baseline and contract. We worked with DOE throughout the process and dealt with modifications and changes to come up with a definitive number.

6. **Earlier this year, CH2M Hill entered into a settlement with the Department of Justice for time card fraud at Hanford. For years, employees falsified time cards. Under the settlement reached with the Department of Justice, CH2M Hill admitted that certain members of management knew about the employee time card fraud at the time it was ongoing.**

**Q: Are any of the supervisors, management, or officers who were aware of this fraud at the time it was ongoing still working at CH2M Hill?**

CH2M HILL Hanford Group, commonly known as “CHG” ( a wholly-owned entity of CH2M HILL) held the nuclear operations contract at the Hanford High-Level Waste Tank Farms until 2008, at which point the contract was awarded by DOE to Washington River Protection Solutions, LLC, commonly known as “WRPS” (a URS Corporation and Energy Solutions joint venture). Therefore, our response is limited to those employees involved in the matter and previously retained by CH2M HILL, Inc. or CH2M HILL Plateau Remediation Company (CHPRC).

Two CH2M HILL managers were suspended from duty at the time they were indicted earlier in 2013, and have been removed from their DOE-EM roles until the Department of Justice investigation is complete and the matter resolved.

Should CH2M HILL become aware of any other employees who were involved, or alleged to be involved, in the time card fraud we will take appropriate action in accordance with our company’s personnel policies.