

STATEMENT BY

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Subcommittee on Financial and Contracting Oversight
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Good morning Chairman McCaskill, Ranking Member Johnson, and members of the Subcommittee. Thank you for your invitation to appear here today to discuss contract management by the Department of Energy's Office of Environmental Management. My name is Mike McKelvy and I am the President and Division Chief Executive of the Government, Environment, and Infrastructure (GEI) Division of CH2M HILL. The GEI Division represents the vast majority of our federal government work as we provide many diverse support services to the U.S. Government. With relation to the hearing topics, it is also important to note that I am the Chairman of the Board for the Idaho Cleanup Project (ICP) and the CH2M HILL Hanford Plateau Remediation Company (PRC) Board of Directors. It is my pleasure to address the management of CH2M HILL's DOE-EM contracts today.

CH2M HILL is an employee-owned global consulting, design, design-build, program management, and operations and maintenance firm founded in 1946 and headquartered in Englewood, Colorado. Annually, CH2M HILL earns \$7 billion in revenue of which 28 percent is work for the US Federal Government. Year in and year out, CH2M HILL has been recognized as an industry leader in design, construction management, and program management as judged by **Engineering News Record**. CH2M HILL was the first firm in the heavily male-dominated engineering and construction industry to receive the prestigious **Catalyst Award** for our commitment to recruit, develop, and advance women in the workplace. We have also been named a leader in sustainable engineering and environmental services providers by **Verdantix**. Finally, and most important to me, CH2M HILL was judged for the fifth year in a row as one of the world's most Ethical Companies by the **Ethisphere Institute**; the only US firm selected from the construction industry.

Our success as a contractor can be attributed to our safety focus, our exceptional people and continually refined project delivery processes. Safety is always the first and foremost consideration for any CH2M HILL project or endeavor. Safety is made more challenging at nuclear cleanup sites because of the unique nature of the work, highly contaminated facilities, and in some cases dangerous levels of radioactivity – adding layers of protection to keep the workers, the public and the environment safe. As an employee-owned company with an ethical foundation that focuses on the integrity of our character and a defined set of values that originated with the company founders, we expect our people to make the right choices daily in support of the Government client and the American taxpayer.

In the invitation letter, you outline several areas for today's discussion and I will do my best to address those areas. The first being the **Management of Environmental Remediation Contracts for DOE-EM:**

CH2M HILL has a successful record of performance managing and operating nuclear facilities and providing innovative cleanup and environmental remediation for DOE projects and sites since 1994. CH2M HILL has been responsible for the successful delivery of two of DOE's three largest closure projects – the Miamisburg and Rocky Flats Closure Projects. I would like to point out that the work to remediate former nuclear weapons sites is extremely difficult, with a variety of environmental, safety and health risks and hazards. Today, cleaning up the environmental legacy from nearly six decades of nuclear weapons development and nuclear energy research is made more challenging because we are dealing with dangerous, highly radioactive materials and wastes.

Not unlike some of the work we do for other federal agencies, we typically set up joint ventures or special purpose entities to perform the work with other large contractors providing diversity in corporate skills sets and value to the DOE in the form of greater corporate reach back for project support on DOE-EM projects. Special purpose entities are often backed by significant performance guarantees to DOE from our parent companies to ensure to the government that CH2M HILL stands behind its work. We also establish a Board of Directors on each special purpose entity to ensure consistency in management practices. The Boards offer leadership, guidance, and corporate reach back and support on the corporate level to the president of each site to ensure best practices are being utilized.

Decontamination and Decommissioning at Hanford

CH2M HILL's work at the Hanford site dates back to the early 1970's when the firm won several task orders from the Atomic Energy Commission-Hanford Works Project. Over the last two decades, CH2M HILL has had several large contracts at the Hanford site including: the **Hanford Tank Farms Contract** from 1999 to 2008, and the **Hanford Central Plateau Remediation Contract** from 2008 through 2018.

DOE's use of a Cost-Plus-Award-Fee contract on the Hanford PRC project has allowed DOE to specify the objectives and standards to be met, make adjustments for changes in funding work priorities, and provided us the flexibility as to how best to accomplish the decontamination and

decommissioning work. This has enabled DOE to clearly measure performance and hold us accountable for both interim and long term results. The DOE uses a Performance Evaluation and Measurement Plan, which details the administration of performance incentives and allocation of Total Available Fee. Each performance measure sets forth the specific requirements, criteria and specifications for acceptable performance of an outcome and the amount of fee assigned to the individual performance measure. Each performance measure also has a distinct fee structure to incentivize maximum performance and resource utilization.

Integrated Waste Treatment Unit at the Idaho Cleanup Project

On the Idaho Cleanup Project (ICP), CH2M HILL is currently managing the safe decommissioning and environmental cleanup of the Idaho National Laboratory (INL) in eastern Idaho. To achieve the cleanup goals as part of the Cost-Plus-Incentive-Fee ICP contract, our scope includes the treatment of 900,000 gallons of highly radioactive sodium-bearing waste currently stored in underground tanks generated from decades of spent nuclear fuel reprocessing and decommissioning and decontamination activities. As part of our contract, we have designed and constructed a first-of-a-kind facility – the Integrated Waste Treatment Unit (IWTU) – to treat and prepare the liquid radioactive waste for permanent disposal.

Early on, several issues hindered progress during the design-build phase that increased the complexity of construction resulting in the push back in start-up of the facility several times. The most significant issue with the design was the way in which seismic analysis had been conducted for the structural design. This issue resulted in the DOE decision at the urging of the DNFSB to upgrade the hazards (and therefore seismic) classification of the facility, after the preliminary design had been completed. Another design change directed the conversion of the facility from sodium-bearing waste treatment to treat calcine (another form of radioactive waste stored at INL) for future missions. Incorporation of the more conservative safety recommendations also impacted the civil works on the core of the plant which were already underway. Lastly, in 2008, a further one-year delay in the project completion was the direct result of fiscal year funding limitations.

The IWTU facility was originally estimated \$379 million; however, due to directed design and operational changes, we provided the government with a revised estimate of \$600 million to complete the project. The contract was adjusted in 2010 and subsequently a cost-cap of \$533 million was established for the IWTU project, less than the validated estimate, at which point we

would pay for any additional costs. In addition schedule incentives and penalties were established for the project completion date. On April 2012, construction was completed at a final cost of \$621 million, with the parent companies of the joint venture performing the ICP contributing more than \$88 million of company funds to complete the construction. In addition, the company earned no fee and incurred schedule penalties for not having the facility on line by the end of the contract period.

I am extremely proud of the Idaho Cleanup Project's workforce and the great work accomplished over the years. Despite the IWTU issues, the ICP contract was delivered \$520 million below cost, and to the satisfaction of the State of Idaho. Our employees accepted great challenges and were empowered to come up with innovative solutions, resulting in efficiencies and unprecedented success with a stellar record of safety. Largely attributable to this success is the great partnership we share with our client, DOE.

The safety of our workers, the public and the environment is our foremost priority on the challenging and dangerous work across all of our DOE-EM contracts. Success in progressing the DOE-EM mission has been possible because of the cooperative agreements between three principle parties – Congress, DOE and the contractor. I would like to thank the Subcommittee for their time today. With that, Madam Chairman, I would be pleased to answer any questions the Subcommittee may have.