

SUBCONTRACTING CHALLENGES OF THE DOE OAK RIDGE ENVIRONMENTAL MANAGEMENT CONTRACT

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ABSTRACT

The Department of Energy (DOE) Oak Ridge Operations (ORO) office awarded a five and one-half year, \$2.5 billion dollar Management and Integration (M&I) contract to Bechtel Jacobs Company, LLC on December 18, 1997. The scope of work includes the environmental management and enrichment facilities programs at Oak Ridge, Tennessee; Portsmouth, Ohio; and Paducah, Kentucky and supporting DOE's reindustrialization program at the East Tennessee Technology Park (ETTP), the former K-25 Gaseous Diffusion Plant in Oak Ridge, Tennessee. As a pure management and integration contractor, Bechtel Jacobs Company will not self-perform the work; rather, all work is to be accomplished by subcontractors.

Moving to this M&I approach presents major subcontracting challenges for DOE and Bechtel Jacobs Company. Key factors behind this challenge are: (1) the M&I, with its requirement for subcontracting, represents a new way of doing business in the Oak Ridge Environmental Management program; (2) the vast majority of the subcontracts are to be fixed-price or fixed-unit-price; (3) the subcontracts have a unique workforce transition requirement; and (4) Bechtel Jacobs Company committed to place \$1 billion of multiyear subcontracts during the first 18 months of the M&I contract.

In addition to requiring that all the work be subcontracted, the M&I contract also has a unique workforce transition requirement that affects the procurement process. The prime contract required Bechtel Jacobs Company to hire all incumbent Lockheed Martin Energy Systems (LMES) employees who were primarily performing environmental management work and to provide them substantially equivalent pay and benefits. During a 90-day phase-in period from January through March 1998, about 1,600 LMES employees were transitioned to Bechtel Jacobs Company. Additionally, about 2,300 LMES employees continued providing services to the environmental management program under subcontracts from Bechtel Jacobs Company to LMES. Bechtel Jacobs Company brought about 170 primarily management employees from Bechtel and Jacobs.

The contract also specifies that, as work is subcontracted, the "grandfathered" LMES employees will have right of first refusal for non-management jobs with subcontractors at substantially equivalent pay and benefits. A major workforce transition is taking place during a two-year transition period that began April 1, 1998. At the end of this transition, all the work is to be subcontracted, many of the grandfathered LMES employees who transitioned to Bechtel Jacobs Company are to be transitioned to subcontractors, and Bechtel Jacobs Company is to be down to a core organization of about 400 to 500 people.

This paper describes the subcontracting challenges posed by the M&I contract and how those challenges are being met.

INTRODUCTION

When DOE issued the final Request for Proposal (RFP) for the M&I contract in July 1997, the primary objectives included accelerating cleanup and maximizing cost-effectiveness through the use of competitive subcontracting, and at the same time facilitating the smooth transition of incumbent LMES employees to the selected prime contractor and its subcontractors.

The requirement to subcontract all work execution is expressed as follows in the Bechtel Jacobs Company prime contract:

The Contractor is fully responsible and accountable for the safe accomplishment of all work, whether performed by its own personnel or subcontractors. The strategy is for the Contractor itself to manage the overall effort and therefore must possess the necessary core competencies including planning, subcontracting, integrating, expediting, and coordinating along with appropriate administrative support. The actual execution of work in the field is expected to be primarily done by subcontractors, including small, small disadvantaged and women-owned small businesses. To the maximum extent practical, the award of subcontracts shall be based on fixed price competition and a "performance based specification" approach, i.e., the Contractor specifies the objectives to be met, but not the technical approach to meet them. The Contractor and its subcontractors are expected to apply best commercial practices to the maximum extent possible. Wherever this Statement of Work states that "the Contractor shall," it means that the Contractor is responsible for the specific action; recognizing, as indicated above, that this responsibility is carried out in the field principally through the management of subcontracts.

The workforce transition process is spelled out in the following two paragraphs of the Bechtel Jacobs Company contract:

In staffing non-management positions, subcontractors will give right of first refusal to incumbent employees who were performing essentially identical functions.

In order to minimize unnecessary disruption to the existing workforce and minimize severance costs, incumbent contractor employees who transition to the Contractor or its first or second tier subcontractors will retain substantially equivalent base pay and employee benefits, to include company service credit and the opportunity to participate in a Multiple Employer Pension Plan and companion retiree medical benefit.

To implement these provisions of the contract, DOE and Bechtel Jacobs Company worked cooperatively to communicate the requirements to the subcontracting community while moving quickly to advertise, compete, and award a large number of subcontracts.

OBJECTIVES

In order to meet the subcontracting challenge, Bechtel Jacobs Company started with a set of overall objectives. These included complying with the prime contract requirements; conducting procurements in an effective, efficient manner; utilizing best business practices; treating suppliers fairly and as partners; operating to the highest ethical standards; and supporting projects fully.

Accomplishing these objectives required balancing limited resources to support projects. The M&I mission at Oak Ridge includes project "cleanup" work, site services, and requirements of the Bechtel Jacobs Company functional organizations. To plan and integrate these diverse requirements, Bechtel Jacobs Company developed an Integrated Subcontracting Strategy (ISS).

INTEGRATED SUBCONTRACTING STRATEGY

The ISS provides linkage between the major planning documents (Life Cycle Baseline and Fiscal Year Baseline) and specific subcontract scopes of work. Developing the ISS requires participation by all Bechtel Jacobs Company project managers and functional managers.

Having an ISS allows consolidation and leveraging of work across waste and cleanup projects and functional areas. It also establishes an integrated subcontract sequence that improves internal planning and maximizes supplier responsiveness to subcontract packages. Another advantage of the ISS is that it provides a basis for realistic communications to suppliers on planned subcontracting and in identifying work scope for small business, small-disadvantaged business, women-owned small business and historically black colleges and universities.

The ISS process is based on the premise that maximum efficiencies can be realized in project execution and integration by discipline-based subcontracting that puts similar types of work together. Bechtel Jacobs Company classifies project activities according to pre-defined discipline-based categories, such as remedial action, decontamination and decommissioning, and surveillance and maintenance. After the work is classified, specific subcontract work packages are developed based on classification.

SUBCONTRACTING STRATEGY

The ISS provides an overall road map for subcontracting. The next step is a subcontracting strategy to implement the ISS. This strategy must address a variety of issues, such as obtaining price competition, utilizing best-in-class subcontractors, meeting Federal Facility Agreement milestones and other regulatory requirements, meeting or exceeding socioeconomic goals, providing for sustainable workforce transition, recognizing the represented workforce and union jurisdictions, responding to schedule and funding constraints, and recognizing geographical (Oak Ridge, Tennessee; Paducah,

Kentucky; and Portsmouth, Ohio) constraints. The Bechtel Jacobs Company subcontracting strategy includes:

- Competitively awarded fixed-price or fixed-unit-price subcontracts based on well-defined, performance-based scopes of work
- Prequalification of bidders
- Placing as much responsibility for project scopes as practicable on project subcontractors
- Performance-based – end results to be accomplished
- Utilizing functional subcontracts, as needed, to support M&I core activities
- Utilizing site services subcontracts to support both project and M&I core functions
- Minimizing interfaces for efficient subcontractor integration and work execution
- Utilizing multi-year subcontracts, normally with a three-year base and two (2) one-year options
- Implementing an Integrated Safety Management System approach by clearly specifying Environmental, Safety and Health (ES&H) requirements in the RFP and subcontract; providing oversight of work by a Subcontract Technical Representative (STR); and providing orientation and mentoring by a Safety Advocate

PROCUREMENT PROCESS

The Bechtel Jacobs Company Procurement process has seven major steps that take a subcontract from formation through closeout. The steps are:

1. Develop subcontract specific procurement plan: This addresses the strategy, scope, schedule and budget.
2. Establish integrated subcontract formation team: Members include the project or functional lead, Procurement, ES&H, Field Services, Engineering, and the STR.
3. Conduct bidder prequalification/establish bidder list: Prequalification is a key element of many Bechtel Jacobs Company subcontracts. This step looks at the subcontractor's safety, prior experience in performing work similar to the statement of work, ES&H record, quality of work, and compliance with workforce transition.

4. RFP/subcontract formation: During this step, individual formation team members are responsible for their respective section(s). Management reviews are held at the 10% and 80% reviews; DOE is briefed at the 80% review; and reviews are conducted by Legal, Procurement, and the Project or Functional lead prior to release of the RFP.
5. Bid/Award: This step includes conducting a pre-bid conference; evaluating bids against stated criteria; and conducting a kickoff meeting with the awardee. DOE consent is obtained prior to award. The partnering between DOE-ORO and Bechtel Jacobs Company during the subcontract strategy process and formation has proved to be beneficial and has been a significant element in securing consent to award expeditiously.
6. Manage Subcontractor Performance: The award is conditional on appropriate subcontract submittals, completing workforce transition staffing if required, and making any necessary permit modifications. Procurement then issues a notice to proceed, final award is made, the subcontractor mobilizes, performs the scope of work, and demobilizes. The STR has overall responsibility for monitoring subcontractor performance.
7. Closeout: A punchlist of final tasks is developed, final submittals are made, final payment is processed, closeout is completed within 60 days of final payment, and all contract documents are forwarded to Bechtel Jacobs Company document control for retention.

The STR is a key person in administering the subcontracts. This individual is a technically qualified person assigned to the project and is not a member of the Procurement organization. The STR monitors the subcontractor's work against subcontract requirements, performs required daily/weekly inspections, inputs daily reports and quantities into the database, monitors subcontractor cost accruals and schedule compliance, and ensures compliance with ES&H requirements through continuous coordination with the Bechtel Jacobs Company Safety Advocate.

COMMUNICATIONS WITH SUPPLIER COMMUNITY

A key element to success in subcontracting on the Oak Ridge M&I has been frequent, open, two-way communications with the supplier community. Bechtel Jacobs Company began this process before winning the M&I contract by holding supplier forums and other activities to become familiar with the subcontracting community.

Since the job was awarded to Bechtel Jacobs Company in late 1997, the company has held eight supplier forums (five in Oak Ridge, Tennessee; two in Portsmouth, Ohio; and one in Paducah, Kentucky). Additionally, Bechtel Jacobs Company held detailed workshops on workforce transition to provide information and answer questions about how the transition process will work. Bechtel Jacobs Company senior management has also met with members of the supplier community, and the company established a Supplier Advocate.

Another communications tool is a web site (<http://www.bechteljacobs.com/sub.htm>) that includes a 90-day forecast, pre-qualified bidders lists, awarded subcontracts, workforce transition information, and a feedback feature. Also, included on the web site is an “evergreen” subcontract listing covering requirements beyond the 90-day forecast.

WORKFORCE TRANSITION

Workforce transition is likely the most complex issue for Bechtel Jacobs Company and companies bidding on subcontracts. When work being performed by Bechtel Jacobs employees or Lockheed Martin employees is subcontracted, the successful bidder is provided a list of resource types (not by name but by function and grade level) who are either presently performing the work or resources who can perform work that is essentially identical in the function. The subcontractor is required to give those employees right of first refusal for non-management positions. The subcontractor is not required to hire all employees on the list, only those who are needed to meet the needs of the statement of work. Those who are not hired by the subcontractor will be moved to other work (if available) or laid off.

While this process sounds simple, there are many issues that need to be resolved. Subcontractors are faced with a situation that is much more complex than their normal bid process. They are accustomed to bidding a scope of work with their own employees and benefits plans. Under the M&I, they are required to offer non-management positions in their organization to employees with whom they have no experience, and to offer those employees a benefit plan that is likely different from their own.

Small businesses in particular are concerned over the complexity posed by workforce transition. They are also concerned over having a dual pay and benefits plan and the potential cost of that plan. All bidders are concerned about submitting fixed- or fixed-unit-price bids without knowing the complexities of the workforce they will be using.

Resolving these issues has been a joint effort between DOE, Bechtel Jacobs Company, and other ORO primes, the employees, the subcontracting community, and organized labor. By listening to the concerns of all parties, Bechtel Jacobs Company was able to move quickly toward subcontracting and workforce transition, while addressing the concerns of employees and the subcontractors. The major steps that were taken are:

- Establishing a multi-discipline workforce transition team. This team represents all project and functional departments and develops an integrated approach for subcontracting and workforce transition.
- Establishing multi- and multiple employer benefit plans
- Implementing standard subcontract terms and conditions for workforce transition and management

- Implementing a detailed workforce transition process flowchart and procedure
- Establishing checklists for evaluation of pay and benefit submittals from bidders
- Communicating openly and often with the supplier community through supplier forums, workshops, extensive questions and answers on the Bechtel Jacobs Company web page, and a pre-approval process for substantially equivalent pay and benefits
- Communicating fully with affected employees through orientation sessions for all managers and supervisors, explanation of workforce transition process to all employees, and roundtable forums with written questions and answers. Employees submitted more than 500 questions.
- Working in partnership with organized labor. The labor agreement with the Oil, Chemical, and Atomic Workers Union (OCAW) at ETPP was amended to incorporate provisions for subcontracting and workforce transition. Separate interactions are underway with the Atomic Trades and Labor Council at Y-12 and Oak Ridge National Laboratory, OCAW at Paducah, Kentucky, and OCAW at Portsmouth, Ohio. A joint labor-management alliance strategy is to be implemented at each site, including Bechtel Jacobs Company subcontractors.

Workforce Transition During the Award Phase

When a subcontract involving workforce transition is planned, there are two special requirements in the RFP. One is Exhibit C Form B, "Workforce Transition and Management." The other is Exhibit H, "Workforce Transition and Management Requirements."

The "Workforce Transition and Management" section includes (1) a Staffing Plan based on job titles, salary midpoints, and other criteria; (2) Pay and Benefits Analysis; and (3) Employment Management Policies and Programs. During the evaluation of bids, the Staffing Plan is evaluated for credibility by the project team and Human Resources, and the Pay and Benefits Analysis is evaluated by a Human Resources board to determine if it is substantially equivalent. These evaluations result in a "go/no go" decision. If the plans are acceptable, then the bidder qualifies for the competition and price determines the award. If the plans are not acceptable the proposal is considered non-responsive.

Exhibit H, the "Workforce Transition and Management Requirements," describes the program responsibilities of the parties. It becomes a part of the subcontract award, along with the Pay and Benefits Analysis.

Upon award, the successful bidder interviews employees who are eligible and hires those that are needed to fill non-management jobs. This process is carried out in accordance with the Staffing Plan submitted with the proposal.

Workforce Transition After Award

The subcontractor's bid is adjusted based on the actual salaries of the employees who transitioned with "substantially equivalent pay and benefits." The subcontractor manages the workforce in accordance with the Staffing Plan and the Management Policies. When the subcontractor's assignment is finished, the severance process requires Bechtel Jacobs Company approval. During contract closeout, the subcontractor and Bechtel Jacobs Company will work closely to identify potential future assignments for the employees on other subcontracts.

STATUS OF SUBCONTRACTING

Bechtel Jacobs Company must meet the dual challenges of subcontracting a large amount of work and transitioning employees to subcontractors. Substantial progress is being made in both areas.

Subcontracting Progress

At the end of December, Bechtel Jacobs Company had awarded about \$140 million in subcontracts, and the pace is expected to pick up dramatically in the coming months. Another \$770 million is listed in the 90-day subcontracting forecast, putting the company on its way to the goal of \$1 billion in multi-year subcontracts in the first 18 months.

Workforce Transition Progress

After much preparation and communication with employees and potential subcontractors, workforce transition began last fall. By the end of December about 50 employees had been transitioned to subcontractors.

The pace of workforce transition will pick up substantially in the coming months. Bechtel Jacobs Company presently has about 1,600 employees. Services purchased from Lockheed Martin accounts for approximately 1,500 additional employees. Under the Bechtel Jacobs Company contract with DOE, this workforce transition is to be completed by April 1, 2000.

As work is moved to subcontractors, Bechtel Jacobs Company expects to have only about 800 employees by September 1999, and to be down to the core organization of about 400 to 500 employees by April 2000. Additionally, many of the services being purchased from Lockheed Martin will also be subcontracted. As subcontracts are awarded, somewhere between 1,000 and 1,500 employees from Bechtel Jacobs Company and Lockheed Martin, will be transitioned to subcontractors during 1999.

Community investment/job creation is also a contract requirement. This requirement states that Bechtel Jacobs Company is to create \$427 million in non-DOE funded payroll over the five and one-half years of our prime contract. The cost and efforts required to meet this requirement is for Bechtel Jacobs Company account, in other words, non-

reimbursable to Bechtel Jacobs Company. This activity is performed by Bechtel Jacobs Development Company which is a separate entity from Bechtel Jacobs Company. The penalty for not meeting this requirement can have a significant impact on our fee. For example, our inability to deliver on these commitments will result in the forfeiture of \$1 in fee for each \$1 worth of payroll not delivered, not to exceed one-half of the earned fee for each fiscal year. Based on this commitment and our proposal, and concurrence from DOE-ORO (January 11, 1999) we are flowing down community investment/job creation on selected request for proposals.

SUMMARY

By working closely with suppliers, employees, organized labor, and other stakeholders, DOE and Bechtel Jacobs Company are successfully subcontracting work as required by the M&I contract. Bechtel Jacobs Company has developed an Integrated Subcontracting Strategy and a workforce transition plan, and communicated this information to the subcontracting community. More than \$140 million of subcontracts have been awarded, another \$770 million is in the 90-day forecast, and the process of moving employees to subcontractors is under way.