

**OAK RIDGE ENVIRONMENTAL M&I CONTRACT: REDUCING COSTS,
ACCELERATING CLEANUP, AND MOVING THE WORK TO SUBCONTRACTORS**

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ABSTRACT

The Oak Ridge Environmental Management and Integration Contract, awarded to Bechtel Jacobs Company LLC in late 1997, was a major step in the Department of Energy's (DOE) contract reform initiative. As a Management and Integration (M&I) rather than a Management and Operations (M&O) contractor, Bechtel Jacobs is required to perform the work entirely through subcontractors, and to transition the former M&O workforce to subcontractors. Recognizing the complexity of this task, DOE established a two-year period for Bechtel Jacobs to accomplish the transition. That two-year period will end on April 1, 2000.

The performance-based contract is for 5 ½ years, is valued at \$2.5 billion, and has an option for renewal for five years. The scope of work includes Environmental Management, Uranium Programs, and Reindustrialization at the Oak Ridge Reservation in Tennessee, and at the gaseous diffusion plants in Paducah, Kentucky, and Portsmouth, Ohio. The M&I contract also commits Bechtel Jacobs Company to creating new jobs with an annual non-DOE payroll of \$427 million in a five-county area of East Tennessee, and to contributing \$1 million per year to charitable and educational organizations.

Bechtel Jacobs Company began a phase-in period in January 1998 and assumed full responsibility for the work on April 1, 1998. The Environmental Management workforce employed by Lockheed Martin Energy Systems, Inc., transitioned to Bechtel Jacobs Company on April 1, 1998. The M&I contract provides for a two-year transition, during which time Bechtel Jacobs Company is to evolve to a full M&I structure, with work being performed through competitively-awarded subcontracts.

All of the goals set for the transition period are being met:

- Safety is steadily improving
- Cleanup work is being accomplished on time and at lower cost
- The goal of awarding more than \$1 billion in multi-year subcontracts will be essentially complete by April 1, 2000.
- By April 1, 2000 more than 1,500 employees will have been transitioned to subcontractors.
- Bechtel Jacobs Company has exceeded its goals for creating private sector payroll
- Former government facilities are successfully being reindustrialized. More than 50 private companies have signed leases for facilities at the former Oak Ridge Gaseous Diffusion Plant, some helping clean up buildings, others manufacturing new industrial products.

INTRODUCTION

Although the Department of Energy has implemented M&I contracts at Rocky Flats and Hanford, the Oak Ridge M&I has elements that add additional complexity. The work is located at five sites: the former K-25 enrichment plant, the Y-12 Plant, and Oak Ridge National Laboratory, all in Oak Ridge; plus the gaseous diffusion plants at Portsmouth and Paducah. Work was transitioned to BJC from four other prime contractors. Instead of taking over all the scope being performed by the previous contractor, BJC only took over about one-third of the scope being performed by other ORO prime contractors.

Perhaps the biggest difference between the Oak Ridge M&I and those at Rock Flats and Hanford is the requirement for subcontracting and workforce transition. Instead of bidding the job with a group of pre-selected subcontractors, BJC is a pure integrator, hiring subcontractors through competitive bids. As subcontracts are awarded, BJC transitions the former LMES employees to the subcontractors' payroll.

These requirements are spelled out in two paragraphs of Clause H-23 in the BJC 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.

On first reading, these provisions sound relatively simple. However, as with many things, experience showed that the task was not as simple as it sounded. In its proposal, Bechtel Jacobs presented a plan for accelerating cleanup and reducing costs while subcontracting the work and making the workforce transition. This plan has succeeded, as illustrated in five major areas:

1. Improving safety
2. Subcontracting the work
3. Accelerating cleanup while reducing costs
4. Transitioning the workforce
5. Diversifying the economy

IMPROVING SAFETY

The Bechtel Jacobs approach to improving safety has four key elements:

- Continuing to instill a corporate Zero Accident culture
- Holding individuals responsible for safety
- Implementing Integrated Safety Management
- Prequalifying subcontractors based on their safety record

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Since becoming the M&I contractor, Bechtel Jacobs has reduced the "lost workday away" case rate by 52%, reduced the OSHA recordable injury/illness rate by 48%, and attained an OSHA recordable injury/illness rate that is 70% below the national rate for private industry.

SUBCONTRACTING THE WORK

In its proposal, Bechtel Jacobs committed to spending 93% of the program dollars with subcontractors, and to have \$1 billion of multi-year subcontracts in place by the end of transition on April 1, 2000. The company also committed to aggressive goals for subcontracting with small, small disadvantaged, and woman-owned businesses, and with Historically Black Colleges and Universities and Minority Institutions (HBCU/MI).

Several steps were taken to assist potential subcontractors with understanding the procurements and dealing with the complexity of workforce transition. These include:

- Establishing a Supplier Advocate
- Communicating openly and often with the supplier community through supplier forums, workshops, extensive questions and answers on the web, and a pre-approval process for substantially equivalent pay and benefits
- Establishing 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

Through the end of December 1999, more than 120 fixed-price or fixed-unit-price subcontracts had been awarded, with an estimated value of \$885 million. Additional procurement currently in progress will reach the goal of \$1 billion in multi-year subcontracts by April 1, 2000.

All socioeconomic goals have been exceeded, with the exception of awards to HBCU/MIs. The shift to remediation work has made it difficult to match project needs with the existing capabilities of HBCU/MIs. Additional attention is being focused on this issue to find opportunities for these institutions.

ACCELERATING CLEANUP WHILE REDUCING COSTS

The M&I concept is based on the premise that specialty subcontractors, working under fixed-price contracts, will perform the work at lower cost than an M&O contractor performing the work with an in-house workforce. Experience to date on the Oak Ridge M&I has shown that premise to be true.

Through the end of 1999, about \$240 million in multi-year costs savings had been realized through competitive subcontracting. This saving is measured by comparing the successful bidder's cost to the in-house estimate. For example, the in-house estimate for remediating a series of surface impoundments at Oak Ridge was \$23.2 million. The successful bidder's price

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was \$9.5 million, a reduction of 59%. While this is one of the highest percentage cost savings achieved, many subcontracts are showing savings in the range of 20% to 30%.

Reducing costs is half the equation; accelerating cleanup is the other half. Significant progress is being made in this area. Accomplishments include:

- Signing a Record of Decision and awarding a privatized contract for an on-site disposal cell, a key to getting on with cleanup on the Oak Ridge Reservation
- Removing all DOE-owned high-enriched uranium from Portsmouth and downgrading the facility to Nuclear Category 3. This resulted in cost avoidance for safeguards and security in FY 2000 of up to \$14 million
- Completing the S-3 Pond, Basin 9822, and firing range removal actions at the Y-12 Plant
- Shipping more than 1.4 million kilograms of unstabilized pond waste for offsite treatment and disposal, and completing demolition of three buildings at the East Tennessee Technology Park.
- Completing remediation of several tanks on the Gunitite Tank project at Oak Ridge National Laboratory
- Exceeded the 50% goal of construction for the LASAGNA in-situ soil cleanup technology project at Paducah

With subcontracts in place for many major activities, progress will accelerate even more in FY 2000, including a major effort to remove "Drum Mountain" at Paducah, a large pile of waste drums that has become a major focus of regulators and the public.

TRANSITIONING THE WORKFORCE

No element of making the transition to an M&I contract has been more complex than the workforce transition. Resolving these difficult personnel issues has been a joint effort between DOE, BJC, other ORO primes, the employees, the subcontracting community, and organized labor. By listening to the concerns of all parties, BJC 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:

- Communicating fully with affected employees through orientation sessions for all managers and supervisors
- Explaining workforce transition process to all employees
- Holding round-table forums with written questions and answers
- Working in partnership with organized labor
- Working with subcontractors to help them implement the requirements of workforce transition

When Bechtel Jacobs became the M&I contractor on April 1, 1998, the overall Oak Ridge EM program was supporting about 4,100 full-time equivalents (FTEs). By the completion of transition on April 1, 2000, this number will be about 3,100, and will be distributed in a

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markedly different manner. The following table shows the makeup of the workforce before and after the M&I transition:

FULL-TIME EQUIVALENT EMPLOYEES IN THE OAK RIDGE EM PROGRAM		
Employer	April 1998	April 2000
Bechtel Jacobs Company	1,700	700
Lockheed Martin Energy Systems	780	70
Lockheed Martin Energy Research	1,055	170
United States Enrichment Corp.	600	100
Incumbent employees moved to subcontractors	0	~1,000
Management staff brought in by new subcontractors	0	~1,000
TOTAL	4,135	~3,040

While this reduction of about 1,000 FTEs over a two-year period contributes to the goal of reducing the cost of EM work, it also results in difficult times for employees and the affected community. Not all of the 1,000 employees were laid off; many left through normal attrition or took jobs elsewhere, but the M&I transition did involve a significant number of layoffs. The community impact was somewhat softened because the reductions had been anticipated for a long time, and they took place over a two-year period. There was no large, single layoff; as work was transitioned to subcontractors, the employees who were not hired by the successful bidder were released of there was no other work for them.

DIVERSIFYING THE ECONOMY

Recognizing the community impact of job reductions in the EM program, DOE built unique economic diversification requirement into the M&I contract. In response to this requirement, Bechtel Jacobs committed to creating \$427 million of new non-DOE payroll in the five-county area around Oak Ridge during the 5-½ years of its contract. The cost of this program is paid entirely with corporate funds.

The Bechtel Jacobs contract contains goals for new payroll to be created during each year, as follows:

1998 - \$ 11 million
1999 - \$ 43 million
2000 - \$ 65 million
2001 - \$ 84 million
2002 - \$103 million
2003 - \$121 million
Total - \$427 million

If the company fails to meet a goal for a given year, it forfeits half the fee earned on the EM program that year, up to one-half of the earned fee. Bechtel Jacobs exceeded the goal in 1998 and 1999, and is on track to meet the \$427 million target for the entire contract period.

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More than 3,300 new jobs, paying out \$58 million in payroll, were created during 1999 in Anderson, Roane, Knox, Blount and Loudon counties, as a result of Bechtel Jacobs Company's job creation program. Through partnerships with 41 companies and the economic development organizations in the five-county area, Bechtel Jacobs exceeded the 1999 payroll goals by \$15 million. All indications are that the company will meet the overall \$427 million payroll goal with the companies currently in place.

While these new jobs don't necessarily create opportunities for workers laid off in the EM program, they do contribute to the local economy and, on a regional level, offset the economic impact of Federal job losses.

SUMMARY

The Oak Ridge M&I contractor is meeting the ambitious goals established when the contract began nearly two years ago. The safety record is continuing to improve, workforce transition is nearly complete, more than \$1 billion of multi-year subcontracts will be in place by April 1, cleanup work is accelerating, costs are coming down, and economic diversification efforts are succeeding.