

ROCKY FLATS CLOSURE CONTRACT

Summary of Key Provisions



Summary

On January 24, 2000, the U.S. Department of Energy (DOE) and Kaiser-Hill Company, L.L.C. signed a contract to safely close the Rocky Flats Environmental Technology Site as early as Dec. 15, 2006. This contract represents the next generation of DOE contract reform. The contract includes detailed descriptions of the work scope, schedule, and cost for closing Rocky Flats. It also includes a new structure for measuring and incentivizing contractor performance based upon an "earned value" approach and precedent-setting contractor accountability in safety, health, environmental compliance, and safeguards and security. While the new contract has many innovative features, DOE's and Kaiser-Hill's commitment to the following remains unchanged:

- Closure by the end of 2006*
- Nothing less than full compliance with safety, health, environmental, and safeguards and security requirements*
- Worker safety and protection*
- The closure of Rocky Flats will take not one day longer or cost one dollar more than is necessary to do the job safely*

The following is a brief summary of some of the key features and provisions of the contract.

Contract Start Date

February 1, 2000.

Target Completion Date

December 15, 2006. The contract establishes incentives for completion before December 15, 2006. There is a reduction in fee earned by the contractor for every day worked after December 15, 2006.

Target Project Cost

Approximately \$4 billion dollars (not including incentive payments). The contract establishes fee incentives for completion under the target cost and fee reductions for completion over the target cost. See Incentive Fee Structure, Page 3.

Annual Project Funding

The contract terms are based on a minimum site closure project funding level of \$657 million per year.

Incentives for Excellence in Safety, Health, Environmental Compliance, and Safeguards and Security

The contract is heavily focused on full and effective safety, health, environmental compliance, and safeguards and security requirements. The greatest challenge to the site's ability to complete the safe closure of Rocky Flats on schedule and within target cost lies with safety and compliance-related work suspensions and penalties. Under the new contract, Kaiser-Hill takes on full responsibility for any such suspension of work and can request no additional funding or schedule delays as a result. The contract structure provides dramatic cost and schedule incentives which require Kaiser-Hill to work safely. In addition, the contract provides for the reduction of contractor incentive payments (in essence assessing a penalty) for events or incidents that are "symptomatic of a breakdown in the safety management system." The contract divides events into three categories based upon severity, ranging from the most severe such as a work place fatality to less severe incidents such as an accident resulting in five or more lost work days or a decline in monthly safety indicator statistics. Incentive payment deductions could range from up to \$250,000 for the least severe category of incident to amounts substantially in excess of \$10 million for the most severe.

Scope of Work Covered by the Contract

The May 21, 1999, 2006 Rocky Flats Closure Project baseline submittal and the Rocky Flats Cleanup Agreement (RFCA) served as the basis for the scope of work contained in the contract. The contract scope generally includes the following:

- All buildings are demolished, except continuing water treatment facilities or other structures with a DOE-declared continuing mission.

- All Individual Hazardous Substance Sites (areas of suspected contamination) are remediated or dispositioned per the RFCA.
- All wastes are removed except for some materials that can be left in place, recycled, or used as fill materials in accordance with regulatory requirements.
- Closure caps are used for the remediation of two old landfills, the 700-area, and the solar ponds or these areas are otherwise remediated in accordance with the RFCA.
- Building foundations, utilities, or other remaining structures, paved roads and/or parking lots are covered by a minimum of three feet of fill.
- Surface water on site meets health-based standards based on open space use calculated using methodology and toxicity assumptions used for the July 19, 1996, surface water action level.
- Water leaving the site in Woman and Walnut creeks meets the water quality standards established by the Colorado Water Quality Control Commission.

DOE and Kaiser-Hill will use the above-listed bullets in determining when the full work scope of the contract has been completed. If regulatory or other reasons cause the scope to change, the contract would be modified to reflect the change, and cost and schedule could be affected.

New Baseline

The contract calls for Kaiser-Hill to revise its current closure project baseline plan in accordance with the contract provisions. The amended baseline must be submitted to DOE by June 30, 2000.

Subcontracting

Under the new contract structure, Kaiser-Hill will remain the integrator of all work at the site and will work toward a goal of self-performing not more than 20 percent of the project work scope. The remaining 80 percent would then be subcontracted. Major site subcontractors are expected to continue to play a significant role. However, there will be an increase in competitive subcontracting opportunities. A detailed subcontracting strategy will be developed and implemented over the next several weeks.

The new contract also requires an extensive evaluation of subcontractors to ensure the highest standards in safety and environmental compliance. Subcontractors that do not meet the stringent requirements set forth by the contract will not be utilized by Kaiser-Hill to perform work at Rocky Flats.

Provisions for Increased Contractor Responsibility

Under the terms of the closure contract, Kaiser-Hill is assuming more financial responsibility than any site management contractor in the history of DOE. In addition to the safety, health, environmental compliance, and safeguards and security responsibilities discussed above, major areas of responsibility taken on by Kaiser-Hill include:

- The acceptance of responsibility for many “changed conditions” on site, such as generating more facility disposition waste than anticipated, finding more building contamination than expected, or having project delays due to technology failures. Kaiser-

Hill must identify cost savings or efficiencies to make up for any project delays or increased costs rather than requesting increased funding to cover the change.

- The sharing of 30 percent of cost overruns with the government, which means that 30 cents on every dollar over the negotiated target cost is taken directly from Kaiser-Hill's potential earnings.

Earned Value as a Measure of Performance

Under the new contract, Kaiser-Hill will receive conditional progress payments based on "earned value" to the government for overall progress toward the closure goal and Kaiser-Hill's effectiveness in cost management. Overall progress will be measured only in the completion of actual physical closure work; overhead and support work — while necessary to complete the safe closure of the site — are not considered part of earned value. The adoption of an earned value approach eliminates the use of specific performance measures tied to specific buildings or project areas. Earned value measurements will be created by looking at work required for the closure project as a whole — all work activities across multiple years to be performed between now and closure. This work will be divided into sets of work with a monetary or earned value amount attached. The most important advantage of this system is increased flexibility. Every quarter, an agreed upon level of earned value must be completed, but Kaiser-Hill will have the flexibility to determine which work to perform based upon work situations, project needs, and what makes sense for the overall path toward closure.

Incentive Fee Structure

The contract provides for quarterly fee payments based upon earned value and cost performance. These quarterly progress payments could amount to \$150 million over the life of the project with additional significant fee incentives available for reductions in cost and schedule. The contract provides for substantial incentive earnings for early project completion and a reduction in project costs. None of the incentives available under the contract are actually earned until the project is completed.

Kaiser-Hill intends to continue with an employee incentive program for performance and safety so that they, too, can be rewarded for progress. The details of employee incentives will be finalized in the near future.

Performance Reporting

The contract requires Kaiser-Hill to provide routine monthly reports and submit a Quarterly Critical Analysis Report to the DOE. This will document project status for the quarter including cost/schedule variance and safety performance, and cumulative project performance. This report will serve as one form of documentation for provisional fee payment.

Collective Bargaining Agreements

The collective bargaining agreements with the United Steelworkers of America, Local 8031; the Colorado Building and Construction Trades Council; and the Rocky Flats Security Officers Independent Local Number 1 will continue under the new closure

contract. Any desired changes will be negotiated in full accordance with the terms and conditions of these contracts.

Work Structure with DOE

The contract provides specific guidelines for interactions between Kaiser-Hill and the DOE. Provisions range from specific administrative requirements for how deliverables are to be packaged and submitted to specifically who in the DOE organization has authority to give contract technical direction. The establishment of a single DOE point of contract authority (the DOE Contracting Officer) is designed to provide increased efficiency and consistency. In addition, the contract defines response and review times for specific government-furnished items and services.

DOE Orders, Directives, and Commitments

DOE and Kaiser-Hill will establish written understandings that jointly commit to an operating framework more appropriate to the closure environment. This allows DOE to oversee and regulate site activities with a focus on closure.



Make It Safe. Clean It Up. Close It Down.

For further information about Rocky Flats

*Contact DOE Communications at (303) 966-5993, or Kaiser-Hill Communications at (303) 966-2882, or toll free at (800) 269-0157 (press *82882# when you hear the automated attendant). Also, additional information about Rocky Flats is available on the internet at: <http://www.rfets.gov>*