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FY 1997 Cost Savings Report

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FY 1997 Cost Savings Report

BACKGROUND

With the end of the cold war, funding for the Environmental Management program increased rapidly as nuclear weapons production facilities were shut down, cleanup responsibilities increased, and facilities were transferred to the cleanup program. As funding for the Environmental Management (EM) program began to level off in response to Administration and Congressional efforts to balance the Federal budget, the program redoubled its efforts to increase efficiency and get more productivity out of every dollar.

Cost savings and enhanced performance are an integral part of Hanford Site operations. FY 1997 was the third year of a cost savings program that was initially defined in FY 1995. The definitions and process remained virtually the same as those used in FY 1996.

WHAT'S NEW IN 1997

- Fluor Daniel Hanford (FDH) officially takes over as Hanford's new Management and Integration contractor, with six major subcontractors.
- Cost savings are also described as "enhanced performance" by the U.S. Department of Energy, Headquarters (HQ), and a new reporting requirement was initiated. Annual submissions of the cleanup strategy, now known as *Accelerating Cleanup: Paths to Closure*, will include enhanced performance data.
- In March 1997, at the EM Corporate Forum, Hanford Site leaders discussed a potential challenge to achieve \$2.5 billion of enhanced performance by the end of FY 2006. In July 1997, Hanford Site leaders, along with HQ, regulators, and other stakeholders, conducted a "workout" in Salt Lake City. During this workout, the U.S. Department of Energy, Richland Operations Office (RL) agreed to the \$2.5 billion as an enhanced performance target or goal. The objective is to use the savings to accomplish more workscope during the 1997 – 2006 window and accelerate cleanup of the Hanford Site. The FY 1997 savings will be applied toward this goal.

KEY DEFINITIONS

The total savings at Hanford are derived from two types of actions: workscope deletions and efficiency savings. Savings definitions are as follows:

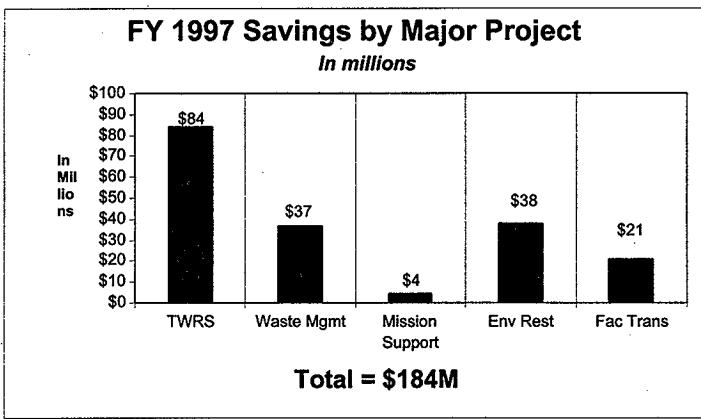
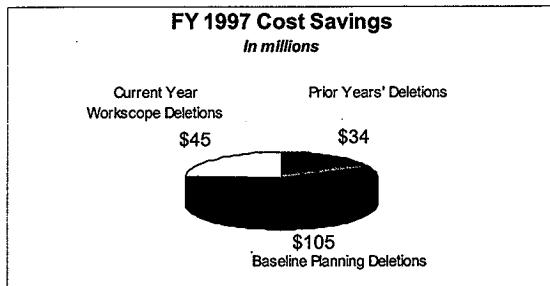
Workscope Deletions – Identifying and deleting work that is no longer required to achieve a desired outcome. Savings in this category could result from using new technologies that replace old processes, outsourcing inefficient processes, or eliminating low-value work. Only work that is permanently deleted from a life-cycle perspective is recorded as savings.

- Prior Years' Workscope Deletion Savings – Workscope deletions that were initiated in an earlier fiscal year but also had savings impacts in FY 1997.
- Baseline Planning Workscope Deletion Savings – Workscope deletion savings resulting from the FY 1997 multi-year baseline development process that matched workscope and anticipated funding as of October 1, 1996. This process is performed annually.
- Current Year Workscope Deletion Savings - Savings resulting from workscope deletions that were documented by change control during FY 1997.

Efficiency Savings - Efficiency savings are the cost variances reported in the earned value performance reporting system. Cost Variance equals Budgeted Cost of Work Performed minus Actual Cost of Work Performed (CV=BCWP-ACWP).

FY 1997 EM SAVINGS

Hanford Site cost savings for FY 1997 totaled \$184 million. The FY 1997 savings were measured against a baseline of \$1.2 billion (the Hanford Budgeted Cost of Work Scheduled [BCWS] in the FY 1997 Hanford Site Contractor Multi-Year work plans). FY 1996 savings initiatives generated a \$34 million favorable impact on FY 1997. RL also initiated baseline planning actions during the FY 1997 multi-year baseline development process and identified \$105 million of workscope deletions at the beginning of FY 1997. Over 340 cost baseline change requests were submitted during FY 1997 and resulted in an additional \$45 million of workscope deletions.



SAVINGS VERIFICATION PROCESS

Review of change requests: The review of baseline change requests is an integral part of the savings process. RL's Contract Finance and Review Division (CFR) reviewed each cost baseline change request to determine:

- (1) The impact of the change request on the project baseline and if the change was implemented in Hanford's financial systems;

- (2) the nature of the action(s), e.g., deletion, deferral. Many change requests contained multiple actions. CFR reviewed this information on a quarterly basis with RL project staff. Only deletions were counted towards savings. Workscope deferrals were not counted; and
- (3) that new workscope was not a reinstatement of a previous deletion.

Use of the EM Progress Tracking System (PTS) for efficiency savings: CFR used the PTS data to identify expense cost variances. A positive cost variance results when the actual cost of the work performed is less than budgeted, i.e., the work was performed efficiently.

Use of PTS system to test system integrity: CFR developed a revised baseline for each project at yearend that reflected the impacts of all approved cost baseline change requests. CFR then compared this revised baseline to the yearend baseline to verify that all change requests were reflected in the PTS system. This ensured savings were not duplicated.

FY 1997 COST SAVINGS EXAMPLES

Baseline Planning Deletion Highlights

- TWRS re-engineered processes in the 200 Area Tank Farms and was able to reduce costs due to simplified work planning, reduction in handoffs and workscope delays, and application of project principles.
- TWRS Characterization program undertook a project management initiative to significantly improve the performance of the assigned workscope. This involved an optimization of workscope procedures as well as an analysis of unit cost and throughput, and resulted in 10% reduced costs.
- Reduced travel, office supply, and just-in-time (JIT) equipment costs.
- Re-estimated the cost for the 300-FF Remedial Action and 116-B-11 Retention Basin Waste Site based on a change in the basic approach to determine waste volumes and additional assessment information. This significantly reduced the amount of waste volumes and associated costs.
- Reduced the estimated cost of waste disposal for decontamination and decommissioning of 190-C Main Pumphouse.
- Accelerated deactivations in Facility Stabilization Mission Area.

Current Year Workscope Deletion Highlights

- TWRS reduced costs of tank waste modeling, historical tank contents estimates, and evaluation of model effectiveness.
- Re-estimated Solid Waste costs for receiving, storing, treating, and disposing of solid waste to reflect "best-in-class" business practices.
- Deleted training, travel, and computer upgrades for the Analytical Services project.
- De-scoped the Waste Encapsulation and Storage Facility (WESF) system due to reduced liquid waste volume requirements as a result of waste reduction efforts.

FY 1998 COST SAVINGS PROGRAM

RL has several cost savings targets for FY 1998 based on the \$2.5 billion enhanced performance target. Hanford Site managers indicated at the Salt Lake City workout that approximately \$130 million of baseline planning deletion savings had been built into the June 1997 Integrated Priority List for FY 1998. CFR is currently reviewing the baseline change requests that will document these actions. RL also agreed to an additional target of \$75 million in enhanced performance/cost savings during FY 1998 based on the initial approved FY 1998 baseline of approximately \$1 billion.