sending letters back to contracting officers, and the presidents of the company or the managers of DOE may or may not even have known about the letter, nor was the letter clear and communicated what the issue was or what the resolution of the issue was.

DR. MATTHEWS: So is it fair to say then that managing the contract means the business aspects, and as far as the safety and operational you've got strong ownership of that?

MR. SCHEPENS: I've got strong ownership for the business, safety, and engineering aspects. It means it all, and I'm technically competent to do that. You have to be technically competent, you just can't be business competent.

DR. MATTHEWS: Good. Thank you.

CHAIRMAN CONWAY: Thank you. You don't believe in the Harvard Business School that you don't really have to know the product, just know how to manage it. Right?

MR. SCHEPENS: Right.

CHAIRMAN CONWAY: Mr. Aromi.

MR. AROMI: I think it's still morning. Good morning. Before I say the first words, while the screen is coming up, I think that managing the contract or managing the contractor notwithstanding,
having a customer who knows what they want and is 
will to interface with you, is having a customer 
that you can work with, and work under, and for, and 
that's where we are. We have a working relationship, 
and Roy and I make sure that it happens at all levels 
of the organization, and we're not there yet, but 
we're working on it, and I think --

CHAIRMAN CONWAY: I have your complete 
statement, and I'm prepared to put that in the 
record, and if it's agreeable with you, would you 
touch upon the high points?

MR. AROMI: I certainly will.

CHAIRMAN CONWAY: Thank you.

MR. AROMI: Thank you, and I just would -
- I would open with the fact that we obviously 
appreciate the opportunity to be here, but a little 
bite of history from CH2M Hill's perspective. We 
purchased the Lockheed-Martin Hanford contract 
company and its contract from DOE and took over 
operation in January of 2000. We assumed all of 
their policies, their procedures, and their 
organization, and by the end of 2000, and moving into 
2001, we embarked on a rather major independent 
assessment benchmarking ourselves against commercial 
practices and best in DOE facilities, and flowing out
of that first quarter of calendar 2001, we began to embark on a rather major overhaul of the company.

The first major issue for us was installing a corrected action management system that was different and had integrity, and that system is the first all-encompassing zero threshold system at Hanford, and we began to put that in place in the summer and fall of 2001, and we've been working and living with that system since, and it's gone through the traditional curves, and I'm going to talk about that later in the presentation, with the change of, at one point in time, 9000 items in the system that are now under control. It's mature, it's developed, and it's moved on, and we're -- in 2002, February in fact, 2002, I became the president of the organization. Roy came into ORP in June of 2002, and so we've had an opportunity to grow and change this together, but it wasn't until 2002 that we instituted an official independent assessment program with a manager dedicated to independent assessment in our company and reporting directly to the president's office.

The second slide I don't think we have to discuss at all. You know the business we're in. I would stop on the third slide, if I could. We
believe that management in our workforce are making significant strides and improving our operations. Since June of last year and September of this year, we've begun to see results from our efforts at performance improvement. As you can see, we have reduced the number of operational events to one third, reduced TSR [Technical Safety Requirement] violations to 20 percent, cut our reportables in half, reduced the corrective action backlog to 20 percent, and so forth.

One measure of our commitment control is the number of delinquencies we have in completing PER [Problem Evaluation Request] corrective actions, and PERs are problem evaluation requests that are the foundation of our corrective action management tracking system. The PERs are zero threshold program, a reporting document, and, whereas, we were close to 50 percent delinquency rate on completing actions on schedule a year ago, this chart shows five percent, and as of November, we were at 1.8 percent delinquent. Central to our ability to improve is our self-assessment program.

The next slide simply outlines the flow-down of requirements, and you're familiar with that, so if we could move on, our self-assessment process
is many forms of assessment, from highly-structured independent assessment to major work processes to surveillances.

I'll flip over to the next slide, which shows the relation of the various parts. The Senior Safety Review Board is funded out of my office, and I'll talk about that in a minute. The Independent Assessments Office and our Program Office for Assessments reports directly to the president's office now, and reviews, as you can see, the various relationships. We can move on.

In Independent Assessments base, we use a vertical slice technique on what we might call our major product lines. In Fiscal Year 2003, for example, we looked at project management using project W211 as the focus. In the waste management program, we centered on implementation of DOE Order 435.1 [Radioactive Waste Management], and in maintenance management we focused on the double-shell tank operations, and for construction management we used Project 314. The vertical slice allows us to pick up our own activities, but also those of our subcontractors, and Project 211 and 314 as you know are upgrades to our double-shell tank farm operation and have a good deal of interface
between subcontractors in the field and our own workforce.

Our independent assessments are performance and effectiveness based, but they have a compliance aspect to them, more so than management assessments. Independent assessments are one method we use to evaluate subcontractor operations, as I mentioned. Our independent assessments are led by NQA-1 [American Society of Mechanical Engineers, ASME NQ A-1, Quality Assurance for Nuclear Facility Applications] qualified lead auditors, even though the assessments are ISMS-based. We have two qualified auditors including the head of the group. We have just in the last -- beginning this year, this fiscal year, added three more full-time employees to that group, and we intend to get at least two of them qualified at the NQA-1 level by the end of this year.

Results from the independent assessments are obviously offered to the people who were assessed, but they are also presented to senior staff at a separate presentation meeting. In Fiscal ‘03 we generated 63 problem evaluation requests out of those independent assessments.

Management assessments are just that, obviously. They're assessments by managers of their
work activities. They're meant to be forward-looking, strategic looking to future needs and requirements, hopefully to ward off upcoming issues. They tend to focus on performance and effectiveness such as the level of technical rigor and engineering activities. Fiscal Year '03 was the first full year of this management assessment program, during the course of which we qualified approximately 30 leads using a qual card approach and trained over 80 managers in assessment techniques, so our managers, as they set up their programs, had tools to use, people who were qualified.

Senior managers in each major organization, whether it be engineering or project delivery, waste operations, closure projects, determine the topical areas for the assessment within their organization, and assign managers to develop and perform the assessments. The results of the organizations assessments are reported to the senior manager who uses those results, but who also has to roll those results up and report those directly to my office.

I might comment, the structure of our office, because of the way our contract was written originally, I have the president and the deputy
general manager and executive vice president in our office. Effectively, my deputy general manager and executive vice-president operates as the COO [Chief Operating Officer] of our organization. We simply don't use that term. I point that out because with management assessments you have a tendency, at least managers, to find more important things to do sometimes, with those assets and those managers who have been assigned to the task of performing the management assessment. One way that we've chosen to overcome that opportunity to slate management assessments is to put them in our integrated schedule.

Now Roy referred to his work being integrated into our schedule. We do a daily schedule, meaning we call it the decision-makers' meeting with high-level managers at the vice-president level attending on a daily basis, and Roy's staff attends, too, and we schedule everything but our level of effort work, and we do schedule these management assessments. Even doing that, we started to see last spring a slippage in good reasons why a management assessment had to be deferred, and so today the only way you get to defer something that's on the schedule is if you get the deputy general
manager, Dave Amerine's, permission to defer it, otherwise it doesn't get deferred, and you'll see in a later slide that nothing gets deferred anymore.

Now in the fall of 2001 we established a Senior Safety Review Board [SSRB] consisting of independent, executive-level personnel. They're tasked with looking at areas where we have emerging issues or a need for a focused look. For example, in the end of last year, just about this time, we embarked upon a major reorganization of our company, and we were aiming at an April 1st implementation. We invited our Senior Safety Review Board in to look at our transition plans before they were implemented, to guarantee that our transition plans that would take us from the old organization on April 1st to the new, adequately covered all of the aspects of our new ISMS certification that had just been recertified the previous August. So we brought them from the outside to do that.

The SSRB provides that independent check and an independent check on our assessment activities. They are, for example, scheduled in the week of December 8th, which I guess now is just next week, to begin a full-week assessment of how we are implementing our procedure 005 on management
assessments. You might know some of the names of the folks. They've been with us now two years, and are fairly experienced. They include Jim Cross, Joe Cowan, Herb Berman, Spence Williams, Bob Tiller, and John Longenecker to name a few. Again, that Senior Safety Review Board reports to the president's office and is funded out of our office.

The management observations are scheduled by managers and focus on detailed implementation of work controls. I just want to point out that we did over 1100 management observation program walk-throughs by managers, over half of which resulted in problem evaluation requests last year, PERs. Specialty assessments are also part of the program and as you said, this is in the record, and I'll just pass over that.

Oversight of contractors. I mention that we pick it up in our independent assessments and our assessment program. The outlines of the program are here. The reference to inspection by Fluor Hanford, as you all recall, the Lockheed-Martin Company was part originally of the PHMC [Project Hanford Management Contract], and there are a number of functions where we still today purchase services from Fluor Hanford. The qualified suppliers list is one
of those today, but we do oversee them as a subcontractor, and so we're very comfortable with where they are on that list and delivery of those products.

Now we get to project corrective action management. Assessment activities that we perform result in an over 1000 forms of documented assessments during last year, being a typical year. They generated over 700 PERs from the assessments. The Corrective Action Management process we have installed and continue to work to improve, follows INPO guidance on corrective action management. We seek a zero-based level of reporting issues for correction, we promptly screen the PERs for significance, we grade the PERs based on the significance, we trend PERs for repetitive problems, and perform rigorous analysis of significant problems. This calendar year we received approximately 4800 PERs. They covered a host of problems from bad lighting in a staircase to potential technical safety requirement violations. They are written by a broad cross-section of our workforce, including everyone from vice-presidents, managers, first-line supervisors, and crafts.

Everyone in the company has had training
in how to initiate a PER on our computer systems, and hard copy if they can't get to a computer. The only restriction on their use in our company is on jurisdictional issues covered by the collective bargaining agreements or on specific employee concerns that do not have safety-related or safety significance to them.

PERs are screened each day and graded to seven categories from significant PERs through PERs with resolution already, track until fixed, performance improvement, and evaluation which we call PIE SIMS [Performance Improvement Evaluation Survey Information Management System], trend only further evaluation and simply invalid, which may be a determination.

Significant PERs get special handling. They require a trained, root cause analyst to evaluate the PER and lead a team of people to determine extent of condition, root and contributing causes; they develop corrective action plans, and the plans for an end-point assessment to evaluate the corrective action effectiveness. The results of the team's efforts are then presented to the CARB [Corrective Action Review Board] which consists of seven of my direct report staff and is chaired by

NEAL R. GROSS
COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701
(202) 234-4433
www.nealgross.com
Dave Amerine, our Deputy General Manager. Rarely does a corrective action plan make it through this gauntlet on the first attempt. Most often that team is sent back to make changes and come back to the CARB.

In addition, we perform trend analysis on all PERs. Using codes assigned PERs during processing, we can trend on work processes, consequences, functional area, and other criteria. Using statistical techniques, we identify trends for evaluation, and PERs are written on apparent trends, and these PERs are entered into the corrective action process, just like any other PER. Oversight of this process is managed through the President's Quality Council, where issues and trends are reviewed monthly. The quality council is staffed by our quality manager, Rich Higgins.

CHAIRMAN CONWAY: Excuse me, Mr. Aromi, with your permission then, I'll put the rest of your prepared statement in the record as given.

MR. AROMI: Absolutely.

CHAIRMAN CONWAY: Dr. Eggenberger?

VICE CHAIRMAN EGGENBERGER: I have no questions.

CHAIRMAN CONWAY: Dr. Mansfield?
DR. MANSFIELD: No questions.

CHAIRMAN CONWAY: Okay. Dr. Matthews?

DR. MATTHEWS: Yes, just one question, and it's basically the same one I asked Roy Schepens. You've got a lot of trending tracking and data following type of things, close-out actions, but the one I'm worried about, as I said before, is the high consequence, low probability nuclear issue. How do you watch that one? How do you keep yourself comfortable that you've avoided that as you go into this accelerated clean-up, you've got a pretty accelerated, aggressive schedule to start pumping things out of the single-shell tanks?

MR. AROMI: The work in front of us is the work that we've been anticipating for years. We had very dangerous work when we had the whiting watch list and the 40 tanks, and we had extremely dangerous situations when we didn't have adequate characterization of what was in the tanks, and we have gotten past those things, and we've gotten past those things with this workforce. We are working on the processes to guarantee that we have structure in place so that as we move forward on our schedule to do the things we've been planning to do, and after all, acceleration isn't a word that we necessarily...
have to use in terms of where we're going and single-shell tanks for example, on the Tank Farms. We've had a TPA [Tri-Party Agreement] requirement to have those 149 single-shell tanks empty by 2018 for a number of years now, and we've been moving along a path to get there. We don't have any empty today, so we need about ten a year for the next 15 years to get there, and that's the plan we're trying to construct.

But in the meantime, we have been moving to upgrade our systems engineering, we've been moving to upgrade our processes, but we're not there. Vigilance is the key.

DR. MATTHEWS: Okay. Thank you.

CHAIRMAN CONWAY: The bottom line, however, is that when you start to make the transfers, that your technicians, your operators, know what they're doing, that they've been properly trained. I gather you tried to start up an S-112 yesterday, and you've actually turned out the operators even know how to stop the transfer pump, and you guys, your management, stopped them.

MR. AROMI: Well, that's absolutely correct.

CHAIRMAN CONWAY: Yes, but you took the action to stop it, but here again, you can have all
the best engineering, everything, but unless the guy
who puts his hand on the throttle knows what the hell
he's doing, and is properly trained to do it, they
can screw you up all the time. I mean, we learned
that in Three Mile Island. The best top management,
financial, and everything was all dependent upon the
fellows down in the control room that put their hands
on the actual equipment.

MR. AROMI: I certainly would hesitate to
come to conclusions at this moment. We're still
working on root cause and analysis, but in addition
to the fact that we made a decision to stop because
the computer operators are not trained --

CHAIRMAN CONWAY: Absolutely.

Absolutely.

MR. AROMI: It's also clear that the
readiness steps we went through that allowed us to
believe we were prepared are faulty, and it's clear
for us that we made a judgment that our operators
were at this level, and had been doing this type of
operation, and that the delta between that and where
we are in S-112 is this big, and today it's clear
it's something much different.

CHAIRMAN CONWAY: But we've seen that at
Hanford, and we've seen that elsewhere. So it's not
something unusual that we haven't seen before.

VICE CHAIRMAN EGGENBERGER: Well, and those may be the easy problems because you're making the transfers, you're doing the mixing, you're attempting to adjust the chemistry, and those are difficult problems, and I think it's going to be more difficult than what everybody believes it's going to be. Adjusting the chemistry is not going to be easy.

We talked about this with Roy a couple of days ago.

CHAIRMAN CONWAY: Mr. Henschel.

MR. HENSCHEL: Good afternoon, Mr. Chairman, members of the Board.

CHAIRMAN CONWAY: Yes, it's 12:15 now.

MR. HENSCHEL: May I have the first slide please?

CHAIRMAN CONWAY: Again, if I may Jim, if you would be -- I'll put your whole statement in the record, and if you could sort of hit the highlights, if you will.

MR. HENSCHEL: I'll be brief. First of all, I wanted to point out that we're a little bit different than some of the other projects in the complex, and that we are building something that's a design-build construction project. Safety is the