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
overriding concern to us. That's a core value of our company and of the project, and then quality is right under that. In my view, those two attributes go hand in hand. You can't have a high-quality job unless you also have a safe job, and vice versa, so they do go together. Next slide please. We're out of order. Okay.

This is kind of a pyramid we put together, and this is an older version. I think we gave you the other one we can put in the record, but I've added some things. We've got a hierarchy of our assessment process, and what's missing in this one is below the QA audit, we also have industrial and academic reviews, and we have corporate oversight for safety and quality as well, so we've got the internal from the QA down. Then we've also got our external regulators, including the Defense Board, and the State Department of Ecology and the State Department of Health. I really think that this project is the most regulated project in the country right now, as it should be. Next please. Yeah, this is really going to be tough with a different view.

In 2003, we performed 105 management assessments, including engineering, construction, procurement, QA, training, operations, industrial
safety, environmental and nuclear safety, research and technology. I'm on slide seven on the handout. I jumped ahead to fit this one. We did ten project QA audits, we have three in progress. We did 730 project QA surveillances of project activities and corrective action follow-ups. We've done 87 supplier QA program qualification audits and surveys and 706 supplier quality verification visits so far. Next please.

This slide shows the kinds of assessments we've done on engineering, the functional self-assessments. We also have an external assessment program where we call in the industry and academic experts. We've done 60 of those assessments on engineering and nuclear sciences, or nuclear safety, composing 10,000 hours. This is just the year 2003. In construction we've done 10 assessments of 800 job-hours.

Procurement: we've done 6000 job-hours worth of assessments, and that's an area that we're spending an increasing effort and more focus as we get more into that phase of the job. Then in the research and technology, we've done three peer reviews, 380 hours. Those are only the external hours. Those don't include all of the internal hours we spent on those
things. I want to mention also, this job is the most important in our company. It is the biggest in our company. We've got 1100 engineers assigned to this project. That's just -- when I say 1100, that's not counting the clerical people and the procurement people. That's 1100 people in the engineers.

Two weeks ago we had our external board of counselors out to the project for two days. We had the CEO, the CEO Emeritus, that's Steve Bechtel, the COO, the Deputy COO; we had them all out to the job to provide us with some oversight at the highest levels of the company, and also for our management to assure, to know from me, whether I needed anymore resources so that we had everything we needed. Next slide, please.

DR. MATTHEWS: Mr. Chairman, we can't get the correct viewgraphs on here and maybe it would be easier if you just worked through the books since we do have the correct version.

MR. HENSCHEL: That would be easier, I tell you.

CHAIRMAN CONWAY: Why don't we just turn that thing off then.

MR. HENSCHEL: Turn that thing off.

Okay.
CHAIRMAN CONWAY: Why don't you stay with your book?

MR. HENSCHEL: Kill that off and we'll go with the book. That will be easier for me. Let's go to slide five, I think. I covered the pyramid in slide four.

CHAIRMAN CONWAY: I'm already up at seven.

MR. HENSCHEL: I'll go through them quick because I did jump around, but I just wanted to mention slide five. That shows the basis of our program, and how it flows from the contract through the DOE regulations to our Authorization Basis and then into the project policies and procedures that we implement on the job.

On slide six, you know, our quality and safety expectations are to identify the deficiencies and the opportunities for improvement, and to develop the corrective actions to fix those deficiencies, and to fix the process to prevent the reoccurrence, and then to maintain a continuous improvement approach. That's very important to us, that we continue to improve, and overall our objective is to deliver a project that meets the objectives of safety, quality, compliance, technical, cost, and schedule. And I'll
say it again, I think these things all fit together. They're not competing. The way to get to the lowest cost and optimum schedule is to do the job safely, and to do it right.

Okay. Slide seven: I talked to the number of self-assessments we performed in 2003.

Slide 8: I talked to, but I also want to mention that, you know, a lot of the corporate assets available to us from the Bechtel group are assigned to this project full-time. We've made a lot of changes over the last year. Our manager of engineering on the project used to be the Bechtel National Manager of Engineering. The same manager of procurement on that project was the Bechtel National Manager of Procurement, so we've taken our best people and our top people, and we've assigned them full-time to this job, and as I said, we did that because this is our biggest project, and it is the most important project in the company.

Slide page nine: findings. Findings are things we -- results of our assessments, where there's something significant to safety. It's a breakdown in our system. We also have observations that are lesser items, but the findings are the big items that we focus on correcting these. My
objective is to get this little, this pie chart where it says DOE and regulators, they find seven percent of them. Of the findings that occurred in 2003, to date, in this the calendar year January to November, of the over 200 of them, seven percent were found by our customer or by you or by others outside my organization. My objective is to get that number down to zero. We want to find them all -- first of all we want to prevent them, but the ones that aren't prevented, we want to have a system in place that finds all of those.

CHAIRMAN CONWAY: I'll make a between with you. You're not going to get down to zero.

MR. HENSCHEL: Just like we may not ever get to zero accidents, but we'll still go for it.

CHAIRMAN CONWAY: That's your goal.

MR. HENSCHEL: That's our goal. We're still -- we'll never give up until we get as low as we can, and zero is the goal. But also, we want to also reduce the number of these findings by improving our processes.

Page ten: we've been working with you, and we've been working with the DOE, and I believe we've made significant progress in 2003 to both increase the quality and the depth of our self-
assessments, and the increased utilization of technical experts on the job. We believe that our program as it is today meets the proposed Policy 226.1, and that's something that we needed to do ourselves, regardless of whether that policy is implemented or not, that's something that we needed to do internally to assure that we deliver a quality product in a safe manner.

Slide 11: I mentioned the 1100 engineers and all of the different skills that we have there.

Number 12: the oversight from the quality, the QA organization that reports to me. We have registered professional engineers that have both master's and bachelor's degree, former NRC licensed, senior reactor operators, we currently have 46 Quality Assurance engineers on the project, 40 quality control inspectors, and 31 shop inspectors, and those numbers will be increasing as the amount of procurement activity and construction activity continues to increase for the next several years on this job.

For safety, we also have registered professional and degreed engineers, certified safety professionals, industrial hygienists, health physicists, fire protection engineers, and that staff.
currently numbers 26 safety assurance engineers, and again, that will increase as the construction activity picks up.

Slide 13 is just a brief description of our corrective action program, a very important part of our quality program, so that when we do identify a finding or a failure or an error, that we have a very rigorous program to correct that, and we also incorporated our Six-Sigma system in there, a scientific approach to redesigning or improving our work processes to prevent those in the future.

Slide 14 is just a little flow chart of how that process works.

Slide 15 are some of the attributes. Anyone working on the project may initiate a condition adverse to quality report. We track these things in a computerized Web-based system that we call RITS [Recommendation and Issue Tracking Action System] so that we can follow them and make sure they get closed out in a timely manner. All CARs [Condition Adverse to Quality Report] are reviewed for significance and potential PAAA [Price-Anderson Act Amendments] applicability. On all the CARs, we do perform a root cause analysis. We perform a causal analysis on CARs that are not significant or
I'm the only one that can grant an extension to a response or implementation of the corrective action. I review these every week with my direct reports, and the people responsible for either developing the corrective action or implementing it, and requests for extensions can only be approved by myself. So everybody knows when I look at them --

DR. MANSFIELD: Who does the reviewing of the CARs? At what level?

MR. HENSCHEL: It comes to me.

DR. MANSFIELD: So do you -- all CARs are reviewed for significance. Do you get 100 e-mails a day?

MR. HENSCHEL: I get plenty. I get a lot. Not 100. I mean, there's -- not related to CARs, but there is a lot. But I don't -- e-mails don't come to me with that. I review them all every week in a formal meeting.

DR. MANSFIELD: Okay, but somebody's got to process a whole bunch of e-mails to make sure that you get the right information on CARs, right?

MR. HENSCHEL: I get all the reports of all the deficiencies that are discovered every day, okay? And then some of those deficiencies do not
lead to a corrective action. The ones that do lead
to a corrective action, we review those every week
then we also conduct a PAAA meeting to determine if
it's reportable to NTS [Noncompliance Tracking
System] or not, and that also, I'm the chairman of
that, and I make the final decision on that. This is
really where I spend most of my time. My job is to
get the process working right, and to eliminate the
defects, okay, and these CARS, in my view, are the
statistics of the defects. It's what's wrong with
the process that needs to be fixed. My job is done
when the process is working perfectly and there's no
more defects.

Page 16: I just wanted to point out the
future challenges that we have, and it really has to
do now is in the procurement area, the materials that
we procure. As you're well aware, there's thousands
and thousands of widgets that go into this plan, and
there are a few domestic suppliers that do have NQA-1
programs. The domestic supplier capacity for the
materials that we need is insufficient for the
project needs, so we often have to go to foreign
suppliers. The foreign suppliers usually limit their
quality programs to ISO-9000 [International
Organization for Standards]. There's also a smaller
number of suppliers that were able to get qualified for NQA-1, so that has implication on the competitive bidding process, and we have to reach down to sub-suppliers. We have to have a very thorough and rigorous system that just goes beyond just the prime supplier.

CHAIRMAN CONWAY: This is a major project that you pointed out, the most important one you've got. I think it's the most important one right now that DOE has. Is there any effort being made either through you or through DOE to try to qualify --

MR. HENSCHEL: Yes, we have a very large program in that place. We have a traveling roadshow --

CHAIRMAN CONWAY: That's out trying to qualify new suppliers --

MR. HENSCHEL: Yes, sir.

CHAIRMAN CONWAY: -- that will meet these --

MR. HENSCHEL: Yes, sir. We help them develop their program, and then we monitor their performance and help them all the way through the process.

DR. MANSFIELD: What are some of the components for which defense suppliers no longer
exist?

MR. HENSCHEL: We're the only big nuclear project going in the country, so valves, for example. Okay, valves. I think our valves are coming from Korea because the Koreans have a -- they're still building nuclear power plants over there.

CHAIRMAN CONWAY: Are you getting any from the French?

MR. HENSCHEL: I think the French are involved in some of the --

CHAIRMAN CONWAY: Okay. Well, you indicated DOE is also participating in this program to try to get qualified.

MR. HENSCHEL: Yes. We work with Bechtel on that. I'm not pointing this out to be whining, I'm just pointing out that we've got, we're focusing extra effort in this area in order to make it work.

The next page, 17: 90 percent of the suppliers we evaluate for Q equipment require our assistance. It takes an average of four QA manuals submittals before we get it right for each of those suppliers. A review takes about eight hours each.

It takes us two to three visits up front before we
even select a supplier to put them on the bidder's list before they're qualified, before we allow them to bid, of about 80 hours each, and then we average approximately three problem resolution visits after award where something didn't go right that needs fine-tuning, and that does not include the shop inspections as the equipment is being manufactured to verify that the equipment meets the requirements.

In summary, we have a very robust self-assessment process in place. The self-identification of findings is encouraged and fostered in our organization. We incorporate and expect continuous improvement, and we're working with the DOE and regulators to improve not only our work processes, but to improve the final product and to insure that WTP operates as advertised. That concludes my prepared remarks.

CHAIRMAN CONWAY: Dr. Eggenberger.

VICE CHAIRMAN EGGENBERGER: Very briefly, we've been briefed by you and Mr. Schepens on your oversight, and what you're doing, and we, the Board has been encouraging you not only to do detailed oversight, but to look at the big picture to see how systems operate, the reliability of systems, and so on. You said that you had your corporate governing
board in just recently, and I'd like to ask you what you told them as far as your self-assessment of this project, and where you, what you thought were the big ticket items that have risen to the top of your problem list because that's directly related to safety?

MR. HENSCHEL: I gave them three items in three different areas. One was technical, one was commercial, and one was political, because I had a group of people that worked, all engineers, so I thought by covering the technical --

VICE CHAIRMAN EGGENBERGER: Technical we can discuss.

MR. HENSCHEL: Technical, commercial, and political. The technical issue is the pulse jet mixers, and the hydrogen evolution related to that. I discussed that process with them, what we're currently doing, and our research and technology and how it impacts the current schedule of the job, and what potential work-arounds we might have to go through if the resolution doesn't come as soon as we hope it does.

From the commercial aspect, are you not interested in that or are you? The commercial aspect just had to do with, as I understand, the bill that's
going through Congress that they might take some of
the money that was held back that was unspent from
past years, take some of that, and that would have a
schedule impact on us as well. Because we didn't
spend our entire $690 million cap over the last two
years, we have $400 million unspent to carry over
into 2004 and 2005, and we're getting into the real
meaty part of the project now where there's a lot of
work going on where we'll spend more than $690
[million] in 2004 and 2005, and if some of that $400
million is taken away and not given back, it will
have an impact on our future work.

The third, the cultural or political
issue, is -- this is a long-term project, ten-year
contract, it's probably the last major construction
at Hanford, and so we're going have to deal with, on
this job, life after Hanford, and the local
community, and the impact on the performance of the
workforce as we get to that point, and that's
something else we need to worry about as well.

VICE CHAIRMAN EGGENBERGER: Thank you.

CHAIRMAN CONWAY: Dr. Mansfield?

DR. MANSFIELD: I've already asked my
questions.

CHAIRMAN CONWAY: Dr. Matthews.
DR. MATTHEWS: Yes. Maybe you can help me with confusion, and it's not with what you said, it's an overall impression I'm getting, and I just want to solicit some comments if you're willing to do it. Listening to the previous testimonies at the earlier meetings and looking at the policy, there doesn't seem to be an objective to streamline oversight, to eliminate redundancy and to sort of down-select requirements so we don't have -- so it's easier to do the job. Now I've just heard a very complex and detailed, comprehensive oversight coming out of the Office of River Protection, I heard some very comprehensive detailed oversight from Kaiser-Hill and Bechtel. Now I'm looking at your triangle, Jim, and this is really what took me to the question is, you know, I know the Defense Board isn't going to cut you any slack, I doubt if EPA [Environmental Protection Agency] or Washington State will, so the only place I can see for streamlining in this whole thing is from Headquarters, DOE Headquarters, and I don't know if that's true or not, but if the original goals are as I understand them, are going to happen, it sounds like more oversight, and more redundancy, and I'm not saying that's good or bad, I'm just curious what your reaction to that observation is,
any of you.

MR. HENSCHEL: I can't make a comparison
to before me since I came on the job, but I can tell
you what I've seen since May, and that is, I mean,
we're an EPC [Engineering Procurement and
Construction] project. Our schedule has not been
accelerated. We're going to come online 2011. In
fact, the last re-baselining that was just performed
in the springtime, before I got on the job, actually
provided a little bit more time between the
engineering and the construction period, so I
wouldn't say in our case there's been an acceleration
of our work. As far as what I've heard discussed and
what I've observed, there was a lot -- it was -- I
think there was a leadership problem in the past,
where there was direction coming from multiple people
on the DOE side, at all levels, coming to all levels
in our organization, some of it conflicting, not all
headed in the same direction, and I understand from
other people I've talked to in the complex that
that's been pretty typical of the kind of M&O
[management and operating] contract that used to
occur, and what the real change is, is there's been
more of a focus now that the formal communication, if
there's going to be a change in direction, or
something contrary to what's in the contract that
will require a contract change, it's going to flow
from Roy to me. Not one of Roy's people to one of my
people without he and I knowing about it. It's got
to flow up to him, over to me, back down to my guys,
and back up to me and over. It may seem a little bit
more cumbersome because there's more steps than just
a direct exchange, but it does ensure consistency,
and it also ensures that we're both doing what the
contract says rather than the personal preferences of
4000 people out there. That's what I think the big
change is.

MR. SCHEPENS: I agree.

DR. MATTHEWS: Okay. Thank you.

CHAIRMAN CONWAY: Just one comment.

Going back to the 1950s, 1960s, I know the quality of
workmanship that Bechtel has brought to jobs, but
bringing in excess of 1000 new engineers on a job is
a major, major undertaking, particularly training.
How do you get them trained on the way Bechtel does
its work and the details that you do, and I think --
I would assume -- you've got a major problem there.

MR. HENSCHEL: We did. I don't know
that we still do. I think we've made a tremendous
improvement there. I mean, that was one of the major
tasks that we had to perform, and I think perhaps we were a little bit optimistic at how fast that was going to occur, and consequently we had some growing pains. I mean, not only do we have engineers from different divisions within Bechtel, those with a power background that are mining the metals, or petroleum and chemical or building bridges or whatever, and I don't know whether you realize it or not. We don't all do things the same way in the company. The power people, especially the nuclear power people, do things different. In the petroleum and chemical, their work processes are driven by the oil company, so there's a difference there.

Not only did we have that, we also had the integration of people from different companies. One of our major partners on the job is Washington Group, and we've also picked up people from the local area, so we had to integrate all that into a cohesive workforce that does things the same way, and that took us -- we do have some very rigorous training programs. Part of the thing that helps us today is the technology, the fact that in the engineering, a lot of the design that's done is using the computer tools and the CAD [computer-assisted design] systems, and a lot of the calculations are done using our
standardized programs. The engineers have to use those tools, and you're restricted to the level of freedom you have on how to do something when the computer will only accept certain input, so that's helped some, but we did have to do, and still do, perform a lot of training.

CHAIRMAN CONWAY: Okay. Thank you. Thank you, gentlemen.

MR. HENSCHEL: You're welcome.

CHAIRMAN CONWAY: And how we'll get to the last two of the witnesses this morning. Mr. Lockhart?

MR. LOCKHART: Yes. Thank you. My name is Fraser Lockhart. I'm the Manager of the Rocky Flats Field Office. I've been Manager now for six weeks, and I met with all of you on my first day on the job, and thank you for the opportunity to come back six weeks later and present some of my views on how I'm going to conduct oversight. I don't have a prepared testimony. I've organized my slides and presentation along your lines of inquiry, and I hope by going through that to give you also the perspective on my philosophy and approach to oversight.

Looking at the top level, starting from