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1	something unusual that we haven't seen before.
2	VICE CHAIRMAN EGGENBERGER: Well, and
3	those may be the easy problems because you're making
4	the transfers, you're doing the mixing, you're
5	attempting to adjust the chemistry, and those are
6	difficult problems, and I think it's going to be more
7	difficult than what everybody believes it's going to
8	be. Adjusting the chemistry is not going to be easy.
9	We talked about this with Roy a couple of days ago.
10	
11	CHAIRMAN CONWAY: Mr. Henschel.
12	MR. HENSCHEL: Good afternoon, Mr.
• 13	Chairman, members of the Board.
14	CHAIRMAN CONWAY: Yes, it's 12:15 now.
15	MR. HENSCHEL: May I have the first slide
16	please?
17	CHAIRMAN CONWAY: Again, if I may Jim, if
18	you would be I'll put your whole statement in the
19	record, and if you could sort of hit the highlights,
20	if you will.
21	MR. HENSCHEL: I'll be brief. First of
22	all, I wanted to point out that we're a little bit
23	different than some of the other projects in the
24	complex, and that we are building something that's a
25	design-build construction project. Safety is the
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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 а pyramid we put 8 together, and this is an older version. I think we 9 gave you the other one we can put in the record, but 10 11 I've added some things. We've got a hierarchy of our assessment process, and what's missing in this one is 12 below the OA audit, we also have industrial and 13 academic reviews, and we have corporate oversight for 14 15 safety and quality as well, so we've got the internal from the QA down. Then we've also got our external 16 including the Defense Board, regulators, and the 17 State Department of Ecology and the State Department 18 19 I really think that this project is the of Health. most regulated project in the country right now, as 20 21 it should be. Next please. Yeah, this is really going to be tough with a different view. 22

In 2003, we performed 105 management assessments, including engineering, construction, procurement, QA, training, operations, industrial

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safety, environmental and nuclear safety, research 1 and technology. I'm on slide seven on the handout. 2 I jumped ahead to fit this one. We did ten project 3 4 OA audits, we have three in progress. We did 730 project QA surveillances of project activities and 5 corrective action follow-ups. We've done 87 supplier 6 OA program gualification audits and surveys and 706 7 supplier guality verification visits so far. 8 Next 9 please.

This slide shows the kinds of assessments 10 done on engineering, the functional 11 we've self-12 assessments. We also have an external assessment 13 program where we call in the industry and academic 60 of 14 experts. We've done those assessments on 15 engineering and nuclear sciences, or nuclear safety, 16 composing 10,000 hours. This is just the year 2003. In construction we've done 10 assessments of 800 17 18 job-hours.

19 Procurement: we've done 6000 job-hours worth of 20 assessments, and that's an area that we're spending 21 an increasing effort and more focus as we get more 22 into that phase of the job. Then in the research and 23 technology, we've done three peer reviews, 380 hours. 24 Those are only the external hours. Those don't 25 include all of the internal hours we spent on those

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I want to mention also, this job is the most 1 things. important in our company. It is the biggest in our 2 We've got 1100 engineers assigned to this company. 3 That's just -- when I say 1100, that's not project. 4 counting the clerical people and the procurement 5 б people. That's 1100 people in the engineers. Two weeks ago we had our external board 7 of counselors out to the project for two days. We 8 had the CEO, the CEO Emeritus, that's Steve Bechtel, 9 the COO, the Deputy COO; we had them all out to the 10 job to provide us with some oversight at the highest 11 levels of the company, and also for our management to 12 assure, to know from me, whether I needed anymore 13 resources so that we had everything we needed. 14 Next 15 slide, please. DR. MATTHEWS: Mr. Chairman, we can't get 16 17 the correct viewgraphs on here and maybe it would be 18 easier if you just worked through the books since we do have the correct version. 19 20 That would be easier, I MR. HENSCHEL: 21 tell you. 22 CHAIRMAN CONWAY: Why don't we just turn 23 that thing off then. 24 MR. HENSCHEL: thing off. Turn that 25 Okay. NEAL R. GROSS COURT REPORTERS AND TRANSCRIBERS 1323 RHODE ISLAND AVE., N.W.

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1	CHAIRMAN CONWAY: Why don't you stay with
2	your book?
3	MR. HENSCHEL: Kill that off and we'll
4	go with the book. That will be easier for me. Let's
5	go to slide five, I think. I covered the pyramid in
6	slide four.
7	CHAIRMAN CONWAY: I'm already up at
8	seven.
9	MR. HENSCHEL: I'll go through them quick
10	because I did jump around, but I just wanted to
11	mention slide five. That shows the basis of our
12	program, and how it flows from the contract through
13	the DOE regulations to our Authorization Basis and
14	then into the project policies and procedures that we
15	implement on the job.
16	On slide six, you know, our quality and
17	safety expectations are to identify the deficiencies
18	and the opportunities for improvement, and to develop
19	the corrective actions to fix those deficiencies, and
20	to fix the process to prevent the reoccurrence, and
21	then to maintain a continuous improvement approach.
22	That's very important to us, that we continue to
23	improve, and overall our objective is to deliver a
24	project that meets the objectives of safety, quality,
25	compliance, technical, cost, and schedule. And I'll
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1	say it again, I think these things all fit together.
2	They're not competing. The way to get to the lowest
3	cost and optimum schedule is to do the job safely,
4	and to do it right.
5	Okay. Slide seven: I talked to the
6	number of self-assessments we performed in 2003.
7	Slide 8: I talked to, but I also want to
8	mention that, you know, a lot of the corporate assets
9	available to us from the Bechtel group are assigned
10	to this project full-time. We've made a lot of
11	changes over the last year. Our manager of
12	engineering on the project used to be the Bechtel
13	National Manager of Engineering. The same manager of
14	procurement on that project was the Bechtel National
15	Manager of Procurement, so we've taken our best
16	people and our top people, and we've assigned them
17	full-time to this job, and as I said, we did that
18	because this is our biggest project, and it is the
19	most important project in the company.
20	Slide page nine: findings. Findings are
21	things we results of our assessments, where
22	there's something significant to safety. It's a
23	breakdown in our system. We also have observations
24	that are lesser items, but the findings are the big
25	items that we focus on correcting these. My
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objective is to get this little, this pie chart where 1 it says DOE and regulators, they find seven percent 2 of them. Of the findings that occurred in 2003, to 3 date, in this the calendar year January to November, 4 of the over 200 of them, seven percent were found by 5 our customer or by you or by others outside my б My objective is to get that number 7 organization. We want to find them all -- first of 8 down to zero. 9 all we want to prevent them, but the ones that aren't prevented, we want to have a system in place that 10 11 finds all of those. 12 CHAIRMAN CONWAY: I'll make a between 13 with you. You're not going to get down to zero. 14 MR. HENSCHEL: Just like we may not ever get to zero accidents, but we'll still go for it. 15 16 CHAIRMAN CONWAY: That's your goal. 17 MR. HENSCHEL: That's our goal. We're still -- we'll never give up until we get as low as 18 we can, and zero is the goal. But also, we want to 19 20 also reduce the number of these findings by improving 21 our processes. 22 Page ten: we've been working with you, 23 and we've been working with the DOE, and I believe 24 we've made significant progress in 2003 to both 25 increase the quality and the depth of our self-**NEAL R. GROSS** COURT REPORTERS AND TRANSCRIBERS 1323 RHODE ISLAND AVE., N.W.

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increased utilization of 1 assessments, and the technical experts on the job. We believe that our 2 program as it is today meets the proposed Policy 3 226.1, and that's something that we needed to do 4 regardless of whether that policy is 5 ourselves. implemented or not, that's something that we needed 6 to do internally to assure that we deliver a quality 7 8 product in a safe manner. 9 Slide 11: I mentioned the 1100 engineers and all of the different skills that we have there. 10 Number 12: the oversight from the 11 12 quality, the QA organization that reports to me. We have registered professional engineers that have both 13 master's and bachelor's degree, former NRC licensed, 14 operators, we currently have 46 15 senior reactor 16 Quality Assurance engineers on the project, 4017 quality control inspectors, and 31 shop inspectors, and those numbers will be increasing as the amount of 18 and activity construction 19 procurement activity 20 continues to increase for the next several years on 21 this job. 22 For safety, also have registered we 23 professional and degreed engineers, certified safety 24 professionals, industrial hygienists, health 25 physicists, fire protection engineers, and that staff **NEAL R. GROSS** COURT REPORTERS AND TRANSCRIBERS 1323 RHODE ISLAND AVE., N.W.

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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 some of the attributes. 14 are working project may initiate 15 Anyone on the а 16 condition adverse to quality report. We track these 17 things in a computerized Web-based system that we call RITS [Recommendation and Issue Tracking Action 18 19 System] so that we can follow them and make sure they 20 get closed out in a timely manner. A11 CARs 21 [Condition Adverse to Quality Report] are reviewed for significance and potential PAAA [Price-Anderson 22 23 Act Amendments] applicability. On all the CARs, we 24 do perform a root cause analysis. We perform a 25 causal analysis on CARs that are not significant or

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1 PAAA related. that I'm the only one can grant an 2 response or implementation of the 3 extension to a I review these every week with my 4 corrective action. direct reports, and the people responsible for either 5 developing the corrective action or implementing it, 6 and requests for extensions can only be approved by 7 So everybody knows when I look at them --8 myself. 9 DR. MANSFIELD: Who does the reviewing of 10 the CARs? At what level? MR. HENSCHEL: It comes to me. 11 12 DR. MANSFIELD: So do you -- all CARs are reviewed for significance. Do you get 100 e-mails a 13 14 day? I get plenty. 15 MR. HENSCHEL: I get a 16 lot. Not 100. I mean, there's -- not related to 17 but there is a lot. But I don't -- e-mails CARs, don't come to me with that. I review them all every 18 19 week in a formal meeting. 20 DR. MANSFIELD: Okay, but somebody's got to process a whole bunch of e-mails to make sure that 21 22 you get the right information on CARs, right? 23 I get all the reports of MR. HENSCHEL: 24 all the deficiencies that are discovered every day, 25 And then some of those deficiencies do not okay? **NEAL R. GROSS** COURT REPORTERS AND TRANSCRIBERS 1323 RHODE ISLAND AVE., N.W.

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lead to a corrective action. The ones that do lead 1 a corrective action, we review those every week 2 to then we also conduct a PAAA meeting to determine if 3 [Noncompliance Tracking 4 it's reportable to NTS System] or not, and that also, I'm the chairman of 5 that, and I make the final decision on that. This is 6 7 really where I spend most of my time. My job is to get the process working right, and to eliminate the 8 defects, okay, and these CARs, in my view, are the 9 It's what's wrong with statistics of the defects. 10 the process that needs to be fixed. My job is done 11 12 when the process is working perfectly and there's no more defects. 13 Page 16: I just wanted to point out the 14 future challenges that we have, and it really has to 15 16 do now is in the procurement area, the materials that 17 As you're well aware, there's thousands we procure. and thousands of widgets that go into this plan, and 18 19 there are a few domestic suppliers that do have NOA-1 20 The domestic supplier capacity for the programs. 21 need is insufficient for materials that we the 22 so we often have to go to foreign project needs, 23 The foreign suppliers usually limit their suppliers. 24 quality programs ISO-9000 [International to 25 Organization for Standards]. There's also a smaller

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1	number of suppliers that were able to get qualified
2	for NQA-1, so that has implication on the competitive
3	bidding process, and we have to reach down to sub-
4	suppliers. We have to have a very thorough and
5	rigorous system that just goes beyond just the prime
6	supplier.
7	CHAIRMAN CONWAY: This is a major project
8	that you pointed out, the most important one you've
9	got. I think it's the most important one right now
10	that DOE has. Is there any effort being made either
11	through you or through DOE to try to qualify
12	MR. HENSCHEL: Yes, we have a very large
13	program in that place. We have a traveling roadshow
14	
15	CHAIRMAN CONWAY: That's out trying to
16	qualify new suppliers
17	MR. HENSCHEL: Yes, sir.
18	CHAIRMAN CONWAY: that will meet these
19	
20	MR. HENSCHEL: Yes, sir. We help them
21	develop their program, and then we monitor their
22	performance and help them all the way through the
23	process.
24	DR. MANSFIELD: What are some of the
25	components for which defense suppliers no longer
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1	exist?
2	MR. HENSCHEL: We're the only big
3	nuclear project going in the country, so valves, for
4	example. Okay, valves. I think our valves are
5	coming from Korea because the Koreans have a
б	they're still building nuclear power plants over
7	there.
8	CHAIRMAN CONWAY: Are you getting any
9	from the French?
10	MR. HENSCHEL: I think the French are
11	involved in some of the
12	CHAIRMAN CONWAY: Okay. Well, you
13	indicated DOE is also participating in this program
14	to try to get qualified.
15	MR. HENSCHEL: Yes. We work with
16	Bechtel on that. I'm not pointing this out to be
17	whining, I'm just pointing out that we've got, we're
18	focusing extra effort in this area in order to make
19	it work.
20	The next page, 17: 90 percent of the
21	suppliers we evaluate for Q equipment require our
22	assistance. It takes an average of four QA manuals
23	submittals before we get it right for each of those
24	suppliers. A review takes about eight hours each.
25	It takes us two to three visits up front before we
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even select a supplier to put them on the bidder's 1 2 list before they're qualified, before we allow them to bid, of about 80 hours each, and then we average 3 approximately three problem resolution visits after 4 award where something didn't go right that needs 5 fine-tuning, and that does not include the shop 6 inspections as the equipment is being manufactured to 7 8 verify that the equipment meets the requirements. 9 In summary, we have a very robust selfassessment process in place. The self-identification 10 encouraged and fostered 11 of findings is in our 12 organization. We incorporate and expect continuous 13 improvement, and we're working with the DOE and regulators to improve not only our work processes, 14but to improve the final product and to insure that 15 16 operates as advertised. That concludes my WTP 17 prepared remarks. 18 CHAIRMAN CONWAY: Dr. Eggenberger. 19 VICE CHAIRMAN EGGENBERGER: Very briefly, 2.0 we've been briefed by you and Mr. Schepens on your 21 oversight, and what you're doing, and we, the Board 22 has been encouraging you not only to do detailed 23 oversight, but to look at the big picture to see how 24 systems operate, the reliability of systems, and so 25 on. You said that you had your corporate governing **NEAL R. GROSS** COURT REPORTERS AND TRANSCRIBERS

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1	board in just recently, and I'd like to ask you what
2	you told them as far as your self-assessment of this
3	project, and where you, what you thought were the big
4	ticket items that have risen to the top of your
5	problem list because that's directly related to
6	safety?
7	MR. HENSCHEL: I gave them three items
8	in three different areas. One was technical, one was
9	commercial, and one was political, because I had a
10	group of people that worked, all engineers, so I
11	thought by covering the technical
12	VICE CHAIRMAN EGGENBERGER: Technical we
13	can discuss.
14	MR. HENSCHEL: Technical, commercial,
15	and political. The technical issue is the pulse jet
16	mixers, and the hydrogen evolution related to that.
17	I discussed that process with them, what we're
18	currently doing, and our research and technology and
19	how it impacts the current schedule of the job, and
20	what potential work-arounds we might have to go
21	through if the resolution doesn't come as soon as we
22	hope it does.
23	From the commercial aspect, are you not
24	interested in that or are you? The commercial aspect
25	just had to do with, as I understand, the bill that's
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going through Congress that they might take some of 1 the money that was held back that was unspent from 2 past years, take some of that, and that would have a 3 Because we didn't 4 schedule impact on us as well. spend our entire \$690 million cap over the last two 5 years, we have \$400 million unspent to carry over 6 into 2004 and 2005, and we're getting into the real 7 8 meaty part of the project now where there's a lot of work going on where we'll spend more than \$690 9 [million] in 2004 and 2005, and if some of that \$400 10 million is taken away and not given back, it will 11 12 have an impact on our future work. 13 The third, the cultural or political is -- this is a long-term project, ten-year 14 issue, 15 contract, it's probably the last major construction 16 at Hanford, and so we're going have to deal with, on 17 job, Hanford, life after and the local this community, and the impact on the performance of the 18 19 get to that point, and workforce as we that's 20 something else we need to worry about as well. VICE CHAIRMAN EGGENBERGER: 21 Thank you. 22 CHAIRMAN CONWAY: Dr. Mansfield? 23 I've already asked my DR. MANSFIELD: 24 questions. 25 CHAIRMAN CONWAY: Dr. Matthews. **NEAL R. GROSS** COURT REPORTERS AND TRANSCRIBERS 1323 RHODE ISLAND AVE., N.W. (202) 234-4433 WASHINGTON, D.C. 20005-3701 www.nealrgross.com

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

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any of you.

MR. HENSCHEL: I can't make a comparison 2 to before me since I came on the job, but I can tell 3 you what I've seen since May, and that is, I mean, 4 [Engineering Procurement and 5 we're an EPC Construction] project. Our schedule has not been б We're going to come online 2011. accelerated. In 7 fact, the last re-baselining that was just performed 8 in the springtime, before I got on the job, actually 9 10 provided little bit more time between the а engineering 11 and the construction period, so Т 12 wouldn't say in our case there's been an acceleration 13 of our work. As far as what I've heard discussed and what I've observed, there was a lot -- it was -- I 14 think there was a leadership problem in the past, 15 where there was direction coming from multiple people 16 17 on the DOE side, at all levels, coming to all levels in our organization, some of it conflicting, not all 18 headed in the same direction, and I understand from 19 20 other people I've talked to in the complex that 21 that's been pretty typical of kind of the M&O 22 [management and operating] contract that used to 23 occur, and what the real change is, is there's been more of a focus now that the formal communication, if 2.4 25 there's going to be a change in direction, or

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1	something contrary to what's in the contract that
2	will require a contract change, it's going to flow
3	from Roy to me. Not one of Roy's people to one of my
4	people without he and I knowing about it. It's got
5	to flow up to him, over to me, back down to my guys,
6	and back up to me and over. It may seem a little bit
7	more cumbersome because there's more steps than just
8	a direct exchange, but it does ensure consistency,
9	and it also ensures that we're both doing what the
10	contract says rather than the personal preferences of
11	4000 people out there. That's what I think the big
12	change is.
13	MR. SCHEPENS: I agree.
14	DR. MATTHEWS: Okay. Thank you.
15	CHAIRMAN CONWAY: Just one comment.
16	Going back to the 1950s, 1960s, I know the quality of
17	workmanship that Bechtel has brought to jobs, but
18	bringing in excess of 1000 new engineers on a job is
19	a major, major undertaking, particularly training.
20	How do you get them trained on the way Bechtel does
21	its work and the details that you do, and I think
22	I would assume you've got a major problem there.
23	MR. HENSCHEL: We did. I don't know
24	that we still do. I think we've made a tremendous
25	improvement there. I mean, that was one of the major
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tasks that we had to perform, and I think perhaps we 1 were a little bit optimistic at how fast that was 2 going to occur, and consequently we had some growing 3 I mean, not only do we have engineers from pains. 4 5 different divisions within Bechtel, those with a power background that are mining the metals, 6 or chemical building bridges 7 petroleum and or or whatever, and I don't know whether you realize it or 8 9 We don't all do things the same way in the not. The power people, especially the nuclear 10 company. power people, do things different. In the petroleum 11 12 and chemical, their work processes are driven by the oil company, so there's a difference there. 13 14 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

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1 standardized programs. The engineers have to use 2 those tools, and you're restricted to the level of 3 freedom you have on how to do something when the 4 computer will only accept certain input, so that's 5 helped some, but we did have to do, and still do, б perform a lot of training. 7 CHAIRMAN CONWAY: Okay. Thank you. 8 Thank you, gentlemen. 9 MR. HENSCHEL: You're welcome. 10 CHAIRMAN CONWAY: And how we'll get to 11 the last two of the witnesses this morning. Mr. 12 Lockhart? 13 MR. LOCKHART: Yes. Thank you. My name 14 is Fraser Lockhart. I'm the Manager of the Rocky 15 Flats Field Office. I've been Manager now for six weeks, and I met with all of you on my first day on 16 17 the job, and thank you for the opportunity to come 18 back six weeks later and present some of my views on 19 how I'm going to conduct oversight. I don't have a 20 prepared testimony. I've organized my slides and 21 presentation along your lines of inquiry, and I hope 22 going through that bv to give you also the 23 perspective on philosophy and my approach to 24 oversight. 25 Looking at the top level, starting from **NEAL R. GROSS**

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