

NUCLEAR WEAPONS INDUSTRIAL COMPLEX
RESTRUCTURING CONCEPT - UPDATE*

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***NOTE:** The NWIC Restructuring Concept paper published on June 4, 1998 has been rewritten to reflect the responses to the stakeholder comments received. The reader should note that this NWIC Restructuring Concept - Update paper does not reflect major changes from the initial concept paper. However, where appropriate, a more definitive statement concerning various sections of the report has been provided to further clarify the Government's intent. The reader should also note that a final decision on whether or not to proceed with the acquisition strategy has not been made, but is expected in the Fall 1998.

NUCLEAR WEAPONS INDUSTRIAL COMPLEX RESTRUCTURING CONCEPT - UPDATE

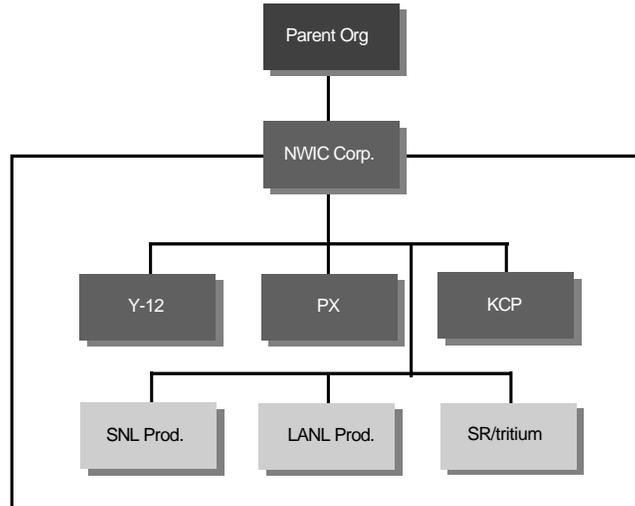
EXECUTIVE SUMMARY

A. Purpose

The U.S. Department of Energy (DOE) has significantly restructured and downsized its nuclear weapons production facilities, infrastructure and work force over the past several years, and downsizing is continuing consistent with the 1996 Record of Decision on the Stockpile Stewardship and Management Programmatic Environmental Impact Statement. A key element of the Department's strategic planning has been the transition from a large production complex to smaller and more efficient industrial facilities. The Department is committed to maintaining a viable Nuclear Weapons Industrial Complex (NWIC) with appropriate capacity to meet all current and future requirements while assuring a safe, secure, and reliable nuclear weapons stockpile.

The Department is considering the consolidation of its nuclear weapons production activities into a single Management and Operating contract. Consolidation offers significant benefits to DOE in terms of improved programmatic execution, management efficiencies, and cost savings. The scope of the consolidated contract would initially include: the existing contracts for the management and operation of the Kansas City Plant in Kansas City, Missouri, the Y-12 Plant at Oak Ridge, Tennessee, and the Pantex Plant near Amarillo, Texas. The weapons production activities at Sandia National Laboratories, the weapons production activities at Los Alamos National Laboratory in New Mexico, and the tritium operations at the Savannah River Site near Augusta, Georgia and Aiken, South Carolina could be added later in the contract term. Consolidation would result in a reduction in the number of contracts managed by the Department -- it would not result in a reduction in the number of sites, nor would it involve a change in missions for the affected sites.

Conceptual Contractor Organization



B. Background

The Stockpile Stewardship and Management Programmatic Environmental Impact Statement (PEIS) issued in 1996 envisions ongoing reductions in staffing levels and facility infrastructure through FY 2010. Downsizing of the production complex will continue, consistent with the Secretary's Record of Decision of December 19, 1996, concerning the Stockpile Stewardship and Management Program. A key element of DOE's strategic planning is the transition away from large production operations into a smaller and more efficient NWIC. Toward that end, DOE has been exploring various ways to improve the effectiveness and efficiency of DOE management of the NWIC contractors. One promising option is to consolidate the current NWIC contracts into a single contract managed by an innovative contractor with the capability, responsibility, and accountability to bring about significant change.

C. Potential Benefits

- 1. Programmatic** - A single contractor organization would consolidate production performance responsibility and accountability that is currently distributed among up to six different contractors. A single and unified production focus should provide DOE with better integration of resources and priorities, clearer lines of authority and responsibility between the sites, and greater retention of technical capabilities (e.g., consolidation of several small technical disciplines into a center(s) of excellence, and integrated contractor work force planning which provides opportunities to shift or share resources among sites). In addition, the DOE would expect the contractor to bring its commercial and corporate "best business" practices along with its ability to improve the efficiency, coordination, and integration of all production sites. Finally, this could facilitate better

interface with the stockpile stewardship R&D program conducted by the three weapons laboratories (Los Alamos National Laboratory, Lawrence Livermore National Laboratory, and Sandia National Laboratories), and with Federal program integrators. Several of these programmatic benefits directly support recommendations and principles from the 120-Day Study of the organization and management structure of Defense Programs.

2. **Potential Cost Savings** - Cost savings are expected to be achieved by consolidating individual site overhead and support functions in order to service the whole contract. Additional cost savings would be expected from consolidation of production support functions, and other single system efficiencies envisioned by having a single contractor with standard and integrated business, technical, and operating support systems. DOE believes that contract consolidation could reduce total contract costs by 10 percent or more.
3. **Restructured Federal Staff** - The potential contract change would also facilitate implementation of several recommendations from the 120-day study on the Federal organization and management structure. We expect a single contract would provide significantly increased opportunities to clarify roles and responsibilities, streamline processes, integrate or reduce redundant capabilities, and reduce the size of the Federal work force.

D. Risks and Costs

There are risks involved in contract consolidation. DOE would want to see a vigorous competition for a large, consolidated contract; but we may not attract a large number of competitors due to the contract's complexity and other challenges, or excessive teaming among potential competitors that would limit the number of actual proposals. With one consolidated contract, DOE would be heavily dependent on the performance of a single contractor.

There would be up-front costs involved in contract consolidation including: work force transition, restructuring, and termination of benefits costs; overlap of contractor costs during the transition of contracts; and other implementing costs such as administrative, operational, and technical systems implementation costs. These added costs are expected to result in a net increase in total NWIC costs over the first 2.5 to 6 years of contract consolidation, after which DOE would begin to realize a net reduction in costs for these activities.

E. Potential Issues and Concerns

1. **Human Resource Issues** - There are several potential issues and concerns that have been identified thus far. The new contractor would be expected to institute a pay and benefits system that supports the NWIC concept, and to transition the work force to that system from up to six

existing systems. The transition must be managed in a way that retains critical skills needed by the complex. There may also be increased HR costs for the following: work force restructuring costs for any separating employees; retention incentives to maintain critical NWIC employees; and administrative costs (both Federal and contractor) to implement and administer changed or new employee pension and benefits plans.

2. Impacts on Other Programs and Contracts

The contracts involved in the consolidation also support other programs besides those of the Office of Defense Programs. Activities at each of the affected sites include tasks and projects managed primarily by the Office of Environmental Management and the Office of Non-Proliferation and National Security. In addition, the contractors conduct “work for others” primarily in support of other federal agencies. Also, for example, all of the sites have security forces that are either employees of the primary M&O contractor, (e.g., at Pantex and Kansas City), employees of a separate M&O contractor (e.g., at Savannah River Site), or are employees of a sub-contractor to the primary M&O contractor (e.g., at LANL). The consolidation would represent both an opportunity to improve the performance of those other programs and functions, and a risk to that performance. DOE would be looking for innovative approaches on the full scope of work at affected sites from prospective contractors and other interested parties.

- 3. Other National, State, and Local Concerns** – While both proponents and opponents of the weapons program can be expected to support this initiative’s goals of improved performance, increased efficiency, and reduced costs, the Department recognizes that the initiative may raise concerns at several of the sites associated with the contract consolidation. DOE has provided a long-term Federal presence in the local community, with significant local impacts. Elected officials and other community interests may view contract consolidation as impacting on the health of their local economy.

F. Next Steps

DOE will decide by fall 1998 whether to proceed with this acquisition strategy. If the decision is to proceed, our objective would be to issue a final RFP in early 1999.

NUCLEAR WEAPONS INDUSTRIAL COMPLEX RESTRUCTURING CONCEPT - UPDATE

I. PURPOSE

This Concept Paper provides a conceptual framework for improving the management and operations of the Department's Nuclear Weapons Industrial Complex (NWIC) - a key mission area of the Department's Strategic Plan. Improvements would be expected by restructuring up to six Management and Operating (M&O) contracts relating to nuclear weapons production by consolidating them into one contract. The NWIC consolidation would initially include the Kansas City Plant (KCP), Pantex Plant (PX), Y-12 Site (Y-12) The nuclear weapons production activities at Sandia National Laboratories (SNL), Los Alamos National Laboratory (LANL) and Savannah River Site (SR) could potentially be added later in the contract term.

The NWIC Concept would be implemented consistent with objectives from the National Performance Review, the Government Performance and Results Act, the 120-Day Study, the Stockpile Stewardship and Management Programmatic Environmental Impact Statement, and the Department's Contract Reform Initiative.

II. BACKGROUND

The NWIC has experienced significant restructuring and downsizing of its supporting infrastructure and work force over the past several years. The Stockpile Stewardship and Management Programmatic Environmental Impact Statement (PEIS) issued in 1996 envisions ongoing reductions in staffing levels and facility infrastructure through FY 2010. Downsizing is expected to accelerate once the Start II Treaty is implemented or Start III is approved. Accordingly, a key element of the Department's strategic planning is the transition to a smaller and more efficient NWIC consistent with the needs of a smaller nuclear weapons stockpile. Downsizing of NWIC will continue consistent with the Secretary's Record of Decision of December 19, 1996, concerning the Stockpile Stewardship and Management Program.

The **current** scope of the NWIC activities (based on FY 1997 actuals) is displayed on the following table:

Sites	Location(s)	FTEs	Budget (millions)	Major Site Activities
KCP	MO, NM	3367	\$377	Electronic & electro-optical devices, plastic & machined parts, safeguards transporter manufacturing.
Y-12	TN	4886	\$587	Uranium machining, case parts, uranium recycle and storage.
PX	TX	2918	\$307	Nuclear weapon assembly/disassembly, HE fab.
SR-Prod.	SC	927	\$106	Tritium operations
SNL -Prod.	NM	746	\$102	Neutron generator, weapon parts acquisition, Primary Standards
LANL-Prod.	NM	1547	\$183	Pit, detonator, & beryllium parts fabrication
	Total	14,391	\$1,662	

Note: The table above reflects end of FY97 data.

III. OBJECTIVES and SCOPE

Maintaining a viable NWIC with appropriate capacity and capabilities to meet all current and future requirements while assuring a safe, secure, and reliable enduring nuclear weapons stockpile continues to be a key element of U.S. national security.

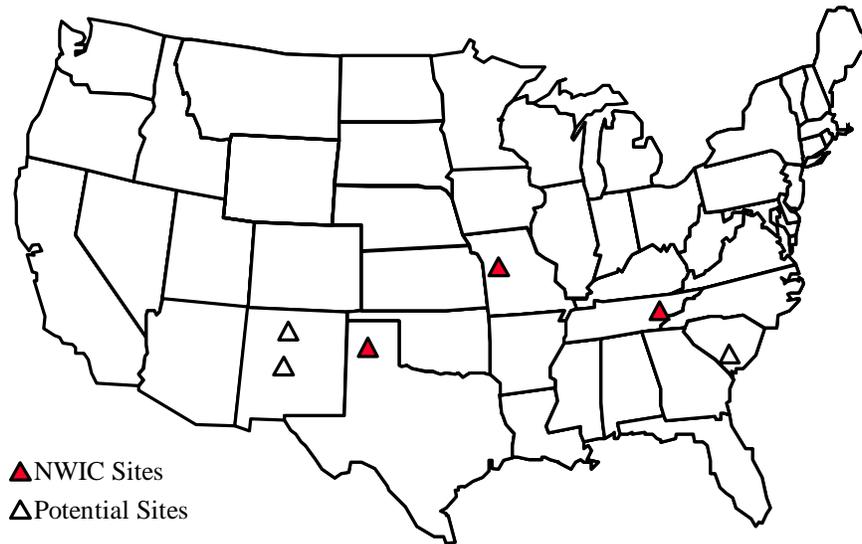
One of Defense Program's objectives described in the Department's September 1997 Strategic Plan is to "ensure the vitality of DOE's national security enterprise" by providing "an appropriately-sized, cost-effective, safe, secure, and environmentally sound national security enterprise." To meet these challenging programmatic objectives within tight budget constraints, DOE must explore new and innovative ways to improve the effectiveness and efficiency of its management of the NWIC.

DOE believes that consolidating the contracts of KCP, PX, and Y-12 very early in the NWIC contract term is the most viable approach. Based upon the lessons learned after the initial contract consolidations, the potential phasing in of the SR, SNL, and LANL production activities would be considered. This consolidation should provide significant benefits to DOE in terms of improved programmatic execution and cost savings.

This Concept Paper **does not** contemplate any mission or capability transfers that would differ from the December 1996 Record of Decision on the Stockpile Stewardship and Management PEIS. The expected savings would accrue from

consolidation of mission support and management and administrative activities under a single contractor, and from other management initiatives.

Scope of NWIC Operations



The objectives and goals that would be pursued for this restructuring and consolidation effort include:

- improve efficiency, coordination, and integration of the NWIC activities;
- improve integration with the stockpile stewardship program conducted by the weapons laboratories;
- capitalize on commercial and corporate “best business” practices;
- improve the performance and cost effectiveness of other customer programs and supporting activities covered by the existing contracts;
- improve contractor performance accountability;
- enhance corporate support, involvement, and partnering with DOE;
- reduce overall costs;
- assure greater retention of technical capabilities; and
- improve Federal management.

IV. BENEFITS

DOE is continually exploring innovative organizational and management concepts for the NWIC which promote more efficient and cost-effective operations. Contract consolidation could provide the following programmatic benefits:

- Single contractor organization responsible and accountable for the effective integration of the NWIC - Currently, the NWIC efforts are distributed among six different contractors. A single contractor would provide the Department with a unified point of contact for production operations resulting in better programmatic execution and cost effectiveness, and clearer lines of authority and responsibility among the sites.
- Improved inter-site cooperation, information sharing, and technical integration - Contract consolidation should facilitate the implementation of complex-wide best business practices to improve efficiency, coordination, and integration of site systems necessary to manage and operate the complex.
- Improved integration with the weapons laboratories' Stockpile Stewardship Program - A single contractor would provide a unified interface to the laboratories.
- Facilitate better interface with Federal program managers - The new contractor would provide a single roll-up of all the contractor requirements to facilitate improved contract administration and technical direction by DOE. The improved interface should also help clarify priorities, direction, and integration.
- Reduced costs - In the short-run, there may be higher costs resulting from transition, restructuring, and re-engineering activities. In the long run, costs to operate the NWIC are expected to decline due to consolidations, increased efficiencies, and integration of operating and business systems.
- Re-engineered Federal structure - Potential contractor restructuring associated with contract consolidations should result in corresponding decreases in the Federal staff required to oversee and administer contractor operations; and should help clarify roles and responsibilities, and improve organizational structure.
- Facilitate implementation of the Department's 120-day study entitled "The Organization and Management of the Nuclear Weapons Program." - A single contractor for weapons program production should improve linkages between the production program and stockpile stewardship, as described above, further strengthen the connection between requirements and budgets, and improve infrastructure planning and investment. These are all recommendations from the 120-day study. The Federal staffing improvements described above are consistent with recommendations from the study.

V. COST ANALYSES

The justification for this initiative is based primarily on the expected programmatic benefits. Nevertheless, it will be important to demonstrate costs savings as well. The issue of potential savings and costs has been researched by DOE through discussions with other Government organizations that have performed large-scale, complex contract consolidations. These discussions indicate that an assumed 10 percent savings in total contract cost is not unrealistic, but that actual cost savings will be difficult to measure and quantify due to changes in work scope and operating requirements. While the central reason for this consolidation initiative is the programmatic benefits, we believe reduced costs will be an added, but difficult to quantify, benefit.

It is also acknowledged that there is uncertainty in the estimates for contract close-out costs such as retiree health plans, pension funding status, and termination costs, if any. In addition, there may be ongoing initiatives in the program and business areas involved in upgrades or modifications between now and contract award that could be deferred or implemented in the future. Managing this interim period could provide additional efficiencies to the overall NWIC restructuring.

A. Potential Savings

DOE believes that a 10% cost savings from consolidation is a realistic expectation, and that greater savings should be a goal if contract consolidation is pursued. The Fiscal Year (FY) 1997 actual costs for the total scope of potential consolidation activities are \$1.662 billion, with \$1.27 billion for the three sites that would initially be included. Of this \$1.27 billion, approximately \$221 million was spent on management and administration functions. Assuming that the consolidation of these contracts would provide a potential savings of 10% in just the management and administration area on the low end of a savings range, and savings of 10% or more of the total contract costs on the upper end, it is conservatively estimated that potential annual savings range from approximately \$22 million to \$127 million or more in FY 1997 dollars.

B. Operational Start-up Costs

Based on the recent transition experiences at Oak Ridge Operations Office (OR) and SR, 17 months was used as the basis for cost estimating. Costs associated with OR's recent environmental cleanup procurement included startup costs from three different locations: the Oak Ridge Reservation in Tennessee; Paducah, Kentucky; and Portsmouth, Ohio. OR's experience may be representative of what could happen with NWIC consolidation. The new contractor with OR had business startup issues/costs from three different states and the requirements inherent with

such diverse locations. OR preliminary cost impacts were on the order of \$2 million per month. It is estimated that the new NWIC Contractor transition costs could be as high as \$2 million per month due to its greater complexity. Based on lessons learned from the initial consolidation, these costs for the addition of the three potential sites should be less.

C. Work Force Restructuring Costs

It is assumed that all of the cost savings resulting from the restructuring are because of consolidations and efficiencies that result in the sites performing the same work with fewer full time equivalents (FTEs). It was assumed that \$100,000 (a fully burdened estimate) savings could be achieved for each reduction of an FTE.

The low end of savings (\$22 million) would be equivalent to a reduction of 220 FTEs. The high end of potential savings (\$127 million) would be equivalent to a reduction of 1270 FTEs. Such a reduction represents a range of approximately 2% to 11% of the FY 1997 work force. A goal of greater cost savings would correspondingly increase the work force reduction of FTEs.

There would also be costs associated with work force restructuring. The average cost for separation packages is estimated at \$19,000 per FTE (\$19,000 is the amount identified in the "HQ Work Force Transition Guidance Document" and is the average cost for contractor workers reported in the "Annual Report to Congress on Contractor Work Force Restructuring").

D. Business System Costs

Business systems include processes and supporting hardware and software for functions such as human resources, project and program management, inventory management, records management, budgeting, accounting, payroll, costs collection, cost distribution, time collection, etc., systems. It is anticipated that consolidation of all existing systems into a new system is a complicated task; alternatively a contractor may decide to utilize the existing systems as currently configured and have a more general system at the corporate level. OR and SR have had recent experience with the implementation of new contractor business systems that were considered as the basis for this cost assumption. At OR, about \$32 million was spent for minimum accounting modules for managing two sites while at SR the estimate was on the order of \$120 million for a complete system with the capability to perform more tasks than the OR system.

Given the size and diversity of the contracts to be consolidated, and the experience at OR and SR, it is estimated that a cost of \$50 million to \$100 million could be incurred for business systems.

Although the business costs discussed above were used in the initial calculations, these costs are considered to be conservatively high. For example, the prime contractor would be expected to carefully manage the planned expenditures at each of the sites over the next couple of years, and expenditures for upgrades or modifications could be deferred, and the monies used to pay for the initial business system expenses.

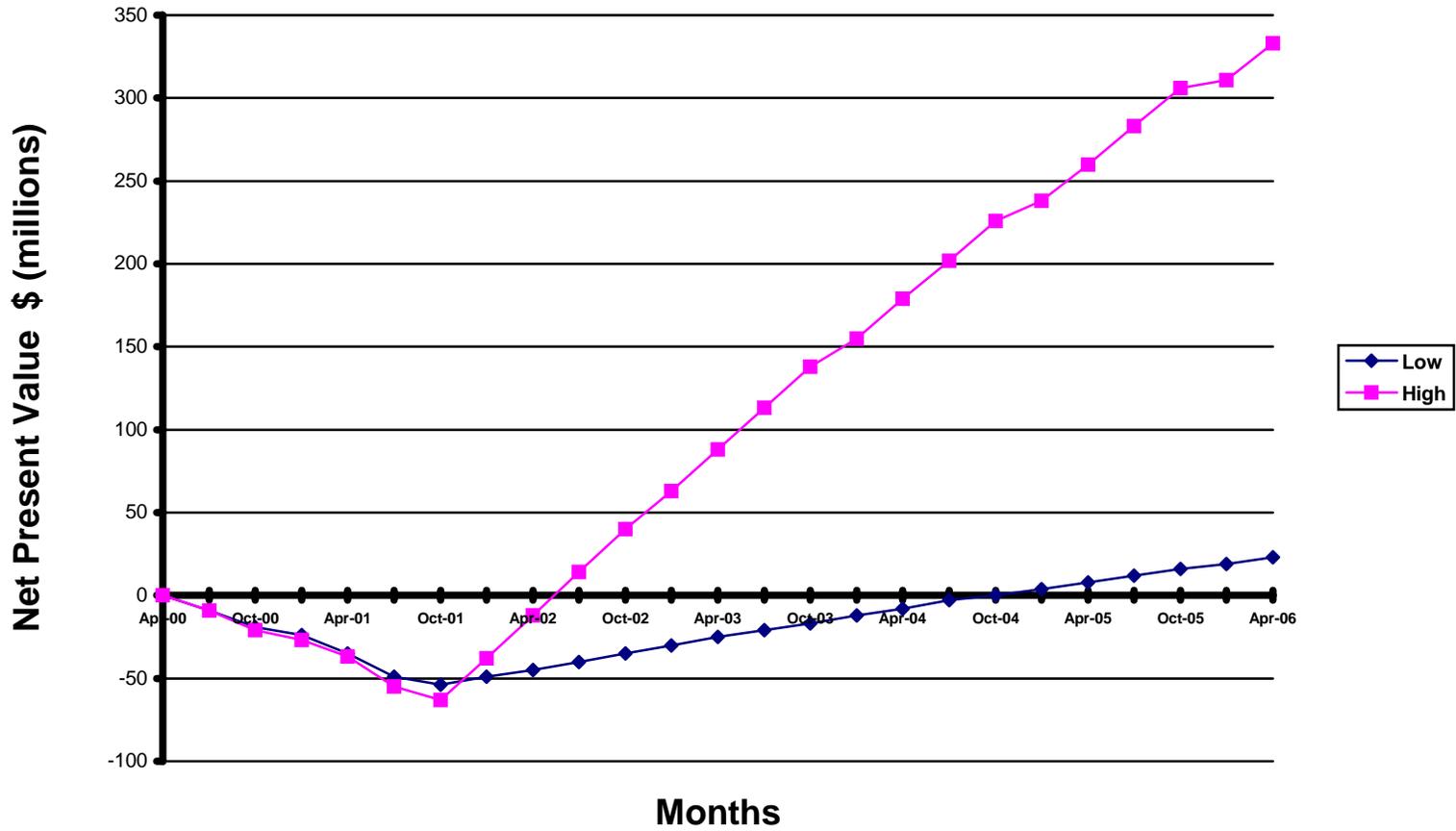
E. Pay Back Period

The cost and savings calculations have been presented on an FY 1997 cost/FTE basis. In order to account for the time value of money, conversions as outlined below are necessary:

- Office of Management and Budget (OMB) Circular A-94 was referenced for cost analyses.
- Since OMB's real interest rates from January 1998 range from 3.4% for 3 years to 3.6% for 10 years and 3.8% for 30 years, a value of 3.6 % was utilized throughout these analyses.

Based on the data presented in the attached figure, the derived pay back period is in the range of about 2.5 to 6 years after contract award. This is considered an important advantage to the Government from a cost pay back standpoint. A graph of this is shown below, and the supporting assumptions and costs used to develop the graph are shown after the graph.

Cumulative Cost/Savings



Assumptions	Transition Costs*	Work force Restructure Costs*	Business Systems Cost	Salary Savings*	Net Funding Change*
<u>Low Case</u> Savings of 10% on Manage. & Admin. Costs equals \$22M/yr. (gross) <u>High Case</u> Savings of 10% on Total Funding equals \$127M/yr. (gross)	Cost \$2M per month. Duration of 17 months beginning in May 2000.	<u>Low Case</u> 220 FTE reduction in September 2000 (\$19K/FTE) <u>High Case (see note)</u> 220 FTEs in September 2000 and 88 FTE/month thereafter until September 2001 for an overall total of 1,270 FTEs (\$19K/FTE)	<u>Low Case</u> \$50M from May 2000 until July 2002 <u>High Case</u> \$100M from May 2000 until September 2002	<u>Low Case</u> Begin in October 2000 based on a reduction of 220 FTEs (\$100K/FTE) <u>High Case</u> Same as low case with a transition up to 1,270 FTEs in October 2001 (\$100K/FTE)	<u>Low Case</u> FY 2000 - \$19M FY 2001 - \$44M FY 2002 - (\$19M) FY 2003 - (\$22M) <u>High Case</u> FY 2000 - \$19M FY 2001 - \$58M FY 2002 - (\$116M) FY 2003 - (\$127M)

* All costs/savings are in FY 1997 dollars.

VI. PROGRAM INVESTMENT

The projected savings generated by contract consolidation will be reallocated into the weapons program. For example, they could be used to support NWIC direct mission activities such as production and infrastructure. Production issues may include Stockpile Life Extension Program priorities and/or Stockpile Management issues. Infrastructure issues may include investment in the maintenance of equipment and facilities and may involve the upgrade of certain site infrastructure needs.

VII. ACQUISITION STRATEGY

The consolidation of the Department's NWIC would involve the consideration of special contracting strategies and approaches to ensure achieving the vision of improved management effectiveness and efficiency. If the Department decides to proceed with this concept, a competitive solicitation will be issued to industry. The features below would be considered part of the acquisition strategy. It should be noted that various issues presently under consideration, could impact the final acquisition strategy.

A. Restructuring Plan

As discussed in Part III of this report, the scope of activities under this effort would include the consolidation of the following facilities: Kansas City Plant; Y-12; Pantex Plant. Sandia National Laboratories nuclear weapons production activities, Savannah River Site tritium operations and Los Alamos National Laboratory nuclear weapons production activities could be added later in the contract term. The offerors would be requested to provide their approach to integrating existing contractor responsibilities for production and other industrial activities for the three initial sites in the most optimal manner, and this approach would be a key element of the evaluation process. Offerors will not be asked to propose an approach for integrating the three potential sites. The table below shows the current expiration dates of the NWIC contracts. We expect contract award to be in early 2000 with formal transition activities completed by 3/31/00.

Contractor	Facility	Expiration Date
AlliedSignal FM&T	Kansas City Plant	3/31/00
Lockheed Martin Energy Systems	Y-12	3/31/00
Mason & Hanger Corporation	Pantex Plant	**9/30/00
Sandia Corporation	*SNL Production Activities	***9/30/98
University of California	*LANL Production Activities	***9/30/02
Westinghouse	*SR Production Activities	***12/30/01

* Potential addition later in the contract term.

** The contract contains an additional one-year option for performance through 9/30/01.

*** Because production activities constitute a relatively small proportion of the total contract value, production activities from these contracts can be reassigned at the commencement of any FY, as deemed appropriate.

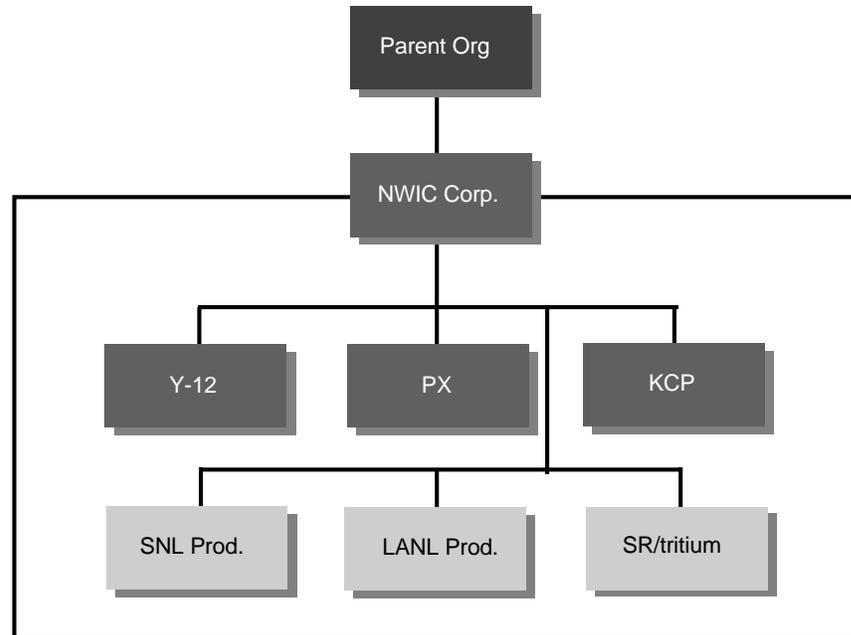
B. Contractor Organization

In order to achieve the potential benefits outlined in Part IV of this report, it is envisioned that a Nuclear Weapons Industrial Complex (NWIC) Corporation would be established by the successful offeror. This corporation would then be accountable and responsible for the management and operation of the Department's nuclear weapons complex facilities and production operations. The NWIC Corporation would be a legal entity, separate from the parent corporation, that can endure beyond the term of this contract through transfer to a successor contractor. There are a number of advantages in using this approach. An enduring corporation provides stability for employees and maintains continuity of employment beyond the term of the contract. It also allows for continuity of facility permits and licenses, subcontracts, leases, and other agreements binding on the corporation. Finally, it provides ease of future recompetition and transition. This approach has been used successfully at SNL with Sandia Corporation.

Another aspect of the contractor organization relates to the parent organization. While the contractual relationship would be between DOE and the NWIC Corporation, the parent organization must unconditionally guarantee to the Government performance under the contract by the contractor (NWIC Corporation). This parent organization must possess best business practices and systems and the ability to infuse such practices and systems into other organizations. In addition, the parent organization must have experience in managing large, complex, and

diverse operations and be a recognized leader in the integration and application of operational and business practices and systems. Also, the organization must have a sufficient resource talent pool to draw upon to support the necessary disciplines required by this effort. Set forth below is a macro depiction of the contractor organizational structure envisioned.

Conceptual Contractor Organization



C. Concept for Achieving Vision

DOE would specify to the offerors key parameters within which the offerors could propose while still allowing for their creativity and innovativeness to propose the best overall approach. The following are seen as key parameters, which would be included as requirements in the solicitation:

- Separate Corporation - The NWIC Corporation would be established as a separate legal entity. This requirement is necessary to allow for the establishment of an enduring corporation and the attendant benefits of such corporation as discussed in paragraph B above. The offerors would be cautioned that this is not another level of management. DOE expects that the new NWIC Corporation contractor would provide weapons complex integration, the proper resources and the full array of skills and disciplines, including the leadership and creative management

abilities, to promote the vision and achieve the objectives and benefits outlined in this concept paper.

- Performance of Core Functions - Except as otherwise justified, all work performed by core staff personnel of current prime contractors must be performed by employees of the new NWIC Corporation. This requirement is necessary to ensure the NWIC contractor maintains effective control over core nuclear weapons work and associated staff, including program integration and accountability, resource management, and cost control. Offerors would be advised that a Management and Integrating type arrangement is not desired.
- Competitive Subcontracts - It is envisioned that major subcontractors would be selected by the successful offeror and awarded subsequent to award of the contract. This approach would allow the NWIC Corporation to competitively award subcontracts to the best firms available. Work not currently performed by the existing prime contractors could still be subcontracted, or could be performed by the NWIC Corporation in accordance with an approved Make/Buy Plan.
- Maximum integration of operating, business and technical systems would be sought - A primary goal of this procurement would be to achieve improvements in the operation of NWIC at reduced costs. This goal would be achieved in part through the appropriate consolidation, elimination, reduction or re-engineering of tasks, activities, and initiatives now performed by separate contractors, who are overseen by separate DOE Operations Offices.
- Proposed Restructuring Plan would be an incentivized feature of the resultant contract - Commitments proposed by the selected offeror to effect contract as well as management, business, technical, and other systems integration would be reflected as a contract requirement or properly incentivized in the incentive plan of the contract.

D. Conceptual Contract Features

In order to ensure that the Department's programmatic and cost objectives are achieved, and that organizations of sufficient reputation and stature will be interested and responsive to this effort, the following features would constitute key elements of the resultant procurement: (Proper deviations would be sought for concepts proposed below which may deviate from applicable procurement regulations.)

1. **Contract Type** - It is anticipated that a cost-plus-award/incentive-fee, performance-based management and operating contract (PBMC) would be negotiated. This type of contract is most appropriate due to the significant complexity and magnitude of the work being performed, the need to draw upon the existing program and management expertise of the private sector, the need for the Government to retain broad program management responsibility with the contractor responsible for day-to-day management and performance of work, and the need to ensure performance results are achieved at reduced cost. The resultant contract would set forth performance objectives, measures, and expectations and utilize critical performance incentives to reflect program priorities and promote quality performance at less expense.
2. **Full and Open Competition** - Any procurement resulting from this concept would be solicited on a full and open competitive basis. The Department would encourage all firms with a reasonable chance for award to participate and submit a proposal for this initiative. In the interest of competition, DOE will accept proposals from individual firms as well as teaming arrangements. Also, all offerors, including those represented under teaming arrangements, will be required to provide a performance guarantee which unconditionally guarantees to the Government performance under the contract by the NWIC Corporation.
3. **Contract Term** - Because of the critical nature of this contract in fulfilling the Department's nuclear weapons mission, there is a need to balance the benefits of competition with the benefits of a relatively long-term contract relationship. The current DOE policy provides for a five-year basic contract with an option for a five-year extension. Owing to the significance of the procurement and the many complexities associated with start-up and transition of this effort, as well as the time needed to realize the potential efficiencies, a five-year contract with two five-year option periods is deemed appropriate.
4. **Options for Extension** - As stated above, the planned contract term would provide for a five-year base period, with two five-year options. Each option period would be preceded by a contractor proposal for the subsequent period which would address major initiatives and activities to be pursued, as well as commitments to be achieved in the subsequent period. Execution of each 5-year option will be based on an assessment that exercise of the option is in the Government's best interests. Because the two option periods will be included in the competitive procurement process, DOE's extend-compete process will not apply.

5. **Potential Addition of SNL Production, LANL Production and SR Tritium Operations** - The contract will provide for the potential addition under one contract of all production activities associated with the Department's NWIC mission, including these three activities. Offerors would not be expected to describe their proposed approach for integrating the three potential sites.

6. **Contract Fee and Incentive Features** - Due to the complexities and risks associated with this procurement, fee or the fee pool must be available in an amount that is sufficient to reward good performance and effectively motivate a contractor to desired expectations. DOE's policy covering fees provides a variety of mechanisms to structure an appropriate fee. Such mechanisms include: flexibility in the calculation of the total fee pool based on complexity of work; application of fee schedules; use of both award and incentive fee features to reflect subjective and objective incentives; and shared savings based on cost reduction proposals. These considerations as well as an overall assessment of the assumption of risk by the contractor should provide a fee structure to attract world class firms and provide adequate remuneration for the work to be performed.

The utilization of incentives is a proven method in motivating contractors to achieve desired levels of performance against specified performance measures. The development and application of incentives will address the efficiency and effectiveness of the management of the NWIC, as well as the critical requirements associated with each site. Additionally, a balanced incentive approach will be utilized between objective incentives (performance-based) and subjective incentives (award fee) to ensure a comprehensive evaluation and assessment of contractor performance. The incentive plan will be predicated upon the following performance-based management contract features: results-oriented statement of work; clear performance standards and objectives; incentives to reduce cost, including shared savings; fee based on results against measurable criteria; the use of multi-type pricing arrangements as applicable; and consideration given to negotiating fee and performance-based incentives (PBIs) to cover multiple years. Initially, offerors may be requested to propose PBIs, as applicable, in the areas of system integration, transition, human resources, start-up, productivity improvements and reduced costs. In subsequent years, it is anticipated that incentives in the areas of productivity improvements and reduced costs will continue to be utilized as well as incentives directed at the accomplishment of critical mission objectives.

7. **Indemnification** - The Price-Anderson Act, as amended, expressly authorizes and requires DOE to indemnify its contractors against public liability for a nuclear incident arising from their contractual activities on behalf of DOE. This statutory authority first was adopted in 1957 and since then has been amended several times and extended three times for 10- or 15- year periods. The Act will expire on August 1, 2002 (although the law will continue after that date for previously executed contracts) and there is every expectation that the law will be extended. Since the proposed effort would involve nuclear materials and award is expected before the proposed expiration date, the contract would contain the appropriate indemnification clause. In addition, long-term indemnification under Public Law 85-804 may be necessary for the successful offeror to perform high-priority national security work outside the United States.
8. **Salary and Benefit Package** - The contract would contain an advanced understanding of Human Resource (HR) compensation policies and associated allowable costs (Personnel Appendix) which would address the HR objectives discussed in Section VIII, Contractor Human Resources Issues below.

E. **Conduct of the Procurement Process**

The following provide additional information on the manner in which DOE may conduct any resulting procurement.

1. **Written and Oral Proposals:** The procurement may utilize both written and oral proposal methods to evaluate proposals. We will carefully consider the question of written vs. oral proposals in an attempt to balance the costs of proposal preparation with DOE's need to obtain certain contract proposal information in writing.
2. **Time to Prepare a Proposal:** It is recognized that the quality of proposals depends in large measure on the quality and quantity of relevant information made available. We intend to make available the maximum information practicable on the applicable sites to ensure all offerors are provided the information needed to fully compete for the procurement, and to reduce, to the maximum extent possible, any advantage one contractor has over another as a result of their managing and operating one or more of the applicable sites. Additionally, specific dates would be set aside to visit affected sites where information would be shared regarding the site's organizational structure, current and planned activities and other relevant information to assist prospective offerors in their

proposal preparation effort. Consideration will be given to issuing a draft RFP or partial draft RFP. Issuance of any draft RFP will be primarily dependent upon its potential value to be above and beyond the information currently available and provided to potential offerors.

- 3. Evaluation Criteria:** The specific evaluation criteria to be used have not been decided upon. General areas under consideration at this stage of the process are: experience and past performance in major consolidation initiatives; key personnel experience and qualifications; integration plan; approaches to operational, system and cost efficiencies; performance incentives proposed, human resource considerations; socioeconomic considerations, and work force planning at contract changeover and during transition. The intent is to ensure the contract is awarded to that offeror who can *best* demonstrate that it can most effectively achieve the objectives stated in the RFP.
- 4. Written or Oral Discussions:** The RFP will indicate that the Government reserves the right to make award based on initial proposals. However, unless there is evidence of a clear winner following initial evaluation, and a clear showing that written or oral discussions would not alter that decision, written or oral discussions will be conducted. The magnitude and complexities of this procurement as well as the need for a complete and clear understanding of each offeror's proposal make it unlikely the Government will make award without written or oral discussions.
- 5. Transition Period:** The Department has concluded that a transition period (defined as the period when the incumbent contractor is working with the selected contractor) is necessary and appropriate to effect orderly startup of the new contract. We expect contract award to be in early 2000 with transition completed before any of the three contracts expire, although short-term extensions to the Kansas City Plant and Y-12 contracts may be required.

F. Organizational Conflicts of Interest (OCI)/Foreign Ownership Control and Influence (FOCI)

DOE is concerned about the potential of an OCI existing in this procurement due to the sheer breadth of activities involved. DOE has concerns about any actual, potential, or apparent OCI that may arise from the Offerors or Parent Organization(s) being part of DOE's Nuclear Weapons Complex (NWC). These potential conflicts are associated with the role the NWIC contractor will play in carrying out its responsibilities for weapons production activities, its resulting association with the NWC laboratories, and the DOD customer, including any association with nuclear weapon delivery systems contracts or subcontracts.

The Contracting Officer must make a finding prior to award as to whether or not an OCI or FOCI exists. In the interest of competition and relieving uncertainty regarding a contractor's standing with respect to OCI or FOCI, the Department is willing to explore the feasibility of allowing offerors to submit relevant information to obtain a "prescreening" with respect to an OCI and FOCI determination. Each offeror will, nevertheless, be required to submit full disclosures with its proposal

G. Socio-economic and Regional Economic Impact Considerations

The socio-economic progress that has been achieved at various site locations should be maintained. Therefore, appropriate contract provisions would be made a part of the contract to ensure the Department's continued commitment to socio-economic and regional support objectives. While the primary focus of the procurement will remain improvements in production operations, this objective must be balanced against the Government's duty to consider and fulfill, as appropriate, public policy and socioeconomic objectives. Contractors will be required to propose a small, small/disadvantaged and women-owned small business subcontracting plan covering all NWIC locations that considers local socioeconomic conditions in establishing local goals. Furthermore, the magnitude of the effort together with the potential sites affected compels the appropriate consideration of the offeror's approach to regional involvement and outreach. Accordingly, the offeror's approach to executing an effective socioeconomic program and its ability to propose and manage a proper balance between production focus and community/socioeconomic impacts will be a consideration for award.

H. Industry/Stakeholder Feedback

A significant feature of the Acquisition Strategy is to obtain industry and stakeholder feedback and comments on the proposed concept. In furtherance of this objective, the NWIC Concept Paper was announced in

the Commerce Business Daily and published on the NWIC web site on June 4, 1998. Industry and stakeholder feedback was used to obtain insight into the viability of the concept as well as ideas for concept enhancement. In response to the request for comment on the concept paper, written or oral comments were received from 36 individuals, 16 companies, 2 community interest groups and one union. Responses to comments received were published on the NWIC web site on September 1, 1998. This document takes into consideration industry/stakeholder feedback.

I. Schedule of Activities

Based on current assumptions, listed below are the major activities associated with this restructuring concept and projected time frames for their accomplishment. A more specific acquisition schedule would be developed following a decision by the Department that this initiative should be pursued.

Activity	Date/Months
CBD Request for Comments	June 4, 1998
Comments Due	July 15, 1998
Departmental Decision	Fall 1998
RFP Prepared	3 – 4
Proposal Preparation	3 – 4
Evaluation/Discussions/Negotiations	4 – 7
Award	1 – 2

VIII. CONTRACTOR HUMAN RESOURCES ISSUES

A. HR Objectives

The consolidated contractor would face the challenge of dealing with up to six different Human Resource (HR) systems from the current contracts. This represents an opportunity to make improvements in this area. The new contractor would be expected to design and implement an HR system that provides a balanced approach to address the following objectives:

- Motivate excellent performance.
- Improve productivity.
- Attract and retain critical skills.
- Achieve direct-to-indirect ratios comparable to private sector.
- Effective labor relations.

- Flexibility to apply best resources anywhere in the complex.
- Excellent work force planning process and supporting systems.
- Ease transition of impacted employees -- separations and job changes.
- Cost-effective employee development tied to business strategies -- encourage partnerships with local colleges and universities, and with union training programs.
- HR strategies linked to site-specific and DOE-wide business objectives.
- Flexible, cost-effective compensation systems that link rewards to measurable results against performance/business objectives.
- Greater emphasis on competencies including management competence.
- Benefits strategies which promote flexibility, portability, and cost effectiveness.

B. Employment Strategy

In the initial concept paper, DOE considered several employment strategy options that could be used at the time of contract transition. These included: 1) the practice of successorship where pay and benefits of the former contractor are retained for the majority of new and existing NWIC Corporation employees at each NWIC location; 2) new pay and benefits apply to new NWIC Corporation employees only, while pay and benefits for employees of former NWIC contractors are grandfathered; and 3) pay and benefits are new and unique for all NWIC Corporation employees (market driven) - no grandfathering of former pay and benefits for former employees of the NWIC contractors.

Based on input received, it is evident to DOE that Option 3 (immediate transition of everyone to new, market-driven pay and benefits) is not a viable option. Since it is imperative that continuity of operations be maintained, DOE is committed to a change strategy that will minimize the adverse impact on employees, retain core competencies and critically skilled employees, and provide a smooth transition that will preserve the morale of the work force. However, it is a reasonable long-term objective to expect the NWIC contractor to consider, develop, and implement, as applicable, human resources change strategies that would realize economies of scale and potential cost savings such as benefit plan consolidation, a single executive compensation plan, or corporate-wide salary and grade structures. As a result and with the exception of option 3 identified above, offerors would be given latitude to propose the optimal approach to effect the HR objectives identified above. However, DOE will continue to consider the use of the other contract changeover options

either singly or in combination to be used during the formulation of guidance for the solicitation process.

C. Labor Relations

No major impacts on the level of employment of the work force represented by organized labor are anticipated because most of the existing organized labor work force must be retained given that missions are planned to remain the same at each facility. There could be, however, impacts on employment conditions. A new prime contractor would be expected to have a strategy for dealing with existing collective bargaining agreements. Those labor organizations covered by this management planning scenario are indicated in the table below:

“Direct Labor” Bargaining Unit

Site	Union*	Total Members
OR	Atomic Trades & Labor Council (AFL-CIO) Knoxville Building Trades Council	1,535 600
SR	No directly affected unions.	
AL Pantex Plant	Metal Trades Council (AFL-CIO)	1,050
SNL	Metal Trades Council (AFL-CIO)	505
Kansas City Plant	Int'l Assoc. of Machinists & Aerospace Workers (AFL-CIO)	1,312
LANL	No directly affected unions.	

* There are maintenance/construction and security guard unions at several of these sites.

It should also be noted that this Concept Paper does not contemplate any mission or capability transfers that would differ from the Stockpile Stewardship and Management PEIS. In this regard, efficiencies and economies would be realized under the current plant organizational structure. Subsequently, other cost savings initiatives may be put into effect, but it is anticipated these would focus more on indirect labor, management services, and administrative support functions.

To accomplish effective contract changeover and facilitate consideration of competency-based pay and performance systems and the other objectives listed above, the contractor would be expected to instill a cooperative labor-management culture and establish a partnership relationship.

IX. FEDERAL WORK FORCE AND ORGANIZATIONAL CONSIDERATIONS

As illustrated below, the six NWIC sites are managed and overseen by three different Operations Offices. In addition, some of the facilities not co-located with their Operations Offices have Area or Site Offices responsible for day-to-day, on-site contract administration.

NWIC Facility	Operations Office	Area/Site Office
Pantex Plant	AL	AAO
Kansas City Plant	AL	KCAO
Los Alamos Nat'l Lab.	AL	LAAO
Sandia Nat'l. Labs.	AL	KAO
Y-12 Site	OR	Y-12 Site Ofc
Savannah River Tritium Opns	SR	N/A

Federal organization and staffing considerations include the following:

- Delegate one Operations Office as the Head of Contracting Activity (HCA), with contracting officer authority over the entire contract and thus the facilities located at or within sites controlled and administered by other Operations Offices.
- Establish additional Area or Site Offices at locations where none exist now.
- Determine to what degree Operations Offices would be affected by changes in workload capacity or capability requirements resulting from contract consolidation or Area/Site Office reorganizations.

The objective of the NWIC contractor is to manage and operate the specified sites and facilities to achieve a safe and more effective and efficient operation. The NWIC contractor will be fully accountable and responsible for the operation. For this to work, the NWIC contractor must have appropriate authority and flexibility for planning and executing its work to meet assigned objectives. DOE's organization and management structure must recognize and complement the NWIC contractor's role. DOE recognizes that, if a decision is made to pursue the NWIC contract consolidation, it must revise its organization and management structure, including assigned roles and responsibilities, in order to effectively manage a consolidated NWIC contract. DOE is actively considering

organizational models to promote efficiency and to allow effective administration of any new NWIC contract. DOE recognizes that the associated Federal organizational structure and management approach needs to be conveyed to offerors in the RFP and implemented prior to award.

X. ISSUES AND CONCERNS

The issues and concerns discussed below are the major issues identified thus far.

A. Human Resources Issues

A competency-based HR model may be less attractive to some NWIC contractor employees and may create problems with retention of critical employees and skills. There may also be increased HR costs including the following:

- Unless the current work force is grandfathered under any new pay and benefits system, severance may have to be paid to former NWIC employees who choose not to work for NWIC Corporation.
- Retention incentives may be required to maintain critical NWIC employees.
- There may be costs for transition to any new pay and benefit systems.

B. Organizational Conflicts of Interest (OCI)/Foreign Ownership Control and Influence (FOCI)

Due to the breadth of activities associated with this procurement and its many interfaces with both DOE and DOD weapons activities, the potential for an OCI exists. A potential for an OCI may exist if a firm is involved in nuclear weapons design and/or production, non-nuclear testing activities, or if a firm is engaged in design or production of DOD weapon delivery systems. DOE must examine OCI and FOCI issues on a case-by-case basis and will consider requests for prescreening evaluations.

C. Extension of Existing Contracts

The tentative Procurement Schedule in the Acquisition Strategy suggests extensions to the Y-12 and Kansas City Plant contracts may be required. If the procurement proceeds, the offerors would be allowed to propose extensions to the affected contracts which would allow for the most advantageous transition and contract changeover. Short-term extensions may be required to accommodate offeror transition plans.

D. Impacts on Other Programs and Contracts

The contracts involved in the consolidation also support other programs besides those of the Office of Defense Programs. Activities at each of the affected sites include tasks and projects managed primarily by the Office of Environmental Management and the Office of Non-Proliferation and National Security. In addition, the contractors conduct “work for others” primarily in support of other federal agencies. Finally, all of the sites have security forces that are either employees of the primary M&O contractor, (e.g., at Pantex and Kansas City), employees of a separate M&O contractor (e.g., at Savannah River Site), or are employees of a sub-contractor to the primary M&O contractor (e.g., at LANL). The consolidation would represent both an opportunity to improve the performance of those other programs and functions, and a risk to that performance. DOE would be looking for innovative approaches on the full scope of work at affected sites from prospective contractors and other interested parties.

E. National, State, and Local Perspectives

- 1. National** - This initiative should be appealing as an innovative approach to a more streamlined and cost-effective Nuclear Weapons Industrial Complex. The benefits of this consolidation effort should parallel the benefits forecast by large companies such as banks, airlines, defense contractors, entertainment firms, telecommunications companies, etc., to justify recent mergers and partnerships. While both proponents and opponents of the weapons program can be expected to support this initiative’s goals of improved performance, increased efficiency, and reduced costs, the Department recognizes that it may also raise concerns, including the likely need for increased funding in the short-run to cover transition costs and develop system efficiencies.
- 2. State and Local** - At several of the sites that would be affected by the consolidation, DOE has provided a large, long-term Federal presence in the local community, with significant local impacts. Some community interests may view contract consolidation as

threatening to the health of their local economy. Some M&O contracts have special objectives related to community economic development, and local communities may wonder whether those objectives would carry through to the new contract. In discussions with these sites, DOE must continue to emphasize that the plan contained in the Stockpile Stewardship and Management PEIS approved in 1996 remains the same. Contract consolidation should be viewed as a strategy aimed at accomplishing the plan in a way that would most effectively sustain the program and the planned long-term involvement of local plants and sites.

XI. NEXT STEPS

By early fall 1998, DOE will decide whether or not to proceed with an acquisition strategy to implement this concept. Assuming a positive decision to proceed, we would anticipate issuing a final RFP in early 1999.

XII. CONCLUSION

It is expected that a single NWIC contractor would be able to eliminate unnecessary duplication of certain functions, redesign inefficient work processes, and phase out work of marginal value throughout the complex. This would position the various facilities to perform their required mission functions more effectively and efficiently. Reaching this optimum performance would undoubtedly require changes in work processes, organizational structure, and operational approaches and relationships. The result should be a revitalized NWIC organization and work force better positioned to meet future requirements.