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STATE OF WASHINGTON

DEPARTMENT OF ECOLOGY

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June 6, 1995

Mr. Thomas P. Grumbly
Assistant Secretary, Office of Environmental Management
U.S. Department of Energy
1000 Independence Avenue SW
Washington, D.C. 20585



Dear Mr. Grumbly:

I would like to take this opportunity to transmit some of the Department of Ecology (Ecology) observations on the Hanford Tank Waste Remediation System (TWRS) privatization initiative. First, let me thank you and your staff for the efforts being made to work with Ecology throughout this consultation period. Only through open communication can we ultimately succeed in our mutual efforts to safely transform Hanford tank wastes into a safe, stable form.

Let me clearly state that the State of Washington fully supports the broad application of Privatization Principles in structuring an efficient TWRS program. The Department of Energy (Energy) has clearly taken a leadership role to "reinvent government" by considering this approach. It is now incumbent on all parties to the Hanford Tri-Party Agreement (TPA) to form a workable program which ensures progress consistent with the TPA Critical Path.

There are many ideas being generated by Energy which Ecology fully supports, including starting with a small vitrification capacity to demonstrate some near term success. However, during our discussions with your staff, private vendors and stakeholders, two primary concerns continue to surface with the current privatization concept your staff have formulated. These are (1) the source of funding for the low level waste program (private vs. government financing) and, (2) the scope of phase one (two plants vs. phased acquisition).

Concern about the potential for private financing of phase one activities stems from conversations with potential vendors as well as from reports generated for Energy by the financial community. In particular, vendors have stated that they may be unwilling to front the money themselves or be unable to obtain funding from financial institutions for a first of a kind facility. In addition, your staff readily acknowledge that numerous other issues associated with private financing, such as limited market to amortize costs, liability sharing, nuclear safety oversight, etc., are not yet adequately understood. Although, Ecology believes that these issues can ultimately be resolved, the time necessary to do so is counter to our mutual need to demonstrate near term success. These issues may be able to be muted in the near term through some form of government financing.

The plan to acquire two small production scale facilities in Phase 1 also seems problematic. While we understand the desire to have direct competition between vendors, we have been unable to understand how duplicating 250-300 million dollar plants is economically desirable. In other words, to prevent a single vendor from potentially obtaining additional millions of dollars in profit, Energy is willing to spend hundreds of millions of dollars to ensure some

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form of competition. With the current reductions in the Energy budgets, it is difficult to see how Hanford can financially or logistically support two facilities of this magnitude in the near term. The State of Washington agrees that competition is needed to ensure reasonable costs and to drive innovation, however, alternate methods may be available which are more financially supportable.

The Hanford Advisory Board, in consensus advice adopted June 2, 1995, recommended an incremental learning approach to privatization. The State of Washington believes this is wise counsel. In particular, an approach which provides for a competitive procurement leading to a fixed price design/build/operate contract may be the logical first step to privatization. Rather than having to address the complex issues associated with a privately financed and owned facility, this approach would allow Energy and Ecology the opportunity to achieve near-term success and to gain experience needed to support more ambitious privatization approaches.

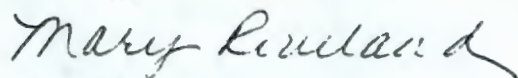
Skepticism within the financial and vendor community on the ability of Energy to support the current concept budgetarily, leads the State of Washington back to the incremental learning approach with respect to budget. Consistent with Ecology's statements at the St. Louis executive management forum and elsewhere, we must ensure efficient use of existing Hanford budgets before we attempt to find additional monies from other Energy or Congressional sources. To that end, Ecology would encourage Energy to secure funding for one facility solely from the existing Hanford budget. Then, should additional funding be available, the second facility could be procured. This approach would ensure at least one facility being procured without taking an all or nothing tack.

With respect to the high level waste vitrification program, the State of Washington supports full privatization. By utilizing the Phase 1 low level program as a learning process, Ecology believes the issues surrounding private financing will be able to be resolved. This would allow for a competitive procurement process for vendors interested in privately financing, constructing and operating a high level plant on a pay for product basis.

Finally, let me reiterate that the State of Washington supports the move to privatize work at Hanford. We believe that a well thought out, incremental approach to contract reform will vastly improve our ability to remediate Hanford. It is through your leadership that Energy will be positioned to take full advantage of the skills within and external to the Agency.

We look forward to continuing this consultation period through its final resolution.

Sincerely,



Mary Riveland
Director

cc: Congressional Delegation
Chuck Clarke, EPA Region X
John Wagoner, DOE-RL
Merilyn Reeves, Hanford Advisory Board
Larry Arnold (Administrative Record), WHC