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4 ``DEPARTMENT OF ENERGY OVERSIGHT: WHAT IS NECESSARY TO

5 IMPROVE PROJECT MANAGEMENT AND MISSION PERFORMANCE?''

6 WEDNESDAY, JULY 24, 2013

7 House of Representatives,

8 Subcommittee on Oversight and Investigation

9 Committee on Energy and Commerce

10 Washington, D.C.

11 The subcommittee met, pursuant to call, at 10:00 a.m.,
12 in Room 2322 of the Rayburn House Office Building, Hon. Tim
13 Murphy [Chairman of the Subcommittee] presiding.

14 Present: Representatives Murphy, Burgess, Blackburn,
15 Scalise, Olson, Gardner, Griffith, Johnson, Ellmers, Braley,
16 Lujan, Castor, Tonko, Green and Waxman (ex officio.)

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17 Staff present: Carl Anderson, Counsel, Oversight;
18 Charlotte Baker, Press Secretary; Sean Bonyun, Communications
19 Director; Annie Caputo, Professional Staff Member; Karen
20 Christian, Chief Counsel, Oversight; Andy Duberstein, Deputy
21 Press Secretary; Vincent Esposito, Fellow, Nuclear Programs;
22 Brad Gantz, Policy Coordinator, Oversight and Investigations;
23 Brittany Havens, Legislative Clerk; Brandon Mooney,
24 Professional Staff Member; Peter Spencer, Professional Staff
25 Member, Oversight; John Stone, Counsel, Oversight; Brian
26 Cohen, Democratic Subcommittee Staff Director, and Senior
27 Policy Advisor; Kiren Gopal, Democratic Counsel; Hannah
28 Green, Democratic Staff Assistant; and Stephen Salsbury,
29 Democratic Special Assistant.

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30 Mr. {Murphy.} Good morning, and welcome.

31 We convene this hearing as part of the committee's
32 ongoing oversight of the Department of Energy to review how
33 the Department may improve its project management and its
34 mission performance.

35 The hearing will feature testimony from Daniel Poneman,
36 the Deputy Secretary of Energy, who will describe and explain
37 the reorganization of the Department's management structure
38 announced just last week by the new Secretary of Energy,
39 Ernest Moniz. We will also hear from Greg Friedman, the DOE
40 Inspector General, and from David Trimble, of the Government
41 Accountability Office, both of whom will provide important
42 context to help understand the potential of the Secretary's
43 plans. Welcome, gentlemen.

44 The announced reorganization makes some significant
45 changes to the Department's management structure with a more
46 explicit focus on project management, so-called enterprise-
47 wide mission support, and the integration of the agency's
48 science and applied energy programs. The new structure will
49 transform the Office of Under Secretary, which previously

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50 managed the Department's energy programs, into the Office of
51 Under Secretary for Management and Performance. Under this
52 setup, a new Under Secretary will manage the agency's large
53 and challenging environmental cleanup responsibilities as
54 well as a number of agency-wide mission support offices, and
55 national laboratory operations.

56 The energy programs, including the Offices of Fossil
57 Energy, Nuclear Energy, Energy Efficiency and Renewable
58 energy, the Office of Electricity Delivery and Reliability
59 will now be managed more closely with the Department's Office
60 of Science by an Under Secretary for Science and Energy. In
61 addition, the Secretary plans to reform agency safety and
62 security oversight and also plans to establish various
63 secretarial councils to address select policy issues.

64 On paper, these changes look like positive steps to help
65 DOE address the tremendous challenges and opportunities
66 before the agency. On the energy-mission side, we know that
67 the prospects of North American energy production have
68 surpassed all expectations in recent years. How this agency
69 integrates the strength of its world-class science and
70 engineering with its applied energy and various energy

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71 infrastructure programs to help maximize the benefits of this
72 new reality for the American public is of key importance.

73 Meanwhile, DOE's core science and engineering missions
74 must also confront the federal government's tremendous
75 environmental responsibilities. Fifty years of Cold War
76 nuclear research, development and weapons production have
77 left behind contaminated water and soils, and tens of
78 millions of gallons and millions of cubic meters of waste
79 that must be cleaned up. Cleanup costs, estimated at more
80 than \$250 billion, are a federal liability surpassed only by
81 Social Security and Medicare.

82 Repeated audits for this subcommittee by GAO have found
83 that over the past two decades, DOE has suffered from
84 substantial and continual weaknesses in effectively
85 overseeing contractors and managing large, expensive and
86 technically complex projects. But multi-billion-dollar
87 projects aren't the only problem. This past December, GAO
88 told us that DOE did not have sufficient documentation to
89 assess performance on almost 40 percent of its non-major
90 projects--those costing less than \$750 million.

91 Lessons generated out of the serious security failure

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92 that occurred one year ago at the Y-12 site in Oak Ridge,
93 Tennessee, has indicated how the successful reliance on
94 Department contractors depends on strong and clear lines of
95 accountability and on meaningful and consistent measurement
96 of contractor performance. Attempts to institute what is
97 called on the ``eyes on, hands off'' contractor oversight in
98 recent years weakened accountability and were taken to a
99 point that Washington had no clue about the mounting security
100 risks in Tennessee.

101 We heard testimony from then-Secretary Steven Chu's own
102 outside advisors that the Department's decentralized
103 management of the national security sites allowed them to
104 leverage their unique missions and geography to justify being
105 held to different levels of security standards. Confused
106 accountability and conflicting priorities and messages from
107 Washington created a culture of what is called ``tolerating
108 the intolerable,'' as one of the Secretary's advisors put it.

109 That episode relates to DOE's governance of the nuclear
110 security enterprise, but it points to accountability,
111 management and oversight issues that require constant
112 attention across all of the agency's operations and projects

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113 of the agency is to perform its work safety, securely, and
114 protective of taxpayers' dollars.

115 Of course, whether and how the Secretary's efforts will
116 help improve the documented deficiencies in the Department's
117 performance will remain to be seen. The object of today's
118 hearing is to build a record that will help the committee
119 monitor progress and conduct constructive oversight in coming
120 months. Our goal is to help ensure the Department can
121 sustain management and performance improvements and develop a
122 culture of accountability, safety and security that extends
123 throughout the agency's operations.

124 [The prepared statement of Mr. Murphy follows:]

125 ***** COMMITTEE INSERT *****

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|
126 Mr. {Murphy.} With that in mind, I look forward to an
127 informative hearing, and I now for 5 minutes the gentlelady
128 from Florida, Ms. Castor, who is sitting in today for Ranking
129 Member DeGette.

130 Ms. {Castor.} Well, good morning, and thank you,
131 Chairman Murphy. I am glad we are here today to discuss
132 management and performance issues at the Department of
133 Energy.

134 This committee has held a number of productive hearings
135 on these important but sometimes overlooked areas. On this
136 committee, there is a bipartisan consensus and there has been
137 for some time regarding the importance of making sure that
138 DOE is effectively managing its contractors and its
139 environmental management and keeping the nuclear complex
140 safe.

141 The recent confirmation of Energy Secretary Moniz and
142 his efforts to reorganize the Department make this the
143 perfect time to reexamine the longstanding agency weaknesses
144 because for too long, the structure and culture at DOE has
145 allowed for inadequate focus on management and performance.

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146 Because of the size of the agency, the complexity of its
147 mission and its reliance on contractors--it is the largest
148 civilian contracting agency in the federal government--it has
149 proved difficult to set up effective performance and
150 benchmarking procedures. But these tasks are essential in
151 order to evaluate the quality of the work being carried out
152 by the agency.

153 So I am interested in hearing from the witnesses today
154 about the progress the Department of Energy has made in
155 resolving these issues and about the GAO's and IG's recent
156 work in the area. The Secretary's announcement last week
157 regarding DOE reorganization that created a new Under
158 Secretary for Management and Performance is an encouraging
159 development, and she must tackle these challenges head on. I
160 am eager to learn more about how exactly this role will
161 function and how the new integrated organizational approach
162 will further DOE's mission and help build a clean energy
163 economy.

164 It is a positive sign that DOE has a renewed commitment
165 to resolving some of the thorny issues that have plagued the
166 agency across multiple administrations. The effort must be

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167 sustained, and while there are no easy answers, I am
168 confident that these challenges are not insurmountable. The
169 Government Accountability Office designed contract
170 administration and project management as a high-risk area in
171 1990. That it remains on the list in 2013 is proof of both
172 the mistakes that have been made since that time and the
173 inherent challenges of managing one of the most complex
174 federal agencies, especially when it comes to nuclear safety
175 and security.

176 Security lapses at the Nation's nuclear weapons complex
177 have been well documented from the Los Alamos National Lab to
178 the shocking breach last year at the Y-12 facility in Oak
179 Ridge, Tennessee, where an 83-year-old nun broke into what
180 was supposed to be a highly secured area.

181 GAO reported recently that DOE and NNSA continue to face
182 challenges in ensuring that oversight of safety and
183 performance activities is effective. I would like to hear
184 from DOE today about what more the agency can do to instill a
185 culture of safety and what security measures have been put in
186 place over the past year to ensure that critically important
187 facilities are protected. The persistent issues at our

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188 nuclear facilities make very clear the need for strong
189 oversight from this committee. Because DOE so heavily relies
190 on contractors to carry out its mission activities, effective
191 contractor governance is critical. But in January of this
192 year, the Inspector General reported that despite at least 5
193 years of effort, NNSA had not yet implemented fully function
194 and effective contractor assurance systems. NNSA must
195 improve upon these efforts.

196 Finally, I continue to be concerned by DOE's
197 longstanding problems relating to inaccurate cost estimates.
198 The GAO has reported that cost-estimate practices are not
199 uniform and that cost-estimating guidance is not up to date.
200 The bottom line here is that taxpayers' dollars are at risk
201 if the Department of Energy cannot accurately estimate costs.
202 If we can conduct world-class nuclear research, then surely
203 we can have consistent cost-estimating practices. So I would
204 like to hear from the Deputy Secretary about what is being
205 done to remedy these problems and how the new management
206 structure will bring greater focus to these challenges.

207 The restructuring at the Department of Energy presents
208 an opportunity for a fresh start with respect to DOE's

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209 management and performance issues. There is bipartisan
210 agreement that these issues must be taken seriously, so thank
211 you, Chairman Murphy, for holding this hearing today, and I
212 look forward to having a productive session.

213 [The prepared statement of Ms. Castor follows:]

214 ***** COMMITTEE INSERT *****

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|
215 Mr. {Murphy.} The gentlelady yields back, and now I
216 recognize the vice chair of the full committee, Dr. Burgess,
217 for 5 minutes.

218 Dr. {Burgess.} Thank you, Mr. Chairman, and thanks to
219 our witnesses for being here today to help us as we study
220 this subject.

221 Last month, before the Subcommittee on Energy and Power,
222 Secretary Moniz testified that he would be addressing the
223 restructuring of management and performance within the
224 Department of Energy as one of his top priorities. This
225 admission comes as welcome news to those of us who have been
226 concerned for several terms of Congress about the structure
227 of the Department of Energy. As such, it is the intention of
228 this hearing to identify what concerns Department officials
229 have themselves, and going forward to the extent that they
230 can be remedied.

231 But I can't help but reference, since the ranking member
232 brought it up in her opening statement, in a previous
233 subcommittee hearing many, many years ago when the problems
234 at Los Alamos Lab were surfacing and apparently the thumb

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235 drive was a relatively new invention and was utilized for the
236 inappropriate transfer of information, the response of the
237 Director of Los Alamos was to fill the little USB ports with
238 JB weld, which did solve the problem temporarily but I have
239 got to believe that the clever criminal mind could find a way
240 around that.

241 Members of Congress are not the only ones who have
242 apprehensions that the structure of the Department of Energy
243 has given rise to security risks and mismanagement. Because
244 of the way the Department of Energy has been set up, in 1990
245 the Government Accountability Office designated the
246 Department's contract management as high risk, saying that
247 inadequate oversight has left it ripe for fraud and abuse.
248 For the most part, Department of Energy has tried to address
249 such high-risk areas, and the GAO has since removed the
250 designation from its Office of Science. Since being listed
251 as high risk, the Department of Energy has also taken the
252 initiative to implement a corrective action plans and hopes
253 to be removed from GAO's list. Despite this effort, a total
254 of 12 projects are currently either at risk of breaching
255 performance baselines or expected to breach performance

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256 baselines.

257 Unfortunate incidents have occurred. A year ago, last
258 July, antinuclear activists entered the Y-12 complex and
259 sprayed antiwar slogans on the exterior of a highly enriched
260 uranium materials facility, a very dangerous exercise for
261 them personally and certainly exposed the risks of that
262 facility.

263 To date, the GAO, the Department of Energy, the
264 Inspector General and Secretary Moniz himself have stated
265 that reorganization is paramount in order to address future
266 concerns at the Department of Energy. I will tell you as a
267 physician that in order to prescribe the right medicine, you
268 need to correctly diagnose the problem, so with that in mind,
269 I am looking forward to the testimony of our witnesses today,
270 and thank you, Mr. Chairman. I will yield back.

271 [The prepared statement of Dr. Burgess follows:]

272 ***** COMMITTEE INSERT *****

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|
273 Mr. {Murphy.} The gentleman yields back. Now to the
274 ranking member of the full committee, Mr. Waxman of
275 California, for 5 minutes.

276 Mr. {Waxman.} Thank you Mr. Chairman. I appreciate you
277 holding this hearing on management and performance at the
278 Department of Energy.

279 Secretary Moniz has gotten off to a very good start at
280 DOE, and I am pleased with the extent to which he has moved
281 quickly to make positive changes since his confirmation. I
282 think he has a good vision for the agency.

283 The energy subject at the top of my priority list is
284 climate change. Secretary Moniz understands the challenges
285 posed by rising levels of carbon pollution. He will play a
286 key role in the implementation of the President's National
287 Climate Action Plan. His efforts to identify the threats our
288 energy sector faces due to climate change and to improve
289 energy efficiency are important.

290 I am also impressed at the quick action he has taken to
291 address the subject of this hearing: longstanding DOE
292 problems with cost management, environmental compliance and

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293 physical security at the Nation's nuclear complex. These are
294 not new problems at DOE. The agency is the largest civilian
295 contractor in the federal government. For more than 20
296 years, dating to the first President Bush, GAO has placed DOE
297 contract management on its high-risk list.

298 As one of his first acts, Secretary Moniz announced a
299 reorganization that will create a new Under Secretary for
300 Management and Performance. The President has nominated Beth
301 Robinson, currently NASA's Chief Financial Officer, to fill
302 the position. This restructuring will put one official in
303 charge of strengthening environmental cleanup, contracting
304 oversight, human capital and other important functions. I am
305 interested in learning today about how this reorganization
306 will strengthen lines of authority, program oversight, and
307 internal coordination. I appreciate that Deputy Secretary
308 Poneman is here today to discuss these changes and to explain
309 to us how this new focus will represent an improvement over
310 previous agency efforts. I also appreciate that the DOE
311 Inspector General and Mr. Trimble from the Government
312 Accountability Office are here to provide their views on
313 these changes.

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314 Mr. Chairman, I hope this is not the last hearing we
315 hold on this subject. This committee has held multiple
316 hearings on the subject of DOE management. Most recently, we
317 held a hearing in March on the alarming incident involving an
318 83-year-old breaking into the highly secure DOE Y-12 facility
319 in Tennessee. One of the conclusions from that hearing was
320 that NNSA and DOE and their contractors need more oversight:
321 from within their own agencies, from Congress, and from
322 independent entities like GAO and the Inspector General.

323 The organizational changes announced by Secretary Moniz
324 are promising. We know that the longstanding problems at DOE
325 will not be easy to solve. But the Department of Energy's
326 vital missions to develop new clean energy technologies and
327 protect our nuclear stockpile are too important to the Nation
328 for us to ignore.

329 I look forward to today's hearing and appreciate this
330 Committee's efforts to make sure that DOE's project
331 management and mission performance improvements are on track.

332 I want to apologize in advance to the witnesses. I
333 think every subcommittee on this committee is having meetings
334 simultaneously this morning, and so I am telling each one

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335 when I am not present I am at the other one, and then I am
336 going to go fishing. No, no, no, I will be at one hearing or
337 the other, and I will try to get back here, Mr. Chairman.

338 [The prepared statement of Mr. Waxman follows:]

339 ***** COMMITTEE INSERT *****

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|
340 Mr. {Murphy.} We thank the ranking member for being
341 omnipresent as well, and the same goes for the chairman of
342 the full committee, Mr. Upton, will be probably be joining us
343 here, but thank you.

344 I now want to introduce our witnesses for today. I
345 mentioned them before but let me give you a little more
346 background. The first is the Hon. Daniel Poneman, the Deputy
347 Secretary for the U.S. Department of Energy, and as Deputy
348 Secretary, he also serves as the Chief Operating Officer of
349 the Department. Nominated to this position by the President
350 on April 20, 2009, and confirmed by the Senate later, and in
351 addition between April and May of 2012 was the Acting
352 Secretary of Energy. Good to have you here, sir.

353 Our second witness is the Hon. Gregory Friedman, the
354 Inspector General for the U.S. Department of Energy. In this
355 capacity, he is responsible for nationwide an independent
356 program of audits, inspections and law enforcement efforts
357 related to the Department of Energy's programs and
358 operations. In addition to these responsibilities, Mr.
359 Friedman also serves as a member of the Recovery Act

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360 Accountability and Transparency Board and the Government

361 Accountability and Transparency Board.

362 Our third witness, David Trimble, serves as Director in
363 the U.S. Government Accountability Office National Resources
364 and Environmental Group. In this role, he provides
365 leadership and oversight on U.S. and international nuclear
366 security and cleanup issues including a number of projects
367 conducted for this subcommittee.

368 I will now swear in the witnesses. As you are aware,
369 this committee is holding an investigative hearing, and when
370 doing so has the practice of taking testimony under oath. Do
371 you have any objections to testifying under oath? Thank you.
372 The chair then advises you that under the rules of the House
373 and the rules of the committee, you are entitled to be
374 advised by counsel. Do you desire to be advised by counsel
375 during the hearing today? None of the witnesses wishes to be
376 advised by counsel, so in that case, if you would please rise
377 and raise your right hand, I will swear you in.

378 [Witnesses sworn.]

379 Mr. {Murphy.} You are now under oath and subject to the
380 penalties set forth in Title XVIII, section 1001 of the

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381 United States Code. You may now each give a 5-minute summary
382 of your written statement. We will begin with Mr. Poneman.

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|
383 ^TESTIMONY OF DANIEL B. PONEMAN, DEPUTY SECRETARY, U.S.
384 DEPARTMENT OF ENERGY; GREGORY H. FRIEDMAN, INSPECTOR GENERAL,
385 U.S. DEPARTMENT OF ENERGY; AND DAVID C. TRIMBLE, DIRECTOR,
386 NATURAL RESOURCES AND ENVIRONMENTAL TEAM, GOVERNMENT
387 ACCOUNTABILITY OFFICE

|
388 ^TESTIMONY OF DANIEL PONEMAN

389 } Mr. {Poneman.} Thank you, Chairman Murphy, Ranking
390 Member Castor and distinguished members of this subcommittee.
391 I want to thank you all for the opportunity to discuss with
392 you today the Department of Energy's ongoing efforts to
393 improve its management and performance. In the past month,
394 the President has given two major policy speeches, and the
395 work that we do at the Department of Energy lies at the heart
396 of both of these issues.

397 On June 19th in Berlin, the President echoed the nuclear
398 security vision he first laid out in his 2009 Prague speech,
399 calling on the global community to secure vulnerable
400 materials, combat nuclear terrorism and proliferation, and

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401 build a sustainable and secure nuclear energy industry. As
402 long as nuclear weapons exist, it is also this Department's
403 responsibility to ensure that the U.S. nuclear stockpile
404 remains safe, secure, and effective.

405 Less than a week later at Georgetown University, the
406 President laid out a commonsense plan to reduce the effects
407 of climate change by cutting dangerous carbon pollution,
408 increasing the production of clean energy, and doubling down
409 on energy efficiency. As the President said, and I am
410 quoting, ``A low-carbon, clean energy economy can be an
411 engine of growth for decades to come.'' By taking action to
412 reduce carbon pollution, the United States can spark new jobs
413 and industries building cleaner and more efficient energy
414 technologies.

415 These presidential priorities demand the best from us in
416 terms of our performance, and so last week Secretary Moniz
417 and I announced a reorganization that will better focus our
418 efforts on all four mission areas of the Department: nuclear
419 security, solving the Nation's energy challenges, advancing
420 fundamental science, and environmental stewardship. For the
421 Department to carry out our critical work in these areas, the

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422 Secretary has made clear that we must renew our focus on
423 improving our management and performance in addressing the
424 challenges that the Department has faced for its entire
425 history. And in doing so, we will follow the President's
426 direction to us earlier this month when he instructed his
427 Cabinet to develop an aggressive management agenda for his
428 second term, and I am quoting the President again, ``that
429 delivers a smarter, more innovative and more accountable
430 government for its citizens.''

431 The first major component of the reorganization expands
432 the portfolio of the statutory Under Secretary for Science to
433 include the energy technology portfolio establishing the
434 Office of the Under Secretary for Science and energy.
435 Successful innovation for implementing the President's all-
436 of-the-above energy strategy requires the ability closely to
437 integrate basic science, applied research and technology
438 demonstration. This is especially important in light of the
439 urgency of addressing climate change and the need rapidly to
440 develop technologies to materially alter the trajectory of
441 greenhouse gas pollution.

442 The second major component of the reorganization

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443 consolidates the primary mission and operational support
444 functions of the Department within the Offices of the Under
445 Secretary for Management and Performance and also includes
446 the Office of Environmental Management and the Office of
447 Legacy Management as part of its structure and functions.
448 Moving the Office of Environmental Management under the
449 purview of the Under Secretary for Management and Performance
450 brings the Department's strongest project management
451 capabilities resident within the Office of Acquisition and
452 Project Management directly to bear on one of the
453 Department's most vexing yet vital challenges: cleaning up
454 the nuclear waste that is a legacy byproduct of the Cold War.

455 In addition, transferring the Offices of Environmental
456 Management and Legacy Management from the Under Secretary for
457 Nuclear Security will allow this Under Secretary to focus
458 exclusively on the NNSA's forward-looking missions while
459 entrusting the environmental management mission to an
460 organization devoted to solving management challenges. Aside
461 from increasing the management resources available to oversee
462 large projects, consolidating mission-support functions in
463 the Office of the Under Secretary for Management and

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464 Performance will place a senior policy official dedicated to
465 the task of management improvement on a full-time basis. The
466 consolidation of these mission-support functions such as the
467 Office of Management and Administration and the Office of the
468 Chief Human Capital Officer will clarify and strengthen the
469 lines of authority and accountability of these functions.
470 The goal will be to institute enterprise-wide solutions to
471 common challenges faced by program officers across the
472 complex such as information management, acquisition and human
473 resources. Within the Office of Management and Performance,
474 we will also establish a new organizational unit: the
475 National Laboratory Operations Board. It will have
476 responsibility for oversight of administrative, mission
477 support and infrastructure management of the National
478 Laboratory System.

479 The third component increases coordination across the
480 Department for a number of important cross-cutting policy
481 issues that affect a number of programs across the
482 Department. The Secretary has established the following
483 secretarial councils: an Energy Council, a National
484 Laboratory Policy Council, a Revised Credit Review Board

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485 including the establishment of a new Risk Committee, and the
486 Cybersecurity Council.

487 I would like to bring to your attention two final areas
488 in which we are seeking to improve coordination between
489 program offices: policy formation and physical security
490 management. First, we are examining opportunity for
491 consolidating and upgrading the policy analysis functions of
492 the Department. This capability will be needed to support
493 the government-wide Quadrennial Energy Review the President
494 called for in his June 25th climate speech at Georgetown
495 University. The core of our new systems analysis capability
496 will be formed from the existing Office of Policy and
497 International Affairs. We will also examine opportunities to
498 draw from the policy expertise of the program offices.

499 A second area under careful study is security
500 management. I have previously testified before this
501 subcommittee on the Department's management of security and
502 improvements we have made in the last year's Y-12 incident
503 but this a matter of such serious that we must always
504 continue our efforts to improve our performance, and I very
505 much take account of the wise words of the chairman and

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506 ranking member here on that subject this morning. This
507 includes thorough examination of broad issues of governance
508 as they relate to the security of our category I nuclear
509 materials. In recent months, we have been engaged in a
510 thorough review of our security management, not just within
511 NNSA or at the labs but enterprise-wide including assignment
512 of authority and responsibility, contracting, performance
513 measurement and accountability.

514 Finally, the Department under the leadership of
515 Secretary Moniz has made management improvement a top
516 priority, and we are aggressively pursuing a broad agenda of
517 initiatives. The Secretary has challenged us to further
518 elevate our performance, and I appreciate the opportunity to
519 appear before this subcommittee to discuss our efforts to do
520 so and of course, I would be pleased to answer any questions
521 from subcommittee members. Thank you.

522 [The prepared statement of Mr. Poneman follows:]

523 ***** INSERT A *****

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|

524 Mr. {Murphy.} Thank you.

525 Mr. Friedman for 5 minutes.

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|
526 ^TESTIMONY OF GREGORY H. FRIEDMAN

527 } Mr. {Friedman.} Mr. Chairman, Ms. Castor, members of
528 the subcommittee, I appreciate the opportunity to testify at
529 your request on the major challenges facing the Department of
530 Energy.

531 The Department is, as has been described, responsible
532 for executing some of the Nation's most complex and
533 technologically advanced missions. The Office of Inspector
534 General provides independent oversight of the Department's
535 operations to promote economy and efficiency and to detect
536 and prevent fraud, waste and abuse.

537 My office annually identifies what it considers to be
538 the most significant management challenges facing the
539 Department. For 2013, this list includes operational
540 efficiency and cost savings, contract and financial
541 assistance award management, cybersecurity, energy supply,
542 environmental cleanup, human capital management, nuclear
543 waste disposal, safeguards and security, and stockpile
544 stewardship. Because of their complexity, these challenges

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545 are not amenable to immediate resolution. Therefore, they
546 must be addressed through a sustained effort over time.

547 In 2012 and 2013, due to what appeared to us to be
548 obvious looming budget constraints, we identified operational
549 efficiency and cost savings as the Department's preeminent
550 management challenge. In doing so, we presented the
551 Department with five suggestions to optimize operations.
552 These include applying the Quadrennial Technology Review
553 strategic planning concept to the Department's entire science
554 and technology portfolio, eliminating costly duplicative
555 National Nuclear Security Administration functions,
556 evaluating, consolidating and/or rightsizing the Department's
557 laboratory and technology complex, reprioritizing the
558 Department's environmental remedial efforts with the goal of
559 funding work on a risk basis, and realigning the current
560 structure of the Department's physical security apparatus.
561 These suggestions provide only a starting point for further
562 discussion and examination. They represent approaches that
563 we readily acknowledge are difficult to implement, highly
564 controversial and politically challenging.

565 Virtually all of our work intersects with one or more of

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566 the management challenges that I alluded to earlier. In my
567 written statement, I have summarized three recent reports
568 that are reflective of this relationship. These include
569 first contract management, project management and quality
570 assurance concerns with the Department's contractor-managed
571 construction of the Waste Treatment and Immobilization Plant--
572 the WTP--in Hanford, Washington. The current cost estimate
573 for the WTP project is over \$12 billion, or three times
574 larger than its original budget. Second, issues relating to
575 the implementation and effectiveness of contractor assurance
576 systems by NNSA and its contractors, and finally, efforts by
577 the Department to reduce international travel as a means of
578 reducing federal expenditures.

579 In its invitation letter, the subcommittee expressed
580 specific interest in the status of project management at the
581 Department. Your interest reflects a concern that we share
582 and one that is clearly of prime importance to the
583 Department's senior leaders. The Department currently has
584 several major projects including the WTP that are
585 significantly over budget and face considerable delays. As I
586 have testified previously, there are several common threads

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587 central to these and related contract and project management
588 problems. Improvements are needed to ensure that project
589 scopes and supporting cost estimates are realistic,
590 manageable, recognizing the technical challenges facing many
591 Department efforts. The change control management is
592 adequate and project baselines are updated on a real-time
593 basis to maintain their effectiveness as a primary tool.
594 Contract terms are kept current to track with project events,
595 contractor performances measured against established metrics
596 including realistic and reliable cost estimates, federal
597 staffing is sufficient both in terms of size and expertise to
598 provide effective contract and project oversight, and
599 finally, the project have focused, empowered and consistent
600 federal project manager leadership throughout their
601 lifecycle.

602 As Deputy Secretary Poneman has discussed, Secretary
603 Moniz recently unveiled a new structure for the Department,
604 which is designed to focus on key programmatic priorities and
605 agency performance and management. We are hopeful that the
606 new initiatives, as widespread as they are, as has been
607 described the Deputy Secretary, will help to address the

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608 Department's management challenges. We look forward to
609 working with Secretary Moniz, Deputy Secretary Poneman,
610 program officials and the Congress to enhance departmental
611 operations and in so doing to advance the interest of the
612 U.S. taxpayers.

613 Mr. Chairman and members of the subcommittee, this
614 concludes my statement. I would be pleased to answer any
615 questions that you may have.

616 [The prepared statement of Mr. Friedman follows:]

617 ***** INSERT B *****

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|
618 Mr. {Murphy.} Thank you. I apologize. I had to step
619 out of the room for a second.
620 Mr. Trimble.

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|

621 ^TESTIMONY OF DAVID C. TRIMBLE

622 } Mr. {Trimble.} Chairman Murphy, Ranking Member Castor
623 and members of the subcommittee, my testimony today discusses
624 our observations on the management challenges facing DOE. My
625 observations are drawn from our past work, which has
626 highlighted the challenges DOE faces in project and contract
627 management, security and safety, and producing reliable
628 enterprise-wide management information.

629 Regarding project and contract management, DOE has made
630 progress in managing the cost and schedule of non-major
631 projects--those costing less than \$750 million--and in
632 recognition of this progress, we narrowed the focus of our
633 high-risk designation to major contracts in progress.

634 Major projects, however, continue to pose a challenge
635 for EM and NNSA. All of the ongoing major projects continue
636 to experience significant cost increases and schedule delays.
637 UPF costs have increased seven fold, up to \$6.5 billion, for
638 a project with a reduced scope and 11 years after the
639 schedule. MOX costs have increased five fold, up to \$7.7

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640 billion, with 15 years added to the schedule. Notably, since
641 2010 alone, cost increases have totaled \$2.8 billion for a
642 project originally estimated to cost \$1.4 billion. WTP has
643 tripled in cost to over \$12 billion with a decade added to
644 its schedule. Moreover, we found that DOE prematurely
645 rewarded the contractor for resolving technical issues and
646 completing work. We are currently assessing DOE cost-
647 estimating policies and practices and plan to issue a report
648 later this year.

649 Regarding security, over a decade after NNSA was created
650 to address security issues, the Y-12 security incident has
651 raised concern that NNSA has still not embraced security as
652 an essential element of its missions. Multiple
653 investigations into the security breach identified
654 significant deficiencies in NNSA security organization,
655 oversight and culture. DOE and NNSA have taken a number of
656 actions including repairing security equipment, reassigning
657 key security personnel, and firing the Y-12 protective force
658 contractor. DOE and NNSA's leadership have also committed to
659 additional actions such as revamping the security oversight
660 model.

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661 DOE has a long history of security breakdowns and an
662 equally long history of instituting responses and remedies to
663 fix these problems. In recent testimony, the leadership of
664 the NNSA security task force examining the Y-12 incident
665 identified problems with NNSA's federal security
666 organization. Notably, in 2003, we reported on these very
667 same problems, problems which have persisted or resurfaced,
668 notwithstanding numerous DOE initiatives to fix or address
669 them. The key challenge going forward will not be how to
670 implement security improvements but how to sustain them.

671 Regarding safety, in September 2012, we testified before
672 this Subcommittee noting that DOE's recent safety reforms may
673 have actually weakened independent oversight. Notably, since
674 this testimony, reports by DOE have continued to identify
675 safety concerns at Pantex and other DOE sites.

676 In regard to important enterprise-level management
677 information such as budgetary and cost data, in June 2010 we
678 examined NNSA's program to operate and maintain weapons
679 facilities and infrastructure and found that NSA could not
680 accurately identify the total costs for this congressionally
681 directed program, and NNSA's budget justification understated

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682 these costs by over \$500 million.

683 In July 2012, we found deficiencies in NNSA's validation
684 of budget requests for its programs and concluded that these
685 weaknesses impacted the credibility and reliability of those
686 budget estimates. According to NNSA's officials, the
687 agency's experience and trust in its contractors minimized
688 the need for such review. Without accurate cost and budget
689 data, DOE will continue to be surprised by cost and schedule
690 problems in its projects and programs, and Congress will not
691 have the information it needs to oversee the billions
692 provided yearly in appropriations.

693 In closing, let me observe that the Department's most
694 significant mission accomplishments such as keeping the
695 stockpile safe and reliable, successfully closing nuclear
696 facilities such as the old Rocky Flats plant, consolidating
697 nuclear material, and energy and science breakthroughs are
698 too often overshadowed by repeated project cost overruns,
699 schedule delays, glaring security incidents and safety
700 mishaps. Until these key management issues are addressed,
701 such problems will continue to cast a shadow over DOE's
702 mission accomplishments. A key step in addressing these

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703 longstanding issues will be for DOE to embrace sound project
704 management, credible security and security programs, and
705 reliable management information systems as key elements of
706 the Department's mission instead of impediments to this
707 mission.

708 Thank you. I would be happy to answer any questions.

709 [The prepared statement of Mr. Trimble follows:]

710 ***** INSERT C *****

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|
711 Mr. {Murphy.} Thank you. I will begin questioning here
712 and recognize myself for 5 minutes.

713 So Mr. Poneman, let me understand your role here. You
714 are Deputy Secretary and therefore the Chief Operating
715 Officer of the Department, and you had a direct role in
716 managing the program execution and the mission-support
717 functions of the agency and directly responsible to the
718 Secretary for managing and implementing these organizational
719 challenges, and you have been doing it about 4 years. So
720 lots of firsthand experience. So would you explain why the
721 Under Secretary for Performance and Management will help
722 improve project management in the Department overall?

723 Mr. {Poneman.} Yes, sir. I am very excited about this
724 opportunity precisely because, as you noted, I have been the
725 chief operating officer, and all of the burden you, yourself,
726 and ranking members have identified as well as those we have
727 just heard from the other witnesses show you what we are up
728 against. We had frankly improvised an Associate Deputy
729 Secretary in the first term to try to enhance our capacity to
730 tackle these problems, recognizing the full weight of the

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731 problems and, frankly, having the leadership of Secretary
732 Moniz from his earlier experience at the Department as Under
733 Secretary including his more recent experience writing very
734 thoughtfully about how to organize the Department better to
735 tackle these challenges as a member of the President's
736 Council of Advisors on Science and Technology.

737 It was clear that the opportunity presented by taking
738 one of the available Under Secretary positions in the
739 Department and having that individual, an individual of
740 authority and in whom the Secretary and myself could propose
741 confidence to work full time on these problems was absolutely
742 critical to getting our arms around this very daunting
743 agenda.

744 Mr. {Murphy.} I appreciate the level of what you are
745 facing here too, and so how would we be able to measure
746 progress, and are you setting some performance baselines?

747 Mr. {Poneman.} So it would depend on the precise
748 mission area. There are some, Mr. Chairman, across-the-board
749 kinds of metrics that we can apply, and let me just start
750 from the outset and responding also to the ranking member's
751 comment, this aspect of metrics and cost estimation and

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752 measurement of performance is absolutely critical to our
753 successful. If you don't measure it, you don't manage it.

754 But let me just take the largest example, these very
755 large, complex capital projects. We have to have a system of
756 evaluation to measure continuously whether we are on or off
757 budget, whether we are on or off schedule, and, at the same
758 time, to measure whether we are on or off meeting the spec of
759 the project itself. That is to say, it is not enough to have
760 a project being on schedule and on budget if it doesn't do
761 the job, and Mr. Trimble alluded to this peripherally in his
762 comments. So we have to make sure that we take the orders
763 that are in place in terms of cost estimation under Order
764 413-B and actually measure it and have them upload it into
765 our business management systems that we put into our
766 quarterly reviews of the business quarterly reviewed by the
767 Government Performance and Requirements Act, and that is a
768 start on how we are going to measure our performance.

769 Mr. {Murphy.} Thank you. Two other quick questions I
770 want to get into in terms of lessons learned and remanaging
771 things. Other the past 3 years, this committee has dealt
772 with a number of cases--Solyndra, Fiscar, A123--where the

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773 loan or grant assessments just turned out to be plain wrong,
774 and we have had a number of people before this committee
775 talking about this. You had a policy interest to push these
776 out, but the data, as it turns out, just didn't add up for
777 this. So how will the management changes ensure that
778 decisions are made based on sound analysis moving forward?

779 Mr. {Poneman.} Well, first, Mr. Chairman, let me note
780 that the portfolio as a whole, which has been very thoroughly
781 reviewed by many including by the late Mr. Herb Allison, is
782 actually performing quite well. We have the largest wind
783 farm in the world operating quite well, the largest
784 photovoltaic plant operating quite well. Tesla has repaid
785 its loan 9 years early. We do the best due diligence we can.
786 These programs are intended to promote innovation, and
787 unfortunately, not every case works out. That having been
788 said, we have done a number of things recommended by Mr.
789 Allison and we have brought new leadership and new staffing
790 inside the Loan Program Office to make sure that, again, we
791 have a very strong ability to monitor the existing portfolio,
792 that we have a new risk officer set up to look precisely at
793 the questions of risk that you are addressing, and that we

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794 have a much more open and transparent set of data flowing up
795 from the program office to the Secretary and the Deputy
796 Secretary.

797 Mr. {Murphy.} I appreciate that. It is something we
798 will be watching. A lot of data was there before. We just
799 thought a lot of it was also ignored. Multiple departments
800 are saying the Solyndra loan wasn't a good idea. So it isn't
801 just a matter of having the data but making sure you have a
802 system in place to have honest reassessments of that.

803 One other quick question in my time. In your testimony
804 you said that President laid out a commonsense plan to reduce
805 the effects of climate change by cutting dangerous carbon
806 pollution, as you put it, increasing the production of clean
807 energy and doubling down on energy efficiency. I noticed the
808 Department released a new rule for microwave oven
809 efficiencies and included a calculation for the social cost
810 of carbon, and I would like to know if the agency considered
811 doing a formal notice and comment to the microwave rule
812 before using this figure. Did anyone in your office
813 participate in any discussions about this social cost of
814 carbon before using it in the DOE microwave rule, and can you

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815 please submit to us emails and documents to help us
816 understand why that was done.

817 Mr. {Poneman.} Mr. Chairman, I was present for some
818 discussion of social costs of carbon. I was not--I would
819 have to get back to you with details on how it related to
820 that particular rule.

821 Mr. {Murphy.} That is something this committee is going
822 to want to review in an open and scientific way.

823 Mr. {Poneman.} We would be very happy to supply that.

824 Mr. {Murphy.} I see my time is expired. Now we will go
825 to Ms. Castor for 5 minutes.

826 Ms. {Castor.} Thank you, Chairman Murphy.

827 It is very important and a positive sign that the
828 Department of Energy has taken action where with the
829 reorganization to address the persistent flaws in management
830 and oversight of the Department of Energy. We have seen that
831 in many cases there is duplicative activity and unnecessary
832 expenditures because of lack of coordination effective
833 oversight of contractors, and DOE has been facing these
834 problems for years, and your predecessors in multiple
835 Administrations from both political parties have made little

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836 headway. So is this new Under Secretary of Management and
837 Performance a sign that the Department of Energy has learned
838 the lessons of the past?

839 Mr. {Poneman.} Congresswoman, we are always seeking to
840 learn lessons from the past. I personally am learning
841 lessons every single day, and our management principles
842 require us to do that.

843 Ms. {Castor.} What makes it different this time after
844 decades?

845 Mr. {Poneman.} Well, if I may suggest a couple of
846 things, Congresswoman. Number one, both Secretary Moniz and,
847 as the chairman alluded, I have been working on this for some
848 period of time so we understand from having witnessed
849 firsthand some of the very problems that you all have
850 describe, what has caused some of those problems. We believe
851 that the structure the Secretary has designed here is well
852 suited to given us the capacity to do better in achieving
853 these results, and I would actually echo Mr. Trimble's
854 comments. The test here isn't, can we impose a new
855 bureaucrat structure on the building. The question, can we
856 sustain it? The results, in our judgment, will be the proof

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857 in the pudding. If we can in this reorganization, which we
858 think suits the problems well, start to deliver those kinds
859 of results this committee and our Department want to see,
860 that will take root in the Department and the people, the
861 professionals will--

862 Ms. {Castor.} Give us a specific example, something the
863 IG or GAO has highlighted that you think or you can show
864 early signs in progress.

865 Mr. {Poneman.} I will give you one very specific
866 example. Many of you have alluded to the fact that since
867 1990 we have been on a high-risk list. The GAO has given us
868 five specific taskings on what it takes to get out from under
869 the high-risk list. The Office of Science got out in 2009.
870 I will tell, Congresswoman, we were very gratified that the
871 projects up to \$750 million came out from under? Why did
872 that happen? Because they at GAO said what you need to do is
873 break down very big projects to chunkable sizes that can be
874 managed more effectively. That is simply one example of
875 many I could cite of where we have taken the advice from the
876 GAO, applied it and actually obtained a much better result in
877 terms of projects coming in on budget and on time.

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878 Ms. {Castor.} And Mr. Friedman, I know you agree that
879 the contractor workforce needs more vigorous oversight at the
880 Department of Energy, correct?

881 Mr. {Friedman.} I do.

882 Ms. {Castor.} You have stated that again and again.
883 What recommendations--highlight your most important
884 recommendations from the IG's office to ensure that DOE
885 contractors are meeting their performance standards.

886 Mr. {Friedman.} Well, I think the Deputy Secretary
887 referred to it and others have as well, and that is the
888 question of sustainability. I think it is an excellent
889 point. I have been around long enough, Ms. Castor,
890 unfortunately in a sense to have seen the Department through
891 valleys and mountaintops for years, and invariably a fix is
892 imposed or attempted but it loses power after a period of
893 time. We get lethargic, or the Department gets lethargic.
894 So sustainability, it seems to me, in that process is key.
895 So if the reforms the Deputy Secretary has described, if they
896 address the problem, if we sustain them going forward, we
897 really will have moved the Department forward.

898 Ms. {Castor.} In your testimony, you noted that

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899 contractor weaknesses were not effectively communicated to
900 senior management officials. Do you believe that the new
901 Under Secretary for Management and Performance could help
902 strengthen the lines of communication?

903 Mr. {Friedman.} I hope that is the case, and it is more
904 than just the mere establishment of the Under Secretary's
905 position, which I think is an interesting concept and I think
906 has great possibilities. It has to permeate the entire
907 organization, that people at all levels in the field, in
908 headquarters feel that they can surface problems to the
909 Department's leadership in a way that, number one, of course,
910 they won't feel they will be subjected to retaliation, but
911 more importantly, that they can see meaningful steps taken in
912 response to that information to try to address the underlying
913 root causes of the problems.

914 Ms. {Castor.} Thank you.

915 Mr. Trimble, GAO has reported that DOE's contractor
916 assurance systems are producing inconsistent results across
917 the agency. Can you elaborate on this finding, and what are
918 the ramifications of these inconsistencies and how can DOE
919 improve?

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920 Mr. {Trimble.} Well, I think the cost overruns and
921 schedule delays are indicative of that. I think what we have
922 seen in our ongoing work looking at MOX and UPF is, some
923 concerns where there are--the information system being
924 reported to the government, there are red lights on the
925 dashboard indicating problems, and the key question we are
926 getting at is, what is being done when those lights go off
927 and are people recognizing them and are they taking action
928 and is the action effective. And so again, it is sort of the
929 proof-in-the-pudding argument. It is, you can establish
930 systems but then do you have processes to act on the
931 information you get and does the organization support that.
932 There is a parallel here between, I think, between the
933 problems we have seen on the security side where the culture
934 has been highlighted where you can have rules, but if the
935 organization and culture is not to abide by the rules, things
936 don't happen. There is that same challenge here on cost and
937 schedule management. You can have processes and
938 organizations but everyone has to walk the talk for it to
939 work, and that is sort of where the, you know, again a part
940 of the challenge facing the Department is going to lie.

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941 Mr. {Murphy.} Thank you. The gentlelady's time is
942 expired. I will recognize the vice chairman, Dr. Burgess,
943 for 5 minutes.

944 Dr. {Burgess.} Mr. Trimble and Inspector Friedman, let
945 us follow up on that about walking the talk a little bit.
946 How do you know, Inspector Friedman, that stuff is going to
947 get reported in the management plan you are proposing that
948 now there is greater flexibility and freedom for people to
949 report problems that are identified?

950 Mr. {Friedman.} Dr. Burgess, I am not instituting--I
951 don't manage the Department obviously, and I am not
952 instituting the new process; the Deputy Secretary and the
953 Secretary are. But I think I understand your question. I
954 think the test will be if the very core issues that we are
955 talking about here and the reason that you are holding--one
956 of the reasons that you are holding this hearing, if those
957 issues are addressed through an open line of communication
958 and we can demonstrate that the communications are working,
959 we reduce the number of complaints we get from employees who
960 say that their concerns are not being addressed. We can
961 gauge that quite effectively as to whether the process is

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962 working.

963 Dr. {Burgess.} And so from that, do you have confidence
964 that the process is working?

965 Mr. {Friedman.} At this point, I don't have that
966 confidence. If we reconvene at some point in the future, if
967 we have time to see the new system in place and take a look
968 at it and evaluate it, I will be more than happy to come back
969 and give you my review.

970 Dr. {Burgess.} Well, I suspect we will. You know, you
971 have been kind to be with us every times and I suspect that
972 we will have an opportunity to talk.

973 Secretary Poneman, can you address that?

974 Mr. {Poneman.} Yes, sir. It is a work in progress. We
975 actually measure it quite regularly. We have self-
976 evaluations. We have third parties come in and they
977 evaluate. I personally have spent hours and hours speaking
978 to 4,000 out at Hanford making sure people understand there
979 can be no retaliation for people coming forward expressing
980 their concerns. We had an--I put out quarterly a notice
981 saying anyone who has a differing professional opinion can be
982 heard, and we actually had the experience of a differing

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983 professional opinion be sustained as we reviewed it. There
984 is never grounds for complacency. As others have said, it is
985 a cultural issue. We have to keep working at it. We will
986 never be perfect but we are trying to improve it at a
987 cultural level, at an institutional level, and we are trying
988 to measure it on a periodic basis. You made the very good
989 point in your opening statement, we have to measure these
990 things or we are not going to know if we are doing better.

991 Dr. {Burgess.} Yes. A chance to measure is a chance to
992 cure.

993 Mr. {Poneman.} Your point about the diagnosis is
994 critical, by.

995 Dr. {Burgess.} Well, just as far as developing that
996 culture of accountability within the Department, how do you
997 feel that that is going? I don't get the impression from Mr.
998 Trimble that is quite where it needs to be but where do you
999 think?

1000 Mr. {Poneman.} I think, Congressman, there too it is a
1001 work in process. Actually, the sunshine of some of the
1002 things the President has required in terms of disclosure of
1003 our results on the Internet I think is a very powerful tool.

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1004 As has been noted by many members of this committee, much of
1005 work is performed by contractors. They are indeed sensitive
1006 to how their work is evaluated and how that is disclosed.

1007 Again, I think we have improved.

1008 One critical thing I would like to note, Congressman,
1009 is, we have made it a policy of the Department to align the
1010 taxpayer incentives and interest with those of the
1011 contractors so we cannot get into a situation in which a
1012 contractor can do well and the taxpayer do poorly.

1013 Mr. {Burgess.} Let me ask you a question about that,
1014 because obviously there is a lapse. They involve scientists,
1015 and you want your scientists to do your best work, and how do
1016 you ensure that that is deliverable for the President and the
1017 Congress and the taxpayer does not get in the way of
1018 delivering on the scientific product required?

1019 Mr. {Poneman.} You have just put your finger on an
1020 absolutely critical factor. People sometimes lose sight of
1021 the fact that these labs have produced the most awesome
1022 intellectual property in history beginning with the weapon
1023 that won World War II. The last thing we want to do is to
1024 stifle that creativity. So what we need to do is give these

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1025 people the tools and the authority to get their work done,
1026 but we have to have in exchange transparency into what they
1027 are doing because we are the owners on behalf of the taxpayer
1028 to have the transparency to hold them accountable to the
1029 results that we expect from them.

1030 Dr. {Burgess.} And since you brought up Los Alamos, I
1031 took a visit out there in 2005. It was a long time ago. And
1032 their security detail, they apparently have been tested and
1033 found wanting at some point in the past. They were fairly
1034 sensitive about it and demonstrated that sensitivity to me
1035 with what they were able to do, which is why we had the
1036 hearing on Y-12, I didn't understand how those people could
1037 be in the audience that day. I thought they should be
1038 interred in someplace because of the response of the security
1039 team when you wander into the kill zone. You don't ask
1040 questions; you take them out. So what am I missing on that?

1041 Mr. {Poneman.} Congressman, you are not missing a
1042 thing. We discussed this before. That was an unforgivable
1043 breach. The cameras were out. The guards were not
1044 responding properly. We have taken all of the immediate
1045 steps that we could including aligning the security force

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1046 subcontract under the management and operations contract
1047 including removing the responsible individuals, but we are
1048 continuing, as I said earlier, to look at the broader
1049 systemic changes that we need to do to make sure, per Mr.
1050 Trimble, that these changes that we have started are
1051 sustained.

1052 Dr. {Burgess.} Would you give advice to the protesting
1053 public to not try this again?

1054 Mr. {Poneman.} Yes, I surely would, because what was a
1055 very terrible, terrible episode could have been tragic with
1056 loss-of-life consequences.

1057 Dr. {Burgess.} Yes, it could. Thank you, Mr. Chairman.
1058 I will yield back.

1059 Mr. {Murphy.} Thank you. Mr. Lujan for 5 minutes.

1060 Mr. {Lujan.} Mr. Chairman, thank you very much, and
1061 thank you and to the ranking member for calling this
1062 important hearing.

1063 Mr. Poneman, could you help me understand how the
1064 reorganization is going to help with management of the
1065 national labs? There are a number of new entities concerning
1066 the labs that have different responsibilities and reporting

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1067 chains. These include the National Lab Operations Board,
1068 which reports to the new Under Secretary of Management and
1069 Performance, the National Lab Policy Council reporting to the
1070 Secretary, in addition to the Under Secretary for Science and
1071 Energy has primary responsibility for many labs while the
1072 Under Secretary for Nuclear Security has responsibility for
1073 the rest. Is this going to result in more inspections and
1074 transactional oversight at the labs or less but more
1075 effective inspections and oversight, as a number of experts
1076 have called for?

1077 Mr. {Poneman.} Congressman, I don't think we will--the
1078 metric won't be number of inspections per se but rather the
1079 results which will endeavor to measure, but let me try to
1080 make sense of what sounded a bit intensive in terms of the
1081 kind of oversight from your comment.

1082 The National Laboratory Council is absolutely critical
1083 to the point Dr. Burgess just raised. We need to make sure
1084 that we get together with all the lab directors, the
1085 fountainhead of our innovation, and think through what are we
1086 trying to do as a Nation in support of the President. The
1087 very first meeting that Secretary Moniz had out of town in a

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1088 rare time we traveled together was to Oak Ridge to meet with
1089 all of them. That is a big thing, what we are trying to do.
1090 The lab operations board that will report to this new Under
1091 Secretary will deal with all of those issues like real estate
1092 and IT purchases and cybersecurity that will enable the smart
1093 scientists to do the innovative work. So actually, it is a
1094 much more operational hands-on thing. I don't think you are
1095 going to find it a cluttered system in practice, but we would
1096 be very happy to stay in touch with you as we roll it
1097 forward.

1098 Mr. {Lujan.} That is what I am hoping, that we don't
1099 have a cluttered system, that there is not just layers and
1100 layers that are put on top of each other but that we do
1101 follow many of the suggestions that have been put forth.
1102 That way is effective, that the time that is used to be able
1103 to go in and look is effective and we are able to identify
1104 things. Do you foresee any structural changes to NNSA
1105 besides moving Environmental Management from NNSA to the
1106 Under Secretary for Management and Performance?

1107 Mr. {Poneman.} Congressman, I will make two comments.
1108 Number one, as I have alluded to, we have received further

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1109 thoughtful input from a number of wise people including some
1110 of whom I think have visited with this committee on
1111 structural changes to enhance our security, our physical
1112 security, especially for category I nuclear materials, and we
1113 are actually, even as we speak, having people look deeply at
1114 that so Secretary Moniz can make some decisions in the near
1115 term. That said, as you well know, there is a congressional
1116 mandated panel that has been empowered to look at these
1117 governance issues, and as they continue their work, we will
1118 of course be in touch with them and look forward to hearing
1119 what their results are and seeing what further actions, if
1120 any, are required.

1121 Mr. {Lujan.} Under the reorganization, the technology
1122 transfer coordinator would be put within the Office of the
1123 Under Secretary for Science and Energy. While this Under
1124 Secretary does have responsibility for most of the labs and
1125 basic and applied science programs at the Department, it does
1126 not include the NNSA laboratories. What will be done to
1127 ensure that tech transfer coordinator will be able to
1128 coordinate technology transfer activities across the entire
1129 Department, which spans two Under Secretaries and will not

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1130 prevent the NNSA laboratories from participating?

1131 Mr. {Poneman.} Congressman, the entire thrust of the
1132 reorganization has been to put stronger leadership at the
1133 top, precisely so that we can enhance our ability to catch
1134 these cross-cutting issues. I can tell you because we have
1135 already been doing it, this is the practice that we have
1136 already engaged in, and one example which would apply equally
1137 when we get the new tech transfer coordinator is
1138 cybersecurity. We have cybersecurity all across all
1139 portfolios of the Department, and we have now constituted the
1140 Cybersecurity Council to make sure that we get that kind of
1141 cross cut, that we don't miss a bet in terms of getting the
1142 tech transfer. Some of the innovation out of the national
1143 labs could be very, very important in the science and energy
1144 portfolio.

1145 Mr. {Lujan.} I am certainly hopeful that there won't be
1146 more burdensome restrictions put on the NNSA laboratories
1147 versus the other labs when it comes to tech transfer, so I am
1148 encouraged by that, Mr. Poneman.

1149 Mr. Friedman, there was an incident in which in New
1150 Mexico you identified a contractor that was overpaid. You

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1151 brought it to the attention, based on a request from NNSA,
1152 where minimum requirements have to be met by contractors in
1153 order for these contractors to get paid. Can you talk about
1154 that and what we can do to prevent that from happening in the
1155 future?

1156 Mr. {Friedman.} Well, one of the problems we have, Mr.
1157 Lujan, DOE has an incredible structure of prime contracts and
1158 a significant subtext of that is the subcontractors and
1159 secondary and tertiary subcontractors that it has. One of
1160 the responsibilities of the prime contractors is in fact to
1161 make sure that the subcontractors are responding
1162 appropriately, that are paid appropriately, and the taxpayers
1163 are treated fairly in this process. One of the promising
1164 things that we have seen is a number of referrals from prime
1165 contractors including those in New Mexico, if I might, of
1166 cases where they believe the subcontractors have not acted
1167 appropriately in one way or other. So we take those cases
1168 very seriously, and a lot of our work is done with the
1169 subcontractors to the prime contractors, that is the national
1170 labs in the case of New Mexico.

1171 Mr. {Lujan.} I appreciate that. And Mr. Chairman, this

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1172 may be an area where the committee as a whole, that we can
1173 try to get all of the additional information or whatever has
1174 not been released thus far in regards to this instance and
1175 maybe some others so that we can see if there is going to be
1176 any additional information released on this matter or
1177 whatever has not been public. So I appreciate that, Mr.
1178 Chairman, and look forward to working with you and the
1179 committee on this.

1180 Thank you again for the responses.

1181 Dr. {Burgess.} [Presiding] I acknowledge the
1182 gentleman's comments and now recognize the gentleman from
1183 Virginia, Mr. Griffith, 5 minutes for questions, please.

1184 Mr. {Griffith.} Thank you very much, Mr. Chairman.

1185 The other chairman asked some questions that raised some
1186 issues for me that I hadn't really planned on getting into
1187 today, but I guess this is as good time as any.

1188 When you talk about trying to, you know, reorganize and
1189 make things more efficient, are you just rearranging the deck
1190 chairs or are we actually having some personnel changes? And
1191 let me tell you what I am referencing in specifics. I have
1192 always been bothered by the Solyndra situation, and the

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1193 response, as yours was today, is, you know, we try to do what
1194 we can and our due diligence, etc. And I accept that
1195 notwithstanding the fact, as the permanent chairman said of
1196 this subcommittee, but there were warning signs out there. I
1197 have always been concerned with the subordination issue and
1198 the fact that to me, in my opinion, it was horrendous legal
1199 advice. I really don't think it was well done, and I am
1200 wondering if that department is also being reorganized in any
1201 way to try to make sure that when Congress says that money is
1202 not to be subordinated, that that doesn't mean you can do a
1203 loan at 11 and subordinate at 12 because you didn't do it at
1204 the time of the closing, and that was basically what we heard
1205 in that investigation. Can you answer that for me?

1206 Mr. {Poneman.} Let me offer a couple of comments,
1207 Congressman. First of all, in terms of your appropriate
1208 question of the structural changes, we didn't start with this
1209 reorganization; we started, of course, with the Allison
1210 report, and many of those--and as you saw, he said the health
1211 of the portfolio was strong. That said, he had a number of
1212 very important practical suggestions in terms of
1213 transparency, accountability, customer servicing, portfolio

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1214 management, and many of those have been implemented, point
1215 one. Point two, that included making sure we had very highly
1216 capable people in the positions. Point three, a lot of those
1217 people are very much focused on portfolio management, and
1218 there is a brand-new leader of the loan program office, and
1219 finally, in this reorganization, Secretary Moniz wants to
1220 make sure that the Credit Review Board itself, which sits
1221 above the Credit Committee, is strengthened so that we will
1222 have the ability in the normal kind of boardroom fashion of
1223 doing due diligence on transactions to make sure we bring
1224 those kinds of disciplines to bear.

1225 Mr. {Griffith.} One of my concerns there was, it
1226 appeared that the legal counsel that was being given was
1227 seeing--and this is my interpretation, nobody ever said this--
1228 -saw itself as trying to come up with a legal opinion to
1229 justify what the Department of Energy wanted to do as opposed
1230 to protecting the American taxpayers, and I would hope that
1231 the legal department would see as a part of their duty at the
1232 very least is to make sure that what they are doing is lawful
1233 because the laws that Congress pass are intended to protect
1234 American taxpayers, and the decision to subordinate cost \$170

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1235 million to the American taxpayers.

1236 Mr. {Poneman.} Congressman, I would have to dig back
1237 into the details to get the--I would just say my recollection
1238 of the legal advice received at the time was there was a
1239 higher chance of a higher recovery from a going concern than
1240 from a fire sale, and the question at the time that it was
1241 presented was whether subordination would meet the statutory
1242 requirement that the Secretary was obliged to seek the
1243 maximum recovery for the taxpayer. But we can obviously
1244 follow up on that.

1245 Mr. {Griffith.} And I would like you to follow up on
1246 what has happened because while I think that may have been
1247 the party line, so to speak, when you looked it, the rules
1248 that were required to follow and make that decision, even
1249 though subordination was not lawful, the following rules in
1250 other situations to do that were also not followed, so it was
1251 just a big mess and it cost the taxpayers a lot of money.

1252 Inspector General, in that same regard, at the time I
1253 asked some questions that you were unable to answer for me
1254 because the investigation had not yet been completed. I am
1255 not asking you to answer questions that you can't and

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1256 probably use another day to get into that, but has that
1257 investigation been completed on the internal workings at the
1258 Department of Energy in regard to the subordination issue?

1259 Mr. {Freidman.} Mr. Griffith, both the Justice
1260 Department and our office are prepared to say that there is
1261 an active investigation, criminal investigation ongoing, and
1262 as much as I would love to be able to answer your question,
1263 and I truly would--

1264 Mr. {Griffith.} I just wanted to know if it was still
1265 ongoing. I appreciate that. Thank you very much.

1266 Back to you, Deputy Secretary. As a part of this,
1267 another issue has been brought to my attention, and I am not
1268 going to tell you I am well versed in it, but it does concern
1269 me, and that relates to the National Nuclear Security
1270 Administration and the National Security Complex and Pantex
1271 plant management contracts, and in that process, GAO has said
1272 that there was an upheld--they upheld a procurement protest.
1273 My concern on that is, is that apparently, according to a
1274 press report that has been brought to me, in three instances,
1275 the source selection authority at the 11th hour changed some
1276 of the criteria, and I know there are all these big companies

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1277 jockeying for position, but at the 11th hours, three matters
1278 were changed and that changed who got the contract. On its
1279 face, that doesn't smell right to me. Are you all looking
1280 into that matter and trying to make sure those things don't
1281 happen?

1282 Mr. {Poneman.} Congressman, precisely because if I
1283 understand which procurement you are talking about, it is
1284 still open and we are still working on it. I cannot comment
1285 on what we are doing, but obviously we do everything possible
1286 to make sure that we hew to all of the requirements,
1287 statutory, regulatory and ethical, that apply.

1288 Mr. {Griffith.} Well, you can understand my concern.
1289 When rules are changed at the last minute, it is hard for
1290 people to honestly compete.

1291 Dr. {Burgess.} The gentleman's time has expired. We
1292 will go to the gentleman from Texas, Mr. Green, 5 minutes for
1293 your questions, please.

1294 Mr. {Green.} Thank you, Mr. Chairman.

1295 In today's testimony from the GAO and the Inspector
1296 General, we have heard how many instances of significant cost
1297 increases for major environmental management and nuclear

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1298 programs, cases where actual contract costs far exceeded the
1299 original cost estimates. This is a problem we need to solve
1300 in order for the DOE and Congress to make informed decisions
1301 about allocating resources. We must have accurate and
1302 reliable information.

1303 Mr. Trimble, can you give us some examples of how
1304 inaccurate cost estimates impact the agency's ability to
1305 function efficiently and effectively?

1306 Mr. {Trimble.} Sure. Aside from the examples I gave
1307 in my testimony, you know, the obvious ones--MOX, WTP, UPF--
1308 you have other issues involving, say, projects, for example,
1309 the Pitt disassembly building, which entered design. It was
1310 supposed to be an adjunct to the MOX facility, \$730 million
1311 spent before it is canceled. I think what is interesting
1312 about these cases is that in all of them, at the very
1313 beginning, the critical decision point one, there is no
1314 requirement currently for an independent cost estimate. So
1315 DOE can start a project and go a long time before it hits the
1316 decision point two requirement where you actually have an
1317 independent cost estimate requirement. But we have already
1318 spent tens of not hundreds of millions of dollars on these

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1319 projects. So you start on a path. The control weakness hits
1320 you early. You spent a lot of money and it takes a long time
1321 before you in a position to rectify that.

1322 Mr. {Green.} What are the reasons we have seen so many
1323 cost increases in the past, and how can DOE do a better job
1324 of producing cost estimates that are accurate?

1325 Mr. {Trimble.} Well, in the past we have recommended
1326 that at CD-1, the decision point early in the process, that
1327 there an independent cost estimate. We have had past
1328 recommendations, for example, to have a cost policy. Right
1329 there is guidance but there is not a policy. The Department
1330 had guidance. We first reported on this issue in 1983. In
1331 the mid-1980s, they instituted a policy. They rescinded the
1332 policy around 1995. They put guidance into their processes
1333 but there is no cost policy which would then tell
1334 contractors, hey, you are coming up with an estimate for this
1335 project, these are--this is how you are going to do the
1336 estimate or these are the rules I want to see, what are the
1337 marks you have to hit to give me a quality estimate. Right
1338 now we don't have that. There is guidance that creates
1339 looseness in the system and problems.

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1340 Mr. {Green.} Deputy Secretary, obviously DOE is not the
1341 only federal agency that has trouble with cost estimates.
1342 What steps has DOE taken to improve the reliability and
1343 uniformity of its cost estimates?

1344 Mr. {Poneman.} A couple things, Mr. Chairman. I think
1345 it is very important to point out a clarification here.
1346 Under our directive 413-B, which applies to the big capital
1347 projects, for the first time we insisted that each of these
1348 main gates of identifying the mission, picking the main
1349 technology and so forth that we do have cost estimation.
1350 There are different terms of art of what you call it, but one
1351 of the reasons, frankly, sir, why we have gotten in trouble
1352 is because people have said, oh, this is too early in the
1353 project, you can't tell anything at this point, to which I
1354 say you know if you are going to St. Louis or Mars, you
1355 should be able to give me the right number of zeros, okay.
1356 So we actually have tried, and I invite you to look at 413-B
1357 and we will have your staff briefed on it. That tries to get
1358 at exactly the problem that Mr. Trimble has identified in
1359 response to your question.

1360 Also, it is not only a question of having the

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1361 requirements in there but a question of having the metrics,
1362 and so instead of requiring a constant manual uploading of
1363 data from the contractor to the federal oversight and so on,
1364 we are trying to, through what we call the PARS software
1365 system, make sure that the very same data that is entered by
1366 the contractor is transparent from, as we say, you know, from
1367 stem to stern and that we have got real-time accurate data on
1368 what is happening on the ground because the real problem
1369 enters into it, sir, when we get a gap in the reporting of
1370 what is happening on the ground and when it comes to our
1371 attention.

1372 Mr. {Green.} Mr. Trimble, do you think that is
1373 progress, and is it the solution to the issue identified?

1374 Mr. {Trimble.} Well, I think we may disagree a little
1375 bit on how robust the 413 requirements are at CD-1, and I
1376 think that that would be a great question for the record, and
1377 we can give you a more robust answer on that.

1378 Mr. {Green.} I appreciate that. Thank you, Mr.
1379 Chairman. I yield back.

1380 Dr. {Burgess.} The gentleman yields back his time. The
1381 chair recognizes the gentleman from Texas, Mr. Olson, 5

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1382 minutes for questions, please.

1383 Mr. {Olson.} I thank the chair, and good morning to our
1384 witnesses. This is not news, gentlemen, but one of my
1385 responsibilities under the Constitution of the United States
1386 is to provide oversight on behalf of the people of Texas 22
1387 of the Executive Branch agencies and oversight of the
1388 Department of Energy. The department's budget remains in the
1389 tens of billions of dollars. It covers topics as diverse as
1390 financial support for emerging solar power technologies to
1391 safeguarding technology responsible for the most potent
1392 weapons mankind has ever created. Guaranteeing commonsense
1393 execution of DOE's mission is not just needed to protect
1394 taxpayer dollars, it is needed for national security. There
1395 have been problems in the past but with the new Secretary and
1396 a new organizational structure, I see this hearing as the
1397 first step to prevent problems in the future.

1398 And my first question is for you, Mr. Friedman--I am
1399 sorry. This is for you, Secretary Poneman. In Inspector
1400 General Friedman's testimony, he laid out a number of
1401 suggestions that he recommends as solutions to some of DOE's
1402 problems, specific ideas from reducing duplication at NNSA to

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1403 reevaluating security. And many of these sound like
1404 excellent suggestions but they are similar to suggestions
1405 from 2012. My question, sir, is, what is the process at DOE
1406 for considering suggestions that the Inspector General makes?
1407 What keeps them from being heard but ignored?

1408 Mr. {Poneman.} Congressman, with all due respect, they
1409 are heard but they are very, very closely heeded to, and
1410 under the Inspector General Act, if my memory serves me, of
1411 1978, this is an absolutely critical function in the
1412 Department. I would be the first to tell you that in an
1413 organization, as you say, about a \$25 billion budget,
1414 115,000, 110,000 people working, we have a lot, a lot of
1415 problems, and one of our critical tools is the Inspector
1416 General reports. They come in, they get seen at the highest
1417 levels by the Secretary and myself, and we take them very,
1418 very seriously. We have not, and I suspect we never will,
1419 hit 100 percent in terms of executing against all of the
1420 ideas that come in, and in fact, sometimes we have responses
1421 and we have different approaches and so forth but I cannot
1422 exaggerate, it is an invaluable tool and we will continue to
1423 use it to enhance our performance.

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1424 Mr. {Olson.} Thank you, sir. And I am a Texan, so I am
1425 not looking to provoke a little battle here, but Mr.
1426 Friedman, I would appreciate your comments on the issue as
1427 well.

1428 Mr. {Friedman.} I couldn't have posed the question
1429 better if I had been sitting where you are sitting and you
1430 were sitting where I was sitting, Mr. Olson.

1431 Mr. {Olson.} You don't want my seat, trust me.

1432 Mr. {Friedman.} The Deputy Secretary, I have known him
1433 for a number of years, and he has been extremely responsive
1434 to our reports, and the way he is described it is absolutely
1435 accurate. I said in my testimony that the five
1436 recommendations for cost savings that we have enunciated in 2
1437 years sequentially are politically challenging, they are
1438 highly controversial and very difficult for anyone to grasp,
1439 get their hands around and really implement. So I am a
1440 realist, and I understand that while I hope they're
1441 considered and I hope they receive serious thought, I
1442 anticipate that implementation if it ever is to happen is
1443 going to take some time.

1444 Mr. {Olson.} Well, we need to correct these problems,

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1445 as I mentioned. Some of these issues are very important to
1446 our national security and our country.

1447 One further question for you, Secretary Poneman. You
1448 and Secretary Moniz held a DOE town hall, a forum that
1449 showcased some of your new organizational challenges. There
1450 are two points that were discussed that were better
1451 communication and improving DOE's ``tooth to tail ratio.''
1452 And reducing redundancy and streamlining your work are both
1453 noble goals, however, it seems to me that there have been
1454 long questions about this broader philosophical approach that
1455 has been taken in running this Department. How far will this
1456 reorganization move DOE forward in improving mission
1457 execution? What are some of the next steps that are being
1458 considered?

1459 Mr. {Poneman.} Well, Congressman, it was just announced
1460 here a week or so ago, so it is still in early stages. The
1461 first thing we have to do is to make sure that we have got
1462 the people encumbering these new positions that will have the
1463 capacity to achieve these outcomes--point one. Point two,
1464 some of the things we have already started, and the first
1465 thing I will just note because we haven't had the meeting, I

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1466 chair the Cybersecurity Council, which is crossing cutting.
1467 Secretary Moniz himself just attended ex officio to show his
1468 commitment to this cross-cutting effort. We have got to get
1469 better in terms of various IT systems that they can talk to
1470 each other so that they can be robust in making sure that our
1471 most secret secrets that have you said are our sacred
1472 obligation to protect are fully protected. It is going to be
1473 a work in progress, and we welcome--I sincerely mean this--we
1474 warmly welcome the oversight of this committee to make sure
1475 that we stay on track.

1476 Mr. {Olson.} Thank you. I have run out of time, but
1477 what a great comment about the Secretary. Being a military
1478 officer, one thing the leader can do is get involved with the
1479 troops and show them he cares, and it sounds like he is doing
1480 that.

1481 I yield back the balance of my time.

1482 Mr. {Murphy.} Thank you. I now recognize the gentleman
1483 from New York, Mr. Tonko, for 5 minutes.

1484 Mr. {Tonko.} Thank you, Mr. Chair.

1485 For the first time, GAO earlier this included climate
1486 change in its high-risk list. GAO recognized the reality of

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1487 climate change and found that the federal government is not
1488 well positioned to address the fiscal exposures presented by
1489 climate change. I would like to hear from GAO about the risk
1490 of inaction and how the federal government can respond to
1491 this given threat.

1492 Mr. Trimble, why did GAO decide to include better
1493 management of climate risk on its high-risk list this year?

1494 Mr. {Trimble.} The addition of climate change, it is
1495 really--the way we phrased that is the adaptation of response
1496 to climate change from a federal perspective, and the
1497 rationale on that is really just looking at the potential
1498 federal exposure to the potential liabilities that are
1499 associated with extreme climate events. Those changes run
1500 from sort of being the insurer of last resort. They involve
1501 being a significant landlord of large federal assets such as
1502 NASA facilities, DOE facilities, and they also involve sort
1503 of agricultural and federal lands issues. So when you look
1504 at sort of the portfolio, sort of chits or pieces that we
1505 have in the game, all of those areas have potential
1506 implications. Changing climate has a potential implication
1507 for all those in terms of the federal government's exposure

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1508 to liabilities.

1509 Mr. {Tonko.} And you noted in the high-risk report that
1510 climate change adaptation is a risk mitigation strategy to
1511 help protect vulnerable communities. If we fail to do things
1512 like raise a river or coastal dykes or build higher bridges,
1513 what kind of adverse impacts might be experienced?

1514 Mr. {Trimble.} Well, absolutely, and I think that is
1515 what is interesting about this. If you look at some of the
1516 experiences with the recent extreme weather events, there are
1517 some very simple engineering changes that have been built in.
1518 A lot of the associated costs and economic repercussions of
1519 those events would have been mitigated. So for example, how
1520 you attach a bridge to its moorings, the height of the
1521 bridge, in terms of insurance exposure of homes, do you have
1522 a backflow check valve. There are many, many simple things
1523 that are sort of low cost that can help mitigate that
1524 exposure. So that is part of the adaptation focus.

1525 Mr. {Tonko.} You know, I had witnessed in my district a
1526 couple of years ago Irene and Lee, and the exponentially
1527 increased volume of water flowing through some of the creek
1528 beds, and so as we displace this infrastructure with the

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1529 ravages of Mother Nature, it became imperative, I believe,
1530 for government to build back intelligently, effectively, and
1531 to build the same stretch, same span or same height on a
1532 bridge would just be wasted money. So it is interesting to
1533 hear you say that.

1534 What recommendations do you have for us to address the
1535 high risk of climate change?

1536 Mr. {Trimble.} With that, I may have exhausted my
1537 knowledge. I know we have several reports dealing with
1538 adaptation to climate change, and I know we have made
1539 recommendations to the Administration on coordinating federal
1540 response to climate change sort of at the Executive Office of
1541 the President level, to coordinate policies for each agency.
1542 I know there has been a lot of action in that regard.

1543 Mr. {Murphy.} Is your mic on?

1544 Mr. {Tonko.} Under Secretary--growing threats of
1545 climate change, critical government infrastructure could be
1546 at risk. What is DOE doing or what does it hope to do to
1547 protect critical infrastructure and more generally to
1548 mitigate the effects of climate change?

1549 Mr. {Poneman.} This is a huge challenge, Congressman.

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1550 We are working on it not only in terms of our own enterprise
1551 but we are, as you know, responsible as the sector-specific
1552 agency for homeland protection for protecting the electric
1553 grid, the natural gas pipeline system and so forth. We have
1554 been from the first day of--actually from before Hurricane
1555 Sandy striking at the center of the federal effort working
1556 very closely with FEMA and with the President to make sure
1557 that we are taking those steps first on the mitigation side
1558 so that we can reduce the risks of these raging storms and
1559 floods the President has alluded to but also we are working
1560 in terms of the area of New York and New Jersey
1561 reconstruction, smart grid, distributed generation, micro
1562 grids so that you can have a self-healing grid in the case of
1563 a devastating storm so that critical places like hospitals
1564 and gas stations and places like that actually are able to
1565 respond better.

1566 It would be hard for me to exaggerate, sir, the amount
1567 of time and effort that this is taking. It is a much larger
1568 chunk of our effort in the Department that in the past,
1569 precisely because the problem has become so much greater.

1570 Mr. {Tonko.} All right. The ounce of prevention here

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1571 could be a pound of cure when you look at the comeback and
1572 disaster aid monies that are required not only to restore and
1573 rebuild but to do it effectively and intelligently.

1574 Mr. {Poneman.} Absolutely.

1575 Mr. {Tonko.} I thank you very much.

1576 Mr. {Murphy.} I thank the gentleman. The gentleman
1577 yields back. Now Mr. Scalise is recognized for 5 minutes.

1578 Mr. {Scalise.} Thank you, Mr. Chairman. I appreciate
1579 you having the hearing, and I appreciate our witnesses coming
1580 to testify.

1581 When we got the reports back, and you all have addressed
1582 a number of the items and the problems that were identified,
1583 but when you look at the overall DOE budget, you see that 90
1584 percent of the budget is, in essence, contractors. You know,
1585 when you look at the agencies that have addressed some of the
1586 problems, the two agencies that were still remaining within
1587 DOE that were still considered high risk have over 64 percent
1588 of the budget, so there is still a lot of the budget that is
1589 still out there, and one of the points I want to bring up,
1590 and I will start with Mr. Friedman, is going back to 2007,
1591 DOE and NNSA have required contractors to implement a self-

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1592 assessment strategy to identify deficiencies. I want to ask
1593 you how you feel that process is working where you are in
1594 essence allowing the contractors to assess themselves to
1595 identify deficiencies, considering there is such a large
1596 percentage of the overall DOE budget that is going towards
1597 contractors. How does this process work? Is that the best
1598 method to get us the efficiencies that we are looking for?

1599 Mr. {Friedman.} Well, we issued a report on that, Mr.
1600 Scalise, several months ago on the contractor assurance
1601 process, and frankly, we think it is not ripe and it is not
1602 mature and therefore it is not as effective as it needs to be
1603 to satisfy basic requirements to protect the interest of the
1604 U.S. taxpayers. There was a disconnect, for example, between
1605 contractor metrics and the pay-for-performance mechanism that
1606 was in place. There were a number of other weaknesses that
1607 we identified in that report. So does it have promise? I
1608 guess it has potential, but at this point we don't think the
1609 Department nor NNSA are there.

1610 Mr. {Scalise.} I want Mr. Poneman to be able to address
1611 this as well. How do you plan on addressing those
1612 deficiencies that were outlined in that report?

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1613 Mr. {Poneman.} Congressman, I take a very old-fashioned
1614 view of this. It is true, and you know, one should note,
1615 this committee has noted several times, our national security
1616 imperative, this structure goes literally back to the
1617 Manhattan Project. This is how it was set up because
1618 President Roosevelt understood that he didn't know how to
1619 have the chemistry and physics and so forth. So it started a
1620 long time ago. But my view is still the same one that you
1621 would have if you are building a house: the contractor has
1622 got the expertise but you are the owner. That is what GOCO
1623 means: government owned, contractor operated. What we need
1624 to do, Congressman, in my judgment is to make sure that as an
1625 owner, just like any owner would in a house situation, you
1626 have got the expertise to hold the contractor accountable,
1627 and the mechanisms that we are talking about in this set of
1628 reforms in addition to the things we have been trying to do
1629 in terms of contract management, in terms of transparency of
1630 metrics that come out of their performance are intended to
1631 put us in that position to be a smart owner.

1632 Mr. {Scalise.} And Mr. Trimble, do you have any follow-
1633 up on what this says about the DOE's ability to rely on

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1634 contractors for self-assessment?

1635 Mr. {Trimble.} Well, we have ongoing work on the
1636 contractor assurance model. Right now we also have an
1637 ongoing review looking at the security reforms. Both those
1638 are in process, so we will have more to add later. I think
1639 as the Inspector General notes, we have observed some of the
1640 problems, and I think in addition to the Y-12 incident, there
1641 was a case at Livermore where in 2009 the DOE found--gave the
1642 security force there one of its lowest ratings, and this was
1643 6 months earlier than that inspection the local site office
1644 had given a 100 percent rating. So again, it is a matter of
1645 how do you execute this and can the system be made to work,
1646 and I think notably since Y-12, you know, the DOE has backed
1647 off from that and has taken a new approach, and that is part
1648 of what we are looking at in our new review.

1649 Mr. {Scalise.} Thanks. My last--

1650 Mr. {Friedman.} Mr. Scalise, could I just amplify on my
1651 comment earlier?

1652 Mr. {Scalise.} Yes, if you can do it real quickly.

1653 Mr. {Friedman.} I will. And the answer, it seems to
1654 me, is there nothing wrong with contractor self-assessment as

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1655 long as there is adequate government validation.

1656 Mr. {Scalise.} Yes, there has got to be some kind of
1657 extra layer of somebody looking over the shoulder, and two
1658 eyes are better than one, especially when one of those sets
1659 of eyes is the person looking at themselves in the mirror. I
1660 want to make sure there is another set of eyes checking that.

1661 I want to talk about cost estimates because that has
1662 been a problem, getting cost estimates right, and both Mr.
1663 Friedman and Mr. Trimble, you have indicated the need to
1664 develop realistic timetables and baselines to try to address
1665 that, but you have also talked about trying to break up these
1666 larger projects into smaller chunks, you know, whatever the
1667 terminology you are using is. Can you do that, and can you
1668 still get reliable baselines and cost estimates as you are
1669 going forward? How do you plan on doing that? I would ask
1670 Mr. Poneman or Mr. Trimble.

1671 Mr. {Poneman.} Well, yes, sir, Congressman, that
1672 precise GAO recommendation we followed, and because we
1673 followed it, I think that is one of things that led to better
1674 performance that led us to get out from under the high-risk
1675 list for our projects less than \$750 million. Yes, you can

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1676 sir. You can, sir, under Order 413, you can have cost
1677 estimates at each of our gates of our capital construction
1678 projects, mission identification, selection of technology and
1679 so on, and that is what we have got to do.

1680 Dr. {Burgess.} [Presiding] The gentleman's time is
1681 expired.

1682 Mr. {Scalise.} Thank you. I am out of time. I yield
1683 back the balance.

1684 Dr. {Burgess.} I recognize the gentlelady from North
1685 Carolina 5 minutes for you questions, please.

1686 Mrs. {Ellmers.} Thank you, Mr. Chairman, and thank you
1687 to our panel for being here today.

1688 Mr. Trimble, you indicated in your opening statement
1689 that even in recent work concerning the DOE's management of
1690 projects smaller than \$750 million, about 30 or so projects
1691 did not provide sufficient information and documentation for
1692 an assessment of their performance. Can you explain why this
1693 is significant and what your feelings are on that?

1694 Mr. {Trimble.} I think this is an issue we have
1695 discussed with the Department and they have acknowledged and
1696 agreed to work on this, but it goes back to the justification

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1697 and the paper behind the decisions, and I think this issue
1698 has come up in another context, but if you don't have the
1699 information and the file on which the decisions are based, it
1700 is hard to imagine from an outsider's perspective how the
1701 decision was made in the first place and was it made for the
1702 right reasons, but it is also impossible to validate the
1703 decisions that were made.

1704 Mrs. {Ellmers.} So it really seems like there is really
1705 not a process of full evaluation?

1706 Mr. {Trimble.} Or there is a process but it is not
1707 being followed.

1708 Mrs. {Ellmers.} I see. So you believe the tools are
1709 there, it just isn't necessarily--

1710 Mr. {Trimble.} Not necessarily followed in all cases.

1711 Mrs. {Ellmers.} Okay. Do you see any other area where
1712 lack of information is a hindrance in information gathering
1713 in regard to contractors?

1714 Mr. {Trimble.} Well, I mean, I think--I mean, there is
1715 lots of--this could go in a lot of different directions. I
1716 mean, I think one of the questions that comes up quite often
1717 is, DOE uses an earned value management system to track the

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1718 performance of contractors. Every time we go through where
1719 there is a re-baselining, it is sort of all your road signs
1720 from tracking the progress until the project gets suspended
1721 because you have to re-baseline it, and so your milestones
1722 for tracking the performance of that contractor sort of get
1723 put on hold. But since this process can take a year, two
1724 years, 18 months--

1725 Mrs. {Ellmers.} That time--

1726 Mr. {Trimble.} --you are sort of flying blind for a
1727 little while. Now, they take measures to address that but
1728 that is a significant--

1729 Mrs. {Ellmers.} And time is money. I have used that
1730 recently so many times.

1731 Now, does this also relate to contractor assurance
1732 programs? I mean, is this all related?

1733 Mr. {Trimble.} It is not directly related. It is an
1734 enabling issue in terms of more information and the quality
1735 and the robustness of your information would support any
1736 system.

1737 Mrs. {Ellmers.} Thank you, Mr. Trimble.

1738 Mr. Deputy Secretary, it looks like you want to make a

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1739 comment about that.

1740 Mr. {Poneman.} No. I have not heard Mr. Trimble speak
1741 to this fact before but he has identified a very important
1742 problem, which is exactly that. When your project goes off
1743 its baseline, this system that is set up to clock it, it
1744 basically comes useless to you, and that is the point of
1745 maximum danger to have unrestricted cost growth and losing
1746 control over projects. So we to a first order have got to
1747 put a tourniquet on that particular problem and then we need
1748 to have a systemic fix.

1749 Mrs. {Ellmers.} Suggestions on a systemic fix?

1750 Mr. {Poneman.} Well, look, to me, it all comes down to
1751 real-time from-the-ground data with the minimum amount of
1752 human intervention in uploading from system to system to
1753 system. We need to know how much pipe is getting laid per
1754 day. We have to know what valves are going on, and to keep
1755 track where the big subcontracted components are coming in,
1756 where is that on schedule, even if we are between two
1757 baselines, and we just have got to get a set of metrics and a
1758 way to measure that we can monitor real time.

1759 Mrs. {Ellmers.} Mr. Friedman, would you like to expand

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1760 on that?

1761 Mr. {Friedman.} No, but I think the issue with regard
1762 to getting off baseline and that interregnum before you get
1763 back on baseline is what we have found to be a very, very
1764 dangerous period, and it sometimes lasts far too long. So
1765 compressing that period would be ideal as far as we were
1766 concerned. In other words, once you find you are off
1767 baseline, re-baseline the entire package, have a changed
1768 control system that makes sense, so that you have made the
1769 whole system rational going forward. Otherwise we lose the
1770 progress that we have made in terms of controlling the
1771 project.

1772 Mrs. {Ellmers.} Great. Well, thank you.

1773 Mr. Chairman, I yield back the remainder of my time. I
1774 think that was an excellent discussion.

1775 Mr. {Murphy.} The gentlelady yields back. Thank you.
1776 I now recognize Mr. Johnson of Ohio.

1777 Mr. {Johnson.} Thank you, Mr. Chairman, and I too want
1778 to thank our panelists for being here this morning.

1779 Mr. Poneman, can you please explain the difference
1780 between the Department-wide mission support offices and

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1781 program offices?

1782 Mr. {Poneman.} Yes, sir. The program offices are the
1783 ones that are dedicated to the nameplate mission, so
1784 maintaining a safe, secure and effective arsenal, making
1785 scientific breakthroughs, transforming our energy economy,
1786 cleaning up legacy waste. The support functions are all the
1787 things that you need to make that stuff work so that you do
1788 it legally, financially responsibly with adequate attention
1789 to safety and security. Those are enabling elements that
1790 support the mission.

1791 Mr. {Johnson.} Okay. How do these mission support
1792 offices work to ensure that management practices and
1793 especially cost estimating are consistent and effective
1794 across the Department?

1795 Mr. {Poneman.} Well, two points, Congressman. So far,
1796 we took some of the elements that were in our earlier
1797 organization where we had a procurement office separate from
1798 the contract management office because those were sources of
1799 expertise on this very point of cost estimation, and we have
1800 merged those in a unified office under a very strong leader.
1801 But secondly, Congressman, the reorganization that we have

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1802 described here today is intended to give that office the kind
1803 of support at the senior executive level of Under Secretary
1804 to make sure that those disciplines can apply enterprise-
1805 wide.

1806 Mr. {Johnson.} Okay. What authority do mission support
1807 offices or the new Under Secretary managing the offices, for
1808 that matter, what authority do they have to tell program
1809 offices what to do when those offices operate under the
1810 authority of another Under Secretary?

1811 Mr. {Poneman.} Well, of course, all of these
1812 authorities flow out of our statute, and under the authority
1813 that goes to the Secretary, all roads lead up to the
1814 Secretary and to the Deputy Secretary. So I can assure you,
1815 Congressman, that when I hear from my health and safety
1816 people that a program office has a problem, the program
1817 office may not disregard that. We are one enterprise, and I
1818 have often said in our team, the mission elements have got to
1819 own support, they have to feel that they own the security,
1820 fiscal responsibility, but the support offices have to feel
1821 that they own the mission as well and so we try to get that
1822 kind of a cross cut.

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1823 Mr. {Johnson.} I certainly understand that that is how
1824 it should work in principle, but my 26-1/2 years in the Air
1825 Force and working with major program offices and being a
1826 program manager myself, yeah, all roads may lead to the top
1827 but if they're not going down the same street with
1828 responsibility and accountability aligned, that creates
1829 dysfunction, and it basically then becomes a personality-
1830 driven organization rather than a process-driven
1831 organization.

1832 Mr. {Poneman.} Congressman, that is a very important
1833 insight there. One of my early lessons in this is when I was
1834 assisting Mr. Lee Hamilton and Senator Baker when we were
1835 asked by Secretary Richardson to look at the hard drive lost
1836 at Los Alamos back in 1999, that is what we found. We found
1837 that the person who--that the organizations that were
1838 committed to the missions did not really feel that personal
1839 responsibility for safety and security that was essential to
1840 avoid exactly the problem you described.

1841 Mr. {Johnson.} Sure. Do you think that this might
1842 create more problems by stovepiping mission support?

1843 Mr. {Poneman.} Oh, to the contrary, Congressman. I

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1844 think what we are fighting against, in other words, we
1845 believe that this reorganization is going to synthesize and
1846 bring together mission and support in a much better way than
1847 has been done before. We wouldn't do this reorganization
1848 otherwise.

1849 Mr. {Johnson.} It doesn't appear that the Chief
1850 Financial Officer is in this new structure. Is the CFO an
1851 important mission support office, and does the CFO have more
1852 mission support authority than the management office or the
1853 CIO, for example?

1854 Mr. {Poneman.} Well, the CFO, Congressman, is under the
1855 Under Secretary for Performance and Management so that would
1856 be right alongside the other mission support offices such as
1857 Management and Administration, so that is--obviously the CFO
1858 has huge enterprise-wide responsibilities and it is very,
1859 very important but in terms of the structure, it is embedded
1860 inside that Under Secretary office.

1861 Mr. {Johnson.} I associate my same concerns that I
1862 previously mentioned. You know, at least in the corporate
1863 world, if all money decisions don't flow through the CFO, and
1864 you have those stovepiped organizations, that makes it

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1865 difficult as well.

1866 Mr. Friedman, you indicated that federal staffing must
1867 be sufficient in terms of size and expertise to provide
1868 effective control and project oversight so that projects have
1869 focused, empowered and consistent federal project management
1870 leadership throughout their lifecycle. Regarding expertise--
1871 and I have run out of time--what deficiencies have you
1872 observed in expertise over the years?

1873 Mr. {Friedman.} Well, as a general point, Congressman
1874 Johnson, we have found that the federal managers did not feel
1875 they could exercise the necessary oversight over the
1876 contractors because they felt the contractors were so far
1877 better prepared for the job and the task that they faced. So
1878 certainly they need to be recognized professions. They need
1879 to get recognition within the Department and outside the
1880 Department, and the contractors need to understand that
1881 they're dealing with people on par who are prepared to take
1882 necessary actions to ensure the government's interest is
1883 protected. In terms of personal expertise, I don't believe
1884 we have found that people were inadequately trained on a
1885 personal basis.

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1886 Mr. {Johnson.} All right. Thank you, Mr. Chairman. I
1887 yield back.

1888 Mr. {Murphy.} The gentleman's time is expired. Now to
1889 the gentlelady from Tennessee, home to many Energy projects,
1890 Ms. Blackburn.

1891 Mrs. {Blackburn.} That is exactly right, and I welcome
1892 you all, and Secretary Poneman, I want to come to you and
1893 talk a little bit about Y-12, and we all know that April
1894 29th, the GAO upheld a procurement protest regarding the
1895 combined contract, therefore, the National Security Complex
1896 and Pantex plan, and it was a \$22 billion over 10 years
1897 contract. You are familiar with that?

1898 Mr. {Poneman.} Yes, Congresswoman, but as I testified a
1899 little earlier today, since that contract action is still
1900 under review, we will not be able to in this session comment
1901 in detail about the workings of that.

1902 Mrs. {Blackburn.} All right. Well, I appreciate that,
1903 and I appreciate that there was a desire to get a \$3.27
1904 billion savings in that contract. I think that what I would
1905 like to know is, how can our committee be assured that NNSA's
1906 nuclear production mission can be safety and effectively

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1907 carried out under the big cost savings requirement of that
1908 type of procurement? What is the guarantee that you can give
1909 us?

1910 Mr. {Poneman.} Well, I can tell you, Congresswoman,
1911 that we have--we are operating under presidential direction
1912 in terms of what we need to do modernize and recapitalize the
1913 complex. We have an extraordinarily detailed stockpile
1914 stewardship management plan, and of course, given the
1915 limitations under the Budget Control Act and the
1916 sequestration, we need to make sure that we make every dollar
1917 count towards that mission, and you have the full attention
1918 of the Secretary and myself and the NNSA to that end, and of
1919 course, this has to be carried out through these contracts
1920 that you are talking about.

1921 Mrs. {Blackburn.} Let me ask you this. As you look at
1922 what has transpired in this process, has there been any
1923 thought given to revisiting the premise of the RFP when you
1924 are looking at some of these contracts? Have you all, or Mr.
1925 Friedman, have you all given any thought to that? Mr.
1926 Poneman first.

1927 Mr. {Poneman.} Well, again, Congresswoman, I don't

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1928 think that I am permitted to speak to the ins and outs of the
1929 RFP since it is still under consideration, but what I can
1930 tell you is that we are always looking at those things that
1931 we can do to do the mission of the Department for the
1932 President and the Nation safely and securely and in a manner
1933 that is cost-effective, and that would always inform any RFP
1934 that we have.

1935 Mrs. {Blackburn.} Mr. Friedman?

1936 Mr. {Friedman.} Congresswoman, I don't really think we
1937 have anything to add. I don't think we have looked at that
1938 with any specificity.

1939 Mrs. {Blackburn.} Okay. I appreciate that. I think
1940 that it is fair to say, it is an issue that is tremendously
1941 important to us. We have a lot of concerns about sacrificing
1942 the mission for the cost savings. We have a problem with the
1943 possibility of the Department having failed to verify the
1944 validity of the cost savings. We think that that as
1945 something that when you look at an item that is a critical
1946 mission, that it does raise concern for us, so those of us in
1947 Tennessee will continue to keep a close eye on this.

1948 And Mr. Poneman, I will just say, I appreciated your

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1949 comment about needing a systemic fix to how we approach some
1950 of this, and being able to work through real-time data. As
1951 you look at a complex like the Y-12 complex, we can see where
1952 something of that nature might be helpful, and what we would
1953 like to do is to yield a better outcome from the work that is
1954 done, and then be able to quantify and achieve some savings
1955 through that process, through efficiencies, through
1956 technology transfer, things of that nature, that will allow a
1957 little bit more efficiency.

1958 I appreciate that, and Mr. Chairman, I will yield my
1959 time back.

1960 Mr. {Murphy.} I thank the gentlelady. We were hoping
1961 that the chairman of the full committee would be here because
1962 he found his documents from the 1990s when he asked
1963 Department of Energy a number of questions before about some
1964 reorganization, and I think he wanted to come and get an
1965 update of what has happened in the last 20 years or so. But
1966 unfortunately, he got tied up, but he will submit those. Mr.
1967 Poneman?

1968 Mr. {Poneman.} Mr. Chairman, if I might, I would like
1969 to make a slight, before we all break, amendment. In

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1970 discussing with Mr. Johnson, who I know is not here now, the
1971 CFO's office, I thought it was in the Under Secretaryship but
1972 it is of such breadth along with GC and others that that one
1973 actually is above the fray, so to speak, so I just want to--
1974 we will get more a detailed answer for the record but I
1975 didn't want to leave you all with the wrong impression here,
1976 so I just wanted to make that clarification of my earlier
1977 comment.

1978 Mr. {Murphy.} I appreciate that. Overall, then, we
1979 will be submitting other questions to you. We ask for a
1980 timely response. Members are asked to get questions to us
1981 within 10 days.

1982 And also, I ask unanimous consent that the written
1983 opening statements of other members be introduced into the
1984 record. So without objection, we will do that.

1985 So I would like to thank the witnesses today, and again,
1986 as members get more questions to you, we would all appreciate
1987 a proper response. Thank you so much for being here today,
1988 and I wish you all the best in getting things working over at
1989 the Department of Energy, and with that, this hearing is
1990 adjourned.

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1991 [Whereupon, at 11:45 a.m., the subcommittee was
1992 adjourned.]