



The Secretary of Energy
Washington, DC 20585

January 21, 2005

Ms. Danielle Brian
Executive Director
Project on Government Oversight
666 Eleventh Street, NW, Suite 500
Washington, D.C. 20001-4542

Dear Ms. Brian:

Thank you for the kind words in your November 30, 2004, letter regarding my initiatives to raise security standards in the nuclear weapons complex during my tenure as Secretary of Energy. You also raised a number of concerns about cost accountability at the Los Alamos National Laboratory (LANL), which are addressed in turn below.

With respect to the allowability of costs incurred during the recent LANL stand-down, the National Nuclear Security Administration's (NNSA's) Los Alamos Site Office (LASO) has formed a team to review the allocation and allowability of all of the costs associated with the safety and security stand-down at LANL. The team, with representatives of LASO, the NNSA Financial Management Officer, and the NNSA Office of General Counsel still is gathering and reviewing data to ensure that all of the associated costs have been captured and analyzed.

In response to your concern about a performance fee, our current contract with the University of California (UC) includes a clause that allows NNSA to reduce the amount of otherwise earned fee depending on the severity of the performance failures related to safety of operations and safeguarding classified information. NNSA has taken strong measures to improve annual performance evaluations of its Management and Operating contractors, including UC. NNSA will factor the stand-down of laboratory operations into its performance rating and fee determination for UC.

Finally, you have questioned the salary rates of LANL management employees. The National Nuclear Security Administration ensures that all of the salaries paid at LANL are in compliance with relevant contract terms and conditions that address allowable costs for human resources. While we acknowledge your concern about the compensation levels for laboratory officials, we also recognize that LANL must maintain adequate compensation programs to recruit and retain the high caliber talent needed to ensure the ongoing safety and performance of the nuclear weapons stockpile. The draft solicitation



for the upcoming LANL contract competition includes a requirement that compensation practices of the successful bidder be reviewed and approved by NNSA officials.

Thank you again for your kind words and for your interest in LANL.

Sincerely,



Spencer Abraham