DEPARTMENT OF ENERGY
National Nuclear Security Administration
Los Alamos Site Office
Los Alamos, New Mexico 87544

DEC 1 8 2014

Dr. Charles F. McMillan
Laboratory Director
Los Alamos National Security, LLC
PO Box 1663
Los Alamos, NM 87545

Dear Dr. McMillan:

Reference:

1.) Contract Number DE-AC52-06NA25396, Los Alamos National Security, LLC and the Department of Energy, National Nuclear Security Administration
2.) Part I, Section F, Clause F-2, *Period of Performance"*
3.) Part I, Section G, Clause G-1, *Government Contracts"*
4.) Part I, Section H, Clause H-2, *"Performance Direction"*
5.) Part I, Section H, Clause H-13, *"Award Term"*
6.) Part I, Section H, Clause H-14, *Performance Incentives"*
7.) Part II, Section I, Clause I-121, *"Management Controls"*
8.) Part II, Section I, Clause I-124, *"Conditional Payment of Fee, Profit, and Incentives – Facility Management Contracts"*
9.) NNSA Contracting Officer Letter to LANS, Subject: Contracting Officer's Notice of Intent to Reduce Los Alamos National Security, LLC, Fiscal Year Fixed Fee and At Risk Incentive Fee, dated November 25, 2014
10.) LANS Letter to Los Alamos Field Office Contracting Officer, Subject: Response to Notice of Intent to Reduce Los Alamos National Security, LLC, (LANS) Fiscal Year 2014 Fixed Fee and At Risk Incentive Fee, PCM-14-216, dated December 5, 2014

Subject: Contracting Officer's Notice of Reduction of LANS FY 2014 Fixed Fee and Forfeiture of Previously Earned Awarded Term

This letter is to inform you that I have determined that the Los Alamos National Security, LLC (LANS) performance failures associated with the radiological incident at Waste Isolation Pilot Plant (WIPP) in February 2014 constitute a significant or "First Degree" performance failure with respect to the contract's Environment, Safety and Health terms and conditions. Specifically, performance failures created damage to DOE property or costs for cleaning, decontaminating, renovating, replacing or rehabilitating property that in aggregate exceed $2.5 million.

Reference Contract Clause I-124 (reference 8), I am unilaterally reducing LANS FY 2014 fixed fee by $17,147,045, and incentive fee of $18,164,435.The net amount of fee payable for FY 2014 is $6,249,565.

Reference Contract Clause H-13 (reference 5) and Clause I-121 (reference 7), the Fee Determining Official is unilaterally withdrawing one Award Term extension previously earned.

Because of this action, Clause F-2 (reference 2) shall be modified to reflect this reduction in the contract period of performance.

NNSA acknowledged LANS accomplishments and the effort put forth by many of its dedicated and professional workforce in the Los Alamos Field Office FY 2014 Performance Evaluation Report, and considered the issues raised by LANS in mitigation (reference 10). Notwithstanding those accomplishments, the actions taken in this letter are in direct response to issues of significant operational and cost magnitude identified in the Los Alamos National Security, LLC Performance Evaluation Report for FY 2014.

The NNSA looks forward to working with LANS to improve accountability for safe, secure, effective, efficient, and economical mission performance at the Laboratory in 2015.

All questions regarding this direction shall be directed to the undersigned at (505) 665-1244.

Sincerely,

12/18/2014

Robert M. Poole
Contracting Officer