

Senate Armed Services Subcommittee on Readiness and Management Support Holds Hearing on the Proposed Fiscal 2015 Defense Authorization for the Military Construction, Environmental, Energy, and Base Closure Programs

SHAHEEN:

Good morning, everyone. Let me call the hearing to order and point out that since we scheduled the hearing, of course, there's going to be a vote this morning. It's going to be at 10 o'clock. I think it's only one vote and so we will recess, go vote, and then return. So I apologize. I think they decided to vote after we've scheduled the hearing.

I have an opening statement which I will introduce a longer statement for the record but I will try and be brief and hopefully we can get through Senator Ayotte's comments and at least half of the panel before we have to leave.

Today, the subcommittee meet to hear the testimony on the Department of Defense's fiscal year 2015 budget request for installations, military constructions, energy and the environment.

Testifying this morning, we have representatives from each of the military services and the office of the Secretary of Defense who are responsible for these programs. We look forward to your testimony and I want to extend a special welcome back to our witnesses from the great state of New Hampshire, Mr. Conger and Ms. Ferguson.

The president's budget request for military construction and family housing is \$6.56 billion in fiscal '15 which is nearly \$4.5 billion or 40 percent less than what was requested last year. In addition, I understand that facility sustainment, restoration and modernization requirements across the department are funded at only 65 percent of the requirement necessary to keep our facilities in good working order.

These reductions are no doubt a reflection of the tough budget choices and the need to protect funding for readiness and operations to the fullest extent possible. However, these reductions also assume a significant amount of risk and ultimately a higher cost over the longer term. So I look forward to hearing more from our witnesses about the level of risk to our military facilities.

I'm disappointed that the department has again requested a base realignment and closure round in 2017. I don't believe that the department has yet adequately explained how the significant cost growth we saw in the 2005 BRAC round would be avoided this time around or made sufficient progress in reducing the infrastructure overseas particularly in Europe.

Facility and operational energy issues are also a major focus of today's hearing. In this difficult budget environment, it's critical that we pursue every possible opportunity for cost savings. Energy efficiency is not only the cheapest easiest way to reduce operating costs, it also has potential to continue to improve our war fighting capability and energy security and I look forward to hearing from each of you more about this today.

The president's budget request also includes \$3.5 billion for defense environmental programs down from last year's request and representing the fifth consecutive year of decreases in the funding. Despite limited resources, I look forward to hearing how DOD will continue to balance between environmental protection and readiness.

And last, I'd like to note my strong support for the Air Force's proposed funding. I'm sure I echo Senator Ayotte in this.

AYOTTE:

Absolutely.

SHAHEEN:

For the beddown of the KC-46A tanker at the Pease Air National Guard Base. We think we're very proud of the 157th Air Refueling Wing in Pease and of our National Guard and I know that they will continue to provide the exceptional refueling support that the Air Force needs for decades to come.

Now, before our witnesses provide their opening remarks, I will turn to Senator Ayotte for her remarks.

AYOTTE:

Thank you, Madam Chairwoman.

I appreciate the witnesses being here and I want to thank all of you for your service at a very important time in our country's history and of course yahoo to the New Hampshire people who are here. It's fantastic.

You know, our country right now is facing a diverse, complex set of threats around the world and one of the issues that really goes to the heart of readiness -- and I appreciate the challenges that you're facing right now in terms of making sure that our troops have the training and equipment they need -- but I think as Mr. Conger said in his written statement that installation support -- installation support our military readiness.

And so this is an important part of readiness as well and it's often, I think, the first area that the department has to turn to you and has turned to you to cut. And this year really is no exception.

The administration is proposing a significant cut to military construction and facility sustainment, restoration, and modernization funding. As Senator Shaheen outlined, the F.Y. '15 request for new construction and family housing is 33 percent lower than F.Y. '14 and active levels and 40 percent lower than the F.Y. '14 request.

So this really is, as I look at this proposal funds, only what is required to keep DOD installations as well as housing and other facilities safe, secure and operational and many important decisions on deferring routine maintenance are being held off including major purchases where we're going to be accepting more risks and really hoping that we can -- we're able to sustain that another year. And I think that's the challenge that we face here.

And I think unfortunately, we are accepting more risks for the past five years and we have many systems that are in poor condition. I'm concerned about some of the condition of the facilities in which our service men and women operate.

The Defense Department has an increasing number of facilities that are in poor to failing condition and this is across all the services, the total force, not just the active duty but also the guard and reserve. And certainly, I think this is an important part of the hearing today about what risk we're taking on with this proposal.

In Senator Shaheen's and mine, home state of New Hampshire, the average condition index for assessed Army National Guard facilities was poor trending to failing, and in fact, since the mid 1960s, the New Hampshire Army National Guard has only been able to construct one new readiness center for its soldiers.

We're grateful for that but the New Hampshire Army National Guard's largest readiness center in Manchester was constructed in 1932. It's grossly undersized, it doesn't comply with building code standards as well as some of the key health and safety standards as well as anti-terrorism force protection standards.

So this -- this to me -- as we think about this, it's not just the investment we're making in the active duty but we know that in the conflicts we've had in Afghanistan and Iraq, it's really been our guard and reserve who have been operational as well and these facilities are very, very important to ensure that our men and women in uniform and our guard and reserve aren't in subpar facilities that really have health and safety issues.

So I look forward to better understanding how the Army determines the MILCON requirements and states as well and ensures that those requirements are met.

Let me just echo what Senator Shaheen said about the prioritization of funding for the Air Force's investment in the KC-46 both with development and stationing. I share Senator Shaheen's views that this is a great to see you prioritize this funding, and obviously, we're incredibly proud that the Air Force shows Pease Air National Guard Base to be the first air

national guard base to receive the KC-46A next generation tanker, and so I thank you for prioritizing that in this proposal.

For the Navy, at our four public shipyards, I still remain concern that critical MILCON projects are still being delayed that can negatively impact readiness and efficiency. And certainly, I appreciate some of the advances that we have made for the Portsmouth Naval Shipyard. But at the Portsmouth Naval Shipyard, there were two projects that have been tentatively delayed by a year.

The P285 Barracks F.Y. '15 to F.Y. '16 and the P309 rail project from F.Y. '16 to F 17 -- F.Y. '17. These are projects that I'm concerned about. I'm also concerned that the public shipyards may not receive the 6 percent in MILCON funding as required by the minimal capital investment plan and I look forward to discussing these issues with our witnesses.

Again, let me just echo the comments of my colleague and the chairwoman that the administration's proposal, again, to -- for another BRAC round, I'm very concerned about this proposal. It's not a proposal that I can support.

The government accountability office, as Senator Shaheen talked about has done a number of studies of the 2005 BRAC round which found among other things that BRAC implementation cost grew to about \$35 billion exceeding the initial estimates that were given for the cost of BRAC round by \$21 billion or 67 percent.

And I understand certainly that the department will make the case that this was somehow a unique BRAC round. But I remain concerned that we are going to be in a position where the cost we put into this will not be the return that we received. And in addition to that, I believe that if we look at, for example, the needs we have right now, one of them being in the Navy and of our poor public shipyards that we don't have excess capacity and we don't have any for a BRAC round at this point.

I mean, with regard to the maintenance, for example, at the Portsmouth Naval Shipyard of our attack submarine fleet, they are booked for a number of years and really the work is there that needs to be done to ensure that our attack submarine fleet is prepared. And in addition, with the department's shift to the Asia Pacific region, now more than ever, I think I would like to hear from the witnesses where you believe that there's excess capacity, if any, that would justify a BRAC round at this point.

Finally, I appreciate the work that the department and each of the services are doing to increase energy efficiency and to ensure that the Department of Defense energy programs allow for greater cost efficiency and mission effectiveness and thank you for your work there, I think that's important.

I thank the Chair for holding this hearing and I want to thank again all the witnesses for your service to our country during challenging times.

SHAHEEN:

Thank you, Senator Ayotte.

As I've said, hopefully, we can get through as much of your testimony as possible before we have to go vote and I would ask if we could take testimony in the following order. Secretary Burke first, Mr. Conger, Secretary Hammack, Secretary McGinn and Ms. Ferguson.

So, Secretary Burke.

BURKE:

Chairwoman Shaheen, Ranking Member Ayotte, Senator Hirono, thank you for the opportunity to discuss with you today the activities of the Office of Operational Energy Plans and Programs and provide highlights of the President's Fiscal Year 2015 Budget in this area. You have my statement for the records so I will not repeat it here today.

I'm honored to join all of my colleagues from the Office of the Secretary Of Defense and the military departments and I know that you have arranged a very important installation issues to discuss today as you just made clear. But I thought it might be helpful to start with just a short overview of how we all fit together when it comes to energy.

The department is, of course, the country's single largest consumer of energy at a cost of \$20 billion a year. We all have various roles and missions relating to that energy use but we also have a common narrative that unites us and that is by design. Last year, then Deputy Secretary of Defense Ash Carter, directed the department senior leaders to come up with that common narrative. One to dive the full range of defense energy activities including operational and facilities energy and the energy-related elements of mission assurance.

In the intervening months, we've all worked together to write that narrative which we hoped to formalize soon. But I believe it's very fair to say that the basic principles already guide our activities and have for some time and so I can give you a preview of what's in that policy.

The policy states that the Department of Defense will enhance military capability, improve energy security and mitigate costs in its use and management of energy. We will do so by improving the energy performance of our weapons, installations, and military forces by diversifying and expanding our energy supplies and sources including renewable energy and alternative fuels by analyzing the requirements and the risks related to our energy use. And finally, by promoting innovation for our equipment and education and training for our personnel.

The bottom line is that the Department of Defense values energy as a mission essential resource and one that can actually shape the mission as well. As the department's lead official for operational energy or the energy required to train, move and sustain forces and platforms for

military operations, I'm delighted to tell you that the President's F.Y. '15 Budget request advances the goals of that common narrative.

Energy and liquid fuel in particular is the lifeblood of military operations. It powers our vehicles, our ships, our aircraft and the generators that in turn provide electricity to a range of systems. It can also be a vulnerability on the battlefield and our adversaries in Afghanistan have targeted our supply lines at times. And while we've have no operationally significant disruption of those fuel supplies, the opportunity cost including in lives lost has been higher than it has to be.

This has potential to be an even bigger concern as the department rebalances to the Asia Pacific region where full spectrum operations, where vast distances create even greater logistical challenges and also potential adversaries or range of adversaries are growing the capabilities to constrain or deny logistics including with more precise weapons.

So the overall demand for operational energy today and in the future varies from year to year, it depends on our missions and on our operations tempo but in F.Y. '15, the department estimates it will consume 96 million barrels of liquid fuel at a cost of approximately \$15 billion.

In F.Y. '15, we will also invest \$1.7 billion in initiatives to improve how we consume that energy for military operations and about \$9 billion over the future year defense program.

More than 90 percent of that investment will go to improve the energy performance of our weapons and our military forces. That includes procurement of equipment such as the Army's efficient generator program. It includes major innovation efforts such as engine programs for fighter aircraft and helicopters; 7 percent of that overall investment will go to the diversifying and securing our supplies of operational energy and that includes, for example, the Marine Corps program to procure tactical solar generation and solar battery charging systems.

Underlying all of these investments are efforts to develop better analytical tools for the whole force development process. So this will inform our strategy development, our plans, our requirements, the acquisition process and this has been a key focus of my office since our inception.

We're about four years old now, we're a new office and it's been important area of activity for us and we've seen in just -- in that short period of time a great deal of progress in this area with energy and energy logistics increasingly incorporated into all of those processes including major war games and there is now a mandatory key performance parameter for energy in the requirements process that the chairman and the joint chiefs enforces.

So in addition to this focus on future course development, my office will continue to promote operational energy innovation including through our own investment fund. We will continue to study and analyze how global energy dynamics affect national security and shape the defense mission. We will continue to analyze how climate change will affect our operational missions.

And finally, we will continue to look for ways to support deployed forces with operational energy solutions from rapid fielding of new technologies to adapting war plans, to incorporating

energy into international partnerships and we are gathering and applying the lessons learn in Afghanistan.

So I thank you for your time today and I look forward to your questions.

SHAHEEN:

Thank you.

Mr. Conger.

CONGER:

Good morning, Chairwoman Shaheen, Ranking Member Ayotte, distinguished members of the subcommittee. I appreciate the opportunity to appear before you to discuss the department's fiscal year 2015 budget request for installations and environment.

The testimony I've submitted for the record describes the 6.6 billion that we're requesting for military construction in family housing. The \$8 billion more that we're requesting for sustaining and restoring our facilities and the 3-1/2 billion that we're seeking for environmental compliance and cleanup.

Because infrastructure, generally, has a long useful life and its associated degradation is not as immediate, the DOD components are taking more risk in military construction program in order to decrease risk and other operational and training budgets. In addition, reducing military construction reduces investment risk as we contemplate the uncertain allocation of force structure cuts and the possibility of a new round of BRAC.

The MILCON request alone, as was indicated earlier, is a 40 percent reduction from what we requested last year and the facility sustainment request is only 65 percent of the model's requirement. The budget challenges facing the department are deep and they extend for many years. We continue to believe that an important way to ease this pressure is with base closure allowing us to avoid paying upkeep for unneeded infrastructure and making those funds available for readiness and modernization of the forces.

That said, I know the high cost of BRAC 2005 has left a bad taste in many senators mouths. We have wanted to talk about the emphasis in 2005 on transformation rather than efficiency. But then our answer didn't satisfy Congress' concern about the \$35 billion cost and certainly didn't explain why we weren't going to end up with more of the same if another round were authorized.

I wasn't satisfied either and I tasked my staff to review each of the recommendations from BRAC 2005. What we found was that we actually ended up conducting two parallel backgrounds. One was about transformation. The recommendations were expensive and they didn't pay back. But there were some moves that you could only do during a BRAC round.

Looking at the nearly half of that last round's recommendations that either didn't pay back at all or paid back in seven years or more, we found that this, quote unquote, "transformation BRAC" cost 29 billion out of the \$35 billion and resulted in only \$1 billion in recurring savings. In other words, the reason we were doing those moves wasn't to save money.

That said, the other half of the recommendations was focused on saving money. They had payback of less than seven years. They ended up costing a total of 6 billion out of that 35 and yielded recurring savings of \$3 billion a year.

They ended up -- so this, quote unquote, "efficiency BRAC" proves that when we're trying to save money, we do. That's the kind of round we're seeking to conduct now. It is fair to say that the department needs to save money now.

During the hearing with Secretary Hagel, Madam Chair, you specifically asked about the European infrastructure consolidation effort. Many members have said that we should close bases overseas before we do a BRAC. So as you know, we've embarked on a BRAC-like process in Europe.

However, we're not looking in that process to bring forces back to the United States. So we'll not take any pressure away from the need for a BRAC round. The analysis has taken longer than expected and but we're nearing the finish line and anticipate completing our report this spring. We have affirmed several recommendations already and have offered classified briefings to committee staff. In fact, we're update -- we have scheduled an update with this committee staff next week.

Finally, Madam Chair, I understand that you want to spend some time focused on the department's energy programs and I applaud your focus on energy efficiency. I agree completely with the statement you've made in the past that, quote unquote, "the cheapest energy is the energy we don't use." Let me make three good points on facilities energy before I yield back.

One, many of our energy efficiency projects and most of our renewable ones were funded by third parties, minimizing our upfront cost and resulting in long-term cost reduction. Second, for those projects that we do fund ourselves were focused on the business case and ensuring good payback. These are smart investments. Third, one of the risks that is associated with reduced levels of facility sustainment funding is reduced energy performance.

Put simply, a hole in a roof or a malfunctioning HVAC system has a significant effect on a building's energy efficiency. To paraphrase your quote, the most expensive energy is the energy we waste. That's what you get if you underfund maintenance.

So thanks for the opportunity to testify and I look forward to your questions.

SHAHEEN:

Thank you very much.

Secretary Hammack.

HAMMACK:

Thank you, Chairwoman Shaheen, Ranking Member Ayotte and members of this committee. On behalf of soldiers, families and civilians of the United States Army, thank you for the opportunity to discuss our fiscal year 2015 military construction budget.

For fiscal year 2015, the Army is asking for 1.3 billion which covers military construction, family housing and the Army share of the DOD base closure account. This does represent a 39 percent reduction from fiscal year 2014. It's part of the overall \$13 billion Army budget which includes installation, energy, environmental programs, facility sustainment, restoration and modernization and our base operation support.

Due to the fiscal reductions required by current law and the end of combat operations in Afghanistan, the Army is shrinking our active component and strength to 490,000 by the end of fiscal year 2015. The 2014 Quadrennial Defense Review calls for an Army end strength to decline further to around 450 or 440,000.

So as end strength and force structure decline, we must assess and right size the supporting infrastructure to ensure that training and readiness needs are met. This requires us to achieve a difficult balance between maintaining infrastructure with force structure. Last year, the committee asked when we had last conducted a capacity analysis. So the Army went ahead with a capacity analysis at a macro level.

The magnitude of excess capacity showed that with an Army of 490,000 excess Army capacity will range between 12 percent and 28 percent depending upon the facility category group with an average of 18 percent excess. Additional end strength reductions below 490,000 will increase excess capacity.

As Mr. Conger mentioned, we are all participating in the European infrastructure consolidation review to address excess capacity in Europe. The Army has been addressing excess capacity in Europe for many years. But currently, we have 10 percent to 15 percent excess that we are participating with looking to see whether there's joint opportunities with the other services.

We're on track to shrink our overseas infrastructure overhead and our operating budgets. But in the United States, we need BRAC authorization to do the same. BRAC is a proven means to address excess capacity in the United States. Prior BRAC rounds are producing \$2 billion in cumulative net savings to the Army each and every year. And we achieve recurring savings from the BRAC 2005 round of about \$1 billion a year.

We have a clear business case for our BRAC round in 2017. There is a clear path forward for Congress to agree to a new round of BRAC. As Mr. Conger mentioned, the BRAC 2005 round could be considered as two parallel BRAC rounds, transformation BRAC and efficiency BRAC.

The efficiency BRAC round was the component that produced half of the savings for the Army. The BRAC 2005 selection criteria reflected DOD stated goal at that time to achieve transformation in addition to savings. We relocated two large brigade combat teams from Europe.

In Europe, the infrastructure was built by the Germans, funded by the Germans, a lot of our energy cost were paid for by the Germans. When we relocated them back to the United States, we had to build that infrastructure here with American taxpayer dollars. We had to operate them with American taxpayer dollars and pay for energy cost with American taxpayer dollars.

The transformation BRAC was part of the BRAC strategy but not intended to achieve savings. We look forward to working with Congress to shape the selection criteria for BRAC 2017 to reflect our need for an efficiency BRAC round. The Army does have a strong commitment to reducing our cost especially our energy cost through energy and water security measures.

We have accelerated our partnerships for energy and water efficiency with the private sector through energy savings performance contracts. We've also accelerated our partnerships for renewable energy with the private sector and we continue to identify ways to curb the rapid growth and utility cost through evaluation of new technologies.

And although the Army is reducing our missions in Afghanistan, we are not shrinking our focus on operational energy efficiency. Army missions around the globe whether humanitarian assistance, disaster relief or conflict require energy as a critical enabler. Investments in more efficient helicopter engines that Honorable Burke mentioned extend operational capabilities. Energy efficient expeditionary shelters reduce ground resupply logistics.

The Army operational energy modernization investments provide efficient reliable and maintainable systems that increase capabilities and maintain dominance.

Thank you for the opportunity to appear before you today. I look forward to your questions on our recommended 2015 budget and our request for a badly needed efficiency BRAC round in 2017.

SHAHEEN:

Thank you, Secretary Hammack.

We've had a little change of process. Senator Ayotte has gone to vote so we're going to keep the hearing going and when she returns, I will go vote and I'm not sure when Senator Hirono wants to go vote but that way we can keep the testimony going and we won't delay everyone as much.

So, Secretary McGinn.

MCGINN:

Chairwoman Shaheen, Senator Hirono, you have, in your opening statements, outlined key important issues that are relevant to our program for F.Y. '15. In the interest of time, I would simply like to submit my written statement for the record and look forward to answering your questions about our program that we believe best supports giving the funding available, the finest expeditionary force the world has ever known, our Navy and Marines and their families and the civilians that support them.

Thank you very much, Madam Chairwoman.

SHAHEEN:

Thank you.

Ms. Ferguson.

FERGUSON:

Good morning, Chairwoman Shaheen and distinguished members of the subcommittee. Thank you for the opportunity to speak to you today about the Air Force's military construction, environmental, energy and base closure programs. And on behalf of Secretary James and General Welsh, I'd like to thank the committee for your unwavering support to the Air Force and our airmen.

The current fiscal environment required the Air Force to make some difficult choices. We attempted to strike the balance between a ready force today and a modern force tomorrow to help achieve the balance the Air Force took risk in installation support, military construction and facility sustainment programs.

In this budget, the Air Force is asking for 1.9 billion in MILCON, family housing and base realignment and closure. This reflects a 28 percent decrease in military construction. We deferred infrastructure recapitalization requirements while supporting combatant commander requirements and weapon system beddowns like the KC-46 and F-35. This budget request also distributes military construction funding equitably between the active Guard and Reserve components.

The Air Force is the largest single consumer of energy in the federal government with over 9 billion spent last year to fly aircraft and power our installations. In F.Y. '15, we are requesting over \$600 million for energy initiatives to identify opportunities and invest in solutions. So far, our efforts have helped us avoid 2.7 billion in total fuel and electric -- electricity cost just last year compared to baseline years.

At 86 percent, our aviation fuel represents the largest share of our energy bill. To address this, the Air Force has a goal to improve aviation energy efficiency of our fleet by 10 percent by

2020. And while there is significant upfront cost to those improvements, there are also significant long term savings.

For example, we are working to reengine the KC-135 by upgrading the engine's high pressure components. This effort will improve each engines efficiency, reliability and maintainability and while it cost nearly \$100 million, this investment is expected to save approximately 85 million gallons worth of fuel through 2046. Additional, there are maintenance savings which will start in 2025 and that should save an additional \$3.1 billion.

The Air Force has also reduced its facility energy intensity by over 22 percent since 2003 and last year result in savings or cost avoidance of \$270 million. Right now, we are working to meet our target to develop over \$400 million in energy efficient cut -- energy efficiency contracts and these projects are a win-win. It addresses our sustainment shortfalls and implement new technology and obtain funding through third party financing.

Last year, 8 percent of electricity came from renewable energy which was above our goal of 7-1/2 percent and we're continuing to build on our successes. Just recently, we cut the ribbon on a 16.4- megawatt solar array at Davis-Monthan Air Force Base in Arizona, the largest of its kind on any U.S. Department of Defense installation.

My closing topic is base realignment closure and the bottom line for the Air Force is we need another round of BRAC in support the F.Y. '15 PB request. While the Air Force has not done recent capacity analysis, our analysis from 2004 estimated that we had 24 percent excess to infrastructure capacity. BRAC 2005 directed the Air Force to close under 1 percent of our plant replacement value.

Since that time, the Air Force has reduced aircraft by more than 500, our military end strength by eight -- nearly 8 percent and now at F.Y. '15 budget request have asked to reduce for structure military personnel even further. So even though we've not done an updated capacity analysis, we know we have -- we intuitively know we have excess infrastructure capacity and continue spend dollars maintaining that that could be put towards readiness and modernization.

In conclusion, the Air Force made hard choices starting budget formulation. We attempted to strike the delicate balance of a ready force today and a modern force tomorrow while adjusting to budgetary reductions. To help achieve that balance, he Air Force selected to accept risk in installation support, military construction and facility sustainment. We believe this risk is prudent and manageable in the short term but we must continue the dialogue on rightsizing our installations for a footprint that is smaller but more capable.

Members of the committee, thank you for your strong support of the airmen and men and women of the United States Air Force, Active Guard, Reserves and civilians. And this concludes my statement. I look forward to your questions.

SHAHEEN:

Thank you very much, Ms. Ferguson. Thank you all for your testimony.

Everyone has, except Secretary McGinn, has mentioned BRAC as part of your testimony. And so I want to begin with that. And I know, Mr. Conger, you did a good job of explaining and describing the difference between the transformational aspects of the 2005 round and the savings aspects.

But looking at GAO's report, they pointed out that even in the savings round, that the cost of the 2005 BRAC changes were 15 percent higher than were projected. So I wonder if you could respond to that why those were higher and then if you could talk about whether you are beginning or have developed an estimate for what the implementation cost would be for another round in 2017 and when the real savings would actually begin.

CONGER:

Sure. First on cost escalation, there are a variety of factors that have -- that drove those costs up. For the most part, the cost that increased during the last BRAC round were driven by additional requirements in military construction whether it was because renovations turned in to construction projects or new requirements were placed on the department.

One of those examples is the world class hospitals requirement which was -- didn't exist -- it was added during the BRAC round and literally added billions of dollars of cost to the implementation. But that said, that's not the only factor. What the GAO did say was that it was more specific than systemic when it come -- when it came to this cost escalations. You can account for the preponderance of the cost increases at a relatively small number of the recommendations.

So that said, we are hopeful that -- and the fact that they all happened during the -- in the sort of the preponderance wherein the transformation section of the BRAC round, we're hopeful that we can mitigate and minimize those. But it's a fair point and we have to keep our eyes open. One example is the IT costs. IT costs were higher than anticipated. We've learned a lesson from that in our cost projections going forward, will accommodate a larger investment in IT for these recommendations.

SHAHEEN:

Can I just ask you why were IT cost higher than anticipated?

CONGER:

I don't have the detail at my fingertips but I think we didn't fully modeled the cost for IT in that environment.

SHAHEEN:

And so, again, to the second part of the question, have you begun to estimate what implementation cost would be for another round?

CONGER:

We have an estimate and we have programmed within the department's future years defense plan for a background that would -- if it started in 2017, would cost \$6 billion to implement, would cost \$2 billion in the initial years and keep in mind that as you begin the implementation of a BRAC round and you get closures early in the round, savings would appear as well early in that BRAC round.

So by about the third year, savings would outweigh costs. By the end of six years, we anticipate that cumulative savings would be about a wash, would cost about \$6 million but we would have already saved \$6 million at that point in time. This is all based on a projection of approximately a 5 percent reduction in plant replacement value. So we don't -- it's not specific installations that we're looking at or anything like that.

SHAHEEN:

I apologize, we're about to run out of time on this vote so I am going to have to recess the hearing for a few minutes until Senator Ayotte comes back.

(RECESS)

AYOTTE:

Hi, everyone. We're just obviously dividing today and trying to make the most of the time before us. So I appreciate all of your patience.

I wanted to ask all of you what steps are you taking to prepare for prevent and respond to threats to personnel and facilities and like not only the 2009 Fort Hood shooting but last year's shooting at the Washington Navy Yard and last week's shooting at Naval Station Norfolk, and obviously, our thoughts and prayers to all that are out -- go to all of those who have been affected of those incidents but I think what it raises is this idea of insider threats and how your services are addressing those threats.

MCGINN:

Senator, thank you. That's a very important question.

Much of the information related to what -- not only the Department of the Navy but indeed the Department of Defense is doing to recognize and mitigate these threats is contained in a package that was sent to the committee the week before last when Secretary Hagel and Secretary Mavis rolled out the results of all of the investigations that have been conducted in the wake of the navy yard shooting.

These include the Judge Advocate General of manual investigation report that Admiral John Richardson did for the secretary of the Navy. And two reports for Secretary Hagel, one, an internal report that was done by under the guidance of Mr. Vickers; and another one that was done by former Admiral Olsen from Special Operations Command and Mr. Stockton, a former member.

In the package that was sent out is a list of all of the recommendations and the case of the Department of the Navy, the actions that have been taken in terms of screening of people clearance and access and the fiscal security and anti-terrorism efforts that were -- have been taking -- have already been taking and will be taken in the future for the ones that haven't already been implemented.

I'd like to just point out that as tragic as the shooting was last week in Norfolk and I was -- I was aboard the naval air station or the naval station when that happened, there was a difference and that that was not an internal threat, insider threat but rather someone who is a proven criminal that got unauthorized access through circumstances that are being investigated now and the results are tragic.

But I assure you, this has the attention of everybody in the Department of the Navy indeed in talking with my colleagues in the Department of Defense and other services, all of the services, to take actions that help us to identify threats and to mitigate them.

AYOTTE:

Does anyone else want to comment on that?

HAMMACK:

Yes. And all the services are working together on this and have reviewed the report and working jointly to identify actions to take. One of the things that Honorable Ginn -- McGinn mentioned is identifying and deterring potential hostile actors before they have a chance to act.

And one of the recommendations in the report was a continuous evaluation process of security clearances versus the current five to 10-year periodic reevaluation system. And so that will help ensure that potential problems are flagged and dealt with in a more timely manner.

AYOTTE:

I appreciate that and I also serve on the Homeland Security Committee and Senator Collins and Heitkamp and I have a bill that would require periodic random auditing rather than a five to 10-year window. And so when we look at the situation with the navy yard, obviously things can change pretty dramatically over a five to 10-year window particularly with the, you know, the history that we saw there.

So I hope that the department will consider taking a look at our legislation as a tool as well. I agree with you that we do need to have more regular vetting of these security clearances for those who have access to our most sensitive facilities and also, most importantly, our personnel. But I think also we really have gotten in a position where there needs to be more regular auditing and also the contractors that we're working with. I think that is a significant issue to ensure that to the extent we are working with contractors that they are sufficiently accountable to us.

And so I think that needs to be reviewed as well. So I appreciate that all of you have the priority on that sector...

MCGINN:

Senator, one other thing related to your other committee's work. There was an additional report called 120-Day Report that was managed by the Office of Management and Budget and Office of Personnel Management that would be very relevant to overall Homeland Security. It certainly affects the Department of Defense.

We participated very actively in the development of that report and its recommendations. But the point about continuous evaluation and not letting folks have clearances that just go unreinvestigated for so long time, I think we're moving quickly beyond that.

AYOTTE:

Yes. And I think that the Congress will move quickly on that with you. So I appreciate that.

I wanted to ask also -- I have raised in my opening statement an issue related to the Portsmouth Naval Shipyard and that is two projects that I mentioned in the opening statement. One is P285 barracks project that's been tentatively delayed from F.Y. '15 to '16 and the P309 rail project that's been delayed for '16 to '17.

What I'm hoping, Secretary McGinn, if you can comment on this projects, I'd also like to see a list of delayed projects that are for public shipyard but obviously, if you have any comments to make on these two particular projects.

And then also on this issue of the 6 percent in MILCON funding as required by the law, the minimal capital investment plan, I would wondered if the Navy would like an answer to the question of whether the Navy plans to comply with Section 2476 Subtitle 10 on this 6 percent issue. So if you're able to answer that, I'd appreciate it.

MCGINN:

On the first point, about the projects, I'd like to take that question for the record and give you some detailed information on that.

Regarding the 6 percent, we will do our utmost in the execution year of 2015 to meet that criteria. We fully intend to comply with the requirement. And as you know, at Portsmouth, it has all of our public shipyards the throughput is absolutely critical to getting the kind of product out there in the fleet.

You mentioned submarines in particular but new ship construction as well refitting and we recognize that we cannot take too much risk too much longer in any of our infrastructure projects but especially our ship yards and aviation depots.

AYOTTE:

I appreciate that and I look forward to the more detailed answer.

And my time is up. So I would like to turn it over to Senator Hirono.

HIRONO:

Thank you very much.

I want to start by saying that I am disappointed in the overall MILCON reductions as I'm sure all of you are but I do understand the need to help shore up our operations and readiness accounts. That said, and Mr. McGinn, you just mentioned that you do have a concern about the MILCON cuts to our shipyards and of course we have Pearl Harbor in Hawaii.

I hope that the risk taken on by delays some of these projects will be mitigated as additional MILCON funds become available through other efficiencies or sources and one of the opportunities to increase these available resources is to attain energy savings and all of you have talked about that.

So my question to Ms. Burke is at the end of your testimony, you state that both institutional change within the department -- Department of Defense, which is the biggest energy user, is difficult, time consuming and not for the faint of heart and recognizing that your office was only established in 2010, would you say that the department has learned from the operational energy challenges that it has had to address over the last decade?

And is the memory of the impact of energy price spikes into other threats to fuel convoys and other constraints placed on the department by its energy needs being fully internalized and included in the future planning to the degree that it should be? If so, how and can you just

describe briefly what everybody's doing to make sure that energy efficiencies -- energy savings is very much a part of the decision making within DOD?

BURKE:

Thank you, Senator Hirono, and you've been a great champion of energy security so we've appreciated your support.

One of the reasons in my written statement that I said that this kind of institutional change is so difficult is because you can't just buy something to fix it. You have to get in to the whole process of how we plan for the future and incorporate energy as a consideration. When it comes to operational energy, the number one consideration is always going to be capability, which is what do we need in order to get the mission done.

And that's where we're looking to really press for innovation and for change is to make sure that we have the energy we need and that we're using the very best options to get the mission done.

So we want more range, we want more endurance, we want a lighter footprint in terms of our logistics and our supportability and those are all things that we've seen in Iraq and Afghanistan are important, both in terms of the volume of fuel we're putting on the battlefield but also the fuel at the last tactical mile where it's not a lot of volume but it's the hardest fuel to get to the war fighter.

So our number one goal is to improve the mission and the capabilities when it comes to operational energy. We often achieve savings in the process but it's not the number one goal. The number goal is to support the war fighter.

So, yes, I think we've learned those lessons but incorporating them again is not an easy prospect because you do have to get in to how we conduct war games, how we conduct requirements generation, how we plan with our operational planning and with our scenario planning.

So all those things are improved, all these people at the table have put a great deal of time and effort to changing the processes and we will see a change in the demand signal for a more efficient force and a force that takes advantage of a greater range of technologies.

HIRONO:

For the other members of the panel, would you say that within your -- in the Army, Air Force and the Navy that energy needs and the efficiencies that we should attain these kinds of concerns or considerations are being internalized?

HAMMACK:

From the Army standpoint, I would say yes, they are being internalized. What is challenging to many is they see the energy cost on our installations as one of those almost uncontrollable budgets. One base that I was at last week said that their energy consumption had declined 37 percent in the last six years but over the same time period, their energy cost went up 57 percent.

So they're working very hard on efficiency and that is helping to curb some of the rapid growth and energy cost, that's why we have such a focus on renewable energy because that helps dampen some of the cost that are driven by dramatic increases in fossil fuel.

But in operational energy, that's one of the areas that our soldiers are seeing immediate returns. There's a FOB that we work with, a forward operating base in Afghanistan that was getting aerial resupply every three days. That meant every three days they had to stop fighting, they had to secure a drop zone to pick up fuel.

And with energy efficiency and operational efficiency, we brought it to one air drop every 10 days. That's direct impact on mission as Secretary Burke mentioned and that's what helps institutionalize energy matrices that it does have a direct return to mission capability.

HIRONO:

Well, I would say that probably the energy cost in the installations are very obvious. There are things that all of you are doing to decrease those cost and you're probably doing that in partnership with private sector and to the extent that you're dependent on possibly the grids that are already there that you're doing -- you're doing work in that area also.

Would you say that -- I know that you're all nodding heads so we don't -- I assume that all of you are doing similar kinds of things to attain energy efficiencies.

I just have a continuing concern about the ongoing commitment by the DOD because energy efficiency, I don't think is climate changes here, there was a recent report that acknowledged climate change and the impact on energy cost thereby. So for all of you and particularly for Ms. Burke, how important is R&D in this -- in the energy side of things?

BURKE:

Research and development and test evaluation is a very important part of the investment that we make, and certainly my office has a specific fund that we manage for those purposes and we look at where the gaps in funding are that we can help address.

So those investments are looking across the board from everything from better engine and propulsion systems technologies to better materials. We're looking at, you know, materials that reduce drag on aircraft, for example, to we have test and evaluation investments for alternative fuels which I know you're very aware of.

So we've got investments in R&D across the board that are really improvement for our future capabilities in this area and our undersecretary for acquisitions and technology and logistics has gone to great lengths to protect those investments.

MCGINN:

Senator, we think all of us in three different dimensions to energy efficiency or alternative energies, we certainly talk about the technology and that seems to start the conversation.

But equally important, our partnerships, partnerships among our services, partnerships in the federal government, for example, the Navy's partnership with the Department of Agriculture and energy for biofuels program and especially partnerships for sure energy efficiency with the private sector, third party financing, energy savings performance contracts, utility energy savings contracts, we want to use all of these things, these partnerships to further our goals.

The last area and perhaps in some ways the most important is culture. We all have very, very aggressive programs to educate and to increase the awareness that every level, every member of the department about energy and how it directly relates, as Ms. Burke pointed out in her statement, directly relates to war fighting capability and operational efficiency.

HIRONO:

Thank you. My time is up. Thank you, Madam Chair.

SHAHEEN:

Thank you.

Senator Kaine?

KAINE:

Thank you, Madam Chairwoman and appreciate the witnesses being here. I was coming from another hearing and I'm going to apologize because I suspect I'll repeat a little bit of what might have been asked for.

And Secretary McGinn, in particular, I want to talk about the incident at the shipyard last week. I think Senator Ayotte may have talked with you about it as well.

It was a horrible thing, this Petty Officer Mayo in Norfolk. It really rocked the community there and I know it rocked the entire DOD world. In particular, in the aftermath of the shooting last fall

at the navy yard here, it raised a lot of questions about the particular issue, the issuance of these TWIC access permits but more broadly, you know, are we doing what we need to do?

So I -- if you could address this TWIC issue and how this individual was able to get one of these identifications with a criminal record to the extent that you can talk about details -- I'm sure there's an investigation that's ongoing -- but then talk more generally about what you are doing to try to make sure that our installations are as secure as possible.

MCGINN:

Yes, Senator. As you probably know, the secretary defense and secretary of Navy made this release the results of three- investigative reports week before last.

They were precipitated by the tragedy that happened on the 16th of September here in the Washington Navy Yard and the package that was sent to the committee includes all of those investigative reports which have a long list of actions that have been taken or underway to increase our security on bases whether it's physical security, the clearances that helped diminish the threat from insider threats, for example.

Last Monday, I was at Naval Base Norfolk when that tragedy occurred and as you rightly pointed out, Petty Officer Mayo, the sailor who is killed is absolutely a hero. He saved a shipmate's life.

We are looking at that with a great deal of scrutiny, trying to see where there are lessons learned from the Washington Navy Yard shooting that could have, should have been applied. We think that there's a significant difference and that this was an outside threat, and by the way, unarmed who entered an unauthorized area and ultimately made it to the ship's quarterdeck.

But we will take a strong, strong look including the type of documentation he had, this so called TWIC card to help him gain access through the main gate at Naval Base Norfolk.

I will be happy to provide a more detailed response on exactly what we are doing about that type of transportation pass that allows some of our trucking agencies to get onboard.

KAINE:

Secretary McGinn, I don't know if you can answer this question and the details might have been in a press account that I missed but has it been established whether this individual received the TWIC card prior to his criminal conviction and the card was never revoked or whether he received the TWIC card in spite of having a manslaughter conviction?

MCGINN:

I don't have the answer now but I will provide it to you, Senator.

KAINE:

All right. Thank you.

You know, when things like this happen, when I was governor, there was the horrific shooting at Virginia Tech and we, you know, engaged in a significant investigation and we found all kinds of problems. Some were system problem, some were errors in judgment, some were funding problems. We were underfunding certain kinds of community mental health services and that was one of the factors that led to this horrible shooting.

I'm sure there's a whole serious of things as well as with the Navy yard and perhaps with this Norfolk Naval station incident may be some human error, may be some systems improvements...

MCGINN:

Right.

KAINE:

...may be some funding issues. I know this subcommittee and the sea power community just came from very, very worried about sequester going forward and how it affects everything that we do. We were able to work to find some sequester relief in '14 and '15 in connection with the two-year budget. The White House and DOD has asked for a budgetary -- you know, from '16 going forward has asked for a sequester relief, not sequester elimination.

And Madam Chairwoman, I'm kind of impressed with the fact that as they have come to us and asked us for sequester relief, they basically said we'll absorb more than 50 percent of the sequester cuts over the entire length of the sequester, give us relief so that we can eliminate about 45 percent of the sequester cuts which seems like a very reasonable request to me, maybe a little too reasonable, but very reasonable. So you're trying to work with the will of Congress to try deal with the deficit in this strategy.

But it is my hope that, you know, we are not -- well, frankly, I think we are. We're tightening the belts in way that will come back by this in a lot of different ways.

I don't know if security is one of those ways but everything cost money and if we're trying to foolishly save here or there, I just worry that we have instances like this or all kinds of other things that go wrong that wouldn't go wrong if we were taking a more strategy approach that's an editorial comment, not a question, but I look forward to getting the answer about this particular instance and I was not aware that you were there on that day. You know, how seriously the Hampton Roads Community...

MCGINN:

Yes, sir. And, Senator, I talked directly with Admiral Bill Gortney, the Commander of Fleet Forces Command; Admiral Dixon Smith, regional commander, and they're all extremely focused on getting the exact -- every answer we possibly can related to that tragedy.

KAINE:

Thank you. Thank you, Mr. Secretary.

A question on R&D to follow up a little bit from Senator Hirono's questions. We have a lot of R&D, DOD R&D, facilities and labs in Virginia. We've got, you know, the highway sign planted right in the heart of Arlington. This is where DARPA first created ARPANET which is the foundation of the internet on which so much of global economy now depends.

Our research capacity depends upon people but it also depends upon having the infrastructure we need to do the R&D. Talk a little bit about, you know, R&D challenges in the DOD right now.

Civilian R&D has been hit very, very, very hard in sequester through NIH and other civilian R&D. How much have you been able to shelter or protect the R&D priorities of the department in this tough environment?

BURKE:

Well, Senator, thanks for the question. I can really only speak for the R&D that I have oversight of but certainly, we'll take the question for the record back to our colleague, Al Shaffer, who oversees all research and engineering for the department and we're certainly aware, Mr. Conger and I, that Under Secretary Kendall has put a very high priority on protecting those investments, it's, you know, start of a seed corn and we have to do that.

For energy, we're seeing a consistent investment in R&D, in this area. There has been some reduction but it is consistent with the reduction in overall budget. So in my own funds that I manage for R&D, they've been consistent and we've been able to protect those investments.

And again, those are aimed at military capabilities and that some of them for, you know, for the short term, for the fight. So we think they're very important investments and we've been able to keep them consistent.

MCGINN:

Great. Thank you, Madam Chairwoman.

SHAHEEN:

Thank you. Secretary McGinn, as your sharing the reports of the Navy shooting, if you could share those with the committee, we'll make sure that everybody receives them as well.

MCGINN:

I will, Senator.

SHAHEEN:

Thank you.

Senator Donnelly?

DONNELLY:

Thank you, Madam Chair, and thanks to all the witnesses.

Mr. Conger, as you look forward, how are facilities that promote the mental well being of our service members in military families being prioritized as installation funding changes?

CONGER:

You're speaking specifically about the subset of health facilities that deal with mental health? Is that...

DONNELLY:

Yes, sir.

CONGER:

In fairness, I should probably take that for the record simply because the construction -- if we're talking about the construction or maintenance, well, I can speak to this.

From a healthcare perspective and the programs management of defense health agency, we have done our best to maintain the maintenance accounts that are associated with those specific

facilities where the department as a whole has taken significant risk in facility maintenance in our health facilities, we've maintained those accounts.

From a construction perspective, there's been reductions in healthcare, in hospitals and clinics just the same as across the board.

DONNELLY:

As you -- as you make MILCON and other installation management decisions, do you take the access to readily accessible mental health services into account? For our men and women as you make those decisions as to how easy it is to obtain those services?

CONGER:

I think it's important to -- let me take that for the record simply because there are so many individual processes within the department where things are prioritized that there isn't an overarching governance that says make sure that these particular kinds of facilities get this particular amount of money.

DONNELLY:

Okay.

Ms. Burke, when you work on energy plans, energy efficiency, do -- can you tell us -- and I apologize, I had to vote, I had got here as quick as I could so you may have already answered this -- could you tell us, as you look, what percentage overall of the energy used is now American energy or that it came from this country.

BURKE:

Senator, the department uses about \$20 billion a year worth of energy. Three quarters of that is for military operations and one quarter of that is to support facilities. For the facilities, which my colleagues are the experts on, we are generally on the commercial grid. So we are generally relying on civilian commercial infrastructure for that energy.

For military operations, it's almost all petroleum fuels and we have a tactical and operational imperative to buy it as close as we can to where we operate so that 60 percent last year, approximately 60 percent of that fuel, we purchased overseas where our operations were taking place. So it really depends on where we're operating.

DONNELLY:

Okay. So as you move forward, what are the most cutting edge areas you have in terms of for our own facilities and for other things? Obviously, other than the imperatives of having to purchase fuel where you are when you're in military actions. For our facilities, what are -- what are some of the things we can look forward to over the next five years?

BURKE:

(OFF-MIKE).

CONGER:

So we have a research and development program specifically focused on facilities and energy efficiency, on micro grids, on various ways of production. There's a long list of projects. I think that you will see fruition in building efficiency. Certainly, we have a lot of micro grid programs going on right now but they're each sort of testing a different facet of the overall picture. These are research programs not necessarily designed to end up in a project.

But the -- what we do have is a small amount of money in an energy test bed that we are taking technologies and programs that are pre-commercial but that haven't gotten the data to sort of push them over the edge into viability where they might be able to be purchased by the entire department. I can get you a list of what those projects are.

DONNELLY:

Yes, that would great.

Secretary McGinn, you know, I'm from Indiana. We have Naval Service Warfare Center Crane. Over 3,000 navy employees, 67 percent of them are scientists, engineers, technicians, doing some of the most cutting edge work. What we were wondering is the MILCON plans as we look forward to improve the infrastructure there. If you know those plans or if you can get to us, here's the infrastructure improvement plan that we have moving forward.

MCGINN:

Senator, I look forward to actually visiting Crane in about three weeks so I'm going to go up there to your great state and visit Crane, see some of those facilities, see some of the...

DONNELLY:

Do you need a ride from the airport, sir?

MCGINN:

No, sir. And I'm also going to go up to Purdue University and see some of the good research they're doing on biofuels up there. But I will take a close look at what is going on and what is needed. As you know, the -- Crane has some really world class capability in battery technology, everything from watch-sized batteries to batteries in ICBMs. So that's critical, we want to keep that viable.

DONNELLY:

Thank you.

Secretary Hammack, one thing that in looking how things are being done is the different standards of liability protection for hazardous waste risks at former Army facilities. And for instance, in cases where they're closed by a BRAC, there's help with hazardous waste if not a BRAC, often not. And so, if the only substance of difference is how the facility was closed, how do you make those determinations and why the difference in treatment?

HAMMACK:

I appreciate your highlighting one of the benefits of BRAC and the base closure operations. I think...

DONNELLY:

You won't have that happen us certainly.

HAMMACK:

I want to take advantage of it for the record here, sir, and I appreciate that and the BRAC program does give additional protections for both base transfer and base closure and dealing with environment liabilities. Those bases that were closed prior to that, it is difficult, if not impossible to go backwards in giving protections once a base has been closed and already transferred.

So at the time of transfer, there are terms and conditions of that transfer, there are terms and conditions that are agreed upon by all parties that work forward on and I understand there's some legislation that's looking at grandfathering things BRAC backwards called BRIC, I have not had the chance to thoroughly review that. We will review it and take a look at it but I think using BRAC as a closure mechanism by some of the prior year mechanisms in the early '80s, it does highlight benefits to the community.

DONNELLY:

Thank you, Madam Chair.

SHAHEEN:

Thank you. Well, I'm glad Senator Donnelly got us back to BRAC because I want to pick up on the line of questioning that we were discussing before I had to go vote.

And Mr. Conger, I think one of the things you were talking about was the fact that some of the construction requirements had changed, you mentioned hospitals in particular. One of the things that the GAO had said is that DOD didn't include some of those military construction requirements that were needed to implement the recommendations as envisioned and therefore the additional requirements increase cost. I'm paraphrasing what GAO said.

So I still want to go back to the idea of how are you improving on the ability to accurately assess what the cost of another BRAC round would be and, you know, and I think I'm accurately quoting your response to the GAO report where you said that, quote, "I'm concerned with the report's emphasis on establishing goals, measurements of effectiveness, and capacity reduction targets because it seems to me that that's exactly what we ought to be doing as we're thinking about how we develop a proposal for another BRAC round.

And so I wonder if you could enlighten me a little more on...

CONGER:

Sure.

SHAHEEN:

...how we're looking at assessment and I don't know, Secretary Hammack, if you have anything you want to add, feel free to do that.

CONGER:

So there's two things that I think you mentioned that I'd like to touch on and if anybody else has amplifying comments. The reason that we're concerned about goals is because while we execute a BRAC round to save money, the individual recommendations have been premised on the idea that they are focused, first and foremost, on military value. We don't want to reduce military value through these actions, the intent is to amplify as such.

We specifically don't want to have a requirement set out at the beginning of the BRAC round that says you have to close this many bases. That's what I'm concerned about.

You don't want to get down to a point on the list of items under consideration, say well, these are the ones that I would do if it made sense but I really need 10 more bases to close in order to meet my targets. You don't want something like that and that's my concern with the GAO.

SHAHEEN:

Well, and that makes sense to me. But it still makes sense that there should be goals for cost savings in a BRAC round and also that those goals might include not just cost savings but also what kind of value we want to maintain for the operations that we want to continue.

And I guess, it's the whole metrics piece and how we model those assessments and the extent to which we are comfortable with what's in them and the accuracy of them and that Congress is also aware of how we're doing this so that we can avoid what happen in 2005 from happening again.

CONGER:

Right. So what you're asking is how do we measure the effectiveness of a BRAC round? I think.

SHAHEEN:

What -- no, I'm asking a little bit different question and that is how do we anticipate the cost and the effectiveness of a BRAC round. So I'm...

CONGER:

So let me talk to costs.

SHAHEEN:

Okay.

CONGER:

I think if you look at the specific recommendations in 2005 that had the most cost associated with them, they were the actions that were characterized as transformational. I know that word gets thrown around a lot so let me -- let me play at it a little bit more.

If you consolidate all of the preliminary (ph) investigative services at one particular location down at Quantico, that's more of a transformation thing rather than being done for the base for the sake of savings. If you collocate the various services health functions in one building.

That's more of a transformational, looking for efficiencies and effectiveness, but not necessarily in cost savings. Those are the kinds of things that had a lot of cost associated with them but didn't necessarily drive savings. But I think there's a finer point here.

If you look at the previous BRAC rounds where we were driven by closure, driven by efficiency, the MILCON requirements associated with those actions were very small.

If you look at the 2005 round and you segregate the closure and efficiency actions from the transformation actions, there was a relatively small component of military construction in those efficiency recommendations, keeping in mind the fact that the entire cost isn't a MILCON cost. There's O&M that you have to move people from place to place, et cetera, et cetera. There are a variety of O&M cost as well.

But the MILCON cost associated with the 2005 BRAC round were an order of magnitude larger than the MILCON requirements from the previous round and that was because of the kinds of recommendations that we're put forward and accept it.

SHAHEEN:

Well, I think it would be helpful to this committee and probably to the full committee to have a better understanding of how you assess what you're trying to achieve through another BRAC round.

Certainly, Secretary Hammack, do you want to respond to that?

HAMMACK:

Yes, I would like to. One of the things that we're doing in the European infrastructure consolidation process is looking at a very methodical process.

First, determine the military value and rank the military value of each sight. Secondly, look at the capacity analysis. From every type of building that's located on that base from headquarters buildings and barracks and motor pools, et cetera, where do you have access capacity? And then step three is do a scenario analysis. What are the various scenarios? What could you move where to consolidate and what is that cost?

What has been done in prior rounds is a budget's been set. So as Mr. Conger spoke of, you set a \$6 billion budget and as you're looking at all the different scenarios, you evaluate those that have the best return on investment to return the best military value to take up as much capacity as you

can. And it can be a very analytical mathematical process, yet military value of the locations is a priority to ensure that we're appropriately positioned.

From the Army standpoint, if you look at BRAC 2005, the cost to the Army was \$13 billion. Of that, \$2 billion was efficiency BRAC. Of that \$2 billion, we're getting \$574 million in savings every year and that's about a 3.4-year return on investment. I think that's a good deal. I think that's the efficient BRAC and that's what I want to see from the Army standpoint in the next round.

Give me a budget and we'll do the military value, we'll do the capacity analysis, we'll run some scenarios and we'll identify those scenarios with the best efficiency that we can return to this nation and in the BRAC process, it's all with congressional oversight.

So you'll appoint a BRAC commission that will take a look at all the details here before it comes to Congress for a vote. I think it can be very clear, I think it can be very transparent. It can be very focused on efficiencies and that's what we want to do, is work with you to identify the characteristics of the next round of BRAC because we need it in order to work within the budgets that this nation is asking of us.

SHAHEEN:

And my time is up. So but I just want to get a clarification. The excess capacity analysis that you're doing now, I assume that's going to be part of the European infrastructure consolidation review?

HAMMACK:

Yes. It already is. And so we've already finished our capacity analysis in Europe on a site by site basis and it shows us a range of 10 percent to 15 percent excess capacity in Europe. We're running through the scenario analysis right now to determine what have the best return on investments.

SHAHEEN:

Because I think given the request from this subcommittee and the full committee about getting that report and I know you addressed it in your comments, Mr. Conger, but that's the kind of information that is very helpful as you're asking us to make decisions about another BRAC round. So my time has ended.

Senator Kaine?

KAINE:

Thank you, Madam Chairwoman.

I'm just going to follow up just for one minute on the same topic, kind of just really more to say what I don't necessarily like about BRAC being a former governor, I can see why --I can see why the DOD likes the BRAC process. I can see why it was established.

Being a lieutenant governor and governor during the '05 BRAC round, my objections are not the cost savings issue. My primary objection is sort of a -- it's kind of a process when DOD makes budgetary recommendations just about everything. What weapon system to buy, what weapon system not to buy, whether to have one uniform, whether to have multiple. You make recommendations to us about everything and you don't need external panels except in rare instances to make recommendations to us.

I would prefer that the base decision be like everything else and that DOD make recommendations to us and then we kick them around up here and we -- and as you know, we wouldn't agree with all of them. We would probably agree with two-thirds of them, just like we do about weapon system, maybe 50 percent, maybe not two-thirds. But you are the experts in a way that we are not and we rely on your expertise.

My observation about a BRAC process, when BRAC process starts, every community in the country that has a military asset, whether the asset is actually in jeopardy or not, has to lawyer up and lobbyist up and they start to spend tons of money to make this big effort to protect what they had, even communities whose assets really are not in jeopardy.

And so I saw in Virginia, you know, even a community that says we don't think this is a jeopardy, there's important stuff that goes on here but if we don't hire all the lawyers and lobbyist and make this big effort and then we end up on the short end of the stick, people will say you're a dope, you should have done this.

So I think there's an enormous wasted energy in the BRAC process for communities needing to come together and make this massive case even when there's really no likelihood, there's ultimately going to be a recommendation that would change the status of the installation. I would -- my preference would be that the DOD come to us with recommendations about installations like they do anything else.

And then we debate them and kick them around and, you know, I know you'll -- you're going to bring the European consolidation study to us and I gather that because those are external bases, those are not, you know, subject to the same requirements of congressional approval and yet when that report comes, if members of Congress don't like a piece of it, you know, they'll probably put in some kind of legislation and say, yes, but don't do that one thing that you mentioned.

You know, so we can always, by legislation overturn or recommendation even if there's not a requirement of approval, I would hope, as we think about, you know, the way to deal with this installation questions, I would just like the DOD to give us their professional recommendation about installations recognizing that Congress would kick them around, recognizing that local

politics and everything else would create headwinds and crosswinds but that's the same as in every other line out of in the budget.

CONGER:

Right. And so BRAC -- BRAC wasn't created for no reason. BRAC was created because before BRAC, there was a lot of politics in these decisions and there were accusations of partisanship and which bases ended up closing, et cetera, et cetera.

This enforced a process that was -- that was deliberate, it was analytical, it was that traded all bases equally and set forth a way that was defensible and auditable for the department to say, Okay, these are the ones I want to keep, these are the places of highest military value and I would like to feel those in even if it's more empty.

In an environment where we are not able to do that, then you're probably going to end up with folks looking at the places that have more capacity even if they're of higher military value and that's a concern.

You end up with actions that are more -- that are more subject to litigation and -- and especially since BRAC sort of takes the place of some of the NEPA process and so what you'll end up with is rather than less lawyering up, you'll end up with far more lawyering up if you don't have BRAC.

SHAHEEN:

Sadly, Senator Kaine, everybody's not as reasonable as you and me.

KAINE:

Thank you, Madam Chairman.

SHAHEEN:

Thank you.

Secretary Hagel in his remarks to the press when the budget was released said that he was mindful that Congress has not agreed to BRAC request in the last two years but -- and I quote, "If Congress continues to block these requests, even as they slash the overall budget, we'll have to consider every tool at our disposal to further reduce infrastructure."

So, Mr. Conger, what tools was Secretary Hagel referring to and what are you considering in terms of using them in the absence of -- in the authorization for a BRAC round in 2017?

CONGER:

Right. Clearly, he was listening to Senator Kaine saying do things outside of the BRAC process.

The secretary has amplified his comments subsequent to that and noted that there is an authority that Congress provided the Department of Defense in 10 U.S. Code 2687 to review that has a process for how one would take base closure and realignment actions independent of a BRAC round.

The secretary has also have said he would much rather do this through a BRAC process. It's apolitical, it's analytical, it's transparent, it is the preferred way of doing business and it makes the most sense to the department. We would much rather -- and we -- that's why we ask for BRAC authority.

SHAHEEN:

And I assume that the department doesn't have an interest in getting to -- getting into a back and forth with Congress over taking action the Congress hasn't authorized in a way that would produce a backlash in the Congress?

CONGER:

Of course not. We will only use authorities that the Congress has provided. And moreover, lots of what we -- even if we're using existing authorities, the department often has consultations with Congress in events of actually using those authorities.

The MILCON statutes are replete with examples of notification requirements where, you know, we come up and have that conversation and if the committee's advised against taking a particular action that we see into the world of committee.

So those kinds of things are there already. I don't think you are witnessing a desire to sort of have a back and forth with Congress per se. But you are recognizing a degrees of frustration and recognition as has been demonstrated by the witnesses up here that we are paying for facilities and bases that is essentially waste and you don't want to do that.

You don't want to tax the war fighter in order to pay for facilities that you don't need and for bases that you don't need. If you have a way to save money and are able to plow that money back into readiness, we really would like to do that.

SHAHEEN:

And look, I think, that's the interest on the part of all of us here. But if we don't have information on which to assess what's being proposed, it's really hard -- all we have is past history. And past history, at least the 2005 past history, is not a very good example of what we would want to accomplish in the future.

So I'm just saying to all of you, the more you can provide information for us about how you assess, what you're looking at in the 2017 -- if you're coming up with the 2017 proposal, how you get to savings, what you're trying to achieve before we get to the BRAC process, I think the better of -- the better audience you're going to have for what you're trying to do.

HAMMACK:

And I understand that but the BRAC process is where we bring you those ideas. I mean, that's what the BRAC process is and that's where we do the site by site capacity analysis and the site by site military value and put it together as part of an analytical process with the ground rules defined in the BRAC authorization.

SHAHEEN:

I get that. But I'm not going to home to my constituents in New Hampshire and say I have authorized something when I don't have a good idea of where I think the outcome of that might be. And I think I probably represent most of the members of Congress when I say that.

So I understand what you're saying in terms of the BRAC process itself but I'm saying a little bit different and that is I think for us to have reports like the European consolidation review as you're coming to us to say this is what we want to do is really helpful, you know. Last year, we heard we were going to get that before you came back with another budget request. Well, we still don't have it.

So, you know, we've beaten this dead horse, I think, already. But I'm just trying to convey my frustration about not having the information that I think is helpful in making a decision.

HAMMACK:

But one of the things I understand that you're authorizing BRAC process is you're authorizing the analysis. You have to vote on the recommendations. You're authorizing the analysis.

And so one of the things that Section 2687 that John talked about is any bases closed under 2687 would be submitted as part of a budget.

You could not see any as part of the 2015 fiscal year budget but if we don't get authorizations for BRAC 2017, you might see some bases listed in the budget request for 2016 because at this point in time, I don't have the money to run the bases the way they should be run and it is not

appropriate due diligence on my part to continue in this manner if I can't run the buildings appropriately, if I can't appropriately support soldiers, then I'm going to have to do something to ensure that I'm not spreading an ever thin budget across a base that I can't afford.

So, you know...

SHAHEEN:

Listen, I get that, and I have been opposed to the cuts from sequestration that are putting additional pressure on DOD. But as long as we've got the GAO coming back with reports that raise questions about how the BRAC rounds are being done, I think they need to be answered.

HAMMACK:

But I just say look at the prior year rounds. Look at all the prior efficiency BRACs that were duly noted as efficiency BRACs that are returning the investments stated that did not exceed the budgets. Any time any BRAC project exceeded budget, we came back to Congress and said this project is going to increase in cost because of the following reasons and got approval from Congress for that incremental cost.

So everything was done in an open and transparent manner. And all prior BRAC rounds are delivering the expected savings. And for the Army, the efficiency savings expected from this BRAC round in 2005 are delivering savings and those measures that were not expected to deliver savings aren't.

CONGER:

If I could strike that conciliatory note. The -- your staff has asked us a series of questions about the BRAC '05 round and we've done our best to get that information. I think we still have a couple of extra things to provide. We will continue to provide that information. We think we have, actually, a fairly good story here.

There is of good justification even inside of the 2005 efficiency actions that we've identified to justify the fact that a future round can be done with a mind to efficiency can be done with minimal cost increases. We think we can manage this process and we think there are a lot of good examples that demonstrate that.

SHAHEEN:

Well, we look forward to getting that information.

Senator Kaine, do you have any more?

I want to go to energy. Now, something that we can all agree on, hopefully. And I think one of the best stories that is untold is the work that's being done in the military to save energy and to produce new research that is going to benefit everybody in the private sector as well in terms of energy savings.

So I wonder if we could explore that issue a little bit more and I have a specific question because my understanding is that there was some confusion around questions at the full hearing and the renewable energy projects that are valued at \$7 billion a year as part of the president's performance contracting challenge.

So, Secretary Hammack, can you explain what the contracts rule agreement is on that direct funding? Because my understanding is that people hearing when the topic was raised, assumed that that \$7 billion was money that was going to be paid for through DOD's budget and understanding is it's actually an agreement with private sector. So can you explain that further?

HAMMACK:

Absolutely. Thank you, Senator Shaheen.

And the multiple award task order for \$7 billion is what's generating questions and that's solely focused on renewable energy. It's not on energy efficiency or performance contracting. So awards were made under the MATOC to a total of 48 companies of which 20 are small businesses.

And so the award recipients are qualified to this process to compete for future task orders. So they did not get a contract that we're going to commit to buy anything. This was a prequalification.

So it's like developing a short list of contractors and we're going to issues task orders to bid for power purchase arrangements. And the power purchase arrangements are anywhere from 20 to 30-year contracts to buy the energy generated from renewable energy.

So if you look at the next 40 or the next 30 years, the Army's bill for facility energy is projected to be \$40 billion. So our objective and our mandate from Congress is 25 percent of our energy to come from renewable energy.

So if you take 25 percent of \$40 billion, that gets you about \$10 billion and so we put a contract ceiling in for \$7 billion so when we contract to buy energy from someone, it might be a 30-year contract to buy energy at this price with this acceleration for this time period and that is considered the value of that power purchase agreement.

So I understand that it's confusing and I hope I've been able to clarify that that it is not money that we're coming to you to ask for, it's money paid out of our utilities account to buy electricity.

SHAHEEN:

Good. Mr. Conger, you want to clarify that more?

CONGER:

Can I amplify one point in there that's very important? As people here about us buying renewable energy, when we do these arrangements with third party entities to develop renewable energy and bring utility function on to our base, generally, we are paying either the same amount or less and more often than not, it's less than we would normally pay for our electric bills.

So in essence, what you're looking at represents a reduction in costs over the life of these projects.

SHAHEEN:

Ms. Ferguson, one of the things you talked about was the 10 percent savings -- at least I think I understood you correctly -- to fuel use that you were hoping to achieve in actual usage, I assume, for mostly for flying planes. And I don't know to what extent you're sharing or there's collaboration between the Air Force and the Department of Navy in terms of the energy work that's being done by the Navy.

But my understanding is that most of the development and fuel savings on the Navy side was to develop drop in fuels that didn't require any changes in engines.

Is that right, Secretary McGinn?

MCGINN:

Yes. Yes, it is.

SHAHEEN:

And is that what you're looking at? Because I understood you to say something a little different.

FERGUSON:

We are actually looking at how we operate the aircraft and how we can do that more efficiently. And so one of the things we're looking at, how many ton -- how many tons of cargo we can

move per gallon of fuel. And right now, we're doing 9.5 percent more cargo tons moved at 8.6 percent less fuel.

And so we're doing this in a variety of ways. One of the things we've done is we've updated KC-135 landing weight restriction. There's been -- we have an energy analysis taskforce that is made of Reserves across the United States and in the AOR and they are looking for opportunities to save money with operational efficiencies.

And we save a million or two annually through decreased fuel dumping in the past. The aircraft had to have certain amount of fuel left and they are vials (ph) before they could land and they would dump the fuel if they had too many. Now we've adjusted that so that we are able to save that, not dump that fuel so that's one of the things that we're looking at to save.

SHAHEEN:

And to what extent are you collaborating with what the Navy is doing as you're looking at these efforts?

FERGUSON:

All of service collaborate together on energy initiatives under Ms. Burke's leadership through the defense operational energy review board. We are collaborating and the three deputy assistants, secretaries for energy meet together quite frequently. And so, all these information is shared across all the services.

MCGINN:

We look for good ideas where we can find them including with the Air Force and we, similarly, are looking at this forward thinking about keep performance parameters to buy things that are same or better military capability but operate with less energy. But importantly because our force structure that we own is where we can really make a lot of money, save a lot of money on energy, it's how we use them.

For example, Ms. Ferguson mentioned the load outs of aircraft and policies that relate to how much fuel you need to have to land, we're doing similar things. We're trying to look at eliminating what we call hot refueling where a get that lands goes through to the flight line and shuts down right away and then we bring a truck in which is better than sitting in a fuel -- what we call a fuel skids or fuel pits where the engines are running and you're filling it up with fuel.

We're looking at the right balance of actual flight time and simulators to maintain the same levels of training and readiness but to do it without as much expenditure fuel but always with the idea that combat readiness comes first and energy comes later but we're making great strides. We

have an air energy conservation program that we are launching this month literally in 10 days that is similar to what we've done with our surface ships over the past year.

SHAHEEN:

So, Secretary Burke, are we on track to reach the fuel savings targets that we have -- are hoping to reach and how are those spread out across each branch of the military and how do you determine what those target should be?

BURKE:

Well, Senator, each of the services has their own targets. At a department level, we have not set targets and here's the reason why. This is really about operational effectiveness and we've wanted to get that metric right. so if you say for example that at a departmental level, we're just going to reduce our consumption by 10 percent but then we have to go somewhere, your target's going to become irrelevant.

So we've been working very hard with all the people here and lots of others in the operational community to develop logistics supportability metrics so in other words, what you need to be able to do, what's the planning scenario or the operational plan and do you have the energy you need, do you have the logistics you need to support that plan.

And if not, it helps us put a value on the innovation that you need to or the changes in doctrine that you need to make in order to support the plan. So that's the metric that we're aiming for that will measure military effectiveness.

As for whether we're hitting the targets, yes and no. I mean, our top line goal is to make sure that our forces have what they need wherever they are for whatever purpose. As we look at the future, one of the ways we know we have to get there is by improving our efficiency. So, you know, we're very much in tune with your own priorities and we have to improve our performance and we have to get that volume of fuel off the battlefield.

Our analysis suggests that right now, we're on track to increase our overall fuel consumption by 2025 by that 10 percent. If we continue with all the initial...

SHAHEEN:

To increase or reduce?

BURKE:

Increase. Because of all the new systems coming in that have been in the pipeline for some times, they're fabulous capabilities but they also do consume more fuel, generally speaking. If all the initiatives that the people here at the table have been championing, go in, we'll cut that by 6 percent but it's still an increase.

So this, again, points back to we have to get in to the planning process and make sure that we're putting a value on what this means for us when we actually have to go to war to have this kind of energy demand and that's what we're really putting the effort.

So we should see that payoff overtime, but right now, we've got a lot of things in the pipeline. So we're not where we want to be but we're heading in the right direction and we're developing the kinds of measurements that will be meaningful in this space.

SHAHEEN:

So, I think it was you, Secretary McGinn, who talked about changing the culture in terms of energy use and I wonder if you could speak to that and perhaps you could also, Secretary Burke, about how we're trying to change the culture of energy use within the military.

MCGINN:

To illustrate what I'm talking about, Senator, all of our fleet commanders have changed the expression "save energy when you can" to "save energy unless you can't" to just drive home that message that energy equals war fighting readiness. And we're seeing this.

I was in Norfolk last week working with Admiral Gortney and his team of operators on our energy education and awareness event, annual event

I was out in San Diego in February doing the same thing with Admiral Harris from Pacific Fleet and we had divisions into air, surface, subsurface and infrastructure or installation support where they are doing nothing but swapping best practices, we're measuring a lot better than we ever have in the past in terms of individual performance and we're trying to introduce more and more competition which is something that really has done great things in all of the military services into this idea of getting the same or better combat readiness out of every gallon of liquid fuel or kilowatt hour of electricity.

SHAHEEN:

I've had the opportunity to tour the Portsmouth Naval Shipyard and see the energy savings there and it's really very impressive and to be part of one of your award ceremony where you recognized various units for their savings.

MCGINN:

We're very proud of Portsmouth. In fact, we want to do more in that -- that's a case where the culture has already changed and folks are looking for even more ways to save energy.

BURKE:

And, Senator, to also field the question, I would say it's two things from an OSD point of view, from the Secretary of Defense's point of view. One is that it's not so much to change the culture but to find the parts of the culture that you can harness to this and where it makes sense for people. And I'll tell you a story that I think illustrates what I mean by that.

The Marine Corps, when they were first putting some of their experimental forward operating base into play where they were introducing some of these new energy efficiency and renewable energy measures, they were bringing it to Twentynine Palms, to Marines who were in training.

And the Marine, at the time, that was in charge of this went to these guys and he said, "Look, you've got, you know, solar panels on the outside of your tent, geothermal heat exchange in the floor, you've got more efficient lights, more efficient tents, and a more efficient generator. See this meter here? If you stay below that red line, you won't turn on your generator.

Now do what you got to do, you know, for your lights and your computers. If you got above the red line, that's fine. But the generator will come on, you'll hear it, you'll smell it and you'll also have to then get resupplied. But if you stay below that line, you won't have to get resupplied."

And, you know, these marines said, you know, "Got it, sir." And they stayed below the line. So they had all been deployed or most of them had and they know what that means when they're in a forward base, where they don't have to have the noise and, you know, the fumes of a generator right next to their tent. They also don't have to put a person on it to refuel it and they're also lowering the risk to their fellow marines or to our partners in the private sector who have to bring them the fuel through a battlefield.

So if you tell them what it's for and what it gets them in war fighting terms and then you give them the tools, it's in their culture to understand that. So the challenge is really to us where, I think, as an official, I see the most need for culture change though is back in the building.

It's in the way that we run our business processes and it's really the same challenge. The burden is on all of us to explain why this is beneficial for the mission.

Once we do that, we're finding that people do incorporate these changes but it's hard and, it's, you know, as I said, there's no shortcuts on that. sometimes, it's, you know, one person at a time conversion but we were all working hard on that.

SHAHEEN:

I did a hearing in Norfolk a couple of years ago with demonstrations of various technologies that were being implemented out in the fields in Afghanistan and I remember very clearly when I asked the Marine colonel how people had responded to the technology. He said, well, their immediate reaction was that it was a piece of crap but then they realized how much it improved their mission and then they embraced it.

So I think it's a great lesson and to what extent are we anticipating maintaining the technology and the improvements that we made and integrating that into the continued operations so that it's sustainable? Is that part of what we're planning for as well?

BURKE:

Absolutely. Absolutely. And I think both the Marine Corps and the Army have made great strides in incorporating some of the improvements they've put in to play in Afghanistan into programs of record. So that's a great step forward but we're also all putting a lot of effort on capturing the lessons learned and making sure that we don't just document them and have a report but they were translating it into changes and into actual change requests.

So that's a really important effort for us now but we've also already seen the services incorporating these changes. I think the Army, in particular, has done some things in Afghanistan with an effort called Operation Dynamo that have at these little outposts where it's hardest to deliver fuel, have returned, you know, 40 percent to 60 percent fuel savings at times and those are things that they're incorporating into their program of record. So the next time someone orders that kind of base, it's already incorporated.

SHAHEEN:

Great.

Someone mentioned, it may have been you, Secretary Hammack, that you mentioned ESCOs and the use of ESCOs.

I wonder if, Secretary Burke, maybe you can speak to all of the branches whether we are incorporating those opportunities to use performance contracts in what we're doing and whether there are any impediments to doing that.

CONGER:

It's more of a facilities...

SHAHEEN:

Okay.

CONGER:

And we are -- the president has an initiative that he is emphasizing performance contracts across the federal enterprise, had a goal of achieving \$2 billion over the past two years of energy savings performance contracts. And we, in the Department of Defense, have more than half of that goal.

And let me actually take the opportunity to brag on the Army a little bit and that they have been particularly aggressive, particularly efficient and have set up, well, I'll let Katherine talk to it in particular, but they have an innovative way that they're pursuing this.

SHAHEEN:

Well, can I also ask you before we go to Secretary Hammack, to what extent have you had challenges with the accounting of how we face out -- how we deal with the costs of those performance contracts? And the reason I asked is because this has been an issue with federal agencies because of the way CBO scores the ESCOs and has that been an issue for all of you and have you gotten around that?

CONGER:

Let me defer to Katherine to start.

HAMMACK:

We have not found that to be an issue to us. Right now, as John mentioned, we're doing about 25 percent of the ESPCs in the federal government and it's something that we have had a very focused effort on and a focused team but we do realize that there are upper limits to what you can do with the ESCO because it's paid for out of your utility budget.

The utility budget is something you pay every year. And it's sort of like a mortgage. I mean, if we all had cash, we'd buy our house and we know that your long-term 30-year price point is lower if you bought it all upfront yourself.

But at energy savings performance contract, bring in those experts to bring in the technologies and the strategies and there's a measurement and verification process to ensure that you're achieving those savings and you pay them back out of the savings.

SHAHEEN:

And so is there an outline for what you're allowed to use within DOD? I'm trying to figure out how CBO gets around -- doesn't have a problem when you all are using them but they have a problem when the Department of Energy is using them or, you know, Homeland Security or somebody else.

CONGER:

So to best answer your question, we'll probably want to take it for the record and find out what the specific issue is.

SHAHEEN:

Okay. We will -- I'll be happy to do that.

MCGINN:

Senator, I'd just like to add that we've implemented an energy return on investment model that we are working with the ESCOs. We're saying, look, here are the criteria that we are using to decide the terms and conditions of an energy savings performance contract. We're educating them so that they can aim at meeting those criteria when they make proposals.

But also, we're asking them what is wrong about this model? Are there other things that we should be considering that you have learned from your business case analysis and private sector transactions similar with a university, a municipality or a light industrial park where they brought their considerable technological and financial where results are bare to reduce those energy cost. So we're finding that this dialogue with the ESCOs is absolutely essential to meeting those goals and really exceeding them.

SHAHEEN:

Yes. You know, I'm a big proponent having seen it work as governor when we did buildings in New Hampshire. So I think it's a great way to provide savings and something that I think we ought to be doing across the federal government and trying to figure out why CBO is viewing this in a different way when it comes to other federal agencies.

Can I just ask in terms of performance incentives, it's my understanding that, Secretary McGinn, that you have presented an award to some folks for actual savings and that -- that -- that helps to incentivize crews. For example, I was given the example of the USS Peleliu?

MCGINN:

Peleliu.

SHAHEEN:

Peleliu?

MCGINN:

Yes.

SHAHEEN:

That saved 5.3 million in fuel compared to ships in the same class and can you talk about how incentivizing that comparison is helpful? MCGINN: I mentioned earlier that I've been to Norfolk last week and I was in Sand Diego in February with the fleet commanders and their chains of command to present awards like the ones to the Peleliu where we actually recognize a whole variety of different types of ships, some with cash awards, the absolutely best performers with cash awards.

The only stipulation is that cash has to be used for increasing their energy savings, energy efficiency and also we recognize them with certificates, individual commanding officers, senior enlisted folks, to illustrate the point that we really value the kinds of practices that these ships have used to achieve those energy savings.

We do this in a formal way, on an annual basis for all of the -- our fleet concentration areas but it's an ongoing process with the -- with the fleets to make sure that everybody gets it and they're availing themselves to the lessons learned.

SHAHEEN:

And how do we codify the goals for energy savings in a way that means that they can continue if leadership changes or if -- if there are other issues that come up so that we can continue to produce these kinds of savings?

MCGINN:

At the highest levels, in our precepts of -- that are signed for selection for various promotion boards, Secretary Mabus has put in his precepts energy and energy awareness, energy savings as

one of the criteria that should be considered by the promotion board. It's discussed in fitness reports and evaluations.

So in every way possible, we're emphasizing this idea that we are all about war fighting readiness, there's a bright connection, inextricable connection between war fighting readiness and energy. Therefore, if you want to be a war fighter, you have to be an energy war fighter as well.

SHAHEEN:

And are the Army and Air Force doing similar kinds of efforts to codify these goals into what you're doing in the future?

HAMMACK:

Yes. The Army just updated our officer evaluation reports and we have similar kind of metrics in it.

But one of the things we've also done is every month, we issue a report and that shows who the largest energy consumers are and the percent change and we found that showing where you stack up on the chart is one method of promoting efficiencies and you don't want to be the one who's the biggest consumer with the highest growth rate.

FERGUSON:

And I would say the Air Force does this a lot to our Air Force governance process for energy and that is overseen by the vice chief of staff of the Air Force and under secretary of the Air Force so at the highest levels. Each one of the major command sits on that and we track each one of the metrics whether it's -- whether it's the industrial energy, facilities energy, or operational energy.

Also, to get back to the earlier question, we also do provide some financial awards particularly in Air Mobility Command to both the individuals and units for saving fuel, operational fuel. And to brag us just a little bit on the Air Force, we've won 21 Federal Energy Management Levels awards since 2010 so a lot of Air Force folks have been recognized at national level for the good work they've done in energy initiatives.

SHAHEEN:

And so what have you found to be most effective in terms of encouraging energy savings? Has it been the cash awards? Has it been the comparison to how you stack up against other units or other operations? What's the most effective?

FERGUSON:

I don't know if I could say what the most effective is but I think all of them have great benefits and I think the folks like to get recognized for the great work that they're doing no matter how we do it.

MCGINN:

I would say probably competition. That professional pride in your unit, in your individual performance, is a real driver. The cash awards are nice but they're not as important as that professional pride and competition.

SHAHEEN:

Okay.

HAMMACK:

Well, I echo the competition. The competition seems to be one of the biggest drivers as you want to be a winner and so by highlighting those who are winners and showing where you rack and stack, can help motivate individuals.

SHAHEEN:

Well, thank you all very much. I have no further questions. We will leave the record open until close of business on Friday. Hearing's adjourned.

CQ Transcriptions, April 2, 2014

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SEN. MARK UDALL, D-COLO.

SEN. JOE MANCHIN III, D-W.VA.

SEN. JOE DONNELLY, D-IND.

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