



Aligning Contract Incentives

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S2 Memo: Guiding Principles

- Align contractor interests with taxpayer interests
 - Don't reward bad performance
- Each party responsible for its actions
 - Taxpayers don't pay for negligence / poor performance

Aligning Incentives

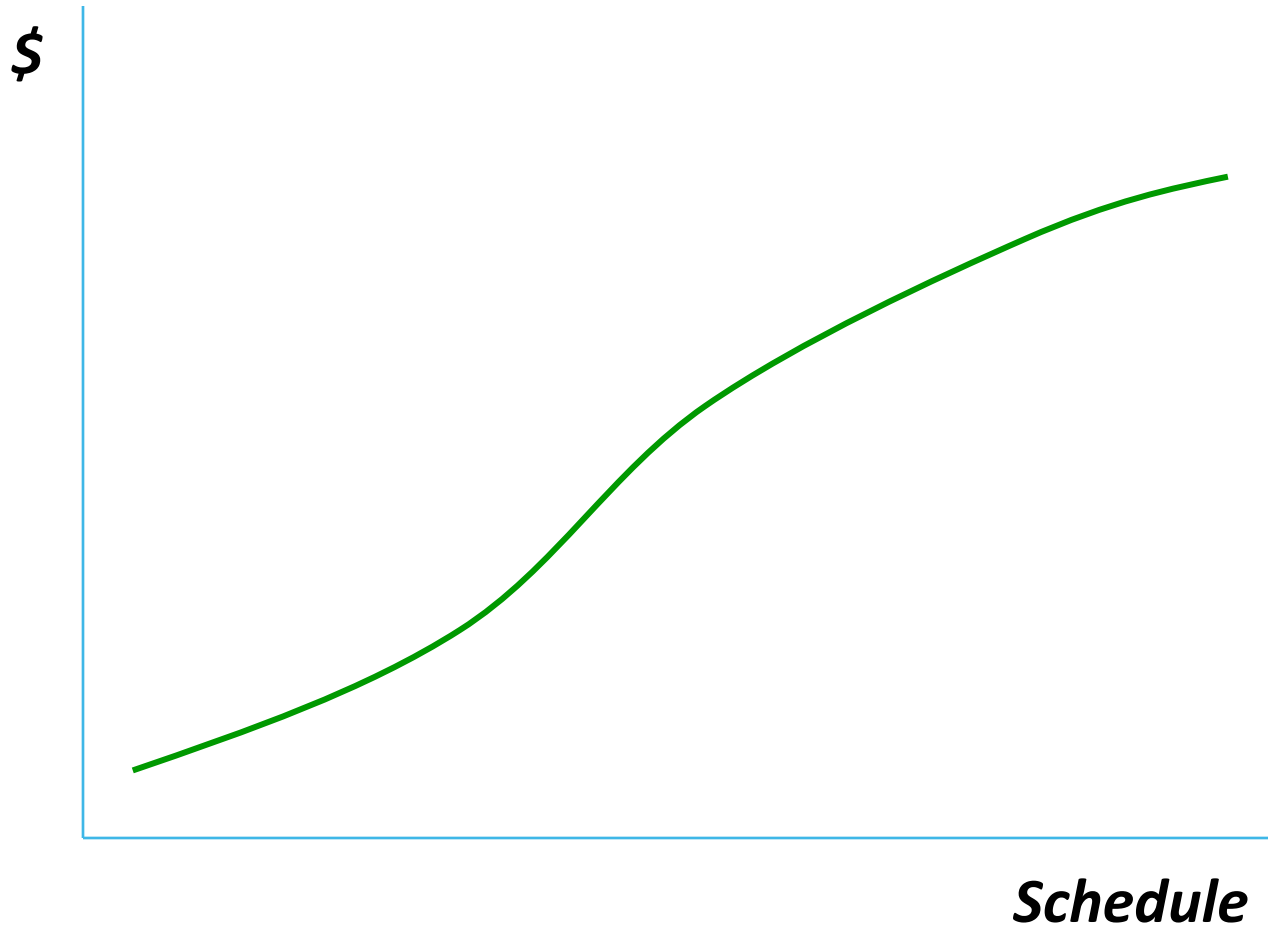
- Improved upfront planning and requirements definition
 - Ensuring sufficient design maturity before baseline
 - NNSA policy: 90% design maturity prior to establishing CD-2 performance baseline
- Selecting contract type – Preference for Fixed Price
 - Using standard Federal construction clauses
- Ensuring actionable performance data
 - Establishing report requirements
 - Staffing the project
 - Establish Project Management Offices for projects over \$750 million
- Documenting Performance

Successes and Improved Accountability

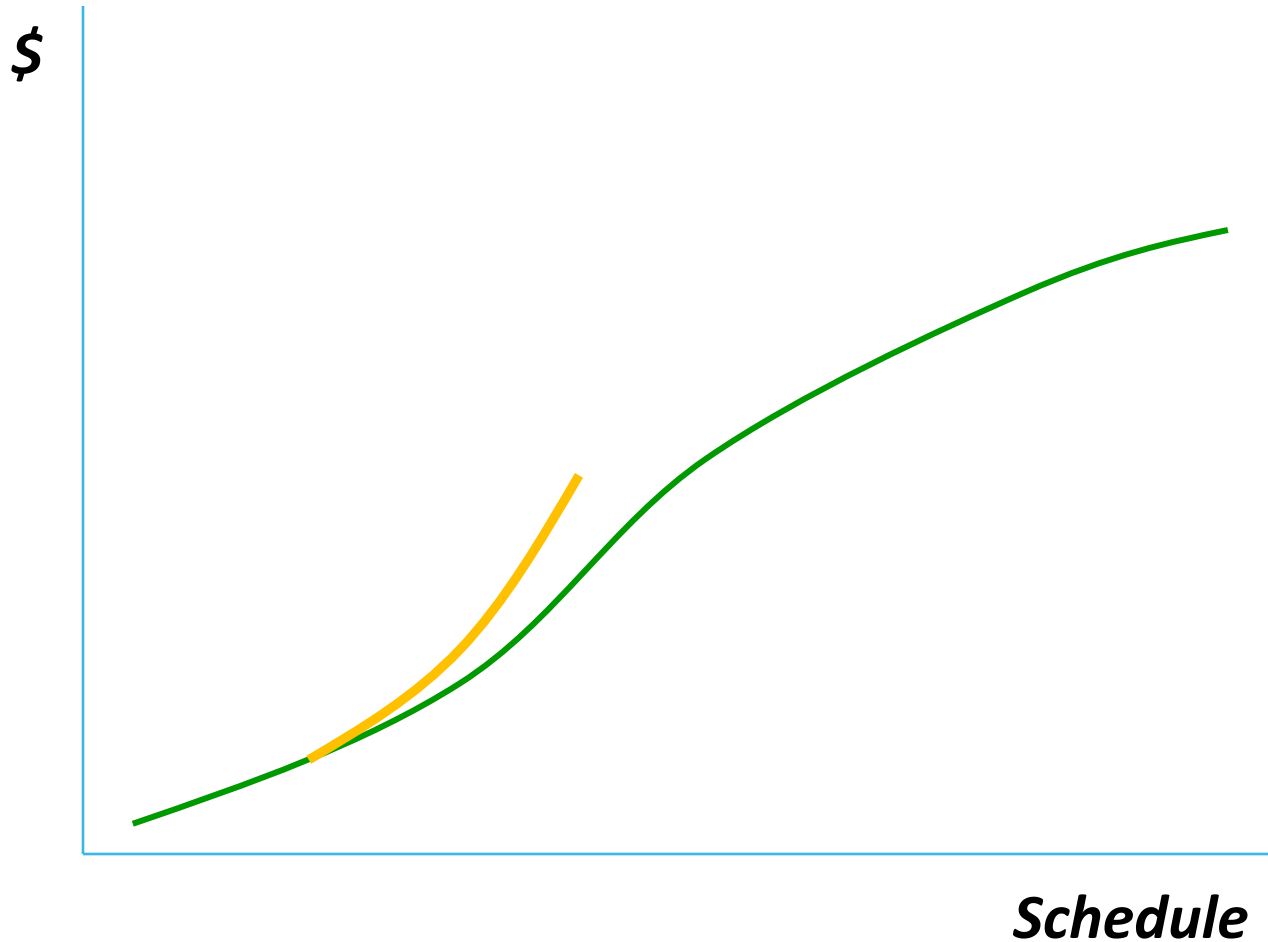
- Completing projects on time and on budget:
 - Met DOE Success metric for 83% of Projects: 2011 - 2013
 - Legacy vs. new work
- Improving contractor accountability through use of fee

\$24 Million Under Budget on \$624 M Portfolio

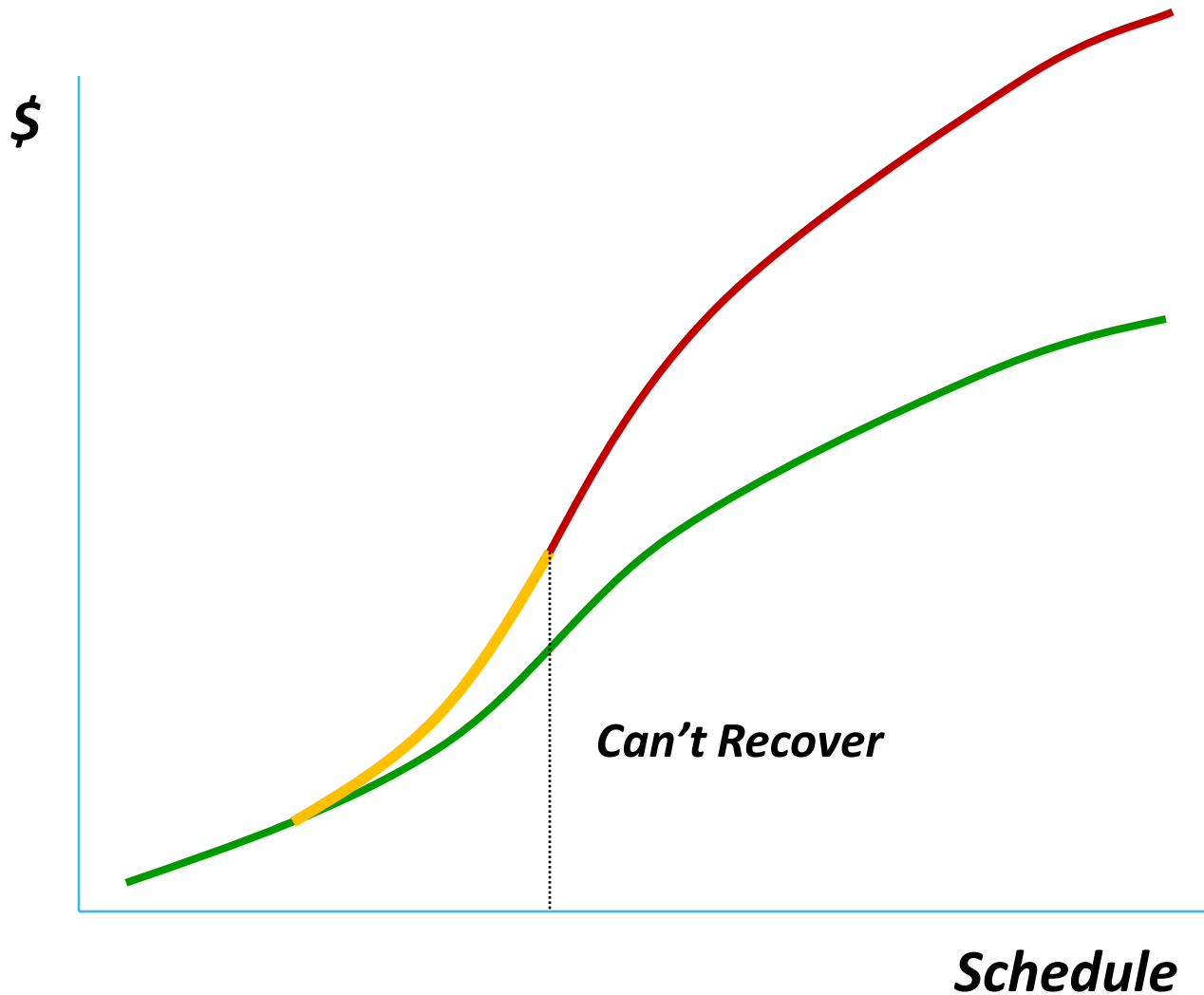
Estimate Project Costs



Project is “Yellow”

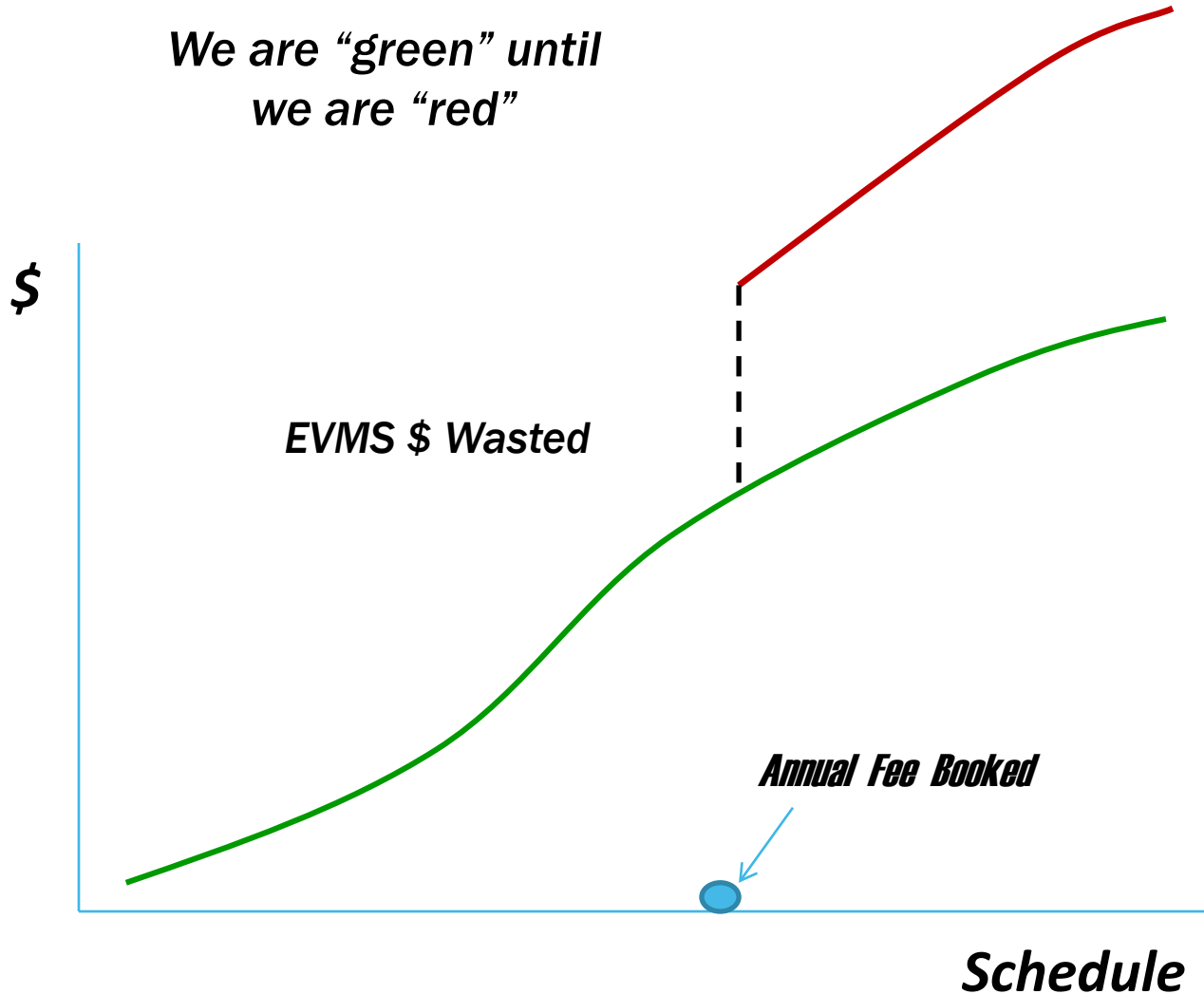


Project is "Red"



You been lying curve?

We are "green" until
we are "red"






No Reset Button



Contractor Allocation of Talent

Contract	Talent Allocation	Why
Firm Fixed Price	Top Talent	Greatest profit / loss potential
Cost Reimbursement	Lesser Talent	Principle risk is loss of fee
Restructured Contract with no Consequences for Poor Performance 	Least Talented Team	Industry learns the customer is unsophisticated: Not even fee is at risk!

Restructuring a Contract

- Lost fee restored only in return for Contractor accepting increased risk
- Firm Fixed Price
- Cost Caps/Cost Sharing
- Cost Plus Incentive Fee with Negative Fee Potential
- Provisional Fee (clawback)

Fee

Cost Incentive Fee Curve with Negative Fee Potential

