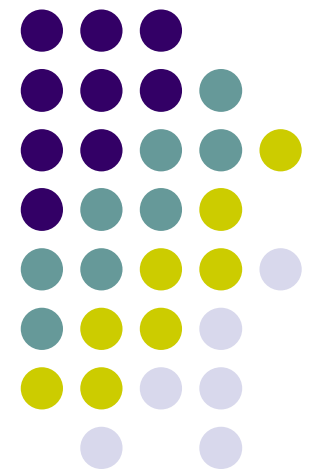


Aligning Incentives on DOE Contracts

Initial EFCOG Analysis



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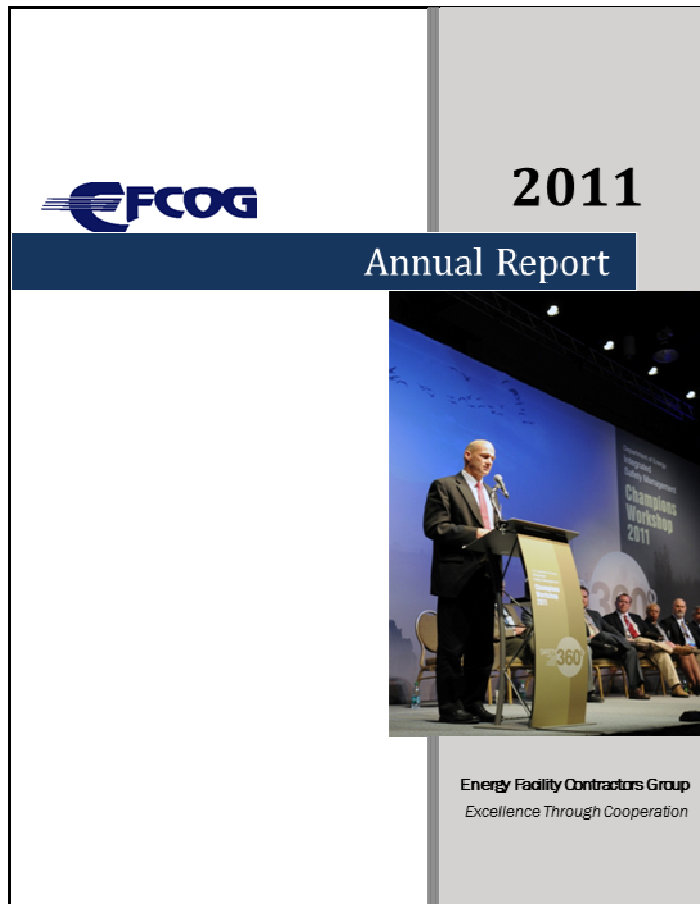
Charter & Objectives

An EFCOG Task Group was chartered at the request of the DOE Deputy Secretary to identify best practices, evaluate lessons learned and develop model approaches to:

- **Improve the effectiveness of performance incentives for capital asset and other major DOE projects with tangible deliverables**
- **Support alignment of government and contractor interests**
- **Ensure that the parties appropriately bear the benefits and accountability for their respective actions and performance**
- **Ensure that incentives are linked to and effectively support project outcomes**



EFCOG's Mission



Promote excellence in all aspects of the operation, management, and integration of DOE and NNSA facilities in a safe, environmentally sound, efficient and cost-effective manner



Background

DOE has explored and applied alternative contract types and incentive approaches, incorporating best practices and benchmarks from other government sectors.

- **Performance-based contracting with incentives tied to achieving end objectives**
- **Conditional payment of fee for safety and security**
- **Award Term incentives**



Background

DOE's Management Reform and Contract/Project Management Improvement actions complement a focus on incentives:

- Enhancing implementation of *peer reviews*
- *Line management accountability* for project funding and priority
- Rules of Thumb and related actions to clarify *roles, responsibilities and expectations*
- Clear federal *project team accountability* for project success
- Focus on federal and contractor project *leadership qualifications and experience*



EFCOG Observations

- **Contractors support performance measures that are challenging but achievable**
- **Incentives are a complex subject. A perfect solution is difficult to achieve.**
- **DOE's missions, contracts and projects are varied; one incentive approach will not be effective for all**
- **Even well-intentioned incentive structures can have unintended consequences.**
- **Contract incentives alone do not yield successful project outcomes. Discriminators for success include**
 - **A clear value proposition for project completion**
 - **Commitment to lifecycle funding**
 - **Comprehensive agreement on scope**
 - **Proven technology**



Lessons Learned

#1. Align Incentives with Project Goals

Misalignment arises when lifecycle incentives are locked in before project scope, design, schedule, estimated cost and funding are adequately defined.

#2. DOE/Contractor Partnering Enhances Project Success

Most successful projects reflect strong partnerships between DOE and contractors across the IPT and support organizations.

#3. Establish Project Authority, Accountability and Risk Allocation

Contract types, DOE requirements, and incentive structures do not always apportion risk commensurate with project/contract responsibilities and authority.

#4. Simplify Incentives

In some cases, contract incentive structures are overly complex, distribute fee ineffectively, and may not optimally motivate the contractor.



Lessons Learned, cont.

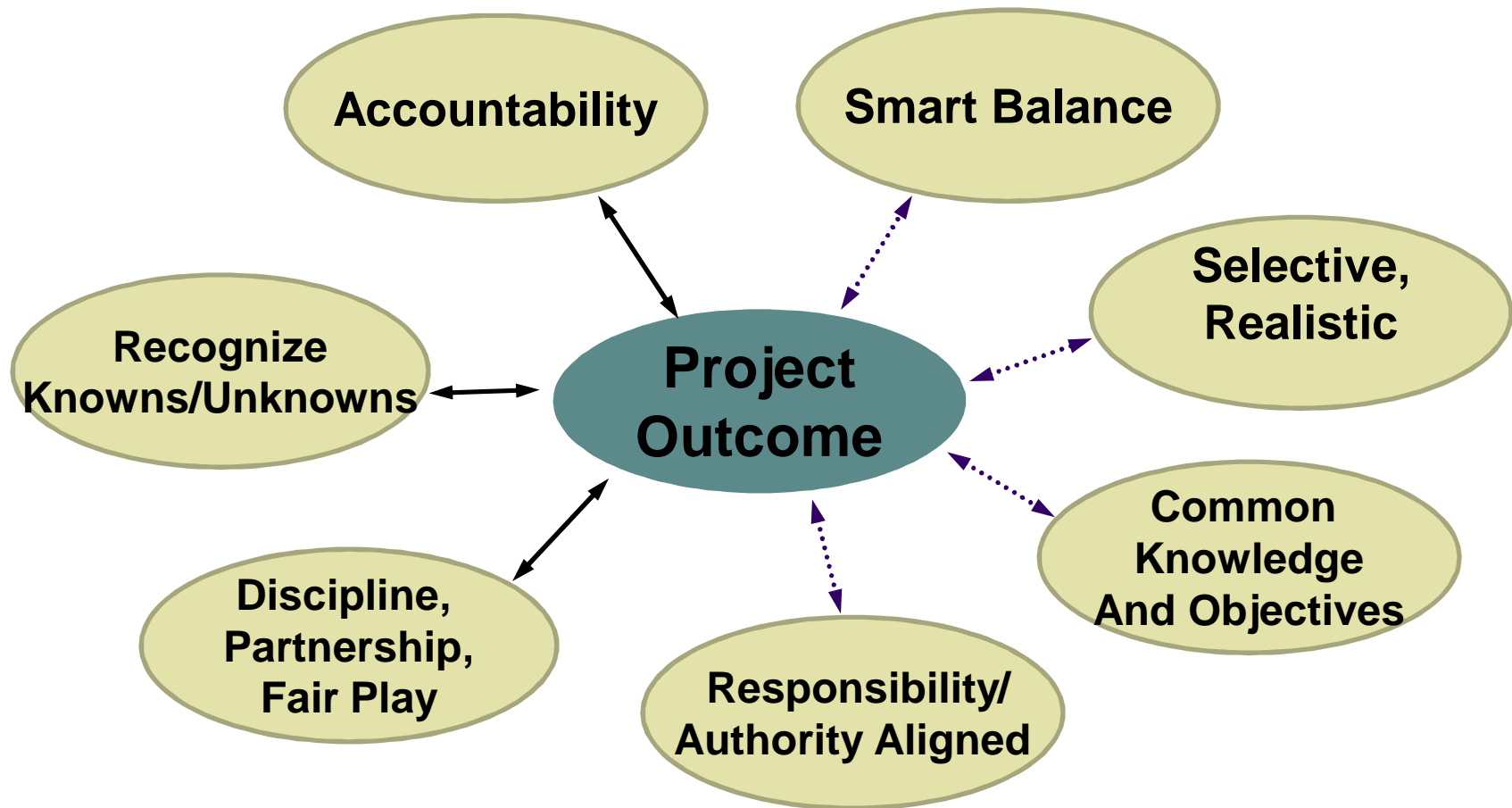
#5. Incentives Must Be Tied to True Value and End Results

Gain Share/Pain Share

- Can be an effective incentive approach if applied appropriately and consistent with project management structures, risk profile, and authorities/accountabilities.
- Not effective if there is misalignment in the key factors (e.g., accountability without appropriate authority, downside risk that is disproportionate with upside potential)
- Needs to be aligned with fee pool
- Consider appropriate limits to both gain and pain
- It is important that contractors always be incentivized



Key Principles for Project Success



7-Step Process to Achieve Incentives Alignment



1. Identify what is known, *and what is not known*, by the respective parties
2. Evaluate what is known, *and what is not known*, about variables that may affect desired project outcomes
3. Perform comprehensive, thoughtful risk analysis
4. Assign risk to the appropriate party, with clear alignment to defined responsibilities and authorities

7-Step Process to Achieve Incentives Alignment, cont.



5. Align contract structure with the project characteristics and risk profile
6. Select incentive structure (and fee) appropriate to the risk, responsibilities and authorities
7. Select specific incentives and/or disincentives most likely to motivate the type of performance desired.

Result: Optimum Contract Incentives Alignment

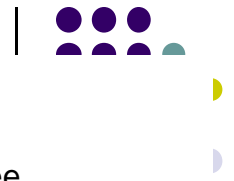


Performance Evaluation/Award Fee Survey



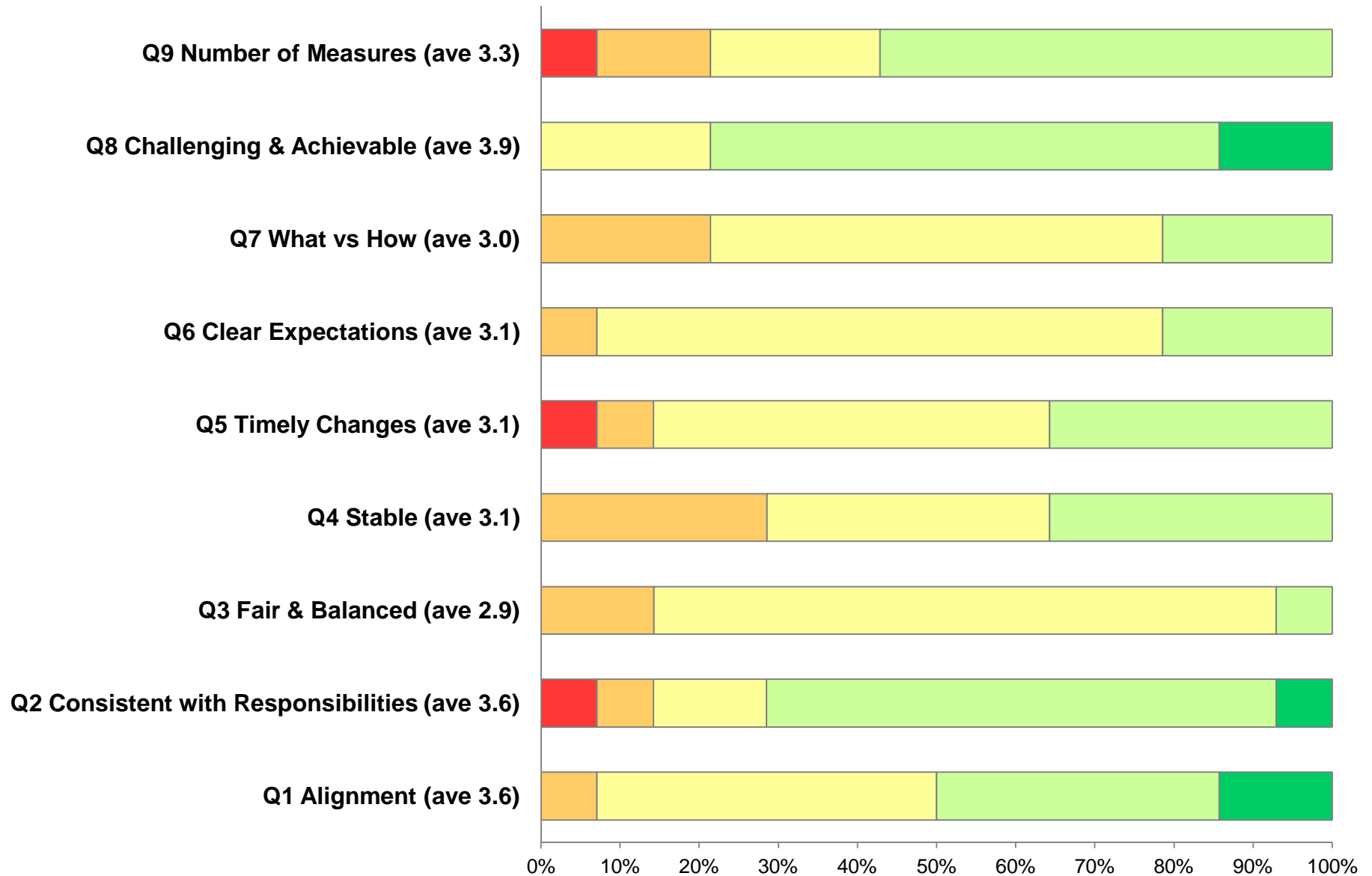
Desired Attributes

- Performance plans and evaluation processes *align well* with contract and mission objectives
- Performance plan is *consistent with responsibilities and accountabilities*
- Performance plan and evaluation process are *fair and balanced* and structured to promote excellent performance
- Once established, DOE's performance expectations remain *stable* through the evaluation period
- The *change process* is defined and utilized in a timely manner
- DOE's *expectations are clear* and honored through the evaluation process
- The plan and DOE's evaluation *focus on "what"* is to be achieved, not "how"
- We view our performance objectives as *challenging but achievable*
- The *number of performance measures* is about right for our contract



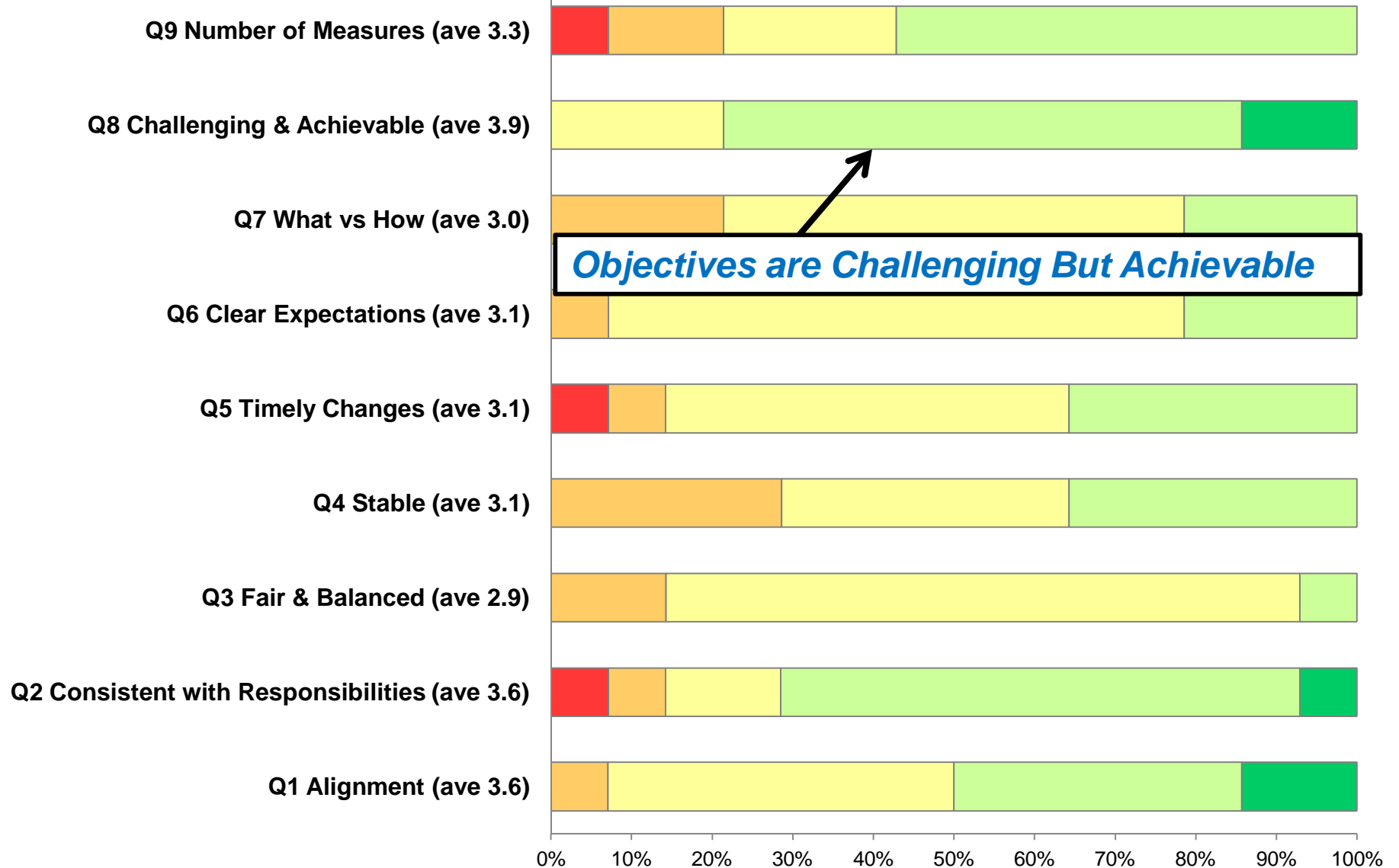
EFCOG PEMP Survey Summary

■ Cannot Agree ■ Generally Disagree ■ Generally Agree ■ Agree ■ Strongly Agree



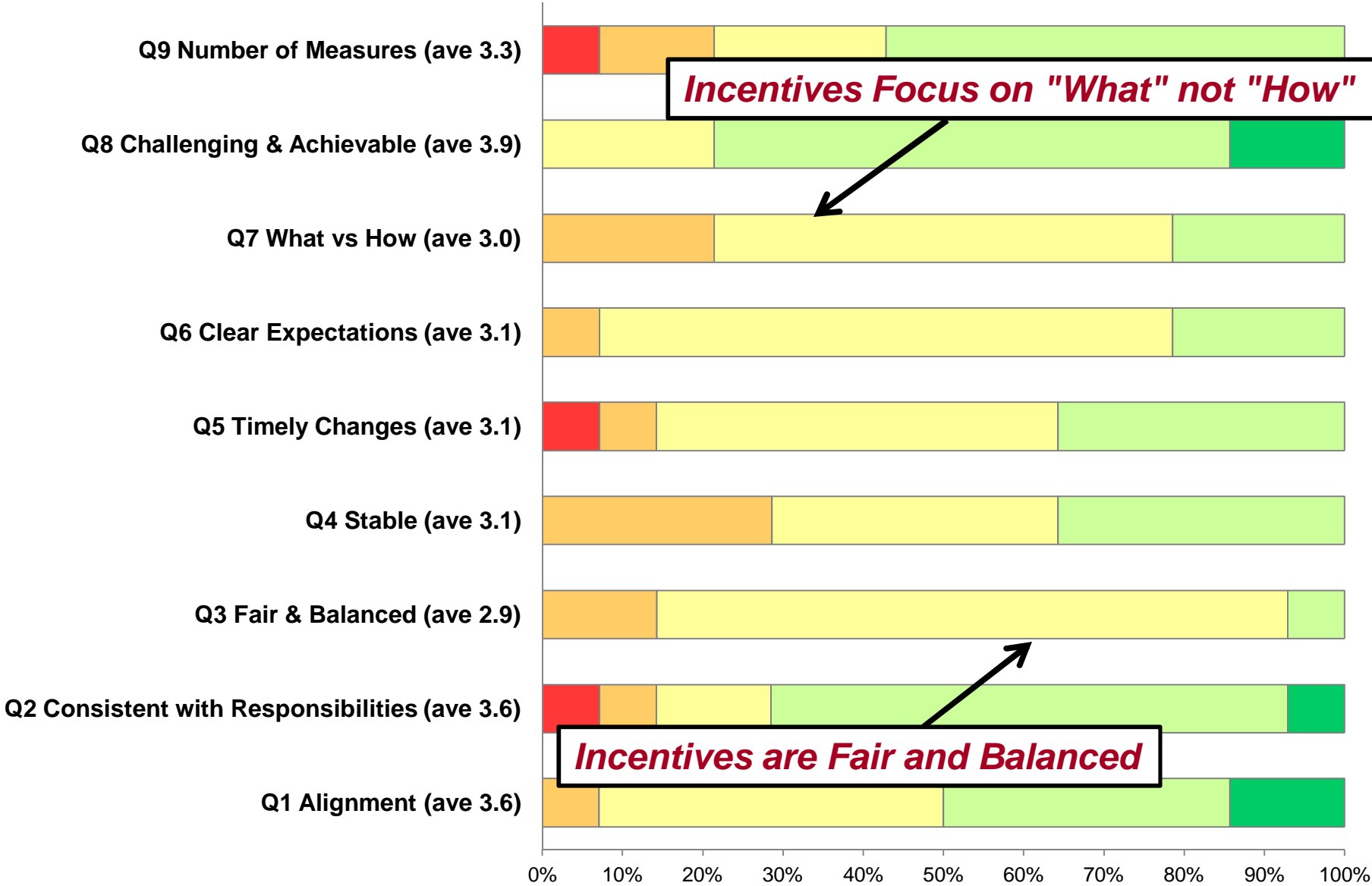
EFCOG PEMP Survey Summary

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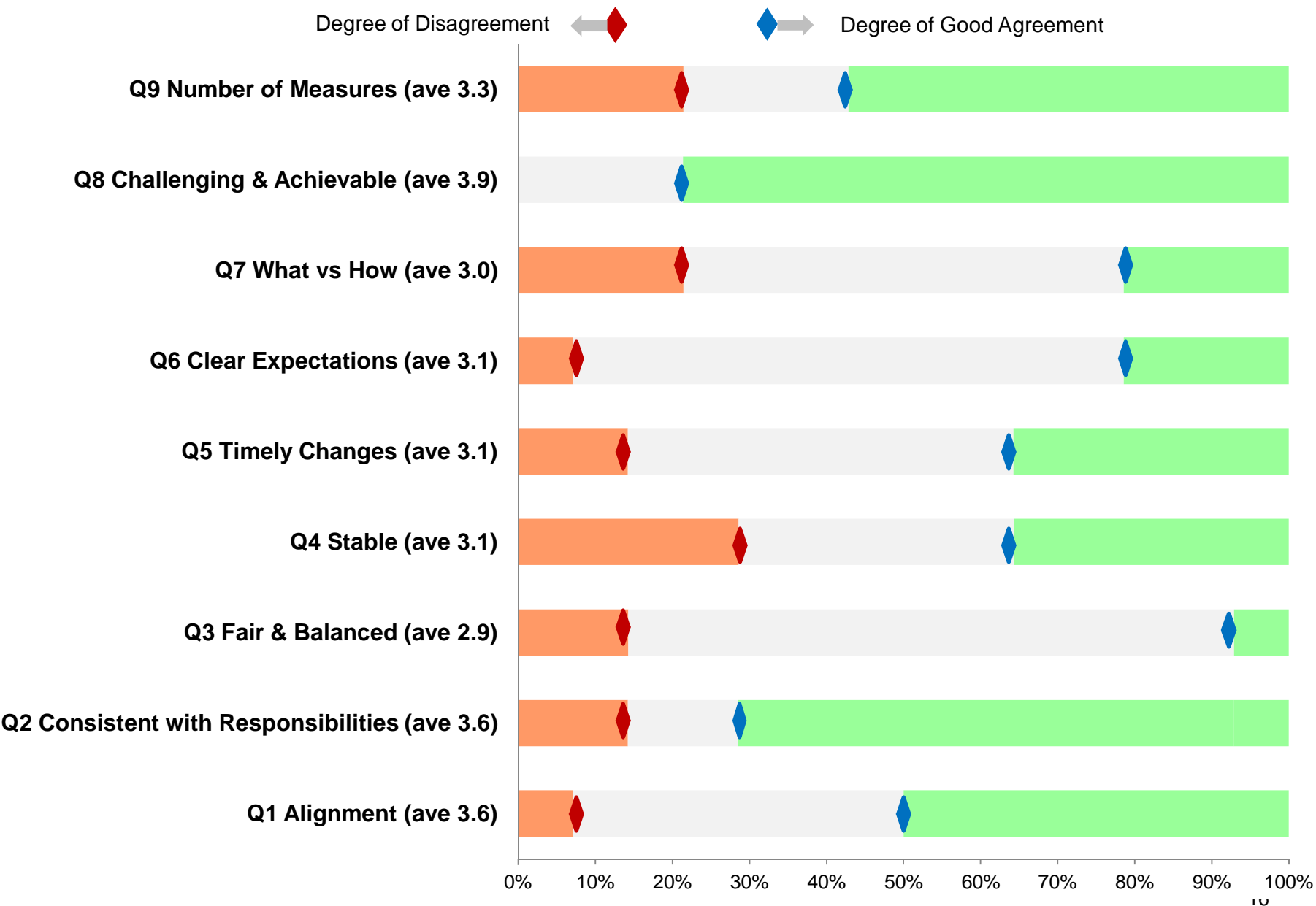


EFCOG PEMP Survey Summary

Cannot Agree Generally Disagree Generally Agree Agree Strongly Agree



EFCOG PEMP Survey Degree of Agreement



Best Practices



- **For Laboratories, appropriate balance between scientific objectives and management/operations goals**
- **For cleanup contracts, cost plus incentive fee or performance-based incentives with most fee tied to specific objectives**
- **Mission-focused objectives aligned with strategic plans**
- **All personnel, contractor and DOE, working to a common set of objectives and goals**
- **Recognition that unknown conditions will be encountered**
- **Frequent, well-documented reviews of performance against plan by senior DOE and contractor personnel**