

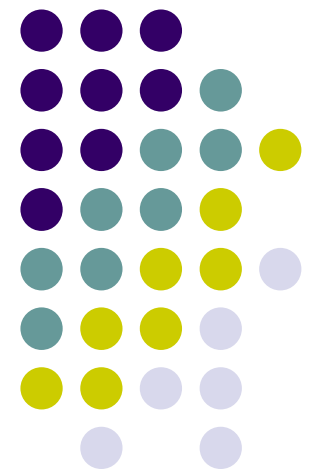
DOE's Aligning Incentives Policy

Contractor Perspectives

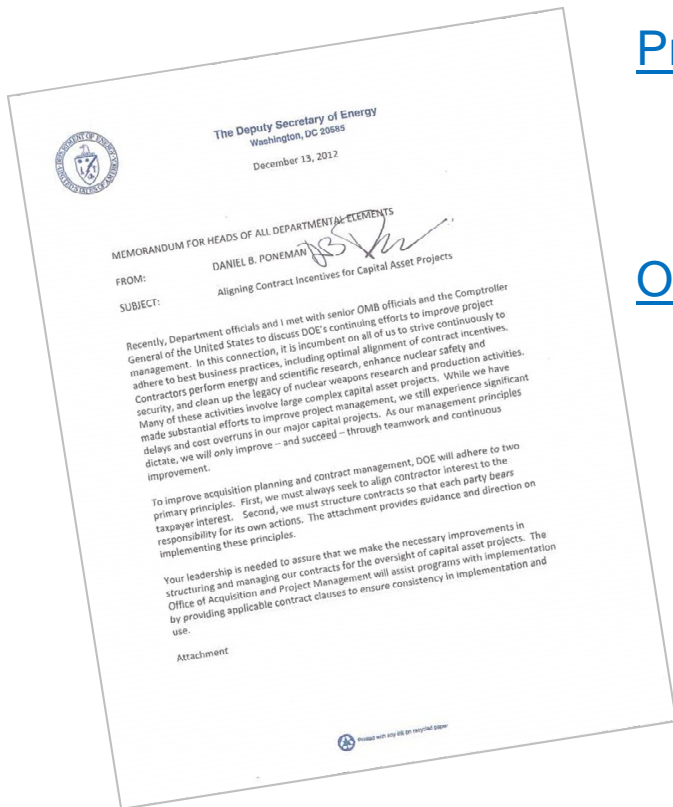


2013 Waste Management Symposium

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Chair, Board of Directors
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Aligning Contract Incentives for Capital Asset Projects (DOE, Dec 2012)



Primary principles

- Align contractor with taxpayer interests
- Structure contracts so that contractors will bear responsibility for their actions

Other elements

- Improved upfront planning and requirements definition
- Firm-fixed price contract structures considered first
- Objective performance measures whenever possible
- Link all or substantial portion of fee to final outcomes
- Hard cost caps or cost share approach
- Document performance
- Actionable performance data



Key Points

- **Challenging but achievable** incentives are best for DOE and contractors
- One incentive approach will not be effective for all
- A phased approach to establishing incentives is more effective on complex major projects
- Incentives are just one of several factors that support successful project delivery
- It's important to keep the contractor (and DOE) incentivized to achieve desired outcomes
- Even well-intentioned incentive structures can have unintended consequences

Principles & Lessons Learned





Challenges

- Clear, mutually defined objectives
- Mature project definition and requirements, stable/assured funding
- Aligning authorities and accountabilities
- How to address factors outside DOE and contractor control
- Effective change control processes
- Well-developed project cost estimates; confirming affordability
- Mixed messages, competing objectives, misalignment

Major First-of-a-Kind Nuclear Projects



- Major performance elements – safety, quality, schedule, cost and functionality
 - Very difficult to optimize all elements at the same time
 - Safety and quality factors should outweigh the cost factor
 - Consensus is difficult on what constitutes *sufficient* safety, when cost is also considered
- It is virtually impossible to establish a universal performance incentive structure at the beginning of longer-term projects
- A tendency to drive down cost targets early in the design process can lead to misalignment
- Review key assumptions in discussions with stakeholders



Things to Consider

- Fixed price approaches may be more acceptable than cost cap/guaranteed max (*assuming prerequisites are in place*)
- Fixed price or gain share/pain share provisions work best when Contractor controls project execution and risk resolution
- Other government models may not be as effective in DOE without careful consideration
- The more a project is subdivided through its lifecycle, the more accountability DOE assumes
- Balance is important (and fair)
 - Upside and downside potential
 - Fixed-price risk allocation vs. cost plus fee structures

Conclusions



- Contractors can support the key principles outlined in DOE's policy
 - *“assure that each party in a contract bears responsibility for its own actions”*
- It is important to achieve an integrated, effective partnership early – DOE/contractor, project/contract personnel, HQ/field
- Well-aligned incentives are valuable but will not single-handedly drive a project to a successful conclusion.
- We welcome continued opportunities to work with DOE to improve incentives alignment