



U.S. DEPARTMENT OF
ENERGY

OFFICE OF
**ENVIRONMENTAL
MANAGEMENT**

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Challenges in Moving from Cost Reimbursement to Fixed Price Contracting

- **It All Comes Down to Risk**
- **Why Do Care?**
- **Factors to Consider**
- **Balancing Act**
- **Making Fixed Price Work**
- **Can It Be Done?**
- **Thoughts?**

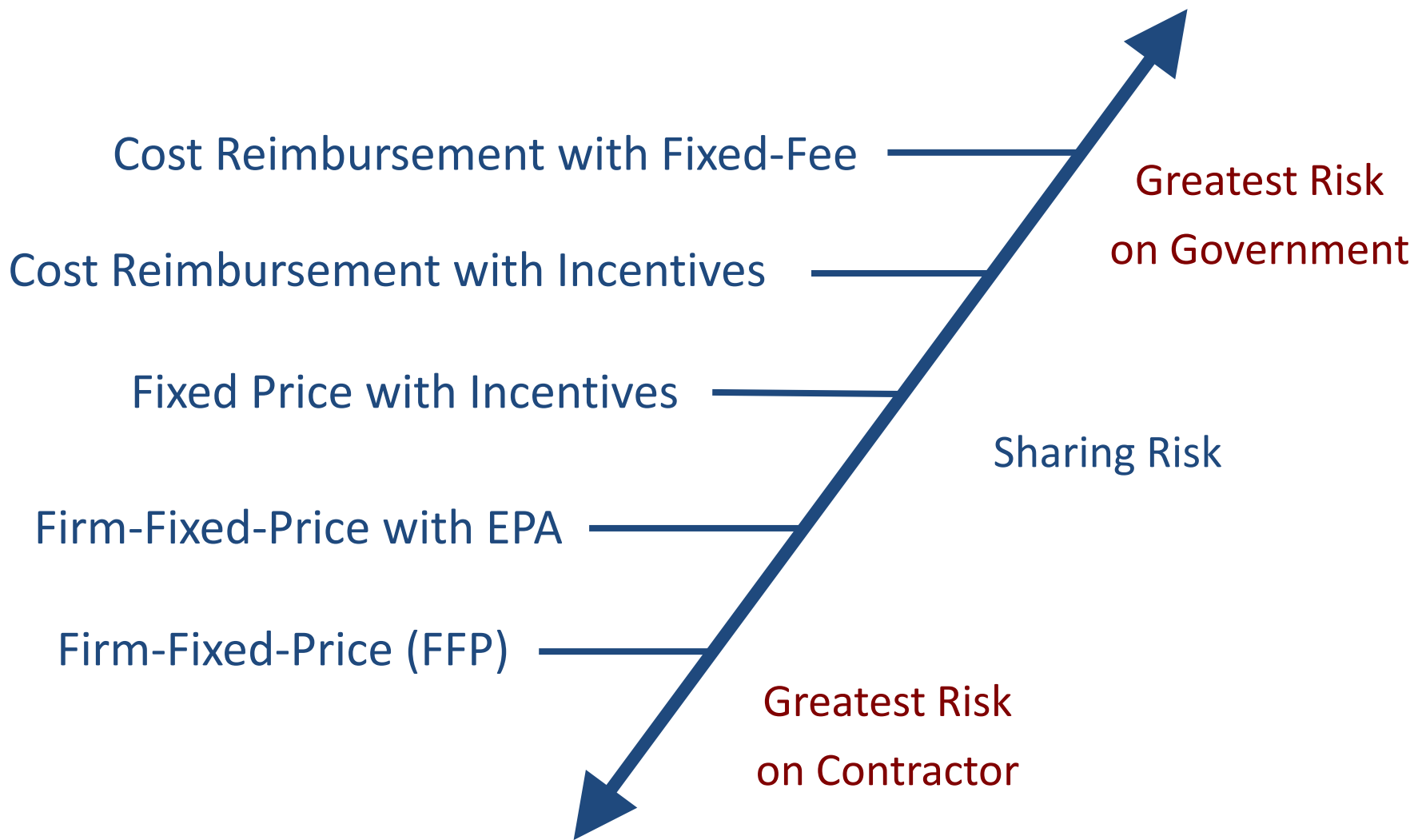
Cost Reimbursement

- Government Assumes Most Cost Risk
- Variations
 - Cost Reimbursement with a Fixed Fee/Profit
 - Cost Reimbursement with Incentives
- Requires
 - Robust accounting system to track costs
 - Significant oversight from Government

Fixed Price

- Contractor Assumes Most Cost Risk
- Variations
 - Firm Fixed Price
 - Firm Fixed Price with Economic Price Adjustment
 - Fixed Price with Incentives
 - Fixed Unit Rates

It All Comes Down to Risk



Why Do We Care?

- Need Skin in the Game
 - Pay for Performance
- We've Had Issues
 - GAO High Risk List
- Something Needs to Change
 - President and OMB
 - DOE Deputy Secretary

Factors to Consider

- Complexity of Requirements
- Previous History
- Uncertain Duration of Work
- Contractor's Technical Capability and Financial Responsibility
- Availability of Government Resources

- **Cost Reimbursement**
 - Less incentive to keep performance costs down
 - Harder to propose and evaluate
 - Need More Resources to Manage
 - More flexibility to react to changes
- **Fixed Price**
 - Can eliminate overruns
 - No detailed cost information required
 - Hands-off?
 - Defending Contractor Claims
 - Inflated price to cover contingencies

Making Fixed Price Work

- Scope Definition (and more Scope Definition)
 - Performance Uncertainties Identified
 - Don't bite off more than you can chew
- Reasonable Prices
 - Estimating Impacts of Uncertainties
 - Contractor Willing to Make an Offer

Making Fixed Price Work

- Shifting the Paradigm
 - Long history of M&O Contracts
 - Large Cost Reimbursement Contracts
 - Preconceived Notions
 - No Skills
- Developing those Skills
 - Defining That Scope
 - Don't Butt In

Can it Be Done?

- We're Trying
 - K-33
 - Moab
 - Hanford Occupational Medicine
- Heading More in That Direction
 - 222-S Laboratory
 - PPPO Infrastructure
 - Oak Ridge TRU Waste Processing Center
 - Idaho Post 2015?

Thoughts?