



# Improving Public-Private Contracts for Managing Risks

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# DOE & Private Contractors

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- Unique public-private partnership dating to the Manhattan Project.
- Reliance on private sector for large scale project management and technological development.
- First weapons development and production contract was cost plus \$1.



# Continued Reliance

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- DOE is largest civilian contracting agency in the federal government.
- Nearly 90% of \$21 billion budget spent through contracts.
- DOE turned to many of the same contractors for site cleanup in 1990s.



# Contract Form

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- Operating & Maintenance (O&M) contract form carried over from production era.
  - Cost recovery plus annual bonus
  - Bonus based on actual and subjective measures of quantitative achievements (i.e., number of units processed, cubic yards of dirt moved, etc.)



# Little Risk Reduction

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- Focus was on processing wastes and managing legacy production facilities, not necessarily on reducing risks.
- Internal DOE Top-to-Bottom study (2002) severely criticized contract procurement process and lack of focus on risk reduction.



# Incentive Based Contract

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- First fixed price plus incentive contract negotiated at Rocky Flats in 2002.
  - Fixed price for all work required to reach site closure by December 2006.
  - Bonus if completed earlier and/or under fixed price target.
  - Penalties if completed late and/or over budget.



# Site Closure = Risk Reduction?

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- Focus of incentive based contract is on early closure of site.
- Closure achieves risk elimination or sustainable risk management.
- Targeted closure date forces contractor to focus on minimizing risk to workers and thus quicker reduction of overall human risk at the site.



# Limitations

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- Quickest or highest priority risk reduction not primary objective.
- Risk reduction results measured in terms of years (5 yrs versus 10 yrs).
- Achieving closure within shorter time frame requires good knowledge of contaminants and feasible/acceptable remediation strategy.





# Limitations - Continued

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- Achieving full closure may require availability of off-site repository: is it available, can the wastes be safely transported?
- Contractors unwilling to accept financial risk of fixed price contract if closure cannot be achieved within reasonable time frame (5-7 years).



# Possible Improvements

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- Open competitive process to encourage maximum contractor participation, best approach and best price.
- Include incentive bonus for early removal, treatment or containment of highest risk contaminants.
- Do not assume that one size fits all.