The Under Secretary of Energy
Washington, DC 20585

April 30, 2002

MEMORANDUM FOR HEADS OF DEPARTMENTAL ELEMENTS

FROM: ROBERT G. CARD

SUBJECT: Principles for Office of Science Laboratory Contracts

I recently directed that the Office of Science (SC) review its laboratory management and operating contracts and develop innovative approaches and techniques for improving contractor performance and contract administration.

In response, SC convened a multidisciplinary working group to review its current contracts, giving priority to those submitted for an extend/compete decision, i.e., Lawrence Berkeley National Laboratory (LBNL), Pacific Northwest National Laboratory (PNNL), and Brookhaven National Laboratory (BNL). This Working Group developed a set of principles for SC laboratories consistent with my direction to improve contractor efficiency and effectiveness and to enhance accountability. The principles will be used to help tailor fundamental changes in contracts for each of the SC laboratories.

The *DOE Laboratory Best Practices Pilot Study* of selected Federal contractor-operated laboratories, completed by LBNL in February 2002, and the discussions of the Laboratory Operations Board external panel to review the Laboratory Best Practices Study were among the resources considered by the SC Working Group in formulating the following principles that will help to guide the development of contracts for PNNL, LBNL, and BNL.

1. **Line Management Accountability:** The Department will establish clear line management accountability (through a single Federal official) for laboratory performance with a strong focus on mission success and with authority to integrate administrative and operations requirements into program missions.

2. **National Standards:** The Department will rely primarily on Federal, State, and local laws, regulations, and national standards to establish contractor requirements and performance criteria, while minimizing the use of Department of Energy (DOE) Orders and directives as a mechanism for placing administrative and operational requirements on the contractor.

3. **Oversight:** The Department will ensure that the laboratory contractors use external, nationally recognized experts to carry out independent risk and vulnerability studies, validate and certify that the contractor

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management systems meet the applicable laws or regulations, and to verify best in class contractor practices. This approach will enhance the Department's existing performance-based management system by moving from transactional oversight to a systems-based approach for contractor management. The contractor performance criteria will be limited in number and focus on results and systems-based metrics to drive improved performance and increased effective and efficient management of the laboratories.

4. **Contractor Accountability:** The laboratory contractors must adopt contract-based, best-in-class management practices and an integrated management system, achieve formal external certification of their management systems, and use DOE directives in cases where there is a unique departmental function without an industrial process counterpart.

5. **Vision:** The contractor must develop a compelling vision for the 5-year duration of the contract and a work plan to accomplish it.

   The contract statement of work should include: contractor delivery of outstanding, world-class science and technology in an environmentally safe, secure, and efficient laboratory; external recognition of the laboratory's best management practices and cost-efficiency accomplishments and of its ability to attract and retain an outstanding work force; ensure trust within the community; and gain measurable recognition from the public, its peer laboratories, the scientific community, and the Department.

6. **Incentives:** In addition to financially-based incentives and related performance objectives and metrics, the Department will consider novel, non-financial incentives to promote improved contractor performance and accountability, including authorizing contract extensions (e.g., after 3 years of outstanding performance, authorize a contract extension of another 2 years to the 5-year contract for a term of 7 years).

Although some of these principles will require continued development and implementation, I expect that contracts based on the six principles will lay the strong foundation required for the successful restructuring of Federal and contractor oversight of our laboratories.

The principles should be used in developing the negotiation strategy for each of the three SC laboratory contracts, which should include consideration and identification of clauses and DOE Orders to be revised, deleted, or replaced by existing national standards in the proposed contract, and an approach to obtaining

the contractor's commitment to improve effectiveness and efficiency and enhance accountability in managing the laboratory.

I have asked Mr. Steve Silbergleid, Chicago Operations Office, to head an SC contract team to use the SC Working Group principles, along with other related departmental initiatives, such as the Office of Procurement and Assistance Management's review of DOE Orders, in guiding the development of the negotiation strategy for each of the three SC laboratories. The SC Working Group will provide whatever support the field may require through completion of the three SC laboratory contracts.

This breakthrough management initiative will assist the Department's efforts to gain savings in SC laboratory programs, improve the cost-effective management of risks, and increase efficiencies in Federal oversight of our contracts. These principles will be the foundation for the development of more comprehensive contract statements of work that clearly articulate the Department's requirements to the contractor, a compelling vision for DOE and laboratory expectations over the term of each laboratory contract, and a streamlined performance measurement and oversight approach that builds trust and enhances accountability through the implementation of validated best in class management systems.

Therefore, I am urging all of the DOE program elements under my cognizance to help marshal support in timely responses and decisions to the SC contract team, as well as each individual negotiating team, for the success of this initiative. I am seeking comparable support from all of the administrative and operations organizations who are vital to carrying it out. I will work closely with Under Secretary Gordon and the National Nuclear Security Administration staff, who are undertaking a similar initiative to improve management performance of laboratories and other operations under their purview. I am available to the SC contract team to assist in timely decision making for the three SC laboratory contracts.

cc: Mr. Richard H. Hopf
Director, Office of Procurement and Assistance Management