

**PART III – LIST OF DOCUMENTS, EXHIBITS, AND OTHER ATTACHMENTS**

**SECTION J, APPENDIX N**

**NNSA COST SAVINGS PROGRAM**

1. **PURPOSE.** This Appendix sets forth detailed processes, procedures, and requirements for implementing *Clause I-25 DEAR 970.5215-4 COST REDUCTION (DEVIATION)*, contained in *Contract No. [TBD]*. NNSA's intent is to have facilities and laboratories operated in an efficient and cost effective manner where process improvement is continuously emphasized. To this end, the Contractor shall assess operations and identify areas where cost reductions bring cost efficiency to operations without adversely affecting mission delivery or contractually required performance levels.

This document defines processes designed to assess whether the Annual Controlled Baseline (ACB), Cost Reduction Proposal (CRP), and Validation report possess the required data elements and sufficient details to support a variety of federal activities, including oversight, program management, and verification. NNSA access to and review of Contractor systems and data supporting cost savings achievement throughout execution of the program is required. The ability to maintain a high degree of confidence in Contractor systems and processes allows verification to proceed in an efficient and expeditious manner. The ability to verify achieved savings establishes a foundation to support timely reinvestment in NNSA priorities, pursuant to Appendix A, Disposition Phase of this document.

2. **BACKGROUND.** The February 2018 *Nuclear Posture Review* outlines goals to fully support the Department of Energy (DOE) and NNSA Strategic Plans and to strengthen NNSA's vision for a fully integrated and interdependent Nuclear Security Enterprise, consisting of all eight NNSA sites, by achieving the following four specific objectives:
  - Improving performance in the completion of national security missions for nuclear production operations;
  - Sustaining the merged operations at geographically dispersed centers of excellence for nuclear weapon assembly/disassembly, stockpile surveillance, enriched/depleted uranium, uranium alloys, special nuclear materials, lithium, other special materials, and high-explosive production and fabrication to management under a single contract;
  - Reducing the cost of performing work; and
  - Requiring actions that support operation as an integrated DOE/NNSA enterprise.
3. **REQUIREMENTS.** The Cost Savings Program must be executed in accordance with the process descriptions defined in Appendix A, Sections A through G. Required program processes include:
  - (A) Annual Controlled Baseline (ACB)
  - (B) Cost Reduction Proposal (CRP)
  - (C) Performance
  - (D) Change Control
  - (E) Validation and Verification
  - (F) Disposition, and
  - (G) Disagreements and Disputes

Outputs and attributes of the Cost Savings Program that must be assessed throughout the Cost Reduction Process include:

- Cumulative current fiscal year (FY) cost savings;
- Net savings sharing arrangement;
- Cumulative cost savings from contract award/initiative inception to date (by FY);
- Projected cost savings by FY;
- Risk analysis and appraisal.

These program outputs and attributes are critical and must be integrated with other business processes in order to maximize overall effectiveness and efficiency. Process integration includes budget formulation, budget execution, program management (including work authorization), Contractor performance assessment (including fee determination), and other financial management activities. The degree of integration, which should be non-invasive, varies with the process. Specifically, these processes should not require major departures from existing procedures, or the development of new or major modifications to existing federal systems.

The processes incorporate numerous business rules and desired characteristics. They focus on integrity and results of the overall process. They include, but are not limited to:

- Budget Formulation and Validation, including NNSA's Planning, Programming, Budgeting and Evaluation process;
- HQ Approved Funding Program and Allotment processes, including the budget structure and Funds Certification for Withdrawal;
- Work Authorizations;
- Cost Estimating;
- Performance Evaluation and Measurement Plan (PEMP), including the Fee Determining Official (FDO) determination;
- Cost Accounting Standard Disclosure Statement;
- Forward Pricing Rates;
- Financial Management Assurance; and
- Savings Disposition process.

4. **RESPONSIBILITIES**. The NNSA Cost Savings Program relies on frequent collaboration between the M&O Contractor, NNSA Field Office management and staff, and NNSA Headquarters management and staff. A summary of the major roles and responsibilities for each key Cost Savings Program organization and team member is shown below:

Organization	Major Players	Responsibilities
Contractor	Contractor management and staff	Implement, monitor, report, and validate results of Cost Savings Program.
Federal roles and responsibilities will be established after contract award	Federal management and staff	

5. REFERENCES. None.

6. ACRONYMS.

ACB - Annual Controlled Baseline	FY - Fiscal Year
ACO - Administrative Contracting Officer	HQ – Headquarters
ACO-CR – Administrative Contracting Officer for Cost Reduction	HQPO – Headquarters Program Office
AFP – Approved Funding Program	ICC - Institutional Cost Category
APM – NNSA Office of Acquisition and Project Management (NA-APM)	ICR - Institutional Cost Report
B&R - Budget and Reporting Classification Code	IG - Inspector General
BCM – Business & Contracting Management within NNSA Production Office	IGPP – Institutional General Plant Project
CCP - Change Control Process	IPT – Integrated Project Team
CFO – Chief Financial Officer	M&O - Management and Operating
CO - Contracting Officer	MB – NNSA Office of Management and Budget (NA-MB)
COR – Contracting Officer’s Representative	MTP - Merger Transformation Plan
CRP - Cost Reduction Proposal	NNSA - National Nuclear Security Administration
CSPM – Cost Savings Program Manager	NPO - NNSA Production Office
DEAR - Department of Energy Acquisition Regulation	OCL - Obligational Control Level
DOE - Department of Energy	OMB - Office of Management and Budget
ESC - Executive Steering Committee	PBR – President’s Budget Request
FAR – Federal Acquisition Regulation	PCO - Procuring Contracting Officer
FCA - Federal Cost Accountant	PEMP – Performance Evaluation and Measurement Plan
FDO - Fee Determining Official	PEP - Performance Evaluation Process
FTE - Full-Time Equivalent	SME - Subject Matter Expert
FTPOC - Federal Technical Point-of-Contact	STARS - Standardized Accounting and Reporting System

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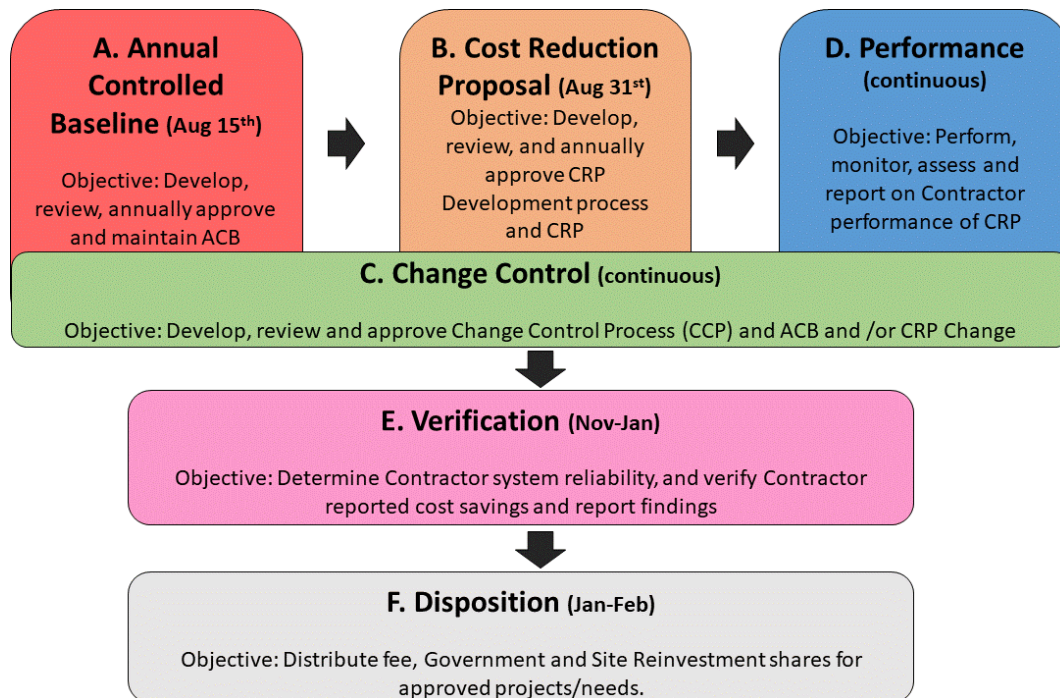
Appendices:

- A. Cost Savings Program Process Steps and Actions
- B. Data Elements
- C. Schedule / Timeline

**NOTE: Nothing in this Plan is intended to modify, replace, or deviate from the requirements contained in Contract No. [TBD]. To the extent any inconsistency exists, the contract shall prevail and take precedence.**

## APPENDIX A: COST SAVINGS PROGRAM PHASES

Components and process flow for the overall Cost Savings Program are shown in the figure below. The Cost Savings Process is divided into six phases, represented by different colors and letters: (A) ACB, (B) CRP, (C) Change Control, (D) Performance, (E) Verification, and (F) Disposition. The process objective in the blocks below provides a concise phase definition, while sections A through F provide full definitions for each phase.



The Cost Savings Process phases are discussed in sections A through F. Each section contains:

- a detailed flowchart;
- assurance that the flowchart and related process steps comply with contract requirements;
- applicable prescribed formats associated with contractor deliverables (e.g., ACB, CRP, and Tri-Annual reports); and
- detailed process step descriptions, including identification and roles of applicable major players. For easy reference and correlation, each process step description corresponds to its position in the overall process flowchart.

The first two phases (ACB and CRP) contain common themes, including:

- guidance/collaboration;
- development/submission; and
- review and approval steps.

The Change Control phase builds upon the steps already included within the ACB and Cost Savings Baseline. This phase documents and traces changes to scope, schedule, and cost that affect the ACB and the Baseline Change Requests (BCRs) throughout the life of the contract. Every BCR will specify whether the change involves a change to scope, and if so, what dollar value of cost change is attributable to that change in scope.

The Performance Phase generally conforms to a typical contractor assessment model including reporting, monitoring, evaluation, and corrective action steps. This phase mandates Tri-Annual Cost Savings Performance reporting which consists of two Cost Savings Performance Reports and culminates in a Year-end Validation report. These reports provide details regarding overall and individual Cost Reduction Initiative's (CRI) progress against the approved CRP.

The Disposition Phase provides the steps to distribute shares of savings validated by the Contractor and verified by NNSA. Disposition of saving occurs in accordance with the contractual incentive structure and prioritized NNSA needs.

## **A. Annual Controlled Baseline Phase**

The Annual Controlled Baseline (ACB) is a Contract requirement separate from the Cost Savings Program. However, the Cost Savings Program utilizes the ACB. The ACB is a description of the current scope of work, cost, and schedule of work to be conducted by the M&O Contractor during the covered Fiscal Year, with supporting documentation. The ACB is a planning tool, not a staffing tool. The Contractor's ACB shall be submitted to NNSA no later than August 15 each year unless otherwise agreed to in advance by the Contracting Officer. The ACB shall be the source of the Current Method (Baseline) as identified in the clause of the Contract entitled *Cost Reduction* and is subject to the requirements of that clause, as well as the requirements of the Contract's *Statement of Work* and any other supplemental guidance. The format of the ACB shall tie directly to the Work Breakdown Structure, budget structure, a clear distinction between scope funded with current year appropriations and scope funded with prior year appropriations, the CRP, and related Tri- Annual Status Reports, and shall be consistent with formal planning or reporting documents at the programmatic level. The level of detail in the ACB shall facilitate Federal review and oversight, as determined at NNSA's sole discretion.

### **1. President's Budget Request**

The Contractor coordinates with NNSA to establish initial ACB direction and planning assumptions. The initial ACB planning will be based on the President's Budget Request (PBR) with corresponding site split estimates and scope direction. Information for the initial scope will be provided to the Contractor by May 15.

### **2. Contractor requirements**

- (1) The Contractor shall establish a formal process for the creation and submission of the ACB.
- (2) The Contractor develops the initial ACB submission reflecting the PBR with appropriate scope details separately identifying and tracking scope funded with

current year appropriations.

- (3) The Contractor coordinates with NNSA throughout the development process leading to the ACB submission to ensure timely issue identification, clear communication, and an expeditious Federal review.
- (4) The Contractor provides to appropriate federal resources access to contractor systems containing ACB and CRP information/status.
- (5) The Contractor submits the ACB annually no later than August 15 to the ACO-CR.
- (6) The ACB submission must include appropriate reconciliations and mapping to authoritative budget guidance.
- (7) The ACB will also include scope, cost, schedule, and a description of mission execution risk.
- (8) If the ACB is not accepted as originally submitted, the Contractor takes appropriate corrective action, and otherwise conducts good-faith negotiations with the ACO-CR to arrive at an acceptable ACB.

### **3. NNSA commitments**

- (1) NNSA provides initial scope information to the Contractor by May 15.
- (2) The ACO-CR conducts a review of the ACB and in writing will accept, conditionally accept, or reject the ACB. If the ACB is not accepted as originally submitted, the ACO-CR will provide a rationale in writing for why the ACB is not acceptable, and any corrective actions required.
- (3) Additional Federal commitments will be established after award of the contract based on the business processes established by the Contractor for operation of the ACB and Cost Savings Program.

## **B. Cost Reduction Proposal Phase**

The Contractor shall identify opportunities to reduce the cost of operations under the contract, and submit formal Cost Reduction Proposals (CRPs) in accordance with the Contract's clause entitled *Cost Reduction*. Each Cost Reduction Proposal (CRP) has a defined lifecycle, from identification and development through validation and sustainment. The CRPs must meet the terms and conditions of the Contract and any other issued guidance.

### **1. Contractor requirements**

- (1) The Contractor shall establish a formal process for the identification of opportunities for cost savings and the creation and submission of CRP packages.
- (2) The Contractor prepares CRP packages which comply with Contract requirements or other guidance/direction. CRP packages must include specific and objectively measurable metrics or success indicators which will be used for validation.
- (3) The Contractor submits CRPs to the ACO-CR for approval prior to execution.
- (4) The Contractor provides federal personnel access to contractor systems



containing CRP information/status.

- (5) The Contractor monitors and reports progress for each CRP in accordance with Contract requirements and other guidance/direction.
- (6) If a CRP is not accepted as originally submitted, the Contractor takes appropriate corrective action, and otherwise conducts good-faith negotiations with the ACO-CR to arrive at an acceptable CRP or withdraw the CRP submission.

## **2. Federal commitments**

- (1) The ACO-CR conducts a review of each CRP and accepts or rejects the CRP in writing. If a CRP is not accepted as submitted, the ACO-CR will provide a rationale in writing for why the CRP is not acceptable and any corrective actions required, or an outright rejection of the CRP containing a rationale for rejection.
- (2) Additional Federal commitments will be established after award of the contract based on the business processes established by the Contractor for operation of the CRP and Cost Savings Program.

## **C. Change Control Phase**

The purpose of change control is to document and trace changes to scope, schedule, and cost that affect the ACB or any CRP throughout the life of the contract.

Acceptable ACB changes are to be limited to preserve the integrity of the ACB. ACB changes shall only be processed for changes outside the control of the Contractor, or by the direction of the Contracting Officer such as to correct inaccurate planning assumptions/estimates, adjust the scope of work, or other issues identified after the approval of the ACB or CRP. The need to process change control actions may be identified by the Contractor or during the federal oversight process. Federal reviewers should be able to obtain assurance that any changes are applied to the most recent approved version of the ACB or CRP.

Changes to a CRP are evaluated under the same criteria as the initial CRP. Changes to a CRP's proposed objective measurement or metrics will not be accepted merely because the proposed methodology does not show success. The approved ACB and CRPs are contractual performance expectations with minimal changes expected. However, there may be events or decisions outside of the Contractor's control that justify CRP or ACB revisions. CRP changes will be submitted to the ACO-CR for approval following federal review.

## **1. Contractor requirements**

- (1) The Contractor shall establish formal change management procedures which include identifying potential changes through normal operations, reviewing potential changes to determine if they warrant adjustment to the ACB and/or a CRP, and if so establish levels of contractor management review and approval appropriate for the size and impact of the change.
- (2) In addition to Contractor review and approvals, the Contracting Officer may establish types of changes or dollar thresholds for changes that require Contracting Officer approval. The Contractor shall submit changes that

require Contracting Officer approval in such a manner as the Contracting Officer may require.

- (3) The Contractor shall prepare proposed Change Requests in compliance with federal requirements and in accordance with approved change control procedures, and document the basis (justification) and need for changes, including specifically identifying any changes in scope along with the cost associated with such scope changes.
- (4) The Contractor shall appropriately document changes to scope, cost, and schedule for ACB changes.
- (5) Document all effects to the Proposed Baseline cost savings, schedule, and risk, when appropriate for CRP changes.
- (6) Assign a unique Change Request number (for each ACB and CRP change).
- (7) Incorporate NNSA-approved change requests in a sound, auditable, reliable, and real-time tracking system for maintaining and archiving change control actions. Information in the change database must include the driver or reason for the change, and the cost and schedule effects by work scope and organization.
- (8) Place internal contractor controls in place to protect the database, ensure reconciliation of the ACB to relevant program and funding documents, and confirm approval thresholds are maintained and traced to prohibit cumulative costs of multiple actions from exceeding appropriate approval levels.
- (9) Ensure contractor workflow process changes are not implemented before change actions are approved.
- (10) If a change is not accepted as originally submitted, the Contractor takes appropriate corrective action, and otherwise conducts good-faith negotiations with the ACO-CR to arrive at an acceptable change or withdraw the change submission.

## **2. Federal commitments**

- (1) The ACO-CR will establish requirements and processes for ACO-CR approval of changes with input from the Contractor.
- (2) The ACO-CR conducts a review of each CRP and accepts or rejects the CRP in writing. If a CRP is not accepted as submitted, the ACO-CR will provide a rationale in writing for why the CRP is not acceptable and any corrective actions required, or an outright rejection of the CRP containing a rationale for rejection.
- (3) Additional Federal commitments will be established after award of the contract based on the business processes established by the Contractor for operation of the ACB, CRP and Cost Savings Program.

## **D. Performance Phase**

The Performance Phase (i.e., evaluation of performance) generally conforms to a typical contractor assessment model that includes reporting, monitoring, evaluating, and corrective action steps. This phase mandates Tri-Annual Cost Savings Performance reporting which consists of two year-to-date Cost Savings Performance Reports and culminates in a Year-End Validation report.

The Performance Phase requires the Contractor to report interim performance against approved CRPs and for NNSA to evaluate accordingly. Ability to monitor performance during execution of cost reduction activities allows for evaluation of potential CRP effects on mission, interim feedback, and course correction as needed, and facilitates timely verification of claimed cost savings during the Verification Phase.

# **1. Contractor requirements**

- (1) The Contractor performs work in accordance with the approved ACB, CRPs, and contract requirements.
- (2) The Contractor reports any actual or anticipated failure to meet requirements to the appropriate federal oversight in a timely manner.
- (3) The Contractor follows its process to identify potential changes to the ACB or CRPs during regular operations as described in the Change Control section of this document.
- (4) The Contractor submits to the ACO-CR regular reports on the progress of all CRPs in alignment with the NNSA Corporate Performance Evaluation Process for Management and Operating Contractors schedule. See NNSA Policy 540.3 or successor policy. The ACO-CR may require briefings of the reports to Federal oversight personnel. The reports and any briefings shall include:
  - a) Technical progress made against established milestones and/or metrics, and issues experienced or expected to be experienced during implementation of the CRP
  - b) Actual Execution Costs incurred to date for execution of the CRP
  - c) The expected hard savings, execution costs, and net savings to be achieved by the CRP at completion.
  - d) Any risks or negative impacts to health, safety, security, or mission accomplishment that have been realized or are anticipated due to implementation of the CRP.
- (5) The Contractor submits to the ACO-CR no later than November 15<sup>th</sup> of each year or a date otherwise agreed to by the Contracting Officer an annual Validation Report which contains the actual achievement of all CRPs conducted during the year and sustained from prior years. The Contractor's Validation Report shall include:
  - a) For each CRP:
    - i. Technical progress made against established objective measures, metrics, or milestones.
    - ii. Actual Execution Costs incurred during implementation of the CRP.
    - iii. Actual Net Savings realized due to the CRP.
    - iv. Any impacts to health, safety, security, mission accomplishment, or other item considered during approval of the CRP.
    - v. The method the Contractor used to validate the CRP before submission to NNSA for verification.
  - b) In the aggregate for the Cost Savings Program:
    - i. Total Execution Costs incurred
    - ii. Total Net Savings achieved
    - iii. A cumulative total of savings achieved under the Cost Savings Program to date

**2. Federal commitments**

- (1) NNSA will conduct regular performance monitoring using oversight processes.
- (2) The ACO-CR will establish processes for review and acceptance of the interim status reports with input from the Contractor.
- (3) The ACO-CR will establish processes for verification with input from the Contractor.
- (4) Additional Federal commitments will be established after award of the contract based on the business processes established by the Contractor for operation of the interim progress reports, Validation Report and Cost Savings Program.

**E. Verification Phase**

The ACO-CR shall conduct a verification of the Contractor's Validation Report and claimed savings. The procedures used for verification are expected to depend on the Contractor's method of validation; the goal of Verification is to ensure that claimed and validated savings are contractually sound and factually supported.

**F. Disposition Phase**

Upon completion of the Verification Phase, wherein the Contractor has validated savings resulting from CRIs and maintained sustainment for all initiatives throughout the life of the contract, and NNSA has completed verification, the distribution of net savings occurs in accordance with the clause of the Contract entitled *Cost Reduction*. The Contractor's share in savings will be paid after verification of savings. The Government's share in savings will be allocated according to NNSA's internal process.

**G. Disagreements and Disputes**

In the event disagreements arise between the Government and the Contractor, the Government and Contractor commit first to good-faith efforts to mutually resolve issues in controversy using informal methods, and if those methods fail to resolve the issue in controversy, to utilizing Alternative Dispute Resolution procedures, in accordance with the Contract's Section H clause entitled *Alternative Dispute Resolution*.

## **APPENDIX B: DATA ELEMENTS**

Data elements applicable to the deliverables associated with the Cost Savings Program will be established by the Contracting Officer with input from the Contractor after award of the contract and the Contractor's subsequent establishment of work processes and formal procedures governing the Cost Savings Program. Such data elements will be modified into this Appendix below, and subject to change by the Contracting Officer with input from the Contractor as needed to ensure successful operation and oversight of the Cost Savings Program.