Summary Minutes of the

U.S. Department of Energy (DOE)
Commission to Review the Effectiveness of the National Energy Laboratories
Public Meeting

Commission Members in Attendance:	TJ Glauthier, Co-Chair; Jared Cohon, Co-Chair; Cherry Murray; Wanda Austin; Paul Fleury; Richard Meserve
Date and Time:	9:45 AM – 1:50 PM, Wednesday, April 22, 2015
Location:	Hilton at Mark Center, 5000 Seminary Road, Alexandria, VA
Purpose:	Meeting of the Commission to Review the Effectiveness of the DOE National Energy Laboratories
Presenters:	Speakers **Cost Savings through Y-12/Pantex Consolidation** Neile Miller, Acting Administrator, NNSA Richard Goffi, Vice President, Booz Allen **Budget Atomization** Howard Dickenson, Deputy Associate Administrator for Acquisition and Project Management, NNSA Chris Johns, Director of the Budget Office, DOE Office of the CFO **NLDC Perspective on Budget, Accounting, and Cost-Saving Initiatives** Martin Conger, CFO, Pacific Northwest National Laboratory and Chair, National Laboratories Director's Council CFO Working Group **DOE Perspective on Budget, Accounting, and Cost-Saving Initiatives** Joseph Hezir, Chief Financial Officer, DOE
DOE Staff:	Karen Gibson, Designated Federal Officer
IDA & STPI Staff:	Mark Taylor, Susannah Howieson, Libby Turpen, Martha Merrill, Kathleen Peroff, Ryan Whelan, Vanessa Pena

Meeting Summary

The Commission to Review the Effectiveness of the National Energy Laboratories (Commission) was convened for its eighth meeting at 9:45 AM on April 22, 2015. Commission Co-Chair Jared Cohon led the meeting, which included discussion on cost savings through the Y-12/Pantex consolidation; budget atomization; and both NLDC and DOE perspectives on budget, accounting, and cost-saving initiatives. The discussion was followed by an opportunity for Public Comment.

Opening of Public Meeting

Co-Chair Jared Cohon opened the meeting and welcomed the commissioners, speakers, and observers. Co-Chair TJ Glauthier acknowledged his relationship with Booz Allen, noting one of the speakers was from the firm.

Cost Savings through Y-12/Pantex Consolidation

Neile Miller, Principal at Strategic Associates LLC and former Acting Administrator, NNSA discussed the consolidation of Pantex and Y-12, which she managed. She described the difficulty initially in issuing a request for proposal (RFP), largely because there is a bias in government against consolidating as it translates into losing jobs. Miller reached out to Navigant who had done a study on consolidation and projected savings. The Navigant study had projected robust savings over time. Y-12 and Pantex were run by the same company under a constrained budget environment so consolidation made sense in order to gain the efficiencies of a corporation. In reviewing RFPs, Miller received advice from the private sector not involved in DOE business and from people at DOD who were involved in large acquisitions. There was a need to have a cap, competition, and demonstrated savings. Everyone was trying to do the right thing, but it is difficult to make changes in a system that has been running the same way for many years.

Richard Goffi, Vice President, Booz Allen, discussed the importance of the Y-12/Pantex contract in terms of its structure. Incentives built into the M&O contract can encourage savings and reward the contractor a portion of that savings. This change to the contract was a structural change which in turn drove cultural change. Efficiencies were driven by the merging of sites, changing the economies of scale, right sizing, changing the culture of how production was delivered, and moving toward awareness of the cost of delivering an activity. A budget driven mentality is cultural. A results driven mentality was created by moving from a pure performance fee to a reduced fee and an expectation for another avenue of savings, through cost savings that the contractor would get a share of. NNSA identified what they wanted - better cost efficiency- and included incentives related to that in the contract, with savings that could exceed $4B.

Goffi emphasized that cost savings cannot impact the mission and cannot create additional risk. They must be real; occur over time; and be self-funding and sustainable. Cost savings start with merger opportunities by forcing the consolidation of support services such as HR or IT, then the transformation of underlying processes to increase efficiency; followed by continuous improvement to drive further efficiencies. It is crucial for a baseline to be developed to allow the measurement of savings and results. Once the savings are validated based on the criteria, the money can be reinvested or pulled out for future budgets. Continued success is a shared outcome. If incentives are properly aligned one can achieve savings with consolidations. The challenge is that the system abhors change.

A Q&A session followed.

Budget Atomization

Howard Dickenson, Deputy Associate Administrator for Acquisition and Project Management presented on budget atomization from the NNSA perspective. Dickenson provided an overview of the NNSA budget structure, describing the large number of control points, some of which require Congressional approval to move funds; some of which require only NNSA internal approval; and some controls at the project level which include a mix of NNSA program management and Contractor-imposed controls. He used LANL controls as an example, demonstrating how 4 Congressionally-fixed categories of appropriations become burdened with over 7,000 control points.

Chris Johns, Director of the Budget Office, DOE Office of the CFO, presented on the Department of Energy's perspective on budget atomization. He summarized the current practice of subdividing funding into small "buckets", which for the labs complicates implementation and "atomizes" the funding. Johns described how funding gets subdivided, first by law through appropriation and period of availability; then through apportionment by OMB in which funds can be split by time period or by project; and then by the Program Offices to track and manage the work to be done. He gave examples from the Labs' weapons and science activities. Johns noted that many labs receive work from multiple DOE offices, which compounds the number of accounts, Congressional control points, and program office tasks. He illustrated the subdivision of funding using data from Oak Ridge National Laboratory and Sandia National Laboratories as examples. Johns noted that the Department is often asked how much it is spending on X, which has led to a level of tracking how money is split and spent. Additionally, there is the desire on the part of the Program Offices, DOE, and OMB to provide oversight and accountability.

A Q&A session followed.

NLDC Perspective on Budget, Accounting, and Cost-Saving Initiatives

Martin Conger, Chair, National Laboratories Director's Council CFO Working Group discussed alternative financing and provided an example at PNNL. When financing was moved into overhead PNNL was able to spread costs across SPP (strategic partnership projects/work for others) work. This mechanism was financed through bonds. PNNL worked with a developer, on Battelle land, with the land leased to the developer. The developer received an S&P rating, and worked with S&P to demonstrate the positive nature of the deal. Both the land and the building will revert back to Battelle, but Battelle allows DOE to use it rent free until that time. Alternative financing results in 20-30% cheaper builds. The cost and time savings more than offset a financing term over 30 years and are as cost effective or better than a line item and are in the financial best interest of tax payers. Conger applauds streamlining the budget process in DOE, which has resulted in getting money from programs out to the labs more quickly.

A Q&A session followed.

DOE Perspective on Budget, Accounting, and Cost-Saving Initiatives
Joseph Hezir, Chief Financial Officer, DOE presented the DOE Perspective on Budget, Accounting, and Cost-Saving Initiatives. Hezir described how Federally Funded Research and Development Centers (FFRDCs) meet some special long-term research or development need which cannot be met as effectively by existing in-house or contractor resources. The Federal Acquisition Regulation (FAR) additionally requires FFRDCs to work in the public interest, operate as an autonomous organization, preserve familiarity with the needs of its sponsor, and maintain currency in field(s) of expertise. Hezir described the various forms of FFRDCs, noting that all of DOE's FFRDCs are Management and Operating (M&O) contracts. He discussed the unique governance structure of the National Laboratories and the various sources of funding. Hezir detailed the cost accounting standards the labs are subject to, the reporting of costs, and institutional cost reports. He defined overhead costs for M&Os and concluded with the benefits and limitation of the institutional cost reports.

A Q&A session followed.

Public Comment
No members of the public requested the opportunity to comment.

Meeting adjourned at 1:45 PM.

Respectfully Submitted:
Karen Gibson, Designated Federal Officer

I hereby certify that these minutes of the April 22, 2015 Lab Commission meeting are true and correct to the best of my knowledge.

TJ Glauthier Co-Chair	Jared Cohon Co-Chair
TJ Glauthier	Jared J. Cohon