



Department of Energy
Washington, DC 20585

July 21, 2008

MEMORANDUM FOR INGRID KOLB

DIRECTOR, OFFICE OF MANAGEMENT

THROUGH:

KEVIN T. HAGERTY *Kevin T. Hagerty*
DIRECTOR, OFFICE OF INFORMATION RESOURCES

FROM:

Steve Isakowitz
STEVE ISAKOWITZ
CHIEF FINANCIAL OFFICER

SUBJECT:

Notice of Intent to Develop DOE O 415.X, Cost Estimating,
Analysis, and Standardization

PURPOSE:

DOE O 415.X is required to meet the Department's Strategic Goal #5, Management Excellence, and the CFO's Organizational goal for financial management. This Order is also required to meet DOE's commitments to OMB and GAO, as part of the Root Cause Analysis Corrective Action Plan.

JUSTIFICATION:

The Department of Energy has had historical and continuing problems with meeting project cost baselines. A number of projects have more than doubled in cost since the original baseline, with the resulting increases as high as several billion dollars. In October 2007, DOE's Office of Engineering and Construction Management (OECM) conducted a root cause analysis workshop to identify the systemic challenges of planning and managing DOE projects. One of the principal causes of poor project performance was identified as inadequate independent government cost estimates. Included under this issue were 1) a lack of cost estimating policy and standards, 2) lack of personnel with appropriate cost estimating skills, and 3) lack of cost estimating databases with historical cost information. The OECM report was issued by the Secretary of Energy in April 2008.

Recently, OECM completed the Corrective Action Plan (CAP) to address the issues raised in the Root Cause Analysis. The CAP has been approved by OMB and GAO, and will be issued by the Secretary shortly. The approved DOE CAP commitments will be tracked by OMB and GAO, and these commitments include the development of a Cost Estimating Order and Cost Estimating Manual by December 2008.



The new Cost Estimating Order is an essential part of developing accurate and reliable cost estimates for program and project planning, and for developing and effectively executing Program budgets. Accurate and reliable cost estimates are also integrally linked to all elements of effective project management, including the development of project schedules, risk assessments, alternative cost-benefit analysis, and project controls and variance analysis as part of Earned Value Management Systems (EVMS).

To develop and maintain accurate and reliable cost estimates, it is essential that program and project cost estimates be independently reviewed at major decision points from initiation through completion. Equally important is continued cost estimating review of programs and projects as the project progresses from one decision point to another. Historical cost databases are a principal means of developing accurate cost estimates, and must be developed through required standardized work breakdown structures. Also critical to cost estimating improvement is required training for program and project staff involved in the development and oversight of cost estimates.

Related to the requirements for independent cost estimates, and necessary for cost-effective conduct of cost-share and similar DOE-partnering activities, are Independent Business Case Reviews (IBCRs). These IBCRs would, in general, independently assess the costs of new technologies and costs/risks associated with their marketability. These review activities are related to the Business Clearance function of Procurement, but with an essentially different focus.

The proposed DOE O 415.X will ensure that all of the above cost estimating issues and concerns are effectively addressed by DOE. The development and effective implementation of this Order will go a long way in gaining the credibility of OMB and Congress that DOE will need to carry out its heightened national energy security mission. Additionally, the proposed Order is expected to significantly improve cost estimating in the Department with associated improvements in program and project performance.

The proposed directive does not duplicate existing laws, regulations or national standards and it does not create undue burden on the Department.

IMPACT:

Accurate and reliable cost estimating is integral to effective planning and execution of programs and projects. This Order will significantly reduce costs to the Department by 1) improved planning, particularly in the early program and project phases; 2) improved alignment of work activities and funding; 3) improved cost-benefit analysis for selection of alternatives; 4) availability of validated historical cost databases; and 5) improved cost estimating skills of program and project staff involved with developing or overseeing cost estimates.

CONTACT:

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DECISION:

Concur: _____

Nonconcur: _____

Timeframe: ___ 30 days ___ 60 days x 90 days ___ 120 days

Date: _____