



Department of Energy

Washington, DC 20585

December 17, 2010

MEMORANDUM FOR HEADS OF CONTRACTING ACTIVITY
PROCUREMENT DIRECTORS

FROM:

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SUBJECT: Freeze on DOE Management and Operating and Other Major Site and
Facility Management Contractor Salaries

The Secretary of Energy has determined that a two year freeze on reimbursement for salary increases for Management and Operating (M&O) and other major site and facility management contractor employees, other than those covered by collective bargaining agreements that provide for pay increases, is appropriate. This decision is consistent with the Administration's goal for savings in Government funded operations.

The Department's M&Os and other major site and facility management contracts contain provisions that require each contractor to submit annually to the Contracting Officer an employee compensation increase plan (CIP). The Contracting Officer is required to approve each CIP which is comprised of a merit pay increase pool, promotion pool and any special adjustment pool utilized by the contractors for other than merit pay. These provisions are discussed in DOE Order 350.1, Contractor Human Resources, or in other contractual language that contains similar approval requirements and incorporated into the contract through Contractor Requirements Documents for Lab contractors or in other contract clauses for DOE's major site facility contractors.

The freeze applies to all merit increases reimbursed under the contract (except for the fund for promotions and adjustments). The freeze does not apply to increases in wages provided for in existing collective bargaining agreements. The freeze does not apply to variable/non base pay (commonly referred to as a bonus). However, reimbursement for the contractor's variable pay/non-base pool shall be capped at the 2010 variable pay/non-base pool level.



Contractors for which Fiscal Year (FY)-2011 CIPs have already been approved by a Contracting Officer and employees have already begun receiving pay adjustments are not expected to retroactively adjust CIPs and employee salaries. Rather, Contracting Officers shall not approve a merit pool increase for the following CIP cycle. In other words, the freeze shall be effective for the next compensation cycle beginning between January 1, 2011 and December 31, 2011.

Contractors for which FY-2011 CIP's have not yet been approved by a Contracting Officer or have been approved but have not been effected (i.e., employees have not received paychecks including the pay increase) by the contractor shall not be reimbursed for salary increases (excluding promotion pay and special adjustment pay), beginning with the FY-2011 CIP.

Contracting Officers, with concurrence of the Head of Contracting Activity and after coordination with MA-63 for DOE elements, and Office of Business Services, Contractor Human Resources Division for NNSA, may continue to approve a fund for promotions and adjustments. Such fund will be limited to a maximum of 0.5 percent of the non-bargaining payroll. Any portion of the 0.5 percent fund which is requested for adjustments must be specifically justified and documented by the contractor. An adjustment is defined as a salary increase for any reason other than merit or promotion.

Contractors shall be required to provide detailed reports to you on a quarterly basis supporting any promotion or special adjustments made. In addition, each contractor shall be required to validate the FY-2011 CIP baseline. This baseline will be utilized on all future CIP requests to ensure that the savings generated through this FY-2011 effort are maintained.

Please work with your contractors to assure a proper implementation of the freeze. A listing of questions and answers is attached to assist in clarifying this action. Please contact Robert Myers, MA-63, at 202-287-1584 or within NNSA contact Roberto Archuleta, OBS/CHRD, at 505-845-4222 for any questions regarding this matter.

Questions and Answers

1. Who is covered by the freeze?

Answer: All exempt and non-exempt (salaried, weekly and hourly) employees whose contracts include the provision allowing DOE to manage contractor increases. These include the national laboratories, other M&Os, and the major site and facility management contracts. This does not extend to employees who are covered by a collective bargaining agreement that already includes wage or benefit increases.

2. Are subcontractors affected?

Answer: No. Only prime contract employees are affected.

3. What salary increases are frozen?

Answer: All wage and salary increases except promotions and adjustments. The promotion and adjustment increases are limited to a pool of 0.5% of the applicable payroll pool attributable to the employees identified in question 1 above.

4. Can the M&O's/site and facility management contractors adjust their salary ranges even though they are not giving individual salary increases?

Answer: No.

5. Will M&O's and other major site and facility management contractors be allowed to receive catch-up increases in subsequent years?

Answer: No. They will be required to establish a FY-11 CIP baseline with the Contracting Officer to use as the basis for determining all future CIP changes and to ensure that FY-11 savings are maintained through the life of the contract.

6. Does the freeze extend to other benefits?

Answer: No. The freeze only applies to wage and salaries.

7. Are promotions frozen?

Answer: No, but total promotion increases may not exceed the 0.5% cap identified in question 3.

8. What is a promotion?

Answer: It represents a significant increase in job duties or a move to a higher job grade.

9. Does the freeze extend to new hires?

Answer: New hire salaries are not considered salary increases and are outside the scope of the freeze.

10. Are wages covered under the Service Contract Act (SCA) exempted?

Answer: Employee wages covered by the SCA will be frozen unless the freeze would cause them to fall below the minimum allowable wage.

11. What about DOE labs that have already had pay increases this year?

Answer: For sites that have already approved and implemented increases, the freeze shall be effective for the next compensation cycle beginning between January 1, 2011, and December 31, 2011. For example, DOE contractor employees who received pay increases in October 2010, will have their pay frozen beginning in October 2011 for the following two year periods.

12. Is this inconsistent with Administration plans to bolster funding for weapon labs in light of New Start treaty concerns? Won't you lose "best and brightest"?

Answer: The Administration is committed to modernizing our nuclear infrastructure and this decision should have no impact on that effort. We are confident our national labs, the country's crown jewels for leading research and development, will continue to attract and retain the nation's top scientists, and pursue some of the most important discoveries that will lead us into the 21st century.

13. What will you do with the costs that are avoided because of the freeze?

Answer: DOE and the Office of Management and Budget are currently reviewing how to utilize these savings.

14. Why doesn't the freeze extend to all DOE contracts?

Answer: The freeze is applicable to the vast bulk of DOE contractor employees. It is applicable to all DOE contracts that require DOE approval of their contractor's compensation increase plan or other merit increases reimbursed under the contract.

15. Are other agencies doing this too?

Answer: We are not aware of other agencies that are similarly situated, that is, that have this close relationship with their contractors that includes, as one facet, approval of compensation increases. We are not aware at this time of other agencies taking similar steps, however, DOE is taking what it believes to be the appropriate action.

16. Are there plans to freeze other lab benefits?

Answer: This freeze only extends to salaries and wages similarly to the federal employee compensation freeze.