



Department of Energy
Washington, DC 20585

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MEMORANDUM FOR DISTRIBUTION

FROM:

J. E. SURASH 
DEPUTY ASSISTANT SECRETARY FOR
ACQUISITION AND PROJECT MANAGEMENT

SUBJECT:

Environmental Management Contractor Management
Reserve Practices

This memo is intended to summarize and clarify practices related to the establishment, use, and control of Contractor Management Reserve (MR) for Environmental Management (EM) Projects.

The Department of Energy (DOE) Order 413.3A (7-28-06) defines Management Reserve (MR) as "An amount of the total contract budget withheld for management control purposes by the contractor. Management Reserve is not part of the Performance Measurement Baseline." This definition is consistent with ANSI/EIA-748-B-2007 that defines MR as "An amount of the total budget withheld for management control purposes rather than being designated for the accomplishment of a specific task or set of tasks."

The EIA-748-B Standard on "Earned Value Management Systems" states:

3.5.4 Management Reserve An organization may establish a schedule and/or cost reserve to be used for management control purposes in accordance with organizational policy. Management reserve is held for unexpected growth within the currently authorized work scope, rate changes, risk handling, and other program unknowns. Generally, reserve is held for current and future needs and is not used to offset accumulated overruns or under runs. Reserve may be held at the total program level or distributed and controlled at lower management levels. In any case, an organization should be able to account for all of its management reserve. Management reserve is not a contingency that can be eliminated from prices during subsequent negotiations or used to absorb the cost of program changes. The budget being held in reserve must not be viewed by a customer as a source of funding for added work scope.

Even though MR is never priced into federal contracts, the expectation is that after contract award the contractor sets aside a portion of the Contract Budget Base for unforeseen contractor costs. This MR is determined, held, used and controlled by the contractor and is a tool for effective management of the



contractor's work scope. Its use does not require DOE approval, but its usage must be reported to provide visibility in the effectiveness of contractor's management and serve as an early indicator of areas of the project that may need greater attention than others.

Since MR is a tool solely for use by the contractor, it is maintained separately from the Performance Measurement Baseline (PMB) and utilized as a means of the contractor's baseline change control process. The Federal Project Directors and Integrated Project Teams do not guide or direct the contractor's MR decisions.

For further information regarding the MR clarification, please contact Dr. Mindy Connolly Acting Director, Office Contract and Project Execution at (202) 586-2171 or Lowell Ely, Director, Office of Project Management Oversight at (301) 903-6821.

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