



DEPARTMENT OF THE NAVY
NAVAL AIR SYSTEMS COMMAND
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IN REPLY REFER TO

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AIR-00/467

03 DEC 2012

From: Commander, Naval Air Systems Command

Subj: PERFORMANCE BASED LOGISTICS GUIDANCE AND BEST PRACTICES MEMORANDUM (REVISED APRIL 2012)

- Ref:
- (a) DOD Instruction 5000.01, The Defense Acquisition System, 12 May 2003, Certified Current as of 20 November 2007
 - (b) DOD Instruction 5000.02, Operation of the Defense Acquisition System, 2 December 2008
 - (c) SECNAVINST 5000.2E, Implementation and Operations of the Defense Acquisition System, September 2011
 - (d) ASN (RD&A) Memo, Performance Based Logistics (PBL) Guidance Document, 27 January 2003 (NOTAL)
 - (e) NAVAIR 4081.2A, Policy Guidance for Performance Based Logistics Candidates, 1 December 2004
 - (f) 10 U.S.C. § 2474: Centers of Industrial and Technical Excellence: Designation; Public Private Partnerships
 - (g) OASD (L&MR) Memo, Maximum Utilization of Government Owned Inventory in Performance Based Logistics Arrangements
 - (h) DOD Directive 5000.4M-1, Cost and Software Data Reporting. (CSDR) Manual, 4 November 2011

- Encl:
- (1) Integrated Product Team
 - (2) Sustainment Strategy
 - (3) Performance Based Agreement (PBA) Contract Metric Relationship
 - (4) Performance Based Agreement
 - (5) Sample Core Letter
 - (6) Depot Stand Up Process Map
 - (7) Incurred Cost CDRL Example
 - (8) DD1921-4 - Contractor Sustainment Report

1. Performance Based Logistics (PBL), also referred to as Performance Based Life Cycle Product Support, has allowed the Naval Aviation Enterprise (NAE) to improve support to the Warfighter and achieve weapon system readiness at lower life cycle costs. Navy leadership asked the NAE to examine its processes and procedures relating to PBL development, execution, performance, cost control and monitoring. The NAE commissioned

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a team of technical and programmatic experts crossing various agencies and specialties to research and respond to the task. The NAE study examined past and present PBL contract design and execution with associated industry impact to developed important lessons learned to assist programs in the successful development and execution of affordable sustainment strategies. This document is the result of the NAE study and sets forth PBL lessons learned and best practices that have been used and proven over the past 15 years. The NAE should use these past experiences to establish and manage new alternative sustainment strategies under the Naval Air Systems Command (NAVAIR) Program Manager AIR (PMA) direction and control (including joint programs).

2. The PBL best practices and lessons learned section (Appendix A) of this document provides details derived from an in-depth review of several NAE PBL contracts, completion of an inventory of all NAE PBL contracts, and a review of numerous published PBL studies. This NAE study also reviewed two NAVAIR Contractor Logistics Support (CLS) contracts to compare and contrast with PBL and investigate opportunities for performance based CLS contracts. The PBL Processes, Guidance, Strategies and Cost Analysis (Appendix B) sections provide a comprehensive list of areas that should be considered for both initial and follow-on PBL sustainment strategies being considered. The enclosures found at the end of the document can serve as reference material or templates to assist with PBL development.

3. Per reference (a), Program Managers (PM) shall develop and implement performance-based logistics strategies that optimize total system availability while minimizing cost and logistics footprint. PBL sustainment strategies shall include the best use of public and private sector capabilities through government/industry partnering initiatives, in accordance with statutory requirements. Per reference (b), the PM shall employ effective PBL planning, development, implementation, and management. Performance based life cycle product support represents the latest evolution of performance based logistics. Both can be referred to as PBL. PBL offers the best strategic approach for delivering required life cycle readiness, reliability, and ownership costs. Per reference (c), PBL is the Department of the Navy (DON) preferred method of providing weapons system product support. Reference (d) promulgates guidance for implementation of PBL within the DON. Reference (e) defines the critical steps required to implement PBL on new start and fielded systems and equipment.

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4. All successful PBL strategies require the use of some or all of the best practices:

a. Breakout PBLs to target smaller populations (OEM Centric or Subsystem level). (V-22 Joint PBL)

b. PBL Providers should push performance requirements to suppliers to align goals through supply chain. (F/A-18 Integrated Readiness Support Teaming (FIRST))

c. PBL Providers who manufacture high percentage of components have been more successful. (H-60 Tip-to-Tail PBL)

d. Longer terms enable reliability investments. Working Capital Funds enable longer terms and are a must for PBL. (all PBLs)

e. Essential that Government and Contractor agree to the exit criteria prior to entering PBL contract. (F/A-18 FIRST)

f. NAE BCA process supports affordable PBL awards. (all PBLs)

g. Incurred cost data essential to establish Government position for follow on PBL negotiations and should be collected. (all PBLs)

h. NAVSUP WSS and NAVAIR collaborate during PBL Planning and Execution to ensure Navy develops a unified position and develops realistic and executable PBL contracts at reasonable prices. (all PBLs)

i. Metrics should be tailored to fit the requirement and hold provider accountable without eliminating incentive to perform. Metrics should also be aligned with Fleet requirements. (all PBLs)

j. Demand Bands should be considered to mitigate risk of fluctuating demands on Engine Component PBLs.

k. Subsystem or Component PBLs have worked best for NAE.

5. Key PBL tenets embedded in this memorandum are:

a. Weapons system or platform level PBLs, due to technical and financial complexity, are very difficult to put in place and carry additional challenges over a subsystem or component level

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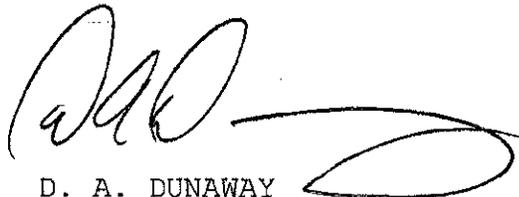
PBL. Significant planning and management are required to mitigate risk and should be included in platform level PBL efforts.

b. Subsystem or component level PBLs can be more easily managed, are more potentially cost effective, and should be considered and compared to all viable alternatives.

c. Collaboration between all government stakeholders during planning and execution of sustainment contracts is essential to success.

6. It is expected that this document be read and understood by the appropriate program office personnel prior to and during the PBL planning and execution process.

7. Technical Authority: AIR-6.6E is the NAVAIR technical authority for PBL.



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APPENDIX A
PBL LESSONS LEARNED AND BEST PRACTICES

The NAE PBL Study team completed an inventory of existing NAE PBLs, and an in-depth review of nine PBL and two Contractor Logistics Support (CLS) contracts. Based upon this research, the following lessons learned and best practices have been identified as critical steps to be reviewed and considered during any PBL planning or contracting effort. Each of these lessons learned or best practices are linked to a specific PBL or CLS contract from the team's review.

(1) Breakout Strategies (V-22 Joint PBL)

(a) **Challenge:** The ability to break out particular components and subsystems from the prime/integrator to the Original Equipment Manufacturer (OEM) or a competitive supplier should result in less total cost, eliminating pass-through costs while increasing performance, along with direct interface between the customer and OEM.

(b) **Lesson Learned/Best Practice:** The NAE utilizes breakout strategies, choosing to award multiple, smaller sustainment contracts including OEM-centric PBLs vice large, weapons system PBLs. This OEM-centric strategy can include some or all of the subsystems and/or components manufactured by this particular OEM. By the Navy taking responsibility for integration, the Warfighter may receive significant cost avoidance by eliminating additional pass-through costs and mitigating risk associated with limited OEM influence on the components (Class II Engineering Change Proposals (ECP), Obsolescence and Reliability Improvements, etc.). Additionally, looking across all subsystems manufactured by each OEM may decrease overhead and administrative burdens by consolidating the supply chain; facilitating economic order quantities from suppliers; reducing redundancy; and, where feasible, going to common configurations. Leadership concurrence and buy-in to PBL strategy and development of a solid tactical plan at the appropriate time in the life cycle of the weapons system is essential to success.

(c) **Deep Dive Analysis Example:** The V-22 Joint PBL phased contracting strategy awarded PBL contracts for non-material ILS elements in January 2009, and a PBL contract designed to fast-track ECPs in May 2009. Both contracts are exceeding expectations. The initial supply chain management phase of the contracting effort targeted support for 563

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repairable and 1,775 consumables. Based on lessons learned from performance issues on system level PBLs, regarding affordability and pass-through costs from other PBLs, the Integrated Product Team (IPT) decided to descope this effort and focus on critical Bell-Boeing manufacture items, which are some of the biggest cost drivers on the aircraft. Additionally, Naval Supply Systems Command - Weapons System Support (NAVSUP WSS) is implementing this breakout strategy, planning additional subsystem-level PBLs to support non-Bell-Boeing-manufactured items, produced by several companies.

(2) **PBL Integrator-to-Supplier Flow-Down of Performance Requirements** (F/A-18 Integrated Readiness Support Teaming (FIRST))

(a) **Challenge:** With a properly formulated and executed firm fixed price (FFP) PBL, the Navy can transfer risk for sustainment, forecasting and the opportunity to increase supply chain efficiencies to reduce consumption and increase time on wing to the PBL Provider. For the PBL to be successful, the PBL Provider should pass similar performance requirements to their suppliers.

(b) **Lesson Learned/Best Practice:** If the PBL Provider acts more as an integrator, they may be unwilling or unable to influence their suppliers through performance based requirement flow-down. It is highly recommended that breakout strategies be utilized for critical subsystems when the PBL Provider is primarily an integrator and has a limited technical role in the development, use or repair of the subsystem. Care must be taken in incentive/disincentive establishment to discourage the PBL Provider from sub-optimizing period of performance cost and sustainment performance at the expense of the weapon system's life cycle.

(c) **Deep Dive Analysis Example:** With F/A-18 FIRST, the NAE learned that the PBL Provider, that acts more as an integrator, had limited success in flowing down PBL performance requirements to their suppliers and was unable to incentivize these suppliers to improve products and processes. This impeded the implementation of corrective actions and reliability improvements from suppliers and negatively impacted overall performance. It is critical that the Navy and platform level PBL Provider properly assess performance and affordability risk associated with an arrangement involving numerous sub-tier OEM Providers.

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(3) **PBL Integrator and Manufacturer** (H-60 Tip-to-Tail)

(a) **Challenge:** With a FFP PBL, the Navy transfers risk for sustainment, forecasting and the opportunity to increase supply chain efficiencies to reduce consumption and increase time on wing. For the PBL to be successful, the PBL Provider must be able to drive improvements throughout the supply chain. This is difficult if there are numerous multi-level suppliers.

(b) **Lesson Learned/Best Practice:** The more direct hands-on involvement the PBL Provider has in manufacturing components or in managing close relationships with suppliers, the more likely the PBL is to succeed. If the PBL Provider acts more as an integrator, they may be unwilling or unable to influence their suppliers through performance based requirement flow-down. This limited reach back into multiple tiers of suppliers can negatively impact PBL performance. PBL Provider span of control is critical to the successful execution of PBL contracts. The number of items manufactured by the PBL Provider and the number of tiers of suppliers expected to be involved in the PBL should be well understood by the IPT. It is highly recommended that breakout strategies be utilized for critical suppliers when the PBL Provider is primarily an integrator and has a limited technical role in the development, use or repair of the subsystem.

(c) **Deep Dive Analysis Example:** In the H-60 Tip-to-Tail PBL, the Provider is Military Helicopter Support Company (MHSCo), a consortium between Lockheed Martin and Sikorsky. Collectively, the consortium manufactures over 70 percent of the components, enabling direct influence over the outcome for the PBL. Additionally, MHSCo's strong relationships with their suppliers enabled them to drive performance improvements throughout the supply chain. MHSCo was able to work with suppliers in their facilities to improve internal repair processes and procedures and resolve obsolescence and reliability issues. MHSCo was also able to migrate additional work to the Navy Fleet Readiness Centers (FRCs) to drive down costs while utilizing the Government infrastructure and depot maintenance expertise.

(4) **Funding Strategy** (T45 Engine Mission Care CLS)

(a) **Challenge:** PBLs are more successful when the period of performance is long enough for the PBL Provider to receive a return on their reliability investments.

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(b) **Lesson Learned/Best Practice:** Because Operations and Maintenance, Navy (O&M,N) funding is 1-year money, it is difficult to award a multiple year PBL contract. The Navy and/or Defense Working Capital Fund (NWCF/DWCF) are much more flexible, allowing for the award of long-term contracts.

(c) **Deep Dive Analysis Example:** The T-45 F405 experienced numerous reliability challenges that Rolls Royce wanted to solve under the Mission Care contract, but the year-to-year funding model (along with purpose statute restrictions on the use of O&M,N funding for investments) prevented the contractual time needed to ensure an adequate return on investment. Because the CLS contract was O&M,N funded, the PMA was not able to work with the Provider to resolve these reliability challenges under the Mission Care contract.

(5) **Exit strategies** (F/A-18 FIRST)

(a) **Challenge:** The ability to exit the PBL and sustain the weapons system, subsystem, and/or component can be extremely complex, expensive and time-consuming if the proper steps are not taken or proper clauses are not written into the contract.

(b) **Lesson Learned/Best Practice:** NAVSUP WSS utilizes several standard exit clauses to ensure that the PBL Provider takes the necessary steps and provides the data needed to establish or re-establish management back to the Government. Program Managers are responsible, via 10 USC § 2464 Core, to ensure that organic depot capability and capacity exists by Initial Operational Capability plus 4 years (IOC+4), although the NAE encourages depot stand-up planning as early in the life cycle as possible. NAVSUP requires capability be established or funded and in process prior to beginning a new PBL effort. It is essential that the Government and Contractor understand and agree to the exit criteria prior to award of the PBL contract.

(c) **Deep Dive Analysis Example:** As the NAE transitions from the supply chain portion of FIRST, from the Prime to other alternatives, the IPT initiates actions to initialize transactional support strategies. It is critical that both the Government and Industry have a clear understanding and agreement on exit criteria prior to entering a PBL contract. The requirement to develop additional capability and capacity and establish a supply chain can require significant investment, even when planned in the beginning of the PBL effort. An exit

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strategy agreement documented in the contract is an NAE PBL best practice.

(6) **Incurred Cost Reporting for PBL Contracts** (H-60 Tip-to-Tail)

(a) **Challenge:** With a FFP PBL, the PBL Provider is expected to improve performance and reduce demand, which can result in increased profits for the contractor. This is a PBL basic premise. The Government's requirement should be that these savings will be shared on the follow-on PBL contracts. To ensure this occurs, actual incurred cost and performance data is required to monitor the execution of the contract and form the Navy's budget development and refinement process.

(b) **Lesson Learned/Best Practice:** Navy Leadership requires actual incurred cost data from the current or previous PBL to be utilized during budget formulation/update and during follow-on negotiations to ensure the best value is negotiated. Incurred cost data should be collected as part of the follow-on proposal, if it is not currently included as a contract deliverable on the previous PBL. Additionally, the requirement to deliver incurred cost data should be included on future Federal Acquisition Regulations (FAR) Part 15 PBL contracts as an Incurred Cost or Cost and Software Data Report (CSDR) contract data requirements list (CDRL).

(c) **Deep Dive Analysis Example:** The H-60 Tip-to-Tail follow-on PBL incorporated all of the Assistant Secretary of the Navy, Research, Development and Acquisition (ASN RD&A) and Defense Procurement Acquisition Policy (DPAP) peer review recommendations into the contract prior to completion of negotiations. Cost visibility and control additions included the requirement to obtain actual incurred costs on the previous PBL contract to support negotiations. In the H-60 Tip-to-Tail follow-on contract, receiving the actual incurred costs from the PBL Providers assisted NAVSUP WSS in negotiating a renewal that included a significant reduction in costs and also to implement an ongoing price reduction (year over year) throughout the new PBL contract. Additionally, NAVSUP WSS was directed to include an Incurred Cost CDRL in the H-60 Tip-to-Tail follow-on, requiring actual costs to be submitted semi-annually through the period of performance, which will aid in understanding of future budget requirements including the next renewal negotiations. Capturing and understanding actual costs is critical to supporting budget build, and contract renewal efforts should be included on every PBL contacting effort.

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(7) **Evolving/Tailored Metrics** (H-60 Tip-to-Tail)

(a) **Challenge:** Failure of the PBL Provider to meet metric performance goals can result in a disincentive fee or penalty. This can contribute to cost trade-off decisions that may not incentivize corrective actions. If this happens, the PBL Provider may choose to stop performing to avoid minimal profits or performing the contract at a loss.

(b) **Lesson Learned/Best Practice:** NAVSUP WSS and NAVAIR work closely with the PBL Provider to ensure that the FFP contract does not put them in an untenable position. The PBL contract performance metrics are tailored to fit the specific requirement and to hold the PBL Provider accountable, without eliminating their incentive or motivation to perform.

(c) **Deep Dive Analysis Example:** The government IPT recognized a need for increased effectiveness in the original H-60 Tip-to-Tail PBL contract, where overall "average" performance was successful, while performance on selected critical items was significantly less. The H-60 Tip-to-Tail PBL team developed a "high interest" group of critical items (approximately 30 line items) that are measured separately from the entire group and must meet the stated Supply Response Time Metric (SRT). In the first year of execution, support for these items increased dramatically. The IPT also recognized the challenge presented with meeting the standard SRT second pass metric for critical long lead time repair items. The team determined to develop a longer, second pass SRT metric for this subset of items to reduce costs by minimizing the need to invest in additional expensive spares. The tailored metric is reasonable, attainable and represents a challenging goal for the PBL Provider and a significant improvement in fleet support. The H-60 Tip-to-Tail follow-on contract tailored the performance requirements to focus on critical items and control costs. Administrative and performance tracking concerns are also considerations in metrics development. Tailoring metrics to fit requirements is a best practice.

(8) **Demand Banding** (F414 Depot Components)

(a) **Challenge:** Engine PBLs must address significant usage variation caused by life limit changes, bulletins, whole engine and module induction schedules etc. The ability to accurately predict and reach agreement with the PBL Provider on forecasted demand for engine PBLs is essential for PBL success.

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(b) **Lesson Learned/Best Practice:** For engine component PBLs, NAVSUP WSS utilizes demand bands on the expensive components to mitigate risks for fluctuating demands. When actual demands are less than the lower band, the PBL Provider reduces cost to the Government. When actual demands exceed the upper band, the Government increases payment to the PBL Provider. While demand bands are an effective tool to mitigate risk of fluctuation demand, caution should be exercised in application of demand bands: PBL incentives for investment are reduced and they require increased government administration effort to track.

(c) **Deep Dive Analysis Example:** It is challenging to predict replacement part requirements accurately for aircraft engines. Demand variability can challenge sustainment operations. Demand bands are used in engine PBLs to mitigate the risk of significant demand variability within specific ranges for groups of high cost items. Demand bands give the PBL Provider the opportunity to recoup costs generated by higher demand, and the Government to reduce costs if actual demand does not reach demand band minimums.

(9) **Collaboration during Sustainment Planning and Execution** (All PBLs)

(a) **Challenge:** Sustainment strategies, including PBLs, are very complex and need close collaboration between government organizations to develop effective strategies and identify accurate requirements. Establishing a unified government position on sustainment regarding contract terms, contract performance and financial monitoring plans requires dedicated effort from all the involved government organizations.

(b) **Lesson Learned/Best Practice:** Close coordination and collaboration by the government team is essential to ensure affordable and effective sustainment strategies to meet Warfighter requirements.

(c) **Deep Dive Analysis Example:** The NAE sustainment process begins with a collaborative NAVSUP WSS and NAVAIR resource allocation, including a PBL prioritization discussion. Once PBL priorities have been established, the NAVSUP WSS IPT process begins with several government stakeholders meetings to clearly understand and define requirements, capabilities and expectations prior to releasing a Request for Information (RFI), potentially followed by a Request for Proposal (RFP). The government team consists of NAVAIR Program Office, NAVSUP WSS

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Integrated Weapons System Support Team (IWST), Contracting, Technical, Legal and other Government representatives. The team develops a unified position and speaks with "one voice" to the potential PBL Provider(s) during planning and contract execution. An additional area the government team must consider is the targeted systems position in its life cycle and the potential challenges/diverging goals between OEM production, engineering and sustainment organizations. A true collaborative relationship across the OEM's internal stakeholders can greatly impact PBL success. Additionally, NAE leadership has recently established a Senior Level Sustainment Strategy Executive Panel, focused on strengthening the collaborative relationship between the responsible organizations, which will include a focus on PBL support.

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APPENDIX B
PBL PROCESSES, GUIDANCE, STRATEGIES
AND COST ANALYSIS TOOLS

The paragraphs in this section describe additional PBL guidance and tools and are divided into two subsections: PBL Processes, Guidance and Strategies and Cost Analysis Tools. IPTs should be familiar with each of these areas and incorporate the requirements in their planning.

a. PBL Processes, Guidance and Strategies

(1) **PBL Integrated Product Team (IPT):** Product Support Managers (PSMs) are responsible for Life Cycle Sustainment to maintain system long-term readiness, increase reliability, and reduce the logistics footprint, as documented in the Life Cycle Sustainment Plan (LSCP). As the foundation for the sustainment portion, the award and execution of PBL contracts require the teaming of multiple organizations and functions. The PSM is the leader of this team and is singularly responsible for ensuring that their weapons system meets the performance requirements detailed in the Performance Based Agreement (PBA). The PBL IPT is a tool to manage sustainment and ensure all organizations and functions are focused on the needs of the Warfighter, vice the needs of their parent organizations. The PBL IPT should consist of experts from the various functional areas, representing all the Integrated Product Support (IPS) elements, and include Engineering, Cost Analysis, Data Management, Legal, Contracting, Test and Evaluation, as well as representation from Commander, Naval Air Forces (CNAF) and the resource sponsor. The PBL IPT will have the sole function of developing and promoting the PBL strategy from inception through contract execution. Duties and functions will include: identification of the PBL candidate, formulation of the PBL strategy, metrics development, reliability maintenance and growth, Diminished Manufacturing Sources and Material Shortages (DMSMS) considerations and maintenance planning evolution. Senior level buy-in at all the respective commands has also been proven as required for successful PBL contracts. The IPT should conduct periodic program management reviews (PMRs) and executive steering committee (ESC) meetings dedicated to sustainment. PSMs should consider utilizing a model similar that in Enclosure (1).

(2) **Sustainment Strategy:** A single PBL contract with the prime contractor for comprehensive support, while desirable from a management aspect, may not be the most cost-effective solution. PSMs are directed to focus on enterprise, not just

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program, performance. Enterprise sustainment allows for a single industry Provider to cover multiple customers (e.g., Military Departments, Coast Guard, Foreign Military Sales, etc.) for a range of products and services, resulting in economic benefits and fewer contracts and contractual actions. As multiple weapons system customers experience rising O&M,N costs, consideration should be given to enterprise sustainment opportunities across a family of systems that can be grouped within Commands, Program Offices, and Industry partners, such as BAE, Boeing, General Electric, Lockheed-Martin, Raytheon, Sikorsky and others, to increase the economic benefit for all. The NAE has had success with Auxiliary Power Units, air-to-air missiles and tires with this approach of working horizontally across products and programs for common sustainment support. The combined buying power of multiple customers up-front and early will assist DoD in influencing industry to reduce the contractual burden of multiple contracting actions, while improving the speed of in-service support and reducing the life cycle costs. Additionally, an integrated PBL approach that utilizes the readiness improvements and cost savings generated by the existing enterprise and subsystem PBLs is often more affordable than a weapons system approach. If a full coverage system level PBL is to be pursued, considerations include analysis of management "pass through" fees; flow down of PBL contracts to suppliers; and overall value provided by the prime contractor. An all-inclusive PBL contract for an acquisition category (ACAT) I weapon system is difficult to achieve even though it may be conceptually ideal, hence PSMs should consider leveraging both the horizontal enterprise and the vertical system level strategies in an integrated PBL approach, as in Enclosure (2).

(3) **Use of Working Capital Funds:** The use of the Navy Working Capital Fund (NWCF) is a Best Practice for Navy PBLs. The NWCF is used to fund the supply support and packaging, handling, storage and transportation (PHS&T) IPS elements in a PBL strategy. The NWCF is uniquely designed to facilitate long-term fixed price contracts, which incentivize contractor investments to improve products and processes, and is one of the most significant factors facilitating industry's ability to improve the level of support while controlling costs. The long-term commitment under PBL enables the contractor to balance risk and investment, and allows industry to make investments that would not be made in a transactional support scenario. The NWCF is a revolving, non-appropriated account that does not expire. The period of performance on most NWCF PBL contracts is a 5-year base period, with option(s) up to 5 more years. The NWCF does

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not directly fund the other IPS elements, however, the Provider is free to use any of the IPS elements required to deliver the contracted outcome. For PBLs covering multiple IPS elements, multiple appropriations may be required, based on the intended scope of effort (e.g., appropriated dollars for training or technical publications). PSMs should pursue commitments from the appropriate resource sponsors to request resources in the proper appropriation, based on the efforts being performed. O&M,N funding is normally the primary source of funding for CLS contracts. O&M,N is 1-year money; consequently, contracts consist of a 1-year base period plus 1-year options, which increases industry risk and reduces incentive to make investments. Furthermore, due to statutory limitations for O&M,N funding, investments are limited, resulting in greater requirements for multiple appropriations to fund modifications (reliability, obsolescence, etc.).

(4) Contract Type, Supply vs. Services, Firm Fixed

Price: A properly structured PBL contract incentivizes system reliability and supply chain efficiency by transferring sustainment risk to the support Provider. This risk transfer is best accomplished through the use of a Firm Fixed Price (FFP) contract and a performance based Statement of Work (SOW). However, the risk of entering into FFP contracts prior to establishing firm cost, resource, and material baselines may necessitate the use of cost type contracting approaches early in the product support life until the program stabilizes and is more predictable, with a plan to transition to FFP when sufficient data is available. PBL SOWs will not prescribe "how to" but synchronize the integrated product support elements required to deliver specified performance outcomes. There are two major types of contracting strategies that can be used for a PBL contract, supply contract or services contract. The DoN preferred contract for PBL is a supply contract. In a supply contract, the PBL Provider is required to deliver an outcome, the end item(s) of supply delivered in a specific time frame. Since the PBL contract requires delivery of an end item of supply, it is within the discretion of the contractor to deliver a new spare, overhaul the item, or remanufacture the item to provide the specified availability and reliability. Under a PBL contract, the Provider is required to meet specified performance metrics based not upon a service performed, but upon the delivery and performance of the end item. Contractors are measured for example based upon supply response time achieved - the amount of time it takes a requisition to be filled. The PBL Provider may also be required to meet specified reliability performance requirements for the end item. Many of the

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successful Navy PBL contracts have been firm fixed price with no additional incentives. Use of a FFP supply contract is a NAE PBL best practice when the reliability, demand and cost are relatively stable, understood and predictable.

(5) **Period of Performance:** Use of a longer period of performance allows the contractor to fully invest in reliability, plant, equipment, labor and process improvements that will improve performance and bring down costs over the life of the contract. However, the longer period of performance delays the Government's ability to use the follow-on contract or option as a tool to improve contractor performance or reduce costs. This forces the terms and incentives of the contract to be carefully crafted to ensure contractor performance over the life of the contract. A recent NAE sponsored team review of several PBL contracts indicated that most contracts are using a 4 to 5 year base with options that combine the best aspects of the two paths outlined above. Most NAE PBL contracts were for 4 to 5 years, and several had options to extend the period of performance with option(s) up to 10 years total. Use of longer term contracts is a PBL best practice. A PBL period of performance will rarely exceed 10 years as the ability of a contractor to propose a FFP past the 10 year timeframe may not be practical and may not represent the best value to the government.

(6) **Incentives or Disincentives:** PBL IPTs should have a good understating of a Provider's business model to understand incentives. Incentives can include increased contract term, awarding of option periods, additional funding, and gain sharing. Gain sharing has become a popular path to encourage significant improvements and passing additional savings back to the Government. Another option is negative incentives which are generally monetary (reductions in payments). There may be competing factors that drive contractor behavior differently from the team's expectation. A properly structured FFP PBL will inherently incentivize the Provider to improve reliability and supply chain efficiency while controlling cost to the government, by taking on risk and the opportunity to increase profits with the improved products and/or processes. Disincentives for performance below the contractual metric are also generally included. The IPT may consider additional incentives on a case by case basis. There is no conclusive evidence that specified incentives consistently improve performance. Every PBL is different. Incentives beyond the inherent profit incentive a FFP contract drives may be considered but are not necessarily required for every PBL.

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When considering the use of incentives in PBL contracts, it should be noted that both positive and negative incentives should be used to prevent any imbalance in over or under incentivizing contract performance.

(7) **Competitive or Sole Source Justification and Approval (J&A):** For in-production weapons systems, PSMs should consider developing their PBL support strategy via a Government - Industry teaming arrangement with OEM(s). The OEM can influence design for reliability, maintainability and supportability and can leverage off the production line for concurrent procurements, redesigns and upgrades, and obsolescence or DMSMS mitigation and can utilize economic order quantity purchases with their suppliers across multiple product line, e.g. radars. Non-OEM PBL support Providers may not have the engineering qualifications, technical data, configuration mechanisms, nor interim logistics support processes to provide the best value PBL solution. Furthermore, many of systems, subsystems and components managed by the NAE are military unique items in which the OEMs are either a monopoly or part of an oligopoly in a distorted market, not conducive to real competition. PSMs should ensure the J&A has the flexibility to allow for growth for new components and additional users and resolution of sustainment challenges through the most optimal combination of additional spares, training, redesign, support equipment, maintenance planning etc. Competitive PBLs are pursued when more than one qualified supplier can deliver the required outcome, e.g., tires and hydraulics PBLs. Competition should be pursued whenever possible but requires a market with qualified Providers and may be dependent on the availability of technical data rights. Procurement of technical data for full and open competition is not driven by PBL, but is a decision made early in the life cycle by the PSM based on total ownership cost considerations addressed in the Life Cycle or Product Support Business Case Analysis (BCA) and documented in the Life Cycle Sustainment Plan. J&As must fully document the decision to pursue a sole source PBL. There is an inherent form of competition in a sole source PBL, with success (increased margins) dependent on the ability to reduce costs within the internal team structure of the PBL organization, which acts like competition. Subsequently, the government shares the benefit of reduced costs on the follow on contract.

(8) **Sustainment Key Performance Parameters, Key System Attributes (KPP/KSA), Metrics:** As the IPT develops PBL contract metrics, it must ensure that the chosen metrics are easily measurable with a repeatable process for measurement, and that

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the contractor's actions are directly responsible for producing the outcome. The standard PBL deliverable is a specified contractual supply support performance outcome tied to Warfighter requirements. The standard metric to measure supply support is a material availability, time definite delivery metric referred to as Supply Response Time (SRT). SRT is designed to deliver appropriate levels of material availability to Fleet customers. The metric is aligned with Operational Availability (A_o) parameters built into the Readiness Based Sparing (RBS) model and the Uniform Material Movement and Issue Priority System (UMMIPS). SRT fill rates measure the contribution of supply support to higher level metrics like A_o and Ready for Tasking and responsibility for achieving SRT can be 100% vested with the PBL Provider. Enclosure (3) is an example of the PBA to contract metrics relationship.

(9) **Performance Based Agreement (PBA):** One of the successful attributes of PBLs as called out in numerous studies is a link between the PBL's outcome based metrics and Warfighter requirements. The PBA is a Memorandum of Agreement (MOA) between the PM and CNAF or USMC Deputy Commandant for Aviation. The PBA documents what the Warfighter requirements in terms of performance and what the Warfighter is willing to resource for that specified level of performance. The PBA identifies ultimate system level Warfighter requirements (A_o, RFT, Full Mission Capable, etc.); however the NAE has determined that the single overarching Fleet driven metric for Naval Aviation is RFT aircraft. Marine Corps programs will coordinate the PBA with Head Quarters Marine Corps (HQMC) and CNAF. PMs should consider utilizing the example in Enclosure (4) as the basis for developing the PBA.

(10) **Public-Private Partnerships and Title 10 CORE:** Public Private Partnerships (PPP) are a key component in many PBL contracts. In a PBL - PPP, the organic depot provides skilled depot touch labor and serves as a supplier to the industry PBL Provider. Reference (f) authorizes and encourages the use of PPPs. In a PBL - PPP arrangement, the PBL Provider manages the repair process, provides piece part support, may provide the repair orders and assists the organic depot with incorporating commercial best practices. The organic depot artisans physically do the repairs, utilizing labor funding provided by the PBL Contractor. Partnerships are an effective use of Navy depot expertise that allows sharing of best practices, while satisfying Title 10 U.S.C. § 2464 Core Depot-Level Maintenance & Repair Capability regarding organic depot repair capability and workload. Partnerships combine the best of

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both worlds - unparalleled depot artisan "touch labor" expertise with the engineering and supply chain efficiency of industry and third party logistics Providers. Title 10 U.S.C. § 2474 provides the fundamental enabling statutory basis for PPPs, allows for the designation of depots as Centers of Industrial and Technical Excellence (CITEs) in their core competencies, and further allows them to form PPPs in these core competencies. For weapons systems/subsystems that have been determined to be Core, organic capability must be established by IOC+4 years. Depot repair capability or a funded stand-up plan with integrated master schedule is essential to beginning PBL contracting efforts. Regardless of IOC+4, experience has shown that it is best to start depot capability establishment early in the life cycle, with the PBL Provider working with the FRCs to establish capability prior to material support date (MSD). PSMs are encouraged to start depot capability planning as early as possible and when feasible, establish single site capability at the depot to avoid paying for stand-up at the contractor facility and again at the organic depot. Industry is willing to support these proposals as it enables them to establish long term agreements/contracts with the organic depots. See Enclosures (5) and (6).

(11) **Foreign Military Sales (FMS):** PBL planning must include international partners and FMS. While policy and guidance for international participation in NAE PBLs is being developed, there have been many lessons learned from the recent addition of the first FMS customer as a full partner into existing Navy PBLs, as follows:

(a) For potential new sales, close coordination between all stakeholder- the PMAs, IWSTs, NAVAIR/NAVSUP contracts, international programs and PBL policy offices, is a requirement to ensure timely international partner incorporation into NAE PBLs.

(b) Foreign Military Sales Order (FMSO) I Arrangements provide initial funding to NWCF to increase pipeline for FMS customer; FMSO II Arrangements provide funding for requisition processing (issue of RFI unit) and carcass turn-in. For FMS participation on USN PBL, material investment must be made through FMSO I. Assets not procured through FMSO I/NWCF cannot be incorporated into the PBL wholesale inventory to share in a common asset pool. Cooperative Logistics Supply Support Arrangement / Repairable Item Replacement Option (CLSSA/RIRO), via an investment into the NWCF, is the mechanism for FMS customer participation in PBL.

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(c) FMS Customers may require support of unique items, however CLSSA is limited to the requisitioning of commonly used items (currently used by U.S. Forces) that are centrally stocked and/or centrally managed. Unique items are considered non-standard (non-stock numbered) and therefore cannot be supported under a CLSSA/RIRO case. Classified/Hazardous Material (HAZMAT) Items are excluded under CLSSA; waiver from Defense Security Cooperation Agency (DSCA) is required to process classified or hazmat items under CLSSA. Notice of Availability (NO) is required for classified, hazmat or oversize shipments (14 days prior to shipment)

(d) Deviation from the SOW compromises the effectiveness of the PBL and strains resources. FMS unique items are currently prohibited from USN PBL support, as they are neither "centrally stocked nor managed" nor assigned NSNs. Currently, unique items will be covered by a separate contract line item number (CLIN), or under traditional cases.

(e) Minimize changing requirements of the International Partner/FMS customer after they express interest in a PBL.

(f) For PBLs already in process, FMS customer, as much as practical, must accept terms and conditions. Differences to USN PBL scope of effort will be evaluated and accommodated if possible. Significant difference from USN PBL scope of effort will be entertained during PBL program inception and/or during contract renewal phases

(g) Serial Number Tracking (SNT) and common spares pools of Life Limited Components may be a concern and should be coordinated and evaluated with NAVAIR and Provider engineering staff.

(12) **Defense Logistics Agency (DLA):** As part of the acquisition planning, the Navy seeks DLA input to determine the status of Navy unique inventory. This ensures required draw down of Navy unique inventory in DLA stock. Therefore, where DLA has Navy unique inventory that meets the appropriate government quality and technical requirements (for example, the item is from an approved source) and availability requirements, then the PBL contractor would be required to draw down the unique inventory. NAVSUP WSS will advise DLA of the planned scope of the PBL, including use of DLA inventory, so DLA can make appropriate adjustment to its demand and acquisition planning. Where Navy unique inventory is not an issue and after

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the drawdown of existing inventory has occurred, the contractor would have the ability to use DLA as a permissive and authorized source of supply. This approach provides for maximum and cost efficient use of existing Government inventory and allows for proper future demand planning for those inventories. Further efficiencies in buying power and in weapon system support may be attained by considering the inclusion of a contract-line item for DLA consumables as a partner on the PBL contract. If the DLA requests inclusion of their requirements on the NAE PBL, DLA may provide funding for their requirements and may be held to the same contract terms, conditions and performance metrics as Navy items. If DLA is not a partner, the PBL contract should include Federal Acquisition Regulations (FAR) Part 51 IAW Reference (g), which authorizes the PBL Provider to use DLA as a source of supply.

(13) **Transparent to the Warfighter:** Another key component of the NAE PBL structure is integration with the existing supply system. NAE PBLs utilize the existing support infrastructure. The interface is identical for fleet customers, no matter how the material is being provided. Leveraging existing infrastructure and Fleet used interfaces is a critical success factor for NAE PBLs. Deviating from this best practice is not recommended and should be considered with extreme care and assessed as part of the Product Support BCA.

(14) **PBL is not CLS:** CLS is not the same support product as PBL. CLS is the "who" of providing support, not the "how" or the business model. While CLS could be performance/outcome based, CLS simply means that support is provided by a contractor, most often using a time and material service contract which is not outcome based. Generally CLS has no material support date, is not part of the integrated supply system, and is funded by O&M,N from program inception. NAE PBL is not outsourcing, focuses on use of existing infrastructure, and combines best practices of both government and industry. NAE PBLs are fully incorporated into the integrated supply system and are always outcome based.

b. **Cost Analysis Tools:** The NAE has utilized PBL or alternative sustainment outcome based contracts in an effort to improve weapons system performance and manage costs for the past decade. In today's declining budget reality, understanding the life cycle program costs and ensuring the DoN is getting the best outcome for a fair price is essential. DoN uses several tools to evaluate and support the government's decisions to enter into and/or continue PBL contracts. The principle tool

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used is the BCA, of which DoN uses two distinct types spanning different periods of the platform or systems life cycle. Discussion of the various cost analysis tools and processes follows:

(1) **Product Support or Life Cycle BCA:** The Product Support BCA is a structured methodology and document that aids decision making by identifying and comparing alternatives by examining the mission and business impacts (both financial and non financial), risks, and sensitivities over the useful life of the product. Effective BCAs provide decision makers with the best available cost, technical and performance information to justify and articulate a chosen sustainment strategy for the life cycle of a system and/or subsystems. BCAs will be using a team approach, with cognizant Government IPT members providing competency expertise to determine appropriate technical and programmatic factors for comparison, as well as areas of uncertainty or risk. A successful BCA will recognize and identify key enablers and appropriate uncertainty bounds of technical, schedule and/or cost input and will also summarize relevant sustainment/performance benefits. Implementation of a product support alternative requires the ability to track performance results throughout the program or system life cycle. Performance will be presented and reviewed at periodic PMRs. Programs will update their BCA every 5 years or if there is a change in strategy, e.g. significant technical or programmatic changes, addition of equipment, and prior to any follow-on contract or program milestones. PSMs should use updated BCAs to ensure any approved sustainment strategy continues to provide the best value alternative to support the war fighter. As with the initial BCA, updated performance and cost data from commercial sources will be verified by the cognizant Government personnel. PSMs should ensure AIR-4.2 reviews and assesses all Product Support / Life Cycle BCA cost findings.

(2) **NAVSUP Contract BCA:** The NAVSUP BCA is a decision tool used to support award of a PBL contract. The BCA is the primary tool used to determine the affordability of a PBL initiative. The BCA captures the costs associated with the scope of effort and period of performance identified in the SOW associated with a specific PBL effort. On the government side of the BCA, the goal is to identify and forecast all traditional costs associated with the scope of effort over the period of performance. The scope of effort is passed along to the PBL Provider who costs out the Industry strategy required to attain specified performance outcomes. Over the contractual period of performance, the cost of PBL support must be equal to or

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preferably lower than traditional transactional costs associated with the intended scope of effort. The BCA is used in conjunction with a fair and reasonable determination of the contractor's proposal by the contracting officer. The primary focus of the BCA is NWCF although any committed funding stream can be addressed. The NAVSUP BCA supports award of a specific PBL contract and is distinct from a Lifecycle or analysis of alternatives BCA that evaluates support alternatives and is used as a programmatic decision tool.

(3) **Should Cost Analysis:** Recent guidance from DoD now requires managers to achieve Better Buying Power and to target affordability goals through the application of Should Cost Management strategies. The should cost approach challenges IPTs during contract negotiations and program execution to drive productivity improvements in their programs. IPTs should be scrutinizing every element of program cost, assessing whether each element can be reduced relative to the year before, challenging learning curves, dissecting overheads and indirect costs, and targeting cost reduction with profit incentive - in short, executing to what the program should cost. Managers are to set reasonably achievable affordability goals in order to improve contract performance and to reduce program total ownership cost, thus allowing savings to be channeled back in the DoN for recapitalization. IPTs are expected to make strong efforts to find additional savings.

(4) **Incurred Cost Reporting:** The NAE has determined that capturing actual incurred costs for PBL contracts periodically during execution is a valuable tool for monitoring contract performance, developing future budgets and negotiating follow on PBL contracts. Evaluation of actual costs along with the BCA will also provide the negotiator a firm baseline for determining price reasonableness and allow the Government the opportunity to reap the benefits of cost reductions driven by the contractor's innovation and improvements. Additionally, capturing this data over time will comprise a previously unknown but necessary body of knowledge that can be utilized in budget development activity and assist in negotiating new PBLs. Navy Leadership requires actual incurred cost data from the current or previous PBL be utilized during follow on negotiations to ensure the best value is negotiated. Incurred costs should be collected during execution and provided as part of the follow-on proposal as an Incurred Cost or as a CSDR or CDRL.

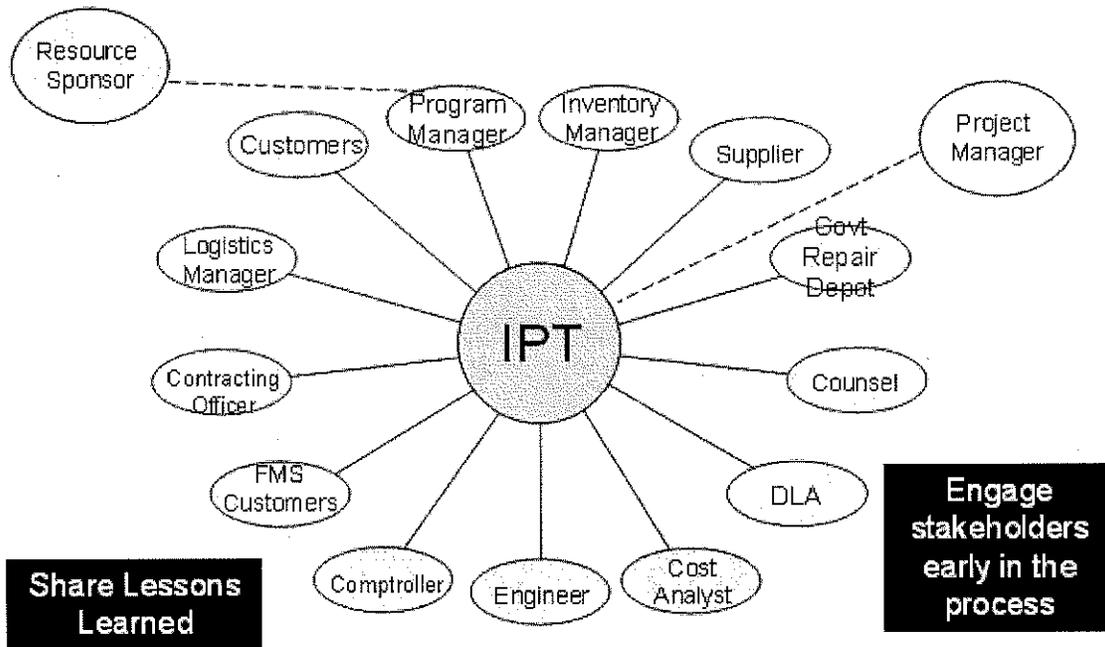
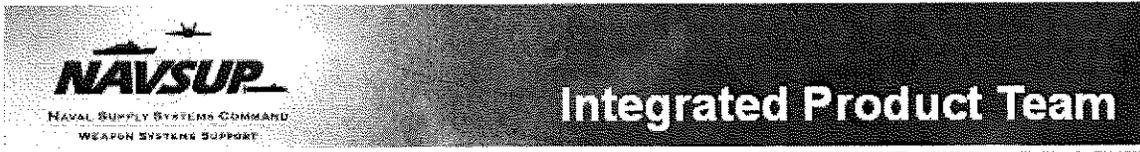
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(a) **Requiring Incurred Cost Data as part of follow on proposal:** In most current NAE PBL contracts, incurred cost data was not included as a deliverable on the contract. In this case, the only option is to require it as part of the follow on proposal. Collecting incurred cost data as part of the proposal can and has worked, but can be met with resistance from the PBL Provider. Incurred cost data is effective for renewal contracts but may not be received in time to support the budget build process. This method should be used for every renewal effort where actual cost data was not included as a deliverable.

(b) **Incurred Cost Reporting CDRL:** A CDRL will be used to ensure that actual incurred costs are provided as part of the contract deliverables. The CDRL may specify delivery of this information at regular intervals during the period of performance if desired. Enclosure (7) is an example of a CDRL which requires bi-annual submittal of incurred costs. Data can be submitted in contractor format.

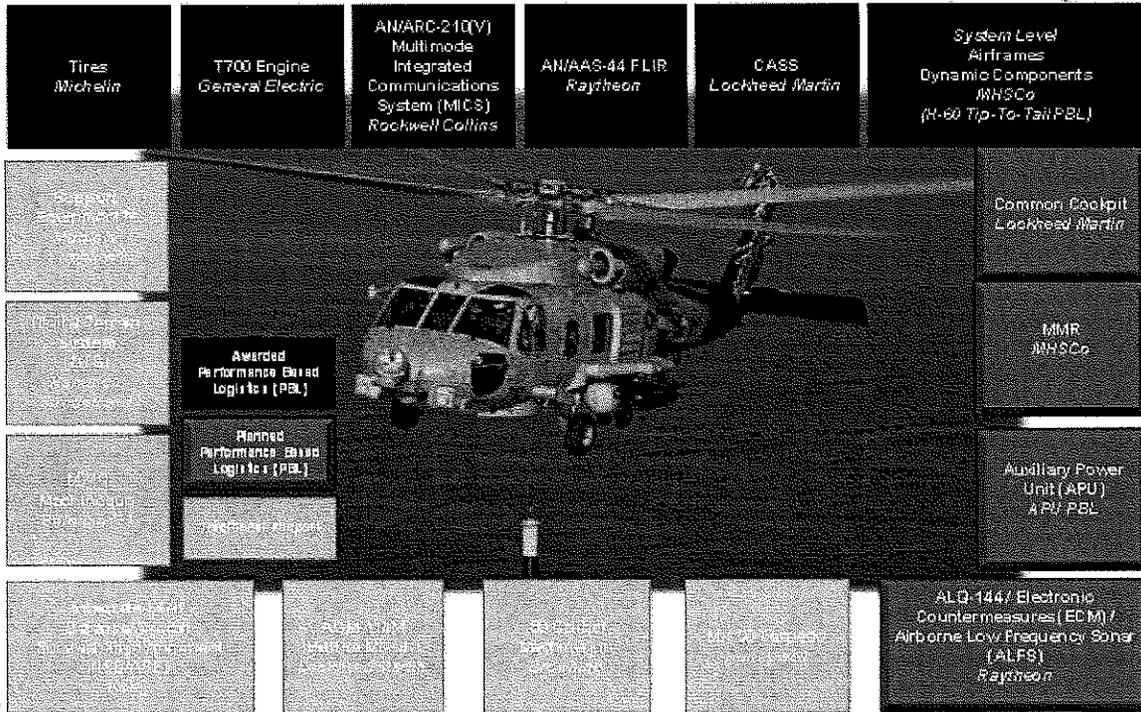
(c) **Cost and Software Data Reports /Cost and Maintenance Data Reporting:** CSDRs, specifically form DD1921-4 Contractor Sustainment Reports, included as Enclosure (8) and maintenance data reporting are tools for capturing PBL costs and performance. Accumulation of actual cost and performance metrics can be used in fulfilling DoN O&S cost reporting requirements, developing cost estimates for subsequent contracts, analogous efforts, and for POM submission. The intent of cost reporting and detailed maintenance supply reporting is to collect data required to ensure that the sustainment strategy continues to remain the best value alternative to support Warfighter requirements. The data may also be used when available and appropriate to estimate future and similar program costs, to prepare life cycle cost estimates for major system milestone reviews, to develop independent Government contract cost estimates in support of cost and price analyses, and in development of estimates to support long-range programming, planning, and budgeting analyses. PBL IPTs should investigate and follow current policy requiring CSDRs submission, content and distribution. Reference (h) provides the latest guidance for the use of CSDRs. At the discretion of the program team, additional CDRLs may be implemented to obtain more detailed cost or performance data if expected to be needed to assess the impact of planned or potential should cost initiatives.

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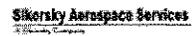
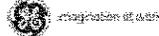




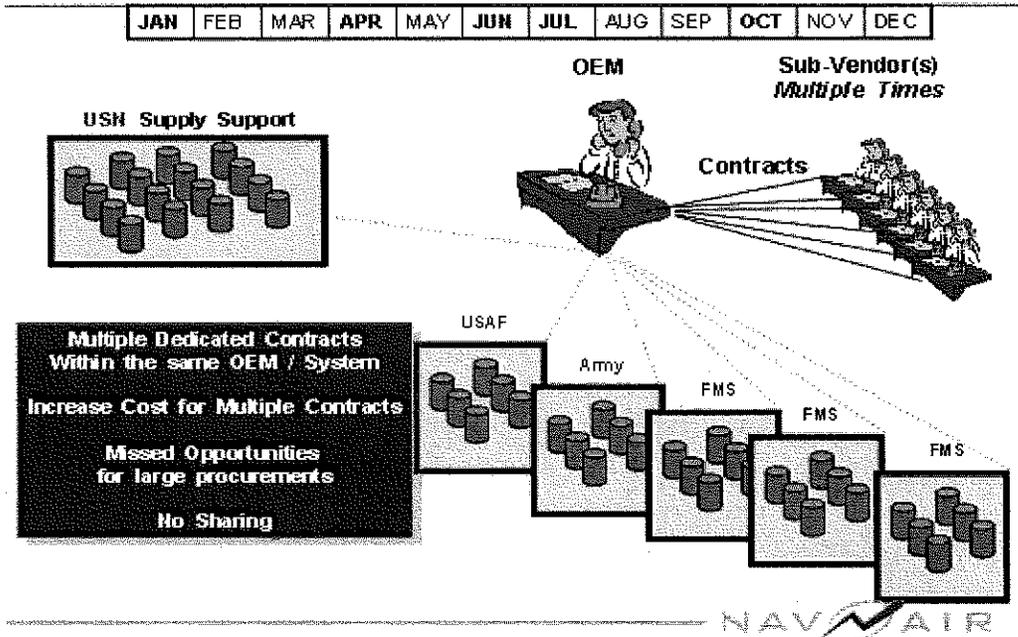
MH-60R Sustainment Strategy



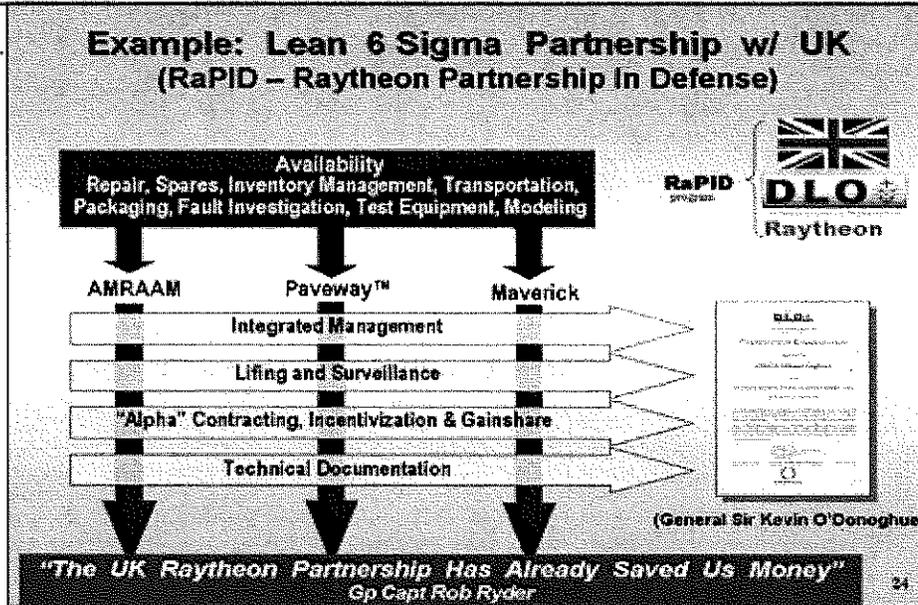
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DoD & FMS PROCUREMENTS WITHIN THE SAME OEM



HORIZONTAL CORPORATE SUSTAINMENT STRATEGY





PBA Metric – Mission Capable

$$\begin{array}{l}
 \text{PBA Metric} = \text{Mission Capable Rate (Ao)} \left\{ \begin{array}{l} \text{MTBF} \left\{ \begin{array}{l} \text{Component} \\ \text{Software} \\ \text{Engine} \\ \text{Support Equipment} \end{array} \right. \\ \\ \text{MTTR} \left\{ \begin{array}{l} \text{Maintainer Availability} \\ \text{Awaiting Maintenance} \\ \text{Maintenance Manual} \\ \text{Trouble Shooting} \end{array} \right. \\ \\ \text{MLDT} \left\{ \begin{array}{l} \text{Supply Response Time} \\ \text{Administrative Delay Time} \\ \text{Outside Assist Delay Time} \end{array} \right. \end{array} \right.
 \end{array}$$



PBA Metric Cost Per Flight Hour

$$\begin{array}{l}
 \text{PBA Metric} = \text{O \& S Cost Per A/C Operating Hour} \left\{ \begin{array}{l} \text{Direct} \left\{ \begin{array}{l} \text{Fuel} \\ \text{AVDLRS} \\ \text{Consumables} \end{array} \right. \\ \\ \text{Indirect} \left\{ \begin{array}{l} \text{TAD} \\ \text{Operational Staffs} \\ \text{Fleet Simulators} \\ \text{Etc.} \end{array} \right. \end{array} \right.
 \end{array}$$

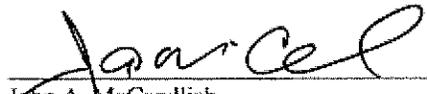


Contract Metrics

- Reliability Metric
 - Mean Flying Hours Between Unscheduled Removal (MFHBUR)
- Supply Response Time (SRT)
 - Defined as the Period Between the Receipt of the Requisition by the Contractor and Receipt of Material by the Government
- Technical Assists Turn Around Time
 - Measures the Total Time to Complete and Clear a Technical Assistance Request (TAR)
- Engineering Investigation (EI) Turn Around Time
 - Measures Total Time Spent by the Contractor (and / or Vendor) to Complete and Clear an EI
- Number of Technical Data Engineering Assists
 - Measured as Maintenance Work Stoppage due to Inadequate Technical Data

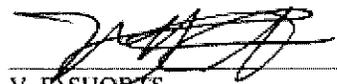
F/A-18 PERFORMANCE BASED AGREEMENT
BETWEEN PMA 265, COMMANDERS STRIKE FIGHTER WING
ATLANTIC AND PACIFIC, AND COMMANDER NAVAL AIR
FORCES

This Performance Based Agreement (PBA) establishes Ready-for-Tasking and Cost-Wise
Readiness performance objectives for the F/A-18.



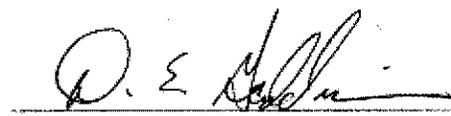
John A. McCandlish
Captain, U. S. Navy
Commander Strike Fighter Wing, Atlantic

14 July 05
Date



V. F. SHORTS
Captain, U. S. Navy
Commander Strike Fighter Wing, Pacific

14 July 05
Date



D. E. GADDIS
Captain, U. S. Navy
F/A-18, EA-18G Program Manager

14 July 2005
Date



J. M. ZORTMAN
Vice Admiral, U. S. Navy
Commander, Naval Air Forces

18 AUGUST, 2005
Date

1. Purpose. On 27 January 2003, the Assistant Secretary of the Navy for Research, Development, and Acquisition issued the Performance Based Logistics (PBL) Guidance Document. This Guidance Document requires Program Managers (PMs) to utilize a Performance Based Agreement (PBA) to document what the warfighter needs in terms of performance and relevant support requirements, as well as what the warfighter is willing to resource for that specified level of performance.

This F/A-18 PBA establishes Ready-for-Tasking (RFT) and Cost-Wise Readiness performance objectives as agreed to by Commander, Naval Air Forces (CNAF), the F/A-18 Program Manager (PMA 265), Commanders Strike Fighter Wing Atlantic and Pacific. The performance objectives are the centerpiece of the overall F/A-18 PBL support strategy and document required performance for the F/A-18 Integrated Readiness Support Teaming (FIRST) contract and all other PBL contracts that support F/A-18 aircraft.

2. Scope. The agreement covers all contracts and memorandum of agreements that contribute to the readiness, availability, and reliability of all F/A-18 type, model, and series. This agreement applies to all post delivery sustainment services such as material support, obsolescence management, integrated logistics support, technical publications, aircraft introduction, systems engineering, site activation, support equipment, depot overhaul planning, and software support.

3. Warfighter Performance Metrics.

CNAF, PMA-265, CSFWL and CSFWP shall utilize RFT to measure F/A-18 readiness. PMA-265 shall support the Fleet in meeting the CNAF RFT Entitlement. CNAF Instruction 3500.1 series designates RFT as Naval Aviation's cost wise readiness metric.

4. Warfighter Resources (funding, manpower, facilities). CNAF and PMA-265 shall identify, document, and articulate the required resources to the appropriate Fleet, Naval Air Systems Command, and Naval Supply Systems Command comptrollers and resource sponsors. The inability to fund PBL contracts at the agreed to level could result in costly equitable adjustments and/or contract termination

PMA-265 and the Naval Inventory Control Point (NAVICP) shall capture and analyze dollars-per-flight-hour cost trends. This analysis will allow PMA-265 and NAVICP to focus on cost-wise readiness initiatives thereby building a baseline for future contract awards. The dollars-per-flight-hour analysis may lead to alternative approaches for charging the Flight Hour Program and reimbursing the Navy Working Capital Fund.

5. Roles and Responsibilities. The roles and responsibilities of the participants are as follows:

- a. CNAF will provide a member to participate in assessing specific PBL contract performance objectives for the purpose of optimizing OEM award incentives.

- b. PMA-265 will develop and execute an F/A-18 Integrated Sustainment Strategy that optimizes support to all F/A-18 type, model, and series with the support of the Naval Inventory Control Point.
- c. CNAF and PMA-265 will assess the performance objectives in the PBA and monitor, analyze, and develop appropriate metrics that incentivize the supply chain to focus on mission accomplishment and cost-wise readiness.

6. Constraints and Boundary Conditions. The terms and conditions of this agreement:

- a. May be affected by external factors such as DoN Planning, Programming, and Budgeting decisions, programmatic issues, and other unpredictable changes that will require this PBA to be readdressed.
- b. Are limited to operations within the normal operating cycle (training for deployment, pre-deployment, deployment, stand down, routine maintenance period, etc.).
- c. Do not apply to equipment subjected to failure such as battle damage during wartime operations or acts of terrorism. Unusual damage that results in multiple catastrophic casualties and system deterioration are outside of the scope of the logistics support performance objectives.

7. Period of Performance. This agreement reflects the dynamic relationship between the warfighter, government and industry throughout the weapon system life cycle as the system evolves and requirements change during this period. This agreement will be reviewed and updated annually or as deemed appropriate by the signatories or their designees.

8. Implementation. Upon signature of this PBA, PMA 265 will incorporate these performance objectives into the F/A-18 Integrated Sustainment Strategy. PMA 265 and CNAF will meet semi-annually to review compliance with performance objectives, review efficacy of the PBA and make recommendations to improve, revise, maintain or extend the PBA.



DEPARTMENT OF THE NAVY
PROGRAM EXECUTIVE OFFICER
AIR ASW, ASSAULT AND SPECIAL MISSION PROGRAMS
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4200
Ser PMA-299/08-092

IN REPLY REFER TO

FEB -5 2008

From: Program Executive Officer
Air, ASW Assault and Special Mission Programs (PMA-299)
To: Commander, Naval Inventory Control Point
Director of Operations (Code 03)
700 Robbins Avenue
Philadelphia, PA 19111

Subj: MH-60R/S COMMON COCKPIT ORGANIC DEPOT ESTABLISHMENT

Ref: (a) NAVICP letter of 27 November 2007
(b) COMNAVAIRSYSCOM letter Ser PMA-299/07-393 of
7 May 2007

1. As requested by reference (a), PMA-299 re-affirms its commitment to establish organic depot capability for the MH-60R/S Common Cockpit as a means of achieving the core capability required by Title 10, U.S. Code, Section 2464.

2. The following information is provided as an update to PMA-299's original commitment stated in reference (b).

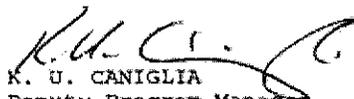
(a) Fleet Readiness Center-South West (FRC-SW) is leading the effort to identify requirements for the Common Cockpit Depot. FRC-SW will leverage the FRC concept and utilize the already procured Intermediate-Level Consolidated Automated Support System (CASS) Operational Test Program Sets (OTPS) as the Weapons Repairable Assembly (WRA) test capability for Common Cockpit components and is focusing development work on Shop Replaceable Assemblies (SRAs). Based on FRC-SW's preliminary estimates to develop SRA capability (approximately \$11.1M), PMA-299 will obligate \$7.9M to start procuring these solutions in FY08. Additionally, PMA-299 has programmed \$5.8M in FY09 to complete the Common Cockpit Organic depot stand-up.

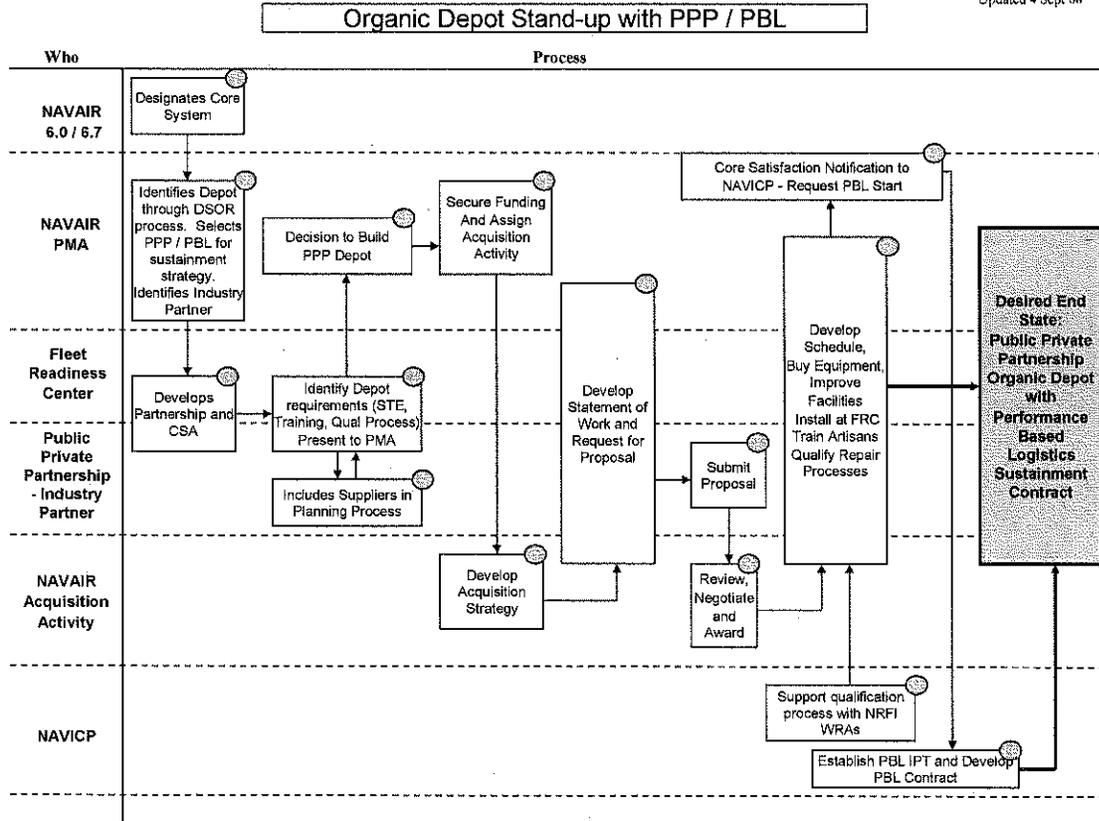
(b) The MH-60R Assistant Program Manager, Logistics (APML) has established an Integrated Product Team (IPT) to monitor development of this organic depot capability for this complex system. Based on the current plan, significant capability will be established at FRC-SW to support Common Cockpit repairs by January 2010. Although all planned capability may not be completely established at this point, the requirement will be

Subj: MH-60R/S COMMON COCKPIT DEPOT ESTABLISHMENT

fully identified and funded, with a completion date during FY10. If the capability is not available in-time for contract award, NAVAIR will support the Performance Based Logistics congressional award notification process regarding Core Compliance based on ongoing progress towards organic depot capability and support commercial repair until such time as depot support is viable. Informal discussions between the NAVAIR PBL office and DASN (ALM) indicate making significant progress on a funded plan should be adequate to support a PBL award.

3. The PMA-299 point of contact for this effort is CDR Jon Albright, Director of Logistics at (301) 757-5345 or jon.albright@navy.mil.


K. U. CANIGLIA
Deputy Program Manager
By direction



Step 1: NAVAIR 6.0 Identifies System as Core

Step 2: Program Manager initiates and Air 6.7 completes DSOR process and the depot selected Depot. PMA identifies Public Private Partnership (PPP) and Performance Based Logistics (PBL) as sustainment strategy. PMA identifies Public Private Partner

Step 3: Fleet Readiness Center and Industry Partner review and update or develop partnership agreement and CSA, identify depot requirements (STE, Training, Facilities updates, Repair processes and qualifications). Industry Partner responsible for Suppliers participation.

Step 4: PMA makes decision to build PPP Depot, secures funding and assigns acquisition activity. Acquisition activity may be NAWC Lakehurst, NAVAIR 02, NSWC Crane depending on system and resource availability

Step 5: Designated Acquisition Activity develops acquisition strategy

Step 6: Acquisition Activity, FRC, Industry and PMA team develop Statement of Work. Government team develops and releases Request for proposal

Step 7: Industry Partner submits Proposal

Step 8: Acquisition Activity reviews, negotiates and awards contract

Step 9: Team develops schedule to install equipment, train artisans and qualify FRC to do repairs. PMA notifies NAVICP of Core satisfaction plan and timing— requests PBL IPT Start

- Industry Partner acquires equipment
- FRC updates facilities (if required)
- Artisans trained
- NAVICP provides NRFI WRAs to facilitate qualification process
- FRC completes repairs and is qualified to complete repairs - depot capability established

Step 10: NAVICP establishes PBL IPT, works PBL contracting effort in parallel to depot stand-up

Step 11: Desired end state achieved - Public Private Partnership Depot and Performance Based Logistics Contract provide affordable sustainment to fleet users and satisfy Title 10.

CONTRACT DATA REQUIREMENTS LIST EXAMPLE

Form Approved
OMB No. 0704-0188

(3 Data Items)

Public reporting burden for this collection of information is estimated to average 220 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Department of Defense, Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington, VA 22202-4302, and to the Office of Management and Budget, Paperwork Reduction Project, (0704-0188), Washington, DC 20503. Please DO NOT RETURN your form to either of these addresses. Send completed form to the Government Issuing Contracting Officer for the Contract/PR No. listed in Block E.

A. CONTRACT LINE ITEM NO. CLIN 0001, 0002, 0003, etc.		B. EXHIBIT	C. CATEGORY TDP TM OTHER																		
D. SYSTEM/ITEM		E. CONTRACT / PR NO. N00000-00-X-000X; Task Order 00XX		F. CONTRACTOR Contractor A																	
1. DATA ITEM NO. A001	2. TITLE OF DATA ITEM Reporting of Incurred Actual Costs		3. SUBTITLE																		
4. AUTHORITY (Data Acquisition Documentation No.)		5. CONTRACT REFERENCE Clause H03		6. REQUIRING OFFICE NAVICP (for example)																	
7. DO 250 REQ. N/A	9. DIST STATEMENT REQUIRED	10. FREQUENCY Semi-annually	12. DATE OF FIRST SUBMISSION See Block 16	14. DISTRIBUTION																	
8. APP CODE N/A	N/A	11. AS OF DATE N/A	13. DATE OF SUBSEQUENT SUBMISSION See Block 16	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2">a. ADDRESS</td> <td colspan="2">b. COPIES</td> </tr> <tr> <td colspan="2"></td> <td colspan="2" style="text-align: center;">Final</td> </tr> <tr> <td style="text-align: center;">Unit</td> <td style="text-align: center;">Qty</td> <td style="text-align: center;">Page</td> <td style="text-align: center;">Page</td> </tr> <tr> <td></td> <td></td> <td style="text-align: center;">1</td> <td style="text-align: center;">0</td> </tr> </table>		a. ADDRESS		b. COPIES				Final		Unit	Qty	Page	Page			1	0
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16. REMARKS The contractor shall provide all incurred actual cost semi-annually. Incurred actual cost information will be provided separately by Contractor A in contractor format. The first submission shall be nlt (first reporting date) and every six months thereafter. The final submission shall be submitted nlt (ending reporting date).				15. TOTAL																	
15. TOTAL				1	0																
G. PREPARED BY		H. DATE	I. APPROVED BY		J. DATE																

17. PRICE GROUP
18. ESTIMATED TOTAL PRICE

