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DEEPWATER IMPLEMENTATION

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BEFORE THE

SUBCOMMITTEE ON
COAST GUARD AND MARITIME TRANSPORTATION

OF THE

COMMITTEE ON
TRANSPORTATION AND
INFRASTRUCTURE
HOUSE OF REPRESENTATIVES

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DEEPWATER IMPLEMENTATION

Wednesday, June 14, 2006

HOUSE OF REPRESENTATIVES, COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE, SUBCOMMITTEE ON COAST GUARD AND MARITIME TRANSPORTATION, WASHINGTON, D.C.

The committee met, pursuant to call, at 1:00 p.m. in room 2167, Rayburn House Office Building, Hon. Frank A. LoBiondo [Chairman of the committee] presiding.

Mr. LOBIONDO. Good afternoon. The Subcommittee will come to order.

The Subcommittee is meeting this afternoon to review the Coast Guard's Deepwater Program and the Service's revised Deepwater implementation schedule. The Coast Guard's Integrated Deepwater System is designed to replace or modernize approximately 90 ships and 200 aircraft currently utilized by the Service to carry out missions more than 50 miles from shore.

The new assets obtained under this program are extremely important and will greatly expand the Coast Guard's ability to perform its many traditional and homeland security missions. The original Deepwater implementation plan and asset mixture were devised prior to September 11th and consequently, the plan has been revised to take into account the Coast Guard's greater homeland security responsibilities.

It was important for the Service to do this, and I am pleased they did. Nevertheless, it is my duty to evaluate the plan, and I have some concerns. First, I am disappointed that the plan extends the time period for acquiring the new assets from 20 to 25 years. Every year we delay the purchase of new assets, the men and women of the Coast Guard, and our taxpayers, lose, for a couple of reasons. First, the cost of maintaining legacy assets significantly increases, eating more and more of the money available to purchase replacement assets. And newer and more capable assets are not available to improve the performance and safety of the Service's operations.

My second major concern is with the workhorse of the Coast Guard's fleet, the 110-foot patrol boats. These boats are rapidly failing, resulting in an estimated patrol boat readiness gap of nearly 20,000 hours annually from 2008 through 2012. Exasperating the problem are the failures surrounding the development of the replacement of the 110, the fast response cutter, as well as the termination of the agreement with the Navy to provide the Coast Guard with 179-foot patrol ships.

I am especially interested in hearing from the Commandant on how he plans to manage the readiness gap and what progress has been made in fixing the design problems of the FRC, as well as the status of the search for an off the shelf patrol boat design as an alternative to the FRC.

Finally, I would like to congratulate Admiral Allen on becoming the Service's 23rd Commandant. We have enjoyed when you have been here before and we are especially pleased that this is your first visit as Commandant of the Coast Guard. I know I speak for the entire Committee: we are absolutely thrilled, Admiral Allen, that you got the position.

When Mr. Filner comes, he may have an opening statement. I want to apologize, we have some floor activity. Mr. Coble is going to temporarily take over in a minute. But Admiral Allen, please proceed.

TESTIMONY OF ADMIRAL THAD ALLEN, COMMANDANT, UNITED STATES COAST GUARD

Admiral ALLEN. Thank you, Mr. Chairman.

I have a statement that I would like to submit for the record and I have a very brief oral statement that I would like to make right now.

On the 25th of May, I made a compact with the men and women of the Coast Guard to do four things as Commandant. The first one was to focus on mission execution, to sustain the high level of performance that has been demonstrated over the last year in response to the hurricanes and since 9/11, with our response in homeland security. To do that, we have to have the very best people.

But our people are nothing without platforms. We have to put the right tools in the hands of our people, and we have to build a command and control structure behind that that optimizes mission execution. Then we need to build a mission support system that focuses on the right logistics, maintenance, financial support, so that all the forces in the Coast Guard are optimized on mission execution.

To that end, we are going to rationalize our force structure. We made a major reorganization in the last year by establishing Coast Guard sectors that unifies Coast Guard effort in and around our ports. The Deepwater acquisition is our maritime patrol and presence force that allows us to meet and defeat threats as far offshore as possible.

The final piece of that are our deployable teams, port security units, maritime safety and security teams and so forth. It is my intention to consolidate all those units under a unified command of the Coast Guard to get better synergy out of them and to offer that force to the Secretary of Homeland Security for all hazards, all threats.

In regard to today's hearing, I would like the Committee know that last week I traveled down to Pascagoula, Mississippi. I walked through the shipyard, I got a briefing, and I completely toured the national security cutter that is under construction. It will be floated later this fall, and we will take possession of it next year.

I have made it clear to our partners in Integrated Coast Guard Systems that my watchwords for the Deepwater project are ruthless execution. We need to cut steel and float boats, we need the right tools in the hands of our people. If we need to make tough decisions on requirements, we will do that. We need to focus on cost, schedule and performance. We have issued the first award term and we are in the process of entering negotiations on the criteria and how that contract will be managed.

The Committee has my complete commitment to do just that: manage cost, schedule and performance. I think it is very, very important that we get these tools in the hands of our people.

I was very pleased with the walkthrough of the national security cutter last week. This is going to be a major step forward for our folks who go to sea. It is much more habitable. It is going to be a much greater, effective tool for our people to use. I took the new Master Chief of the Coast Guard with me. He was very pleased with what he saw, and I think we need to tell the Coast Guard what they have got coming, I think they are going to appreciate this ship.

There are some technical issues associated with the construction that we will address in subsequent hulls. But I am here to report to the Committee that my watchword for acquisition is ruthless execution.

I will be glad to take your questions.

Mr. COBLE. [Presiding] Admiral, I want to extend what Chairman LoBiondo has said. Pardon my immodesty, but I think I may have been the first person to have congratulated you prematurely back in January. But I felt confident in extending those words of congratulation to you. As Mr. LoBiondo has said, I think this was warmly felt on the Hill, your having been named Commandant. Good to have you on the Hill again.

While I am at it, I might as well say a good word to the three-striper who sits behind you. They do a good job with House liaison. I continue to get good words from them. So two thumbs up for them as well, Admiral.

And Mr. Filner I presume is on his way.

Admiral, let me ask you this question. We all know the significance of Deepwater. But there was a recent GAO report that focused on the RESCUE–21 program. One of the major themes of that report was that the Coast Guard needs to improve its management oversight of the program.

Let me ask you a two-part question, Admiral. A, do you agree with this, and if so, what steps are you taking to ensure this critical, life-saving system is successfully deployed?

Admiral ALLEN. Thank you, sir. First of all, this is a critical system for the Coast Guard for mission execution and for the American public. There are issues with this acquisition. There are issues on both sides, both Coast Guard and General Dynamics.

What we have agreed to do is put together an executive team to address the issues that were raised in the GAO report. The GAO report concentrated on a couple of areas. One was requirements management. The other was project monitoring. The other one was risk management. Also contractor costs and schedule estimation delivery controls. And most importantly, executive oversight.

We have brought in a distinguished panel of acquisition experts to take a look at this. I am going to have an action plan presented to me by August. I spoke with the CEO of General Dynamics this morning on the need for he and I to take a personal leadership role in moving this process forward, that we need to take a look at the current contract vehicle that is in place, whether or not it is serving the Coast Guard and General Dynamics well.

I will say this, where this equipment has been deployed, it has been remarkably effective. We have a much increased efficiency and response to search and rescue cases and direction finding. This is something the Coast Guard and the Country sorely needs, and I am taking it on as a personal leadership issue to deal with the CEO of General Dynamics, sir.

Mr. COBLE. Thank you, Admiral.

We have been joined by the distinguished gentleman from California, Mr. Filner.

Mr. FILNER. You have never called me distinguished before. Thank you.

Mr. COBLE. I was just trying to impress the Commandant with that.

[Laughter.]

Mr. FILNER. Thank you, Mr. Chairman. And thank you, Admiral.

Mr. COBLE. Excuse me. Also the distinguished gentleman from Louisiana is with us. Didn't mean to overlook you, Mr. Boustany.

Mr. FILNER. I apologize for being late, Admiral. I would like my opening statement to be made part of the record.

Mr. COBLE. Without objection.

Mr. FILNER. Let me just ask you, and if you have covered these, just say that and I will listen to the tape.

Admiral, the Deepwater plan to replace the 110-foot boats has had one problem after another. I don't think we need to detail them now. But cracks in the hull and attempted conversion, which did not work, replacement vessels made out of composite materials, which also did not work.

Now you are going to try I think to do an off the shelf design for the cutter. Is there one that meets your needs? Are you going to be able to do that? What is plan C now that plan A and B haven't worked?

Admiral ALLEN. Yes, sir, I think there is a craft that will work. Let me provide some context, if I could. As you know, we attempted, as a bridging strategy to the new fast response cutter to extend the 110-foot cutters to 123 feet, put in a stern ramp and improve the command and control communications on those vessels. We have had significant structural problems associated with that, and the project was terminated with eight hulls.

We are now testing those hulls to see if further repairs may be needed. Their current operations are restricted to eight foot seas or less.

I would note, though, despite the operational limitations of those vessels, they have a significantly improved boat handling capability and significantly improved secure communications capability, so we are using them to mission effect down there, not to the extent that we envisioned or with the number that we wanted.

In the meantime, we have a tired 110-foot fleet out there, as you have mentioned. We have tended to stabilize that fleet through our mission effectiveness program where we were actually looking at hull structural issues. We are running these boats through the Coast Guard yard. I think with the current 110 fleet that we have out there now, we will stabilize it in the near term, so those units can be effectively applied to mission effect.

The problem is that as we have evolved the composite design for the fast response cutter, there are some technical issues that need to be resolved. As a risk mitigator, we have elected to put out a request for information on parent craft or replacement type designs where we could get something that is pretty much off the shelf that could be a gap-filler for the patrol boat hours that were mentioned by Mr. Coble in his statement.

My goal is to proceed with an acquisition as soon as we can on a replacement patrol boat as a gap-filler to give us those patrol boat hours and simultaneously validate the concept and technology of composite hulls. And to the extent that we can move forward on that, when the time is right, we can suspend the other procurement. But my goal is to have patrol boats being brought into the Coast Guard to fill that gap until such time as can validate the composite hull and move forward with that acquisition.

Mr. FILNER. Where will those boats be built?

Admiral ALLEN. That will be subject to a procurement process. We have put out a request for information to find out what is available. We know there are a substantial number of hulls out there that can probably meet our mission requirements. It will be a matter of making that selection and proceeding with the contract, working with our partners at ICGS.

But in the meantime, we need to be moving ahead and seeing what the doability is on the composite design.

Mr. FILNER. But I notice you didn't say there would be any competition amongst U.S. ship yards for that. I mean, does ICGS make that decision themselves, or would there be a bid process?

Admiral ALLEN. We fully expect that there will be competition everywhere there can be as part of this acquisition. We have passed that on to ICGS, and in fact, in the next award term, one of the criteria will be competition as a means to measure their performance.

Mr. FILNER. When is that contract looked at, again?

Admiral ALLEN. We are in the process of beginning to negotiate the next award term, which will take effect in June 2007. We just awarded the award term decision for 43 months to Integrated Coast Guard Systems. We have established the basic criteria by which we will evaluate that award term, and we will shortly enter into negotiations with ICGS on the request for proposal.

Mr. FILNER. I lost you. So did you award a 43 month extension?

Admiral ALLEN. We have established the next award term to be 43 months. That becomes a sole source award that has to be negotiated———

Mr. FILNER. Why is that less than the 60 that you initially did? Were there any problems with them?

Admiral ALLEN. That was based on an evaluation of their performance against a set of criteria and a board of Coast Guard per-

sonnel that were actually operating that equipment out there. Our chief of operations led the evaluation board and made a recommendation to our program executive office that given the performance and the evaluation criteria that 43 months was the proper award term and that is what was conveyed to ICGS.

Mr. FILNER. Were there problems that led to not doing it for the full 60 months? You said evaluation, but you haven't said what.

Admiral ALLEN. We were looking at things like operational effectiveness, total ownership costs and those sorts of things across not only the system but the platform and the component. So it is a combination of performance across the system by the contractor. In some cases they did better than other places and the aggregate score, that led to the decision for 43 months, sir.

Mr. FILNER. I don't know if you heard me say this to your predecessor, but you should read what you just said sometime and see how that translates into English. You get into a certain mode of talking and we lose the English. Did they perform or not is what I want?

Admiral ALLEN. They performed well, they did not perform well enough to get a 60 month award term. The reasons for that———

Mr. FILNER. And where didn't they perform well enough?

Admiral ALLEN.—are embedded in different levels of performance related to the specific platforms, how the system operates and their ability to control total ownership costs. We can disaggregate this for the record for you if you like, sir. It is a fairly complex matrix that was evolved, sir.

[The information received follows:]

Insert on Page 015, Line Number 322
QUESTION: Provide the Award Term Evaluation Methodology referred to on line 322.

Introduction
In accordance with the Deepwater Contract, DTCG23-02-C-2DW001, this is the process used by the Coast Guard Award Term Determining Official (ATDO) to assess Integrated Coast Guard Systems' (ICGS) performance in the base contract period. In making this determination, the recommendation of the Award Term Evaluation Board (ATEB), ICGS' self-assessment and their response to the ATEB's report, prior award term performance assessments, program management execution assessed through the enterprise's balanced scorecard and its reports, and the performance monitor reports in the areas of operational effectiveness, total ownership cost, and customer satisfaction were all considered.

Methodology
Attachment J-30 to the contract specifies categories and criteria to be employed in reaching this determination. Accordingly, in conjunction with the performance based nature of the contract, the performance of ICGS was evaluated in three categories: operational effectiveness, total ownership cost, and customer satisfaction. The award term plan stipulates that operational effectiveness is more important than total ownership cost which is more important that customer satisfaction. The ATDO chose to evaluate operational effectiveness with an objective weight of 50%, total ownership cost weighted at 30%, and customer satisfaction weighted at 20%.

Assessment
The award is based upon the following assessments in principal categories; detailed amplification is provided in the following pages for each category of evaluation.

Operational Effectiveness:	Good
Total Ownership Cost:	Good
Customer Satisfaction:	Marginal
Overall Assessment:	Good

The ATEB recommended an overall evaluation of Good. "Good" is defined as the Contractor's overall performance record supporting the ability to manage risks and actually deliver as planned. Within the factors over which it has control, the contractor made positive contributions to maximize operational effectiveness and minimize total ownership cost. Customer satisfaction rating metrics are consistent with these performance end-states.

CONTEXTUAL FACTORS BEARING ON THE DETERMINATION

Change Management
The impact of change management bore heavily upon the initial period of contract execution. Although change is a common factor in major system acquisitions, the scope of change in this case was significant across the Deepwater system in that it is magnified by the Coast Guard's system of systems acquisition strategy. This was manifest through two areas - the system revisions and requirement changes related to the impact of 9/11, coupled with the Coast Guard's assumption of homeland security responsibilities. Concurrently, government induced annual changes in the implementation plan through appropriated funding levels, which varied from the contracted plan, necessitated adjustments in both asset sequencing and quantity. Operational tempo of legacy assets due to the global war on terrorism further induced changes in the

proposed plan with a shift of funds into the sustainment of legacy assets. Acceleration of the design and production of key surface and aviation assets into the base term caused the need for increased program management and frequent workload adjustments, as well as further changes in the Implementation Plan. Inclusion of assets into the Deepwater system induced change, the assimilation of the C130 J missionization and the HITRON contract further advanced the potential capabilities of the system.

Time Factor

The system of systems approach to the enterprise and the duration of its implementation also warrant consideration. It was proposed and awarded as a twenty-year program with a stable funding base of $500M per year in FY 2002 dollars, ($17B total in then-year dollars, including government funds). The revised, fully built-out, post 9/11 Implementation Plan was defined by the Coast Guard and approved by the Administration and Congress resulting in a twenty-five year/$24B enterprise. This base award term assessment evaluates 14% of the full implementation period (42 months of a possible 300 program months) and 12% of the capital investment ($3.267B appropriated to date of the $24B enterprise).

With the opportunity to evaluate 42 months of performance, and the expected maturity of the system over that time frame, prudence was required. It takes time for capital assets to be built and made ready for full operational capability. Major aviation and surface assets are in production and have not yet reached the field. Nevertheless, the analysis of both operational effectiveness and total ownership cost permits appropriate insight tied to contractual performance outcomes and outputs specified in the contract. Positive trends are evident in all performance areas, providing further insight regarding attained performance as well as long term performance of the system.

After weighing all of the aforementioned factors, the ATDO agreed with the ATEB's assessment of "Good" and decided that ICGS has earned another 43 out of a possible 60 months for the next award term based on the following:

OPERATIONAL EFFECTIVENESS

The ATEB recommended a combination adjectival rating of "Good/Marginal" due to a split vote (6 Good and 6 Marginal). The Coast Guard Award Term Determining Official (ATDO) concluded that a rating of "Good" is appropriate in this performance category. ICGS made positive contributions to maximizing operational effectiveness with the 123-ft WPB conversion program being the principal exception. Overall risks were mitigated and with the exception of the 123-ft WPB noted above, the contractor delivered as planned. The total performance of the system was only 3% below the proposed performance of the system. Responsiveness and flexibility were noted in accelerating the HH-65C re-engining, the OPC and FRC-B Class projects, assimilating the HITRON contract and the C-130J missionization into the enterprise; these efforts were within scope but outside the implementation plan for the base period.

The operational effectiveness modeling assessments confirm that the Deepwater program was early in the implementation plan. At the mission level, the employment of the Deepwater Maritime Operational Effectiveness Simulation (DMOES) model indicates no significant improvement or degradation in the Deepwater system performance. Positive Government Performance Results Act (GPRA) results were noted in 4 of 6 Coast Guard mission outcomes. Employing the Center for Naval Analyses Integrated Deepwater System Asset Assessment Tool

(CIAAT) at the system level, a reduction of 3% surveillance capability was noted in comparing the adjusted proposed system against the performance baseline. This was due directly to the 13% deficit in total WPB hours germane to delays of the 123 WPB program. The ATDO noted that the causality of the deficit is shared by both ICGS and the Coast Guard. Employing CIAAT for evaluation of the fully built-out system, the results are noteworthy in depicting significant positive improvement in both total patrol and total prosecute measures. These are leading indicators tied to the future performance of the system. Assuming full implementation of the system, the Coast Guard will experience positive gains in operational effectiveness. The lack of substantive improvement in operational effectiveness modeling and analysis is also due to the government's redirection of investment into sustainment of existing surface and aviation assets. The production of both the Maritime Patrol Aircraft (MPA) and Vertical Take-off Unmanned Aerial Vehicle (VUAV) were delayed as a result; both were potential core contributors to the contractor's proposed solution and plan for systematic improvement in operational effectiveness.

The conversion of the 123-ft WPB was terminated at eight vessels; all forty-nine were originally scheduled for upgrade. It was determined by the Coast Guard that the vessel did not meet the requirements of the post 9/11 operating environment and that the Fast Response Cutter's production should be accelerated. However, the performance of the contractor in the 123-ft WPB program was a disappointment and marginal in multiple respects during implementation. The conversion schedule was marked by delay, hull deformation was experienced, structural concerns came to light (which should have been identified in the design phase) and logistics support has been deficient. Operational restrictions continue limiting the utility of the 123-ft platform.

It is important to note that the successful Command, Control, Communication, Computers, Intelligence, Surveillance, and Reconnaissance (C4ISR) upgrades of legacy surface assets and shore command centers are not depicted in either of these modeling results. This program was marked by excellent contractor execution and alacrity in field employment. This upgrade is seen as a "substantial force multiplier" by the operator and its operational impact has fully supported this assessment. The same holds true for the acceleration of the HH-65C helicopter. This re-engined airplane shows superlative promise as borne out by enhanced reliability and safety during its Katrina employment and mission prosecution to date. There are simply not enough airplanes in the field to impact operational effectiveness modeling at this point in time.

TOTAL OWNERSHIP COST

The ATEB recommended a rating of "Good" in the category of Total Ownership Cost (TOC) and the Coast Guard Award Term Determining Official (ATDO) concurred with their recommendation. The performance assessment of TOC indicates that it has not exceeded the performance baseline during the base term. Positive developments in risk mitigation have been noted in TOC control efforts. Under-funding during the initial years of the enterprise and redirection of the Implementation Plan by the government has impacted performance. For those factors over which the contractor had control, results and trends indicate that TOC is a maturing performance outcome, and habits of cost control have been put in place.

Reduction in TOC recommendations totaling $376M were identified during the base period through a partnership between ICGS and the Coast Guard. Although funding levels did not permit full implementation, the trend is positive. Commonality of equipment and systems across domains has been implemented with the potential of $240M in potential savings over systems

implementation. Earned Value Management System (EVMS) quality and utility has matured systematically over the base term. Process and fidelity evaluations denoted noteworthy improvement. An aggregate Cost Performance Index (CPI) of .97 over 126 separate contract line items is an output measure of TOC control. Variance at completion serves as a strong leading indicator of cost control.

A request for equitable adjustment has been received and must be negotiated. Including the NSC, which holds the largest potential for cost increase, EVM projects a 12% variance over the entire enterprise. If the NSC is excluded, a variance of $4.7M is identified on $984M, less than 1%. Over the base term, 20 contract line items have been closed at a total value of $252M with a combined underrun of $2.7M. Competition has been independently evaluated as adequate in subcontract administration. The ICGS "Open Business Model" is working; there are areas for improvement and the contractor has adopted the recommendations from the Coast Guard's independently contracted study for improvement during the base term. The construct of teaming arrangements warrants consideration as they reduce the amount of competition available within the program and may increase not only the acquisition cost but TOC as well.

Revised post 9/11 requirements and the capability changes attendant to maritime security have not simplified the assessment of the performance of the contractor to minimize TOC. The outcome of aggregate TOC to date indicates success; however, it is early. This performance factor warrants the continued focus by both the Coast Guard and ICGS. Clarity on TOC during the design phase is a must. The recognition of logistics as a core cost driver warrants an improved effort by ICGS during design. EVM variance analysis in the Contract Performance Reports needs improved justifications and warrants the continued attention of ICGS. As TOC challenges grow in scope and impact, it is essential that ICGS continues to partner to attend to cost control in management, design, production, and utilization of the system and its assets. For each area of improvement, the Coast Guard shares responsibility for TOC control.

CUSTOMER SATISFACTION

The ATEB recommended a rating of "Marginal" for customer satisfaction. Inconsistent performance outputs, principally through the use of surveys of both operator and Coast Guard management, provided input for this determination. The Coast Guard Award Term Determining Official (ATDO) concurred with the Marginal assessment. In addition, inputs beyond the survey instruments are appropriate to adequately evaluate this performance category.

Results of the field survey support the Marginal rating. Field surveys indicated a lack of satisfaction with the 123 WPB. Although the trend indicates improvement, the operator is disappointed and understandably so. ICGS has tried to be responsive to this input, but challenges have endured.

Initial results from the aviation community regarding the HH-65C indicated a lack of satisfaction. This was directly tied to sparing and logistics support. The government shares the ownership for the initial dissatisfaction in logistics. ICGS has made noteworthy strides in providing initial spares with requisite funding; their execution of the HH-65 re-engining effort as been excellent.

Survey results of Coast Guard leadership and program management personnel provide further insight. Leadership surveys depict general satisfaction with some downward trends. Program

management personnel have shown a systematic improvement over time. Matrix personnel, representing stakeholders, are not so positively inclined. These trends are not surprising and do not necessarily establish a correlation with actual ICGS performance. Change is not always conducive to the health of acquisitions and their performance. The base term was replete with change. In a cost-constrained funding environment where TOC and design-to-cost efforts are undertaken, tradeoffs become essential. With a system of systems further influencing these dynamics where sub-optimization in some areas is deemed appropriate, attitudes and culture tend to collide with survey results. These results should be viewed accordingly.

With change, one should look to evidence of responsiveness by the contractor in evaluating customer satisfaction. During this base term, ICGS was highly responsive and flexible to adjust to the needs of the Coast Guard. In the surface arena, the design efforts of the FRC and OPC were accelerated into the base term. In the aviation arena, ICGS successfully assimilated the C-130J missionization effort into the enterprise employing a design-to-cost approach. They successfully competed and expeditiously implemented the re-engining of the HH-65 helicopter in order to address a critical safety and operational need. They assimilated the execution of the HITRON contract in order to insure continuity in this critical program. The C4ISR upgrades to the District Seven command center were successfully accelerated at the request of the Coast Guard.

In the area of the Deepwater systems management, ICGS has shown responsiveness and improvement. Award fee determinations have shown steady and focused improvement over the entire base term with recent attainment of an excellent evaluation and a score of 100% in all objective measures. This has been marked by a consistent effort to improve the integrated product data environment with a 40% improvement in customer satisfaction metrics, a disciplined and persistent effort to certify and train IPT members attaining compliance in 96% of the applicable measures of success, and systematic improvement in Contract Data Requirements List (CDRL) acceptance rates.

It is evident that the contractor made a concerted effort to engage in learning and process improvement. Risks have been identified and mitigated; however, residual salient concerns still require disciplined attention. The structure of the NSC and service life assessments must be brought to successful closure. Logistics challenges with the 123 WPB must be successfully resolved. The FRC design must be further refined with the necessary focus on design-to-cost and capability.

DETERMINATION

After considering the input of all appropriate contributors, the Coast Guard Award Term Determining Official (ATDO) determined that an award term extension of 43 months has been earned commensurate with an overall assessment of "Good". As noted in the performance category summary sheets and in compliance with attachment J-30 of the contract, the following determinations apply:

Operational Effectiveness:	Good
Total Ownership Cost:	Good
Customer Satisfaction:	Marginal

For purposes of the ATDO evaluation and consistent with the J-30, which indicated that Operational Effectiveness is more important that Total Ownership Cost which is more important that Customer Satisfaction, the ATDO weighted each category in the following manner:

Operational Effectiveness: 50%
Total Ownership Cost: 30%
Customer Satisfaction: 20%

Using the award term incentive determination separately for each category based upon consideration of all inputs from contributing parties and an analysis summarized in the preceding summaries, the award was based on the following:

	Formula			
	#1	*#2 = #1 * 60 months*	*#3*	*#2 * #3*
	Weight	Months possible of 60 available	ATDO Score	Months earned
Operational Effectiveness	50%	30	76%	22.8
Total Ownership Cost	30%	18	73%	13.14
Customer Satisfaction	20%	12	60%	7.2
TOTALS	100%	60		43.14

Accordingly, the ATDO determined that an award term incentive of 43 months, with an adjectival rating of "Good" had been earned.

Mr. FILNER. And of course, Congressmen couldn't possibly understand anything so complex, right?

Admiral ALLEN. It is understandable, sir, but it is pretty significant———

Mr. FILNER. Believe me, whatever you get me, I will understand it.

Admiral ALLEN. Excuse me?

Mr. FILNER. I said get me whatever paper you want, I will understand it or I will ask the commander behind you to explain it to me.

Admiral ALLEN. Yes, sir.

Mr. FILNER. Thank you, Mr. Chairman.

Mr. COBLE. I thank the gentleman.

The distinguished gentleman from Louisiana, Mr. Boustany.

Mr. BOUSTANY. Thank you, Mr. Chairman.

First of all, Admiral, congratulations. And also congratulations on your outstanding service and the outstanding service of the Coast Guard in my home State of Louisiana in the aftermath of the two storms. We certainly appreciate the work that you did.

I want to talk about the risk of accelerating the program. We are all aware of the problem with the FRC. But could you outline some other risks that are out there if we were to try to accelerate the program, the Deepwater program?

Admiral ALLEN. One risk that we really haven't talked about in prior hearings, and it may be a good time to bring it up now, is the actual capacity of the Coast Guard to execute on an accelerated time line. As much as we need these platforms brought forward and as much as we need to close that aircraft and patrol boat gap, there are a certain number of people in the Coast Guard and we are limited by appropriations in how many people we are able to put at this acquisition project.

So the ability to, for instance, build three classes of new cutter at the same time, bringing on new aircraft and so forth, does tax our personnel system in terms of the capacity and the amount of people we have to put at the problem.

Mr. BOUSTANY. Thank you. Are there any parts that could be accelerated? Has there been any thought given to that approach?

Admiral ALLEN. Where there has already been a contract in place or an order in place for platforms, or the requirements have been locked down in their production, there is always an opportunity to do that. The ones that are coming offline right now in particular would be the CASA 235. We are looking at both an MPA gap and a patrol boat gap.

Mr. BOUSTANY. So you believe that if we were to take that approach, we would probably save some money in the long run?

Admiral ALLEN. Well, I tend to look at this in terms of requirements. There are always going to be funding issues out there and competition for funding. My two priorities as a commandant are to close the MPA gap and the patrol boat gap as soon as possible. So I am more interested in how quickly we can answer our requirements and close gaps as that relates to the overall plan. So any opportunity to do that I would be appreciative of.

Mr. BOUSTANY. OK. With the recent exercise of the option with ICGS, do you have any concerns about relying on a single contrac-

tor at this stage, and the potential for lack of competition in awarding contracts to subcontractors?

Admiral ALLEN. Your question is fair, sir and it relates back to Mr. Filner's concern. One of the new criteria we will use to evaluate ICGS in the first award term is competition. In other words, for the award term following they will be evaluated on how well they competed in the subordinate contracts.

Mr. BOUSTANY. OK. Has a baseline been made, or any evaluation that would allow us to determine whether the use of ICGS and a single package replacement program cost more to taxpayers than using a more traditional approach of one-to-one asset replacement?

Admiral ALLEN. That is a fair question, too, sir. We were never looking for a one-for-one asset replacement. We were looking for a system that would produce a certain level of performance in an operating environment. The system that was offered by ICGS is the one we are pursuing. The ability to do this another way, you could go out and issue separate projects and contracts separately and acquire vessels and aircraft and sensors. They would have to be integrated at some point.

One of the challenges the Coast Guard faces, and was instrumental in the strategy on how the Deepwater contract was awarded is the fact that there is no equivalent in the Coast Guard of the Naval Sea Systems Command, NAVAIR or SPAWARS. In other words, we don't have those large systems commands and integrators that can do that inside our organization. So there is an issue with both capacity and competency right now to be able to perform that type of integration.

Mr. BOUSTANY. OK. On aircraft, could you update us on the HH–65 re-engining project, and I guess you expect the fleet or, give me a time line on the fleet and when it will be completed re-engined and operational.

Admiral ALLEN. I can. We originally anticipated that the re-engining would be completed around January of 2007. It now looks like that will probably be June of 2007. At lot of that has to do with the wear and tear we put on those airframes in the extensive operations that took place in support of Hurricane Katrina, that required more extensive maintenance due to more hours being put on, saltwater corrosion and so forth. But we are on track now to have the re-engining completed by June 2007, and this will mean a significant, significant upgrade to our forces out there.

Mr. BOUSTANY. I am glad to hear that. I was concerned about the wear and tear imposed by Hurricanes Katrina and Rita and the costs associated with it. So I am pleased to hear your answer on that.

Admiral ALLEN. Sir, we actually noted that the performance of the helicopters that had converted engines were superior during Katrina. They carry 1,500 pounds of fuel versus 1,000 pounds of fuel, they can carry 7 survivors versus 3, and almost double the time on scene. So these are sorely needed assets.

Mr. BOUSTANY. Admiral, thank you very much. I yield back.

Mr. COBLE. I thank the gentleman.

Admiral, let me revisit the question that Mr. Filner put to you. Can you clarify that the new fast response cutters will in fact be built in the United States?

Admiral ALLEN. Well, the original plans were to build a composite FRC and that would be built within the Northrop Grumman structure per the teaming arrangements that were included in the ICGS. So, yes, sir.

Mr. COBLE. Let me ask you another question, then I will recognize Mr. Filner again.

Admiral, has the Coast Guard been forced to delay the acquisition of new Deepwater assets because of the high costs associated with maintaining and repairing legacy assets?

Admiral ALLEN. I don't believe so. If I could maybe just provide a contextual comment. When this program first started, and the original plan anticipated that it would be funded at a level of $500 million a year, this program is now approaching $1 billion a year. It is hard for me to sit here and say that it hasn't received funding support by the Administration or the Congress. What we have is a set of circumstances that have been superimposed on it on increased use of these assets and more maintenance problems that are coming about.

So there are resources being put out, both new acquisitions, supporting the legacy assets. But there is also a third category where we are taking legacy assets and upgrading the equipment on them to make them part of the Deepwater system to make them more effective. This is taking the older cutters that are operating out there and for instance, giving them SIPR net chat rooms, so when we are doing drug interdiction, we have the tactical officers actually talking to each other, and we can trade radar pictures between ships, which we could never do before.

So it is three phases. It is the new stuff, it is putting new capability on the old stuff and it is maintaining the old stuff. But we are very pleased that we have been able to move from $500 million a year up to a billion dollar a year program.

Mr. COBLE. Thank you, Admiral. The distinguished gentleman from California, Mr. Filner.

Mr. FILNER. Thank you, Mr. Chairman.

I just wondered if I talk as fast as you if I might get a brain aneurysm there.

Admiral ALLEN. Tell me to slow down if I am talking too fast. [Laughter.]

Mr. FILNER. No, I like your style, Admiral.

It looks to us up here that Deepwater has changed from a program to modernize the Coast Guard with new equipment to a program because of forced resource squeezing to a program that buys too few new ships and keeps the old aircraft. I think OMB has been saying that you can't increase the program costs.

So it looks like you are not getting the support that you need to be the Coast Guard of the 21st century, where we ask you to not only do your traditional mission, but the post–9/11 homeland security mission. It doesn't seem like you are getting the support. I don't know if you can answer this, Admiral, I mean, if you weren't getting the support that you needed to do the job that you need to do, would we know about it in Congress?

Admiral ALLEN. You would from me, sir. Let me restate something I said earlier, because I think it is really———

Mr. FILNER. That is your reputation. I was hoping so.

Admiral ALLEN. When this program started, the envisioned funding level annually was supposed to be $500 million a year. The fact that we are up to a billion dollars is indicative that we have had support, both inside the Administration and on the Hill. I can't deny that as a sitting commandant, speaking to you about it today.

Can any Federal agency in town use more money? Sure. Would we spend it wisely? Yes, we would, sir. But I cannot say that we have not been supported and we are not moving this project forward. The problem is there is a convergence of events with the operational tempo the Coast Guard has encountered, not only after 9/11, but as you saw with our response to Hurricane Katrina. Over the next few months, as I formulate the fiscal year 2008 budget with the Department and OMB, we are going to have to craft a strategy coming forward where we are credibly demonstrating to you that we are moving this project along, sir.

Mr. FILNER. I want you to save your original memos, because I am going to ask you how much you asked for versus how much you got.

Admiral ALLEN. I will acknowledge receipt of those questions, sir.

Mr. FILNER. Just one last point of concern of mine, and that is the drug interdiction. Your predecessor, Admiral Collins, testified, and I am not sure how exactly you know this, but he estimated 15 percent of the drugs entering the U.S. were interdicted. Are we going to do better and how are we going to do that? You said, I think, in your opening statement, at least in your written one, that Deepwater does result in a modest, near-term operational hour shortfall, followed by long-term gains. Does that mean we can expect, say, more drugs in this short-term situation? How are we going to deal with all those issues in your view?

Admiral ALLEN. Yes, sir. The drug problem is fairly complex. We have had three straight years of record cocaine seizures, as you may know. We have done that, in some cases, with fewer assets out there. The reason we have been able to achieve that level of performance is through intelligence, and mostly human intelligence.

Mr. FILNER. I want you to clarify. You said you have had record cocaine seizures. You are not talking about personally, now, are you sir?

Admiral ALLEN. I am talking about———

Mr. FILNER. Just my humor, just ignore me. I thought you shifted off the cocaine.

Admiral ALLEN. We have had three very successful years in counter-drug operations. We may not come to that level this year, as we are looking at the current operations down south. We are hitting some challenges where, in spite of good intelligence, we are not able to take cocaine we know is moving north off the sea routes out there. It is due to a couple of issues. One of them has to do with the shift of traffickers to different flag states that make it difficult for us to get on board and board them. We are going to have to take a look at new strategies and how to deal with that.

But heretofore, in the last three years, we have been extremely successful in drug interdiction. We will attempt to sustain that. But we are having some problems to the shifting of the routes to flags other than what we have bilateral agreements with, sir.

Mr. FILNER. You have some of your patrol boats in Iraq right now, right?

Admiral ALLEN. Six, sir.

Mr. FILNER. I assume that if you had them you could do better with your drug interdictions?

Admiral ALLEN. We could always use more resources, sir. But those six patrol boats are currently supporting the one single remaining offshore platform for Iraq, sir.

Mr. FILNER. Well, I am glad one member of the Administration knows why we are in Iraq, to protect the oil.

Admiral ALLEN. Sir, I know why we are there.

Mr. FILNER. Thank you, Admiral.

Mr. BOUSTANY [PRESIDING]. Admiral, we have been joined by the distinguished gentleman from Puerto Rico, Mr. Fortuño, and I yield to him for questions.

Mr. FORTUÑO. Thank you, Mr. Chairman. I truly appreciate it.

Welcome, Admiral Allen. First of all, I want to say, and I have said it in the past and I will say it again, we are really thankful for the work that your men and women are doing in the San Juan sector. It is a large area. It covers essentially everything from the DR, the Dominican Republic, to Venezuela, way out there. Your men and women do a great job and I am very thankful. Our office works very closely with you over there.

Mr. FILNER. Have you flown in any HH–65s lately?

[Laughter.]

Mr. FORTUÑO. My first question was going to be, you do recall as to the status of the re-engining of the HH–65s right now and not just in the San Juan sector, but overall?

Admiral ALLEN. Yes, sir. Let me say at the start I am a Puerto Rican at heart, having served in San Juan when I was a Lieutenant JG down at La Punta, it is a place that holds a great affection for me.

Mr. FORTUÑO. Beautiful property.

Admiral ALLEN. As I stated earlier, we anticipate that the re-engining will be completed in June of 2007. We originally thought that that would be done by January. We have encountered some additional wear and tear on the aircraft, associated with a concentrated response to Hurricane Katrina, that has required us to do some more work regarding some of the mechanical overhauls that need to be done and look at some of the corrosion associated with that.

But we are very happy with the way this is proceeding. These re-engined helicopters are extremely, extremely effective in what they are doing, and we hope to get them online by June of next year, sir.

Mr. FORTUÑO. Excellent. My other question is San Juan specific. As I am sure you know, there is a resurgence in the trafficking, illegal trafficking of arms, drugs and people through the Caribbean area. And Puerto Rico is directly affected by it. We are seeing something quite interesting. When the traffickers know that there is an area where they feel not all the resources that are needed are deployed there, they move in from all over. We are getting a lot of Chinese nationals coming in through the Caribbean, specifically

through Puerto Rico. So that tells you that as far away as the Orient, they already know that we have a need for resources.

Our Committee last year put out some language, report language specifically requesting that you all do an analysis of the resources that are needed to adequately address the needs of the San Juan sector. I would like to know if you have any feedback that you can give us today.

Admiral ALLEN. Sir, if I could offer to provide you a more detailed response for the record. I will give you an assessment right now. I would add that I was down in the Gulf Coast for almost six months. So as I move back into it, I am reassessing some of the strategies and everything that is going on inside the Coast Guard.

But I can tell you most recently, there has been an increase in the amount of traffic across Mona Pass between the Dominican Republic and the west coast of Puerto Rico. We are seeing more frequent incidents that does not involve just Dominican nationals, it involves other nationalities and also Cubans, who, once they land on Mona Island become feet-dry and we have that issue to deal with, too.

[Information received follows:]

Insert on Page 29, Line Number 629
QUESTION:

a) Status of the "Adequacy of Assets" report, as required by the CG and Maritime Transportation Act of 2006. Is on schedule to be delivered to Congress in January 2007?
b) Provide detailed statistics on interdiction in and around Mona Pass, by nationality compared to 2 year ago.
c) Provide details on the number of Cuban's entering the US via Puerto Rico vs. FL
d) If unclassified, provide a complete list of the operational assets available in the San Juan region.

The "Adequacy of Assets" report, as required by the CG and Maritime Transportation Act of 2006, is on schedule to be delivered to Congress in January 2007. Interdiction and landing statistics, by nationality, in and around the Mona Pass over the last three years are as follows:

Interdictions (Mona Passage)

FY	# of Interdictions	DR	CU	PRC	EC	HA	CO	PE	AF	UY	JM	ES	AR
04	145	5864	90	0	21	9	2	23	1	1	0	1	0
05	100	4244	14	7	0	5	0	1	0	0	0	0	0
06*	74	2695	58	5	0	10	0	1	0	0	0	0	0

*as of 5 August 2006

Landings (West Coast of PR)

FY	# of Interdictions	DR	CU	PRC	EC	HA	CO	PE	AF	UY	JM	ES	AR
04	160	1503	220	18	15	1	1	2	0	0	1	0	3
05	160	1126	486	0	2	6	0	1	0	0	0	0	0
06*	133	770	612	0	0	11	0	0	0	0	0	0	0

*as of 5 August 2006

Data from CBP comparing the number of Cubans illegally entering the United States through Puerto Rico via the Mona Pass versus through Florida via the Florida Straits is as follows:

FY	Cubans entering U.S. via Puerto Rico	Cubans entering U.S. via Florida Straits
2004	162	921
2005	403	2388
2006 as of 8/18	684	2868

As the data shows, far more Cubans are entering the United States via the Straits of Florida than they are via the Mona Pass however; the data shows a significant increase in the number of Cubans entering the United States via both routes each year.

The number and type of operational assets available in the San Juan region consists of:

- 5 110' Patrol Boats (WPBs) stationed at Sector San Juan.
- 3 HH-65 helicopters stationed at Air Station Borinquen.

- 1 HU-25 Falcon jet from Air Station Miami in support of Migrant Ops.
- 1 WMEC (270/210' Cutter) 1 month per quarter.

In addition, Sector San Juan is supplemented, on a monthly rotational basis, with an additional 110' WPB from District Seven. This additional 110' WPB compensates for the loss of any of the Sector's 5 WPBs due to recurrent or emergent maintenance needs.

AF	Afghanistan	ES	Spain
AR	Argentina	HA	Haiti
CO	Columbia	JM	Jamaica
CU	Cuba	PE	Peru
DR	Dominican Republic	PRC	Peoples Republic of China
EC	Ecuador	UY	Uruguay

Mr. FORTUÑO. If I may, I am sorry to interrupt you, actually we welcome the Cubans. We have a very large Cuban community in Puerto Rico. However, it is interesting, there are more Cubans getting to the U.S. through Puerto Rico than through Florida. That should tell you something as well. Go ahead.

Admiral ALLEN. I was just going to make the point, as you have, sir, that we have detected the trend that there is a new line or a new way that Cubans are arriving in the United States, and it is via Mona Pass, sir. We are looking at that. We are also looking at the trends on the migrant interdictions that are happening on Mona Pass. As you know, occasionally we are involved in an interdiction over in the U.S. Virgin Islands from either the British Virgin Islands or further down, down-island there. They do constitute threat vectors. We are taking a look at it and if you would like, I can give you a detailed answer for the record.

Mr. FORTUÑO. We would love to get that detailed information if we may, Mr. Chairman. Again, I want to thank you for what you are doing there. I urge you to look into the resources that are needed to complete the job. The men and women you have down there are doing an excellent job. But I believe, I have been out there in cutters and planes. Any time I have a chairman of any committee, I try to get them out there to join me with members of the Coast Guard. That is how proud I am of the work you are doing.

By the same token, I must tell you, I am doing that as well just to get the resources needed to the San Juan sector. I will be eagerly awaiting the information you provide to our office. With that, I will yield back, Mr. Chairman. Thank you.

Mr. BOUSTANY. Admiral, we have a few other questions we would like to ask. The Coast Guard received funding to acquire the HC–130J aircraft in fiscal year 2004. It used these funds to acquire six of these ships, but has not outfitted these aircraft with specialized avionics required for long range search and rescue missions.

This year, the Administration requested $4.95 million for that work. Will this funding complete the work necessary to make the existing six aircraft mission capable?

Admiral ALLEN. Sir, we have enough money in previously appropriated funds to mission-ize or what I would say more appropriately, appropriately sensorize those six aircraft. What we are looking for in fiscal year 2007, first of all, in the ACNI portion of our budget, is to establish a spare line and a simulator as a follow-on support for the aircraft. And on the operating side, it would be to increase the number of hours we are flying those aircraft from 1,200 hours a year to 3,200 hours a year, sir.

Mr. BOUSTANY. Thank you. The Coast Guard has $66 million in fiscal year 2006 funds to purchase HC–235 maritime patrol aircraft. What is the supplier quoting as the per plane price as of today?

Admiral ALLEN. If I could, I would like to answer that for the record. We are looking at the first initial products that are being rolled out. I am not sure we have come to a final price, once we level out the production line. And we are in the process of integrating those aircraft into the fleet right now.

[Information received follows:]

Insert on Page 030, Line Number 700
QUESTION: Provide what the supplier for CASA MPA HC-235 is quoting as the per plane cost..

The supplier's current quote for the basic CASA CN-235 is being negotiated at this time and is not available. However, the Production Contract amount per plane, of the basic CASA CN-235, has been estimated for budgetary purposes to be $33 million. The Operationally Outfitted amount per missionized plane has been estimated, for budgetary purposes, to be $35.5 million and includes the mission pallet. The Operationally Outfitted amount per missionized plane including logistical support has been estimated, for budgetary purposes, to be $44 million.

Mr. BOUSTANY. OK. The Coast Guard has repeatedly assured the Committee that the assumption of the National Capital Region Air Defense Mission will not reduce the Service's search and rescue capability. How does the Coast Guard intend to acquire the additional HH–65s necessary to carry out this new mission?

Admiral ALLEN. The $62.4 million that are included in the fiscal year 2007 request are there to fund five aircraft, the personnel to support them and the operating funds. Those aircraft will be placed at our air station in Atlantic City, New Jersey, and they will be rotated down with a crew to support them of about 40 here in Washington, D.C. In addition, there were funds reprogrammed within the Department to the tune of $4 million to help us get started in fiscal year 2006. We look forward to standing that operation up in late September.

Mr. BOUSTANY. Thank you, Admiral. And one final question with regard to unfunded priorities. In conjunction with fiscal year 2006, the fiscal year 2006 budget request, the Coast Guard submitted a list of unfunded priorities for the next fiscal year. The top priority on the list was an additional $639 million for the Deepwater program.

What Deepwater-related items would be on the fiscal year 2007 unfunded priority list?

Admiral ALLEN. Well, as I mentioned earlier, things that might be suitable for funding would be those that are already under production, what is not a requirements issue, we have fixed all the technical issues associated with it. That would be the CASA 235 line. Once we have made a selection on a replacement patrol boat, to fill a patrol boat gap, that would be a priority.

Also, we are pretty much stabilizing the national security cutter design and that can move forward, too.

Mr. BOUSTANY. Admiral, thank you.

Those are all the questions I have at this time. We may have some additional questions that we will pose in writing to you.

Mr. Filner, do you have anything, do you want to make any closing statements?

Mr. FILNER. No, thank you, Mr. Chairman.

Mr. BOUSTANY. Mr. Fortuño, do you have anything in addition to add?

Mr. FORTUÑO. No, thank you, Mr. Chairman.

Mr. BOUSTANY. Well, again, Admiral, we thank you again. Congratulations on assuming your new post as Commandant. We look forward to working with you. We have a lot of confidence in what you will bring to the Coast Guard activities as we move forward.

Thank you. The Committee stands adjourned.

[Whereupon, at 1:39 p.m., the subcommittee was adjourned.]

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DEPARTMENT OF HOMELAND SECURITY

U. S. COAST GUARD

STATEMENT OF

ADMIRAL THAD ALLEN
COMMANDANT

ON

THE INTEGRATED DEEPWATER SYSTEM

BEFORE THE

SUBCOMMITTEE ON
COAST GUARD AND MARITIME TRANSPORTATION

U. S. HOUSE OF REPRESENTATIVES

JUNE 14, 2006

Introduction

Good morning Mr. Chairman and distinguished members of the Subcommittee. It is a pleasure to be here today to discuss the Integrated Deepwater System and the essential role it plays in the future of the Coast Guard. Simply stated, our ability to sustain mission execution and performance depends on having the best-trained people and most capable, technologically advanced fleet of multi-mission boats, ships, aircraft, and support systems. As you well know, our major operational assets are aging and either have achieved or exceeded their initial service lives. The Deepwater acquisition recapitalizes these aging assets.

The Deepwater Program is the centerpiece of the Coast Guard's future capability in nearly all of our maritime missions. Our extensive shore-based mobile, maritime, and deployable forces create what I describe as a strategic trident, providing layered security for the Nation. Our forces must be adequately supported, and I greatly appreciate all that this Subcommittee has done to ensure they are provided with the best assets and systems that we can procure. As each of you know very well, the Coast Guard is nothing without our people—and our people cannot be effective without the right tools. The Deepwater Program is delivering these tools now and will continue delivering them in the future.

The Deepwater Program will provide more capable, interoperable assets that will enable our forces to close today's operational gaps and to perform their demanding missions more effectively, efficiently, and safely. Deepwater's assets and systems will result in increased operational readiness, enhanced mission execution, and a safer working environment for our men and women. The Deepwater Program serves as a key enabler in allowing us to sustain the high level of performance that America has come to expect from its Coast Guard. The Deepwater Program remains the Coast Guard's top capital priority.

Making a Difference Now

We have made steady progress over the past year implementing Deepwater's revised post-9/11 plan. This plan, based on a comprehensive performance-gap analysis, is well-aligned with the Department of Homeland Security's strategic goals and priorities, the National Strategy for Homeland Security, and the new National Strategy for Maritime Security. The revised plan, a $24 billion/25-year sustainment, modernization, conversion and recapitalization effort, ensures Deepwater cutters and aircraft will be equipped with the right systems and capabilities to operate successfully in all mission areas in the face of a more challenging post-9/11 threat environment.

The fiscal year (FY) 2006 Deepwater budget of $923.7 million was an important installment implementing our revised post-9/11 plan. The President's FY 2007 budget request contains $934.4 million for the Deepwater Program; this too is a critical contribution to our efforts to build a Coast Guard that is more ready, aware, and responsive. Continued implementation of Deepwater's post-9/11 plan will allow the Coast Guard to improve execution of multiple missions, to secure U.S. maritime borders, to implement the National Strategy for Maritime Security and its supporting plans, and to achieve National Fleet Policy objectives calling for increased collaboration with the U.S. Navy.

During the past year, we achieved many milestones in Deepwater Program areas. Construction of major surface and aviation platforms is moving forward. The first in class of our new National Security Cutters, USCGC BERTHOLF, will be launched this autumn and be delivered next year.

Additional cutters in the class are being built or are on order. The first CASA HC-235A medium-range maritime patrol aircraft was rolled out at its factory in March and is scheduled to complete its maiden flight later this month. We are upgrading our inventory of long-range search aircraft, including missionization of six improved HC-130J aircraft. Our small and medium-range helicopters also are being modernized and converted to serve as more capable multimission platforms.

While the Deepwater Program necessarily invests in capabilities adequate to operate in the often unforgiving offshore environment, it is these same capabilities that are instrumental to effective response operations in ports and coastal areas as well. For example, assets scheduled for modernization under the Deepwater Program include every Coast Guard aircraft type. These aircraft, rotary-wing in particular, are critical parts of our port and coastal response infrastructure as well as extended offshore operations in maritime law enforcement and safety. The Deepwater Program's conversion and enhancement of legacy aircraft and cutters are making an impact *now*.

Deepwater's re-engining and upgrading of our legacy fleet of 95 HH-65 helicopters offers a good example of how the Deepwater Program will benefit Coast Guard execution in all of our missions. At the end of May, 37 of the more powerful HH-65C helicopters had been re-engined and returned to service with our operating forces. The operational benefits were apparent during our response to Hurricane Katrina last year. Three upgraded HH-65C helicopters flew 85 sorties to save 305 lives. The converted aircraft can hoist 280 more pounds and stay on-scene about twice as long as its predecessor. As one of our HH-65C pilots remarked last year following his participation in Hurricane Katrina relief operations, "It's a beautiful bird!" Each month, additional numbers of the more reliable and capable "Charlie" model are delivered to our air stations. The modernization project is slated for completion next year.

Deepwater's command, control, and sensor upgrades on all 39 legacy cutters are also making a difference now in enabling them to operate more effectively and efficiently. Deepwater's C4ISR (command, control, communications, computers, intelligence, surveillance, and reconnaissance) improvements to high and medium endurance cutters enabled more effective on-scene coordination with local first responders and other federal agencies for rescue operations in New Orleans, LA, and Gulfport, MS,. The patrol reports submitted by our cutters' commanding officers document similar benefits resulting from Deepwater upgrades for streamlined communication systems used during the performance of counter-drug and migrant-interdiction operations.

Closing Operational Gaps

The Integrated Deepwater System was designed to secure the Nation's maritime borders just as the recently announced Secure Border Initiative will help deliver a system to secure the land borders. In the end, they will complement each other in delivering a comprehensive system of border security.

A critical dimension of the Deepwater Program's assets and systems is their ability to fill operational gaps. As was addressed in the Coast Guard's operational gap analysis report submitted to Congress with the FY 2007 budget request, the action plan to deliver the operational capabilities and requirements specified in the revised Deepwater implementation plan is a 25-year effort. This long-term plan requires a fine balance between removing legacy assets from service to realize system cost savings and maintaining sufficient system capacity. The plan, frankly, does result in modest near-term operational hour shortfalls followed by long-term gains in operational capability and capacity as new Deepwater assets enter service in greater numbers.

For example, Figure 1 shows the current gap in patrol boat hours; it is affected most adversely by the difficulties encountered during 123-foot conversions and the projected return of the Navy 179-foot Patrol Coastals. Unfortunately, the conversion of our legacy 110-foot patrol boats has not provided the bridge to the future Fast Response Cutter (FRC) that we had hoped. As a result, we have taken steps to advance the design and construction of a patrol boat to restore this critical capacity as quickly as possible.

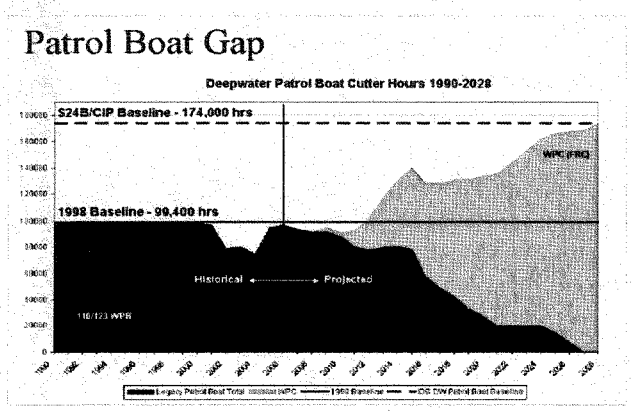

Figure 1

Similarly, Figure 2 shows the pre-existing Maritime Patrol Aircraft (MPA) gap. The revised Deepwater implementation plan strives to mitigate this gap by keeping more legacy HC-130H aircraft in service longer while adding new CASA Maritime Patrol Aircraft to the Coast Guard air fleet.

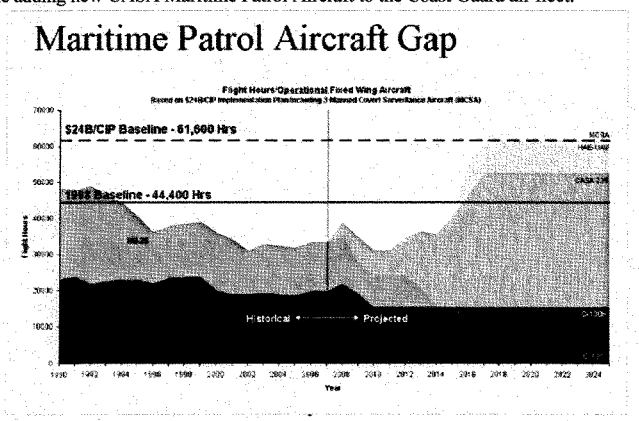

Figure 2

I am ever mindful that the operational gaps depicted in these two charts represent an increased risk to our Nation's maritime security. Beyond its vital importance to our national economy, the maritime domain also is an avenue that could be exploited as a means to smuggle weapons of mass destruction and terrorists into our country. Last year's record seizures at sea of illegal drugs and interceptions of illegal migrants show us the threat is real.

During 2005, working closely with our interagency partners, the Coast Guard prevented more than 338,000 pounds of cocaine from entering the United States by sea—an all-time maritime record. Additionally, the Coast Guard intercepted 9,500 undocumented migrants attempting to enter the United States illegally by sea—a 100 percent increase over 2001 and the second highest number in any non-mass migration exodus over the past 20 years. The trend lines are heading in the same direction this year.

As a result of increases in the level of timely, actionable counter-drug intelligence, we now have an insufficient number of assets to intercept all suspect vessels identified by Panama Express and other successful interagency initiatives. Sufficient numbers of long-range maritime air patrol aircraft are critical to the early detection of suspect vessels. Cutters, patrol boats, armed helicopters, and fast pursuit boats then play a carefully orchestrated role in their subsequent interdiction and apprehension.

Just as important as building capacity to fill the operational gaps cited above is having assets able to serve as the "eyes and ears" that allow the Nation to see, hear, and communicate activity occurring within the maritime domain. The Coast Guard's sustained presence along our maritime borders is unique. More capable Deepwater assets, linked to each other and multiple agencies through Deepwater's net-centric command-and-control system, will significantly improve information sharing, collaboration, and interoperability in the maritime domain—all prerequisites for improved Maritime Domain Awareness.

Similar to the Nation's air-space security regime, the maritime security regime must integrate existing C4ISR systems with new technologies and national command-and-control systems and processes. The Common Operating Picture (COP) and corresponding Command Intelligence Picture (CIP) provide a shared display of friendly, enemy/suspect and neutral tracks on a map with applicable geographically referenced overlays and data enhancements.

The COP is a central element of the Deepwater solution, tying Deepwater assets and operational commanders together with dynamic, real-time maritime domain information. This link is essential to ensure effective command and control of all available Coast Guard and other federal, state, and local assets responding to the myriad of border security threats and homeland security operational requirements.

The progressive addition of more capable and interoperable Deepwater assets, linked with net-centric C4ISR systems and proper logistics support, will allow the Coast Guard to mitigate the operational gaps I have described in the near term, while striving for the future Deepwater fleet that will exceed current legacy capability and capacity. The requirements and capabilities reflected in the post-9/11 revised Deepwater implementation plan will be delivered methodically and prudently over the next 21 years.

A Focus on Program Management, Cost Control, and Execution

I am personally committed to executing the Deepwater Program in the most prudent and effective manner possible. Our Nation needs its platforms and the improved operational capability they and their associated systems deliver. My focus will be on effective program management, cost control, logistics support, and platform effectiveness.

Deepwater's Program Executive Officer works closely with the Government Accountability Office (GAO) during its reviews of program management and execution. I was pleased to note that the GAO reported in its most recent audit that changes to the Deepwater plan appear sound and that program management has improved. We welcome the constructive recommendations and will continue to work with GAO.

Last month we announced a 43-month award term extension opportunity for Deepwater's performance-based contract to Integrated Coast Guard Systems (ICGS), a joint venture between Lockheed Martin and Northrop Grumman. The performance period of the award term will begin at completion of the base period in June 2007 and end in January 2011. The initial contract specified a five-year base period of performance, with potential for five additional award terms of up to 60 months each, for a maximum of 30 years.

ICGS will have the sole source opportunity to respond to a forthcoming Request for Proposal (RFP) for work expected to be contracted during the award term. However, the announcement of the award term length does not mandate any changes to our existing contract, nor does it equate to any specific contract-dollar value. Negotiation of the terms of a contract extension are ongoing. The terms of any new contract will reflect our lessons learned in the base contract period.

The government's decision regarding the length of the award term was reached following an extensive Coast Guard review of the joint venture's performance during the first 42 months of the base period. In evaluating ICGS' performance, members of an Award Term Evaluation Board, which was chaired outside of Deepwater, considered the contractually defined criteria of operational effectiveness, total ownership cost, and customer satisfaction. Performance monitors provided data and reports for board members' consideration.

The award term decision represents an appropriate step forward in the maturity of the Deepwater contract. It offers the opportunity for an additional 43 months of implementation using the systems approach to recapitalize the Coast Guard. Any contract awards will be based upon successful negotiations with ICGS and agreement upon fair and reasonable pricing. This opportunity is essential for the Coast Guard to fulfill its maritime security responsibilities in support of the mandates of Department of Homeland Security and the Department of Defense.

Methodologies are in place that measure the performance of ICGS, as well as the Integrated Deepwater System overall. The contractor is held accountable through award-fee and award-term assessments. The Coast Guard and Deepwater Program staffs are held accountable to the Agency Acquisition Executive and the Department of Homeland Security through our acquisition program baseline. A performance management system allows Deepwater's Program Executive Officer to gain insight into the program's status in real time.

We monitor performance against Deepwater's acquisition program baseline and are baselining performance at the mission, system, and asset level. For example, at the mission level, we evaluate Deepwater's contribution to the Coast Guard's Government Performance Results Act measures. At the system level, we assess the aggregate mission hours delivered and the total ownership cost of the Deepwater system. At the asset level, we measure key performance parameters.

We are negotiating the successive award term criteria to be a subset of these measures therby increasing visibility into the details of the Contractor's operations and demanding improved performance. They include: cost control, operational effectiveness/performance, competition, program management and execution, and logistics. These criteria, which include both objective and subjective measures, focus program management's attention on key performance areas. These criteria will be published on or about July 2006 and be immediately effective.

We will measure and evaluate our performance and that of Integrated Coast Guard Systems with the diligence and accountability mandated by responsible stewardship.

Challenges Ahead

As with any extremely large acquisition of Deepwater's scope and complexity, not all has been smooth sailing. I wish to highlight some near-term challenges and our plans to address them.

As noted during my discussion of the operational gap we face in patrol boat hours, advancing the design and construction of a patrol boat is a priority to restore critical capacity as quickly as possible. As the result of a number of technical issues associated with its initial design, the FRC's critical design review was deferred during model tow-tank testing. This decision was a prudent step consistent with the Deepwater Program's iterative design process, focus on cost control, and strategy for risk mitigation for our $3 billion-plus investment in the FRC.

In early April, we issued a request for information for research to identify patrol boats currently in production with the potential to satisfy the majority of requirements for patrol boat capabilities.

We have received more than 20 design submissions in response to our market survey. The designs, submitted by a wide range of U.S. and international ship designers and builders, are being reviewed by a working group composed of representatives from the Coast Guard, Integrated Coast Guard Systems, and technical engineering-support contractors. This initial review will assist the Coast Guard in refining requirements for procuring an existing patrol boat design. This preliminary technical assessment will be followed by a more detailed, in-depth review to determine the viability of acquiring existing patrol boats to address urgent operational requirements. The working group's final assessment is expected later this summer.

From a broader perspective, we're gaining experience in this "system-of-systems" acquisition. Independent evaluations are now used in the design process so that potential problems may be identified and resolved as early as possible. We are applying these lessons learned to validate the design and construction of the National Security Cutter and will do so in the future with the Offshore Patrol Cutter and Fast Response Cutter.

Another critical element in the Deepwater Program that warrants emphasis is its vision for logistics support. During my confirmation hearing, I stated a priority to build a Coast Guard organizational structure that supports field operation and ensures mission execution. Every element of our services not

involved in mission execution must be aimed at field support, and we must be internally aligned with the Department of Homeland Security's support systems. Based on the new sector mission delivery system and the new requirements for deployable forces, I will conduct a comprehensive review of existing command and control structures, as well as, logistics and maintenance systems to ensure that the Coast Guard is optimally organized to support field operations. To ensure the delivery of field support, the logistics system requires the requested levels of funding, and I ask for your continued support of these efforts.

I am also going to ask for your support with the continued challenge we face in attracting, retaining, and certifying acquisition professionals to provide necessary levels of program support for the complex Deepwater acquisition. We are working our understaffed contracting personnel hard to meet the negotiation and oversight requirements involved in this multi-billion dollar acquisition program. The challenge of an overloaded procurement system is not unique to the Coast Guard, but—as always—the success of any enterprise ultimately rests on the talent and performance of its people.

Conclusion

Thanks to the strong support of the Administration, Congress, and this Subcommittee in particular, the Deepwater Program is moving forward to transform Coast Guard capabilities and putting the needed "tools in the tool box" now and in the future. I have stated many times that we should credit the innovation, resourcefulness, and devoted service of Coast Guard men and women for our Service's sterling performance in its multiple missions. They have made tremendous strides with assets and systems designed for our operating environment of the 1960s and 1970s.

I am convinced we can do even better as we deliver the Deepwater Program's more capable, reliable, and interoperable assets and systems. If we give Coast Guard men and women the training and tools to do the job right, they won't let us down.

Thank you for the opportunity to testify before you today. I will be happy to answer any questions you may have.

Submitted for the Record

THE HONORABLE BOB FILNER
RANKING DEMOCRAT
SUBCOMMITTEE ON COAST GUARD AND
MARITIME TRANSPORTATION
ON
OVERSIGHT HEARING ON
DEEPWATER ACQUISITION PROJECT
June 14, 2006

Thank you Mr. Chairman for scheduling our annual hearing on the Deepwater Acquisition Project. Mr. Chairman, as I said at the previous two hearings, I believe that Deepwater is in Deep Trouble.

The Deepwater Acquisition Project is a very ambitious program. The theory was that the Government would lay out the mission and program requirements – and the contractor would build a system-of-systems that would provide the "best value" for the Government. Not the lowest cost – but best value.

The Coast Guard and their system integrator, Lockheed Martin, spent $49 million to convert eight 110 foot patrol boats to 123 foot patrol boats – only to find out afterward that the ships had major structural problems and that they should build new patrol boats instead. This is $49 million that won't be available now to buy new equipment.

Then they spent additional millions trying to design a new Fast Response Cutter (FRC) to replace the 110 foot patrol boats. The new FRC would be made of composite materials that would theoretically decrease maintenance costs. However, when they put the ships model in the testing

tank – they found that the propellers wouldn't stay in the water when the ship turned. Again, they scrapped this approach. Now they are going to try to buy an "off-the-shelf" design from a foreign shipyard or foreign government and have that cutter design built in the United States.

The program hasn't learned from that lesson – so last year the Coast Guard proposed to buy some "used" HH-65 helicopters off the world market to supplement their current fleet of HH-65 helicopters. I was very concerned about the safety implications of buying used aircraft for which we didn't know the full maintenance history and helicopters that may not have been built to the same design standards as the Coast Guard's HH-65 helicopters. At my request, the Committee included an amendment in the Coast Guard Authorization Act of 2005 that prohibited the Coast Guard from buying any used HH-65 helicopters until they submitted an analysis comparing the cost of buying and rebuilding a used HH-65 to the cost of buying a new replacement helicopters. After that amendment passed the Full House of Representatives, but before the amendment could become law, the Coast Guard ignored the wishes of the Committee and bought the airframes anyway. That's not the type of cooperation that I expect from the Coast Guard when we are simply trying to ensure that the lives of the men and women that fly these helicopters are not put at risk buy buying old rebuilt aircraft.

What appears to be happening is that as the Coast Guard adds, for example, new ship system requirements to cutters – OMB is saying that the total program costs can't increase – so the Coast Guard must cut costs from aircraft modernization and the total number of cutters purchased.

Deepwater has changed from a program to modernize the Coast Guard with new equipment to a program that buys too few new ships and keeps the old aircraft.

Mr. Chairman, the Administration isn't giving the Coast Guard the support that they need. The Administration is not committed to giving the men and women of the Coast Guard, who risk their lives every day to save others, the best equipment that can be bought. Instead, they are forcing the Coast Guard to fulfill all of their future missions based on the budget restraints of today.

Mr. Chairman, I remain committed to the Deepwater program. However, given the direction of this program in a post 9-11 environment, I do not think that the Coast Guard of the future will be able to meet the challenges of the future.

STATEMENT OF THE HONORABLE FRANK A. LoBIONDO CHAIRMAN - SUBCOMMITTEE ON COAST GUARD AND MARITIME TRANSPORTATION OVERSIGHT HEARING ON DEEPWATER IMPLEMENTATION JUNE 14, 2006

The Subcommittee is meeting this afternoon to review the Coast Guard's Deepwater program and the service's revised Deepwater implementation schedule.

The Coast Guard's Integrated Deepwater System is designed to replace or modernize approximately 90 ships and 200 aircraft currently utilized by the service to carry out missions more than 50 miles from shore. The new assets obtained under this program are extremely important and will greatly expand the Coast Guard's ability to perform its many traditional and homeland security missions.

The original Deepwater implementation plan and asset mixture were devised prior to September 11th, and consequently, the plan has been revised to take into account the Coast Guard's greater homeland security responsibilities. It was important for the service to do this and I am pleased they did. Nevertheless, it is my duty to evaluate the plan, and I have some concerns.

First, I am disappointed that the plan extends the time period for acquiring the new assets from 20 to 25 years. Every year we delay the purchase of new assets the men and women of the Coast Guard and our taxpayers lose because:

(1) the cost of maintaining legacy assets significantly increases, eating more and more of the money available to purchase replacement assets; and
(2) newer, more capable assets are not available to improve the performance and safety of the service's operations.

My second major concern is with the workhorse of the Coast Guard's fleet — the 110-foot patrol boats. These boats are rapidly failing resulting in an estimated patrol boat readiness gap of nearly 20,000 hours annually from 2008 through 2012. Exasperating the problem, are the failures surrounding the development of the replacement to the 110, the Fast Response Cutter, as well as the termination of the agreement with the Navy to provide the Coast Guard with 179 foot patrol ships. I am especially interested in hearing from the Commandant how he plans to manage the readiness gap, what progress has been made in fixing the design problems in the FRC, as well as the status of the search for an "off-the-shelf" patrol boat design as an alternative to the FRC.

Finally, I want to formally congratulate Admiral Allen on becoming the service's 23rd Commandant. I can not think of a better choice to lead the men and women of the Coast Guard during these challenging times. I look forward hearing your testimony today and I look forward to working with you to improve the service and its capabilities.

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