



UNDER SECRETARY OF DEFENSE  
STATE DEFENSE DISTRICT  
WASHINGTON, DC 20315-5000

CONTROLLED

MAR 3 2016

The Honorable Charles W. Dent  
Chairman  
Subcommittee on Military Construction,  
Veterans Affairs, and Related Agencies  
Committee on Appropriations  
U.S. House of Representatives  
Washington, DC 20515

Dear Mr. Chairman:

The purpose of this letter is to notify the committee of the proposed reprogramming of funds for the projects and amounts shown below. Detailed justification for the project is enclosed.

#	<u>Service/Agency/Installation</u>	<u>Project</u>	<u>Program</u>	<u>Request (\$)</u>
	<u>Navy</u>			
1	Bangor, Maine	Naval Computer and Tele- Communications Area Master Station, Very Low Frequency Commercial Power Connection (P-308)	2014	26,701,000
	<u>Army Reserve</u>			
2	Aberdeen Proving Ground, Maryland	Army Reserve Center	2013	3,780,000

A similar letter is being sent to the Chairman of the Senate Subcommittee on Military Construction, Veterans Affairs, and Related Agencies. Thank you for your continued support of Defense programs.

Sincerely,

Michael McCord

Enclosures:  
As stated

cc:  
The Honorable Sanford D. Bishop, Jr.  
Ranking Member



UNDER SECRETARY OF DEFENSE  
1100 PENTAGON  
WASHINGTON, D.C. 20301-1100

COMMEMORATION

The Honorable Mark Kirk  
Chairman  
Subcommittee on Military Construction,  
Veterans Affairs, and Related Agencies  
Committee on Appropriations  
United States Senate  
Washington, DC 20510

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Michael McCord

Enclosures:  
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cc:  
The Honorable Jon Tester  
Ranking Member

Bid Expiration Date: April 29, 2016

Military Construction, Navy

Reprogramming Request

Location: Bangor, Maine

Project: Naval Computer and Telecommunications Area Master Station, Very Low Frequency (NCTAMS VLF) Commercial Power Connection (P-308)

Authorization: National Defense Authorization Act for Fiscal Year 2014, Public Law 113-66

Estimated Cost (\$000):

Previously Appropriated	13,800
Previously Reprogrammed	0
Requested Reprogramming	26,701
Total Estimated Cost	40,501

Description: The project provides a dedicated commercial power supply to the Very Low Frequency (VLF) transmitters that provide a critical communications link between U.S. Navy and Department of Defense commands ashore and submarines operating at sea. This detachment is located in a remote area on Machias Bay in Cutler, Maine (74 miles southeast of Bangor, Maine). An on-site diesel generator power plant currently supplies all electrical power for mission-critical VLF communications as well as for the antenna de-icing systems. The existing diesel generators are over 50 years old and have recently experienced failures causing a loss of VLF communications to submarines. Without VLF transmissions, which are able to penetrate seawater, submarines are forced to shallower, more vulnerable, water depths in order to receive other types of communications. A reliable power supply for the mission is required and must be continuous and uninterrupted with a dedicated backup in case there is loss of the primary electrical supply. In addition, the power plant is presently in non-compliance with the Clean Air Act and may be subject to fines by the Environmental Protection Agency (EPA) should the condition not be addressed.

This project will resolve these issues by providing a dedicated commercial power supply via a 6.6-mile sub-sea power cable, buried three feet below the sea floor across Machias Bay from the Buck's Harbor Substation (utility provider) to NCTAMS. The existing diesel generators will be repaired and placed on standby status to provide backup power in the event of a commercial power failure.

A business case analysis was performed using the current cost for P-308 and comparing the project to three other alternatives including status quo, all new power plant equipment, and commercial power provided by over-head power lines. The result continues to favor P-308 sub-sea power cable as the preferred alternative.

Justification: A reprogramming of \$26.701 million (M) is required to address shortfalls resulting from the following:

a) Increased Market Pressure (+\$7.520M):

- When this project's pricing was finalized in 2012, conditions in the national construction market were extremely favorable for Navy construction projects. Since then, significantly increased private and public sector contracting opportunities for construction contractors in the Boston and upper coastal New England areas, as well as other areas of the country, have produced a less favorable bidding climate for the government. The National Construction Cost Index dipped in 2009 and was followed by a fairly rapid market recovery up through 2015. This recovery was not anticipated at the time the Naval Facilities Engineering Command prepared the project's budget cost estimate.
- During the P-308 construction period, there will be at least five major non-DoD projects valued at over \$2.8 billion ongoing in the New England area, placing competitive demands on subcontractors and materials, thus driving labor and material costs upward. In addition, and more specific to this project, several very large off-shore wind farm projects nation-wide are ongoing. The wind turbines sited miles off the coast are connected to utilities via sub-sea cables, the same type of cable that will be provided by P-308. The number of U.S. contractors who are capable of laying sub-sea cables is limited to just six (plus one Canadian company). As a result, the increase in national and international demand for subcontractors, sub-sea cable, and electrical infrastructure projects has driven labor and material costs upward. Also leading to high bids are the additional contractor risks associated with project complexity, likely work interruptions due to bad winter weather, and tight work schedules when compared to doing potentially more profitable non-DoD public sector and private sector projects that present less risk

b) Limited Competition (+\$5.357M):

- The lack of competition is considered to be a significant contributing factor to the higher than expected proposals.
- There is a very limited pool of qualified contractors available with the capabilities and willingness to assume the risks associated with this project. The work is complex, involving specialized sub-sea cable laying, horizontal directional drilling, and electrical work. Contractors bidding on this work can likely expect work interruptions due to harsh winter weather and tight work schedules due to environmental constraints.
- With limited competition, bids tend to be considerably higher. The number of contractors that submitted proposals for this project was very low (under four). Limited competition means that contractors and sub-contractors can include more for profit and overhead in their proposals than in recent years, when the availability of construction projects was limited. The number of bids received by the Navy per MILCON project, world-wide, has trended downward from 2009 through 2014.

- c) Incorrect Assumptions (+\$11.175M):
- The cost of cable was significantly under-estimated (+\$4.370M) when the original project cost was developed. Also, the original sub-station cost was under-estimated as well.
  - Several risks were identified during project design that have led to increased costs (+\$3.390M) associated with Horizontal Directional Drilling (HDD) operations:
    - Rock Quality: The quality of the underground bedrock is worse than expected and is now characterized as very poor. It will take more care and require costly additives to maintain an adequate drilling hole.
    - Rock Hardness: The rock through which the drilling will take place is harder than originally projected thus adding to the overall drilling time. The offerors validated that, as a result of the rock hardness, considerably more effort and expense will be required for the HDD operations to pause drilling, pull the drill rig from the bore hole to change worn bits and replace motors, and steer the rig back down through the bore hole to resume drilling.
    - HDD Technique: The original cost estimate was based on a pilot hole/back-ream drilling technique, considered standard industry practice by the Government. There are indications that this method is a very high risk approach because it may create a pathway for release of HDD fluids into the bay, creating possible environmental impacts. A slower, more conservative process to drill a full-diameter bore on a single pass is now expected to prevent significant fluid release.
  - There is an increased cost (+\$2.915M) due to schedule uncertainties. While the Environmental Assessment could have been done earlier, in-water work restrictions for the sub-sea cable installation were not identified as part of the Environmental Assessment until after the project cost was budgeted. The HDD and in-water cable laying work can only take place during and between the months of November and March to avoid impacts to endangered species. In-water work during this time of the year is very difficult. The sub-sea cable installation must be a continuous operation and will be subject to winter weather conditions with no ability for the contractor to stop work and wait for better conditions. The work could be disrupted and slowed down by high winds, storms, very cold temperatures and sea ice. There are also additional environmental restrictions for tree cutting and land clearing activities needed for the shore-side HDD operations. This, too, will be restricted to the same timeframe to avoid possible impacts to endangered species. The original estimate had not factored in the cost associated with these work restrictions.
  - There is an increased cost due to the commercial utilities construction (+\$0.500M). The cost for the commercial utility's substation expansion and overhead power distribution lines has increased since the cost was originally developed.
- d) Contingency (+\$1.205M) and Supervision, Inspection, and Overhead (+\$1.444M): The contingency and SIOH amounts have increased because the total project costs have increased.

A Title 10 USC 2853 notification was submitted to the Congress on June 30, 2015.

Source of Funds: Bid savings from the following projects are available to fund this requirement:

<u>Location/Project</u>	<u>Fiscal Year</u>	(Dollars in Thousands)		<u>Proposed Reprogramming</u>
		<u>Amount Appropriated</u> <sup>/1</sup>	<u>Current Estimate</u>	
Quantico, VA Academic Instruction Facility (P632)	2012	71,816 <sup>/2</sup>	62,718 <sup>/3</sup>	6,998
Norfolk, VA Bachelor Quarters, Homeport Ashore (P123)	2012	77,642 <sup>/4</sup>	72,324 <sup>/5</sup>	5,218
Camp Lejeune, NC Squad Battle Course (P030)	2012	15,997 <sup>/6</sup>	12,479	3,318
Quantico, VA The Basic School Student Quarters - Phase 6 (P567)	2012	28,294	24,307	2,982
Camp Pendleton, CA Individual Equipment Issue Warehouse (P1037)	2012	15,292 <sup>/7</sup>	11,746 <sup>/8</sup>	2,528
Twentynine Palms, CA Land Expansion (P991)	2012	8,192	3,089 <sup>/9</sup>	2,320
San Diego, CA Multipurpose Fac/Fitness Ctr, North Island (P705)	2012	46,498	44,494	1,542
Bremerton, WA Integrated Dry Dock Water Treatment Fac, Phase 1 (P419)	2012	13,175	11,942	1,000
Camp Pendleton, CA MV-22 Double Hangar Replacement (P114)	2012	41,000 <sup>/10</sup>	40,205 <sup>/11</sup>	<u>795</u>
Total:				26,701

<sup>/1</sup> Reflects FY 2013 sequestration reductions.

<sup>/2</sup> Reflects a revised PA of \$71.816M as a result of a \$2.502M reprogramming decrease approved by Congress in September 2013.

<sup>/3</sup> A 10 U.S.C. §2853 cost and scope reduction notification dated 27 November 2012 was sent to the Congressional committees.

<sup>/4</sup> Reflects a revised PA of \$77.642M as a result of a \$3.084M reprogramming decrease approved by Congress in January 2014.

<sup>/5</sup> A 10 U.S.C. §2853 cost and scope reduction notification dated 26 June 2015 was sent to the Congressional committees.

<sup>/6</sup> Reflects a revised PA of \$15.997M as a result of a \$0.676M reprogramming decrease approved by Congress in December 2015.

<sup>/7</sup> Reflects a revised PA of \$15.292M as a result of a \$0.760M reprogramming decrease approved by Congress in January 2014.

<sup>/8</sup> A 10 U.S.C. §2853 cost and scope reduction notification dated 18 April 2012 was sent to the Congressional committees.

<sup>/9</sup> A 10 U.S.C. §2853 cost and scope reduction notification dated 6 January 2016 was sent to the Congressional committees.

<sup>/10</sup> Reflects a revised PA of \$41.000M as a result of a \$6.761M reprogramming decrease approved by Congress in January 2014.

<sup>/11</sup> A 10 U.S.C. §2853 cost and scope reduction notification dated 28 August 2012 was sent to the Congressional committees.

Bid Expiration Date: April 5, 2016  
Military Construction, Army Reserve  
Reprogramming Request

Location: Aberdeen Proving Ground, MD  
Project: Army Reserve Center  
Authorization: National Defense Authorization Act for Fiscal Year 2013,  
Public Law 112-239

Estimated Cost (\$000):

Previously Appropriated*	19,453
Previously Reprogrammed	0
Requested Reprogramming	3,780
Total Estimated Cost	23,233

*\*The appropriated amount includes a reduction of \$1.519 million as directed in Public Law 112-25, the Budget Control Act of 2011 and a reduction of \$0.028 million for across-the-board rescissions as directed in Sections 3001 and 3004 of Public Law 113-6, the Consolidated and Further Continuing Appropriations Act of 2013.*

Description: This project will provide an Army Reserve Center (ARC) training building, an Organizational Maintenance Shop (OMS), OMS equipment, and an unheated storage building. Buildings will be of permanent construction with reinforced concrete foundations, concrete floor slabs, structural steel frames, masonry veneer walls, standing seam metal roof, with energy-saving technologies incorporated into the facility. The new facility will comply with the Energy Policy Act of 2005.

Justification: A reprogramming of \$3.780 million is required to address shortfalls resulting from sequestration, across-the-board rescissions, and project cost growth. The project was initially advertised to the small business community and all proposals significantly exceeded the program amount. With approval of the Small Business Administration, the original solicitation was canceled and the project was re-advertised as a full and open solicitation. The best-value proposal has a current working estimate (CWE) of \$23.233 million and provides 100 percent of the original primary scope. The award will be for the base bid and three of the eleven options.

Source of Funds: Bid savings from the following projects are available to fund this requirement:

(Dollars in Thousands)

<u>Location/Project</u>	<u>Fiscal Year</u>	<u>Amount Appropriated</u>	<u>Current Estimate</u>	<u>Proposed Reprogramming</u>
Joint Base McGuire-Dix-Lakehurst, NJ Automated Infantry Squad Battle Course Range PN 71720	2013	6,857 <sup>1</sup>	5,157	1,700
Fort Bragg, NC Army Reserve Center PN 71900	2014	24,500	22,420	<u>2,080</u>
Total:				3,780

PN = Project Number

<sup>1</sup> The appropriated amount includes a reduction of \$0.543 million as directed in Public Law 112-25, the Budget Control Act of 2011.