



**Journet Leeter L PHCA <JournetLL@phdnswc.navy.mil> on 01/31/2002
12:05:26 PM**

To: "dfars@acq.osd.mil" cc: Cave Janice J PHCA, Foss Elke C PHCA, "Hagan Ann M (AnnMarie) PHCA", Boyd Rob
Subject: FW: Comments for Weighted Guidelines Change - DFARS Case 2000-D018

Port Hueneme Division, Naval Surface Warfare Center submits the attached analysis and comments regarding subject DFARS Case to and the Federal Register Notice of a Proposed Rule to make changes to DoD profit policy. The overall result will likely be higher negotiated profits and fees under DoD contracts; we do not expect any impact of the 'contractor efficiency factor' in the case of services acquisitions..

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> -----Original Message-----
> From: Cave Janice J PHCA
> Sent: Wednesday, January 30, 2002 1:39 PM
> To: Journet Lester L PHCA
> Subject: Comments for Weighted Guidelines Change
>

> Attached are my comments on the proposed weighted guideline changes.

> Janice
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> <<SUMMARY PROPOSED CHANGES.doc>>

(See attached file: SUMMARY PROPOSED CHANGES.doc)



- SUMMARY PROPOSED CHANGES.doc

SUMMARY OF PROPOSED WEIGHTED GUIDELINES CHANGES

	CURRENT	PROPOSED CHANGE
1. Cost Base for Calculation of Profit	Excludes G & A	Includes G & A
2. Performance Risk Assigned Value Range	Standard 2% to 6% Alternate 4% to 8% Technology Incentive 6% to 10%	Standard 3% to 7% Alternate No Change Technology Incentive 7% to 11%
3. Facilities Capital Employed	Buildings 10% to 20% Equipment 20% to 50%	Buildings N/A Equipment 10% to 25%
4. Cost Efficiency Factor	N/A	Not to exceed 4% Contractor must demonstrate cost reduction efforts

1. Including G & A in the cost base for the calculation of profit will result in a slight increase in the overall profit objective. Assuming a G & A rate of 15%, the impact would be an additional 0.45% to 1.05% profit using the standard performance risk value of 3% to 7%.

2. The performance risk assigned values have increased 1%, with the exception of the alternate range, which is unchanged. The impact of the increase in the factors for performance risk values would result in a 1% increase to profit.

3. The decrease in the facilities capital employed is more difficult to quantify, but the overall impact to profit would be a slight decrease to the total profit.

4. The cost efficiency factor can have a major impact on the calculation of profit when it is applicable. This would be more applicable to manufacturing contracts, where the contractor can demonstrate substantial cost savings in their proposal and would not be applicable to most of the PHD NSWC task order contracts for services.

Using the current weighted guidelines to calculate a profit objective usually results in a 4% to 6% profit objective. In the current business environment most contractors will not accept anything less than a 7% to 8.5% profit on cost reimbursable contracts. The proposed revision to the weighted guidelines results in the calculation of a more realistic profit objective.

Use of the technology incentive and the cost efficiency factors, when and if applicable, will be an incentive to contractors to advance technology and work towards real cost savings.