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Navy John Lewis (TAO-205) Class Oiler Shipbuilding Program: Background and Issues for Congress

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Summary

The Navy procured its first John Lewis (TAO-205) class oiler in FY2016, and a total of eight have been procured through FY2022, including the seventh and eighth in FY2022. The first six were procured under a block buy contract authorized by Section 127 of the FY2016 National Defense Authorization Act (S. 1356/P.L. 114-92 of November 25, 2015). TAO-205s are being built by General Dynamics/National Steel and Shipbuilding Company (GD/NASSCO) of San Diego, CA.

Current Navy plans call for procuring a total of 20 TAO-205s. The Navy's proposed FY2023 budget requests $794.7 million for the procurement of the ninth TAO-205 class ship, and an additional $128.1 million in cost-to-complete procurement funding to cover cost growth on TAO-205s procured in prior years.

Issues for Congress include the following:

- cost growth and schedule delays in the TAO-205 program;
- whether to procure in FY2023 one TAO-205 class ship (as requested), no TAO-205 class ship, or two TAO-205 class ships;
- whether to procure TAO-205s in FY2023 and subsequent years under a multiyear procurement (MYP) or block buy contract;
- the total number of TAO-205s the Navy will require in coming years to support its operations, particularly in light of the Navy's new Distributed Maritime Operations (DMO) operating concept;
- issues regarding the TAO-205 program discussed in a June 2021 Government Accountability Office (GAO) report assessing major DOD acquisition programs; and
- whether to encourage or direct the Navy to build TAO-205s with more ship self-defense equipment than currently planned by the Navy.

Contents

Figures

Tables

Appendixes

Contacts

Introduction

This report provides background information and issues for Congress on the John Lewis (TAO-205) class oiler shipbuilding program, a program to build a new class of 20 fleet oilers for the Navy. The issue for Congress is whether to approve, reject, or modify the Navy's annual ship authorization and funding requests and acquisition strategy for the program. Congress's decisions on this issue could affect Navy capabilities and funding requirements and the U.S. shipbuilding industrial base.

Background

Navy Fleet Oilers

Role of Fleet Oilers

The primary role of Navy fleet oilers is to transfer fuel to Navy surface ships that are operating at sea, so as to extend the operating endurance of these surface ships and their embarked aircraft. Fleet oilers also provide other surface ships with lubricants, fresh water, and small amounts of dry cargo. Fleet oilers transfer fuel and other supplies to other surface ships in operations called underway replenishments (UNREPs). During an UNREP, an oiler steams next to the receiving ship and transfers fuel by hose (see **Figure 1**, **Figure 2**, and **Figure 3**).[1]

Oilers are one kind of Navy UNREP ship; other Navy UNREP ships include ammunition ships, dry cargo ships, and multiproduct replenishment ships. The Navy's UNREP ships are known more formally as the Navy's combat logistics force (CLF). Most of the Navy's CLF ships are operated by the Military Sealift Command (MSC).

Although the role of fleet oilers might not be considered as glamorous as that of other Navy ships, fleet oilers are critical to the Navy's ability to operate in forward-deployed areas around the world on a sustained basis. The U.S. Navy's ability to perform UNREP operations in a safe and efficient manner on a routine basis is a skill that many other navies lack. An absence of fleet oilers would significantly complicate the Navy's ability to operate at sea on a sustained basis in areas such as the Western Pacific or the Indian Ocean/Persian Gulf region. The Navy states that

[1] The Navy states that

> A typical connected replenishment starts when a warship makes an "approach" on a CLF ship. The CLF ship maintains steady course and speed while the "customer ship" approaches and comes alongside the CLF ship, matching course and speed. The distance between the two ships is usually between 120-200 feet. The CLF ship then passes heavy metal wires, to the customer ship, that are connected at the replenishment stations. These wires are placed under tension to support fuel hoses for refueling operations or trolleys that move pallets of provisions, ammunition, or other cargo from ship to ship. Ships with flight decks can also receive provisions and ammunition via vertical replenishment. During this evolution a helicopter transfers cargo in external sling loads, or in the case of mail or passengers, inside the helicopter.
>
> (Statement of Mr. F. Scott DiLisio, Director, Strategic Mobility / Combat Logistics Division, Office of the Chief of Naval Operations, on the Logistics and Sealift Force Requirements and Force Structure Assessment Before the House Armed Services Committee Seapower and Projection Forces Subcommittee, July 30, 2014, p. 3.)

the ability to rearm, refuel and re-provision our ships at sea, independent of any restrictions placed on it by a foreign country, is critical to the Navy's ability to project warfighting power from the sea.

As the lifeline of resupply to Navy operating forces underway, the ships of the Navy's Combat Logistic Force (CLF) enable Carrier Strike Groups and Amphibious Ready Groups to operate forward and remain on station during peacetime and war, with minimal reliance on host nation support.[2]

Figure 1. Fleet Oiler Conducting an UNREP

Source: Navy photo accessed May 5, 2014, at http://www.navy.mil/view_image.asp?id=163895. The Navy states that the photo is dated October 24, 2013, and shows the oiler *Tippecanoe* (TAO-199) extending its fuel probe to the Aegis cruiser USS *Antietam* (CG-54), a part of the *George Washington* (CVN-73) Carrier Strike Group, in the South China Sea.

Existing *Kaiser* (TAO-187) Class Oilers

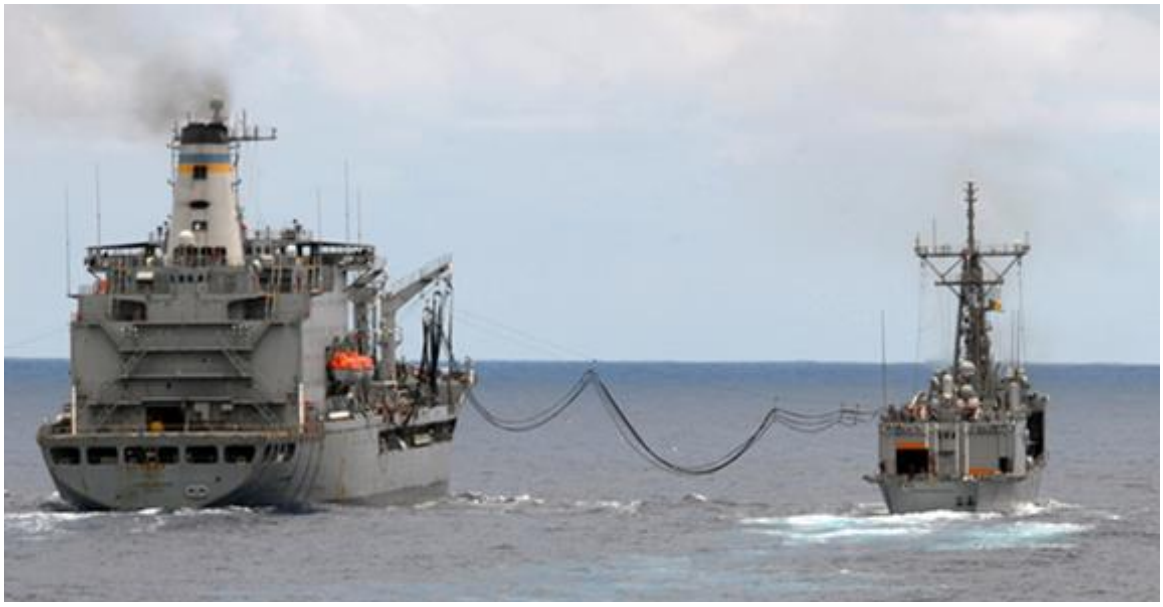
The Navy's existing force of fleet oilers consists of 15 *Henry J. Kaiser* (TAO-187) class ships (**Figure 4**), commonly called *Kaiser*-class oilers for short.[3] These ships were procured between FY1982 and FY1989 and entered service between 1986 and 1996. They have an expected service life of 35 years; the first ship in the class reached that age in 2021. The ships are about 677 feet long and have a full load displacement of about 41,000 tons, including about 26,500 tons of fuel and other cargo. The ships were built by Avondale Shipyards of New Orleans, LA, a shipyard that eventually became part of the shipbuilding firm Huntington Ingalls Industries (HII). HII

[2] Statement of Mr. F. Scott DiLisio, Director, Strategic Mobility / Combat Logistics Division, Office of the Chief of Naval Operations, on the Logistics and Sealift Force Requirements and Force Structure Assessment Before the House Armed Services Committee Seapower and Projection Forces Subcommittee, July 30, 2014, pp. 2-3.

[3] The oilers shown in **Figure 1**, **Figure 2**, and **Figure 3** are also *Kaiser*-class class oilers.

subsequently wound down Navy shipbuilding operations at Avondale, and the facility no longer builds ships. (HII continues to operate two other shipyards that build Navy ships.)

Figure 2. Fleet Oiler Conducting an UNREP



Source: Cropped version of Navy photo accessed May 5, 2014, at http://www.navy.mil/view_image.asp?id=61415. The Navy states that the photo is dated July 13, 2008, and shows the oiler *Leroy Grumman* (TAO-195) refueling the frigate *Underwood* (FFG-36) during an exercise with the *Iwo Jima* (LHD-7) Expeditionary Strike Group in the Atlantic Ocean.

Figure 3. Fleet Oiler Conducting an UNREP

Source: Cropped version of Navy photo accessed May 5, 2014, at http://www.navy.mil/view_image.asp?id=1737. The Navy states that the photo is dated June 19, 2002, and shows the oiler *Walter S. Diehl* (TAO-193), at center, conducting simultaneous UNREPs with the aircraft carrier *John F. Kennedy* (CV-67) and the Aegis destroyer *Hopper* (DDG-70). CV-67, a conventionally powered carrier, has since retired from the Navy, and all of the Navy's aircraft carriers today are nuclear powered. Even so, Navy oilers continue to conduct UNREPs with Navy aircraft carriers to provide fuel for the carriers' embarked air wings.

Figure 4. *Kaiser* (TAO-187) Class Fleet Oiler

Source: Cropped version of U.S. Navy image accessed April 14, 2014, at http://www.navy.mil/management/photodb/photos/130703-N-TG831-240.jpg. (The oilers shown in **Figure 1**, **Figure 2**, and **Figure 3** are also *Kaiser*-class class oilers.)

TAO-205 Program

Program Name

Navy oilers carry the designation TAO (also typed as T-AO). The T means the ship is operated by MSC with a mostly civilian crew; the A means it is an auxiliary ship of some kind; and the O means that it is, specifically, an oiler. TAO-205 will be the Navy's next oiler after TAO-204, which is the final *Kaiser*-class oiler.

On January 6, 2016, then-Secretary of the Navy Ray Mabus announced that the TAO-205 class ships will be named for "people who fought for civil rights and human rights,"[4] and that the first ship in the class, TAO-205, which was procured in FY2016, was being be named for Representative John Lewis,[5] making TAO-205 one of a small number of Navy ships that have been named for people who were living at the time that the naming announcement was made.[6] TAO-205 class ships consequently are now known as John Lewis-class oilers.

[4] Valerie Insinna, "Navy to Name Next Generation Oilers for Civil Rights Icons," *Defense Daily*, January 7, 2016. For more on the names of TAO-205 class ships, see CRS Report RS22478, *Navy Ship Names: Background for Congress*, by Ronald O'Rourke.

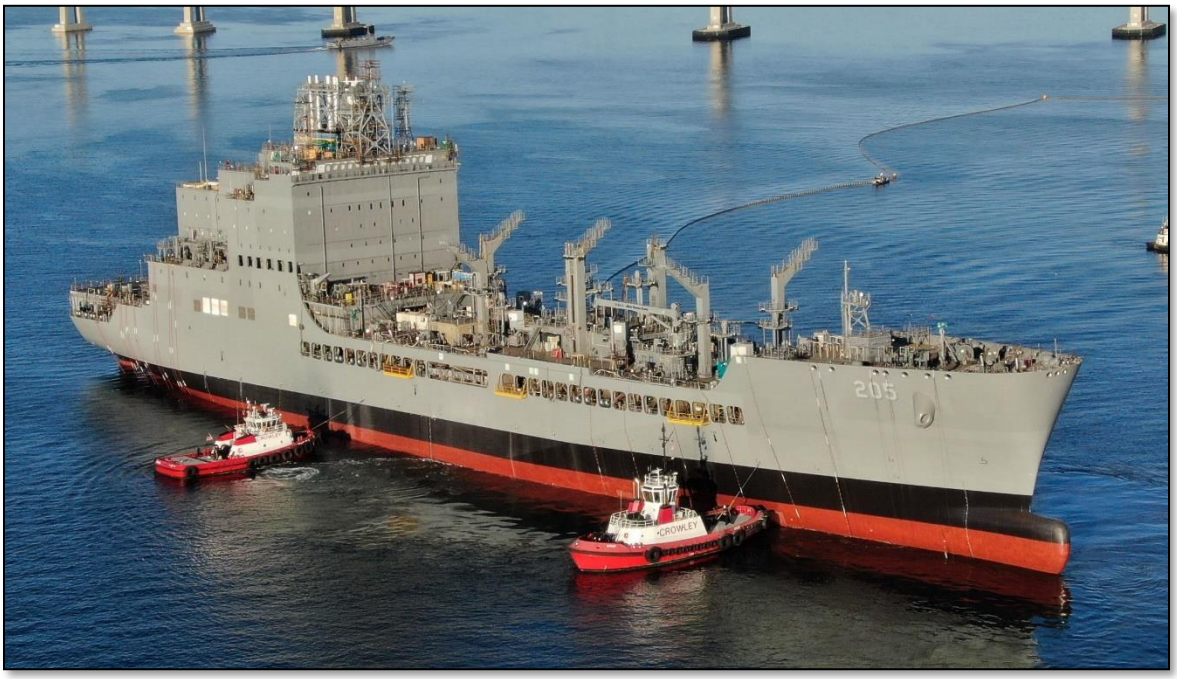
[5] "Secretary of the Navy Ray Mabus Names Fleet Replenishment Oiler," *Navy News Service*, January 6, 2016; Sam LaGrone, "SECNAV Mabus Names First TAO(X) Next Generation Oiler After Rep. John Lewis," *USNI News*, January 6, 2016; "Navy to Name New Oiler after Civil Rights Icon," *Military.com*, January 6, 2020; Valerie Insinna, "Navy to Name Next Generation Oilers for Civil Rights Icons," *Defense Daily*, January 7, 2016.

[6] Representative Lewis died on July 17, 2020. For more on Navy ships named for people who were living at the time that the naming announcement was made, see CRS Report RS22478, *Navy Ship Names: Background for Congress*, by Ronald O'Rourke.

Ship Design and Capabilities

The TAO-205 class design (**Figure 5**) will have capabilities similar to those of the *Kaiser*-class ships, and will rely on existing technologies rather than new technologies. To guard against oil spills, TAO-205s are to be double-hulled, like modern commercial oil tankers, with a space between the two hulls to protect the inner hull against events that puncture the outer hull. (The final *Kaiser*-class ships are double-hulled, but earlier ships in the class are single-hulled.)

Figure 5. *John Lewis* (TAO-205)



Source: Cropped version of photograph accompanying National Steel and Shipbuilding Company, "General Dynamics NASSCO Launches First Ship in the T-AO Fleet Oiler Program for the U.S. Navy," January 13, 2021.

Note: Launching is when a ship that is under construction is put into the water for the final phases of its construction.

Planned Total Procurement Quantity

Currently Planned Total Procurement Quantity of 20

The required number of oilers largely depends on the numbers and types of other surface ships (and their embarked aircraft) to be refueled, and the projected operational patterns for these ships and aircraft. The Navy's current force-level objective, released on December 15, 2016, calls for achieving and maintaining a 355-ship fleet, including 32 CLF ships, of which 20 are to be TAO-205s.[7] Consistent with this plan, the Navy currently wants to procure a total of 20 TAO-205s.

[7] For more on the Navy's 355-ship force-level goal, see CRS Report RL32665, *Navy Force Structure and Shipbuilding Plans: Background and Issues for Congress*, by Ronald O'Rourke.

Potential Change in Planned Total Procurement Quantity

The Navy and DOD have been working since 2019 to develop a new Navy force-level goal to replace the Navy's current 355-ship force-level goal that might or might not change the currently planned total procurement quantity of 20 TAO-205s. The future mix of CLF ships is to include a new class of ship, called the Next-Generation Logistics Ship (NGLS), that is to be smaller and individually less expensive than the TAO-205 design.[8] For additional discussion of Navy and DOD efforts to develop a new Navy force-level goal to replacement the current 355-ship goal, see the CRS overview report on Navy force structure and shipbuilding plans.[9]

Annual Procurement Quantities

The Navy procured the first TAO-205 in FY2016, and a total of eight have been procured through FY2022, including the seventh and eighth in FY2022. The Navy's five-year (FY2023-FY2027) shipbuilding plan programs the procurement of six more TAO-205s in FY2023-FY2027, in annual quantities of 1-2-1-1-1.

Unit Procurement Cost

Under the Navy's FY2023 budget submission, the TAO-205s to be procured in the five-year period FY2023-FY2027 have estimated unit procurement costs of $794.7 million, $678.9 million (an average for the two ships programmed for procurement that year), $732.8 million, $746.8 million, and $764.0 million, respectively.

Builder

TAO-205s are being built by General Dynamics/National Steel and Shipbuilding Company (GD/NASSCO) of San Diego, CA, a shipyard that builds Navy auxiliaries, DOD sealift ships, and commercial cargo ships.

Block Buy Contract

The first six TAO-205s were procured under a block buy contract that was authorized by Section 127 of the FY2016 National Defense Authorization Act (S. 1356/P.L. 114-92 of November 25, 2015). It was earlier estimated that the block buy contract would reduce the procurement cost of the second through sixth TAO-205s by an average of about $45 million each, compared to costs under the standard or default DOD approach of annual contracting.[10] The Navy states that about

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[8] For more on the NGLS program, see CRS In Focus IF11674, *Navy Next-Generation Logistics Ship (NGLS) Program: Background and Issues for Congress*, by Ronald O'Rourke.

[9] CRS Report RL32665, *Navy Force Structure and Shipbuilding Plans: Background and Issues for Congress*, by Ronald O'Rourke

[10] The Senate Armed Services Committee, in its report (S.Rept. 114-49 of May 19, 2015) on the FY2016 National Defense Authorization Act (S. 1376), stated

> **Fleet replenishment oiler program (sec. 118)**
>
> The committee recommends a provision [Section 118] that would grant the Secretary of the Navy contracting authority to procure up to six fleet replenishment oilers (T–AO(X)). This new ship class is a nondevelopmental recapitalization program based on existing commercial technology and standards. The ship design is considered to be low risk by the Navy, with the design scheduled to be complete prior to the start of construction on the lead ship. This provision would generate an estimated $45.0 million in savings per ship compared to annual procurement cost estimates. In addition, the provision would provide a long-term commitment to the shipbuilder and vendors,

$35 million of the $45 million in per-ship savings will come from using advance procurement (AP) funding for batch-ordering TAO-205 components. The Navy states that this use of AP funding could have occurred under annual contracting, and that the savings that are intrinsic to the block buy contract are thus about $10 million per ship.[11]

FY2021 and FY2022 Legislation Regarding U.S. Content Requirement for Certain Components

Section 845 of the FY2021 National Defense Authorization Act (H.R. 6395/P.L. 116-283 of January 1, 2021) states (emphasis added)

> SEC. 845. MISCELLANEOUS LIMITATIONS ON THE PROCUREMENT OF GOODS OTHER THAN UNITED STATES GOODS.
>
> (a) IN GENERAL.—Section 2534 of title 10, United States Code, is amended—
>
> (1) in subsection (a)—
>
> (A) by striking paragraphs (2) through (5) and redesignating paragraph (6) as paragraph (3);
>
> (B) by inserting after paragraph (1) the following new paragraph:
>
> ''(2) COMPONENTS FOR NAVAL VESSELS.—The following components of vessels, to the extent they are unique to marine applications:
>
> ''(A) Gyrocompasses.
>
> ''(B) Electronic navigation chart systems.
>
> ''(C) Steering controls.
>
> ''(D) Propulsion and machinery control systems.
>
> ''(E) Totally enclosed lifeboats.'';
>
> (C) in paragraph (3), as so redesignated, by striking ''subsection (k)'' and inserting ''subsection (j)''; and
>
> (D) by adding at the end the following new paragraph:

> which would enable workforce stability and planning efficiency. (Pages 11-12)

The committee print that includes the legislative text and joint explanatory statement for the enacted FY2016 National Defense Authorization Act (S. 1356/P.L. 114-92 of November 25, 2015) stated

> *Fleet replenishment oiler program (sec. 127)*
>
> The Senate amendment contained a provision (sec. 118) that would grant the Secretary of the Navy contracting authority to procure up to six fleet replenishment oilers (T–AO (X)). This new ship class is a non-developmental recapitalization program based on existing commercial technology and standards. The ship design is considered to be low risk by the Navy, with the design scheduled to be complete prior to the start of construction on the lead ship. This provision would enable an estimated $45.0 million in savings per ship, for ships 2–6, for a total of $225.0 million in savings compared to current annual procurement cost estimates.
>
> (114th Congress, 1st Session, Committee Print No. 2, *National Defense Authorization Act for Fiscal Year 2016, Legislative Text and Joint Explanatory Statement to accompany* S. 1356, P.L. 114-92, *November 2015*, Printed for the use of the Committee on Armed Services of the House of Representatives, p. 608)

For more on block buy contracts, see CRS Report R41909, *Multiyear Procurement (MYP) and Block Buy Contracting in Defense Acquisition: Background and Issues for Congress*, by Ronald O'Rourke and Moshe Schwartz.

[11] Source: Navy briefing on TAO-205 program for CRS and CBO, April 12, 2019.

‘‘(4) COMPONENTS FOR T–AO 205 CLASS VESSELS.—The following components of T–AO 205 class vessels:

‘‘(A) Auxiliary equipment, including pumps, for all shipboard services.

‘‘(B) Propulsion system components, including engines, reduction gears, and propellers.

‘‘(C) Shipboard cranes.

‘‘(D) Spreaders for shipboard cranes.’’;

(2) by amending subsection (b) to read as follows:

‘‘(b) MANUFACTURER IN THE NATIONAL TECHNOLOGY AND INDUSTRIAL BASE.—A manufacturer meets the requirements of this subsection if the manufacturer is part of the national technology and industrial base.’’;

(3) in subsection (c)—

(A) by striking ‘‘ITEMS.—’’ and all that follows through ‘‘Subsection (a) does not apply’’ and inserting ‘‘ITEMS.—Subsection (a) does not apply’’; and

(B) by striking paragraphs (2) though (5);

(4) in subsection (g)—

(A) by striking ‘‘(1) This section’’ and inserting ‘‘This section’’; and

(B) by striking paragraph (2);

(5) in subsection (h), by striking ‘‘subsection (a)(3)(B)’’ and inserting ‘‘subsection (a)(2)’’;

(6) in subsection (i)(3), by striking ‘‘Under Secretary of Defense for Acquisition, Technology, and Logistics’’ and inserting ‘‘Under Secretary of Defense for Acquisition and Sustainment’’;

(7) by striking subsection (j);

(8) by redesignating the first subsection designated subsection (k) (relating to ‘‘Limitation on Certain Procurements Application Process’’) as subsection (j); and

(9) in subsection (k) (relating to ‘‘Implementation of Auxiliary Ship Component Limitation’’), by striking ‘‘Subsection (a)(6)’’ and inserting ‘‘Subsection (a)(3)’’.

(b) REVIEW OF SELECT COMPONENTS.—The Secretary of the Defense shall expedite the review period under paragraph (3)(B) of section 2534(j) of title 10, United States Code, as redesignated by subsection (a), to not more than 60 days for applications submitted pursuant to such section 2534(j) for the following components for auxiliary ships:

(1) Auxiliary equipment, including pumps, for all shipboard services.

(2) Propulsion system components, including engines, reduction gears, and propellers.

(3) Shipboard cranes.

(4) Spreaders for shipboard cranes.

Section 8103(a) of the FY2022 DOD Appropriations Act (Division C of H.R. 2471/P.L. 117-103 of March 15, 2022) states

SEC. 8103. (a) None of the funds provided in this Act for the TAO Fleet Oiler program shall be used to award a new contract that provides for the acquisition of the following components unless those components are manufactured in the United States: Auxiliary equipment (including pumps) for shipboard services; propulsion equipment (including

engines, reduction gears, and propellers); shipboard cranes; spreaders for shipboard cranes; and anchor chains specifically for the seventh and subsequent ships of the fleet.

FY2023 Funding

The Navy's proposed FY2023 budget requests $794.7 million for the procurement of the ninth TAO-205 class ship and an additional $128.1 million in cost-to-complete procurement funding to cover cost growth on TAO-205s procured in prior years.

Issues for Congress

Cost Growth and Schedule Delays

One issue for Congress concerns cost growth and schedule delays in the TAO-205 program. The Navy informed CRS on August 31, 2021, that the estimated procurement cost of the lead ship in the TAO-205 program had increased to $759.4 million[12]—an increase of $85.2 million, or 12.6%, from the ship's originally estimated and funded procurement cost of $674.2 million. The delivery date for the ship has also been delayed. One cause of the cost growth and delivery delay is an incident in July 2018 that flooded a graving dock (i.e., dry dock) at the TAO-205 shipbuilder, GD/NASSCO.[13] Other causes of cost growth include cyber security change orders that were not provided in the original shipbuilding construction contract award, and cost growth in government-furnished equipment (GFE) for the ship.[14] The delivery dates for subsequent ships in the program have also been delayed.

As noted earlier, cost growth in the TAO-205 program has required the Navy to request cost-to-complete funding to cover cost growth on TAO-205s procured in prior years. The TAO-205 program has received a total of $145.7 million in cost-to-complete funding through FY2022. The Navy's proposed FY2023 budget, as noted earlier, requests an additional $128.1 million in cost-to-complete funding, and the Navy's FY2023 budget submission projects that an additional $113.1 million and $12.6 million will be requested for FY2024 and FY2025, respectively. The sum of all these figures is $399.549 million, which equates to roughly half the currently estimated procurement cost of a TAO-205.

As noted later in this report, a June 2021 Government Accountability Office (GAO) report stated that

> A 2018 incident involving a flooded dry dock delayed and disrupted the shipbuilder's operations. With fewer ships under construction at one time, the shipyard must now allocate the same fixed overhead costs over fewer ships....

[12] Navy information paper on TAO-205 dated August 25, 2021, provided to CRS by Navy Office of Legislative Affairs on August 31, 2021.

[13] For press reports about the graving dock incident and its impacts on work being done at GD/NASSCO, see, for example, Megan Eckstein, "NASSCO Drydock Floods, Damaging Under-Construction Expeditionary Sea Base," *USNI News*, July 13, 2018; David Larter, "Partial Dry-Dock Collapse Floods US Navy Ship Under Construction," *Defense News*, July 13, 2018; Tyler Rogoway, "Dry Dock Collapse In San Diego Floods Expeditionary Sea Base Under Construction," *The Drive*, July 13, 2018; Maritime Executive, "Graving Dock Failure at NASSCO Leads to Layoffs," *Maritime Executive*, August 14, 2018; Ben Werner, "Navy: Dry Dock Accident Will Set Back Miguel Keith Construction At Least 6 Months," *USNI News*, October 18, 2018.

[14] Source: Navy FY2022 program briefing on TAO-205 program for CRS and Congressional Budget Office (CBO), July 19, 2021.

> The program's schedule continues to experience delays due to the events of the last two years. As we reported last year, as a result of events that began with the 2018 flooding of one of the shipbuilder's dry docks, planned delivery of ships two through six slipped by 5 to 12 months. The incident did not affect the lead ship's schedule, but the late delivery of the ship's main engines and certain other components delayed the lead ship's delivery date by 7 months.... [15]

The Navy stated in July 2021 that the delivery date for TAO-205 has been delayed from June 2021 to March 2022 due to the graving dock incident, late delivery of outfitting materials, and a need to repair or carry out rework on other parts of the ship, and that the delivery dates of the second through sixth ships in the class have been delayed by 12 to 15 months due to the graving dock incident, late delivery of materials, throughput delays caused by delays in building the first ship, and impacts from the COVID-19 situation.[16]

Number of TAO-205s to Procure in FY2023

Another issue for Congress is whether to procure in FY2023 one TAO-205 class ship (as requested), no TAO-205 class ship, or two TAO-205s. In assessing this issue, Congress may consider various factors, including the following:

- the expected service lives and scheduled retirement dates of the existing TAO-187 class oilers;
- construction times for new TAO-205s;
- potential changes in the required number of oilers (see next section);
- shipyard workloads and employment levels at GD/NASSCO;
- the amount of funding that would be needed to procure one or two TAO-205s in FY2023; and
- competing Navy or other DOD uses for such funding.

From FY2016 through FY2022, annual TAO-205 procurement quantities have been as follows: 1-0-1-2-2-0-2. As part of its action on the Navy's proposed FY2022 budget, Congress funded the procurement of two TAO-205s—one more than the single TAO-205 that the Navy had requested for procurement for FY2022.

Multiyear Procurement (MYP) or Block Buy Contracting

Another issue for Congress is whether to procure TAO-205s in FY2023 and subsequent years under a multiyear procurement (MYP) or block buy contract. MYP and block buy contracting are two types of multiyear contracting. As discussed in the CRS report on MYP and block buy contracting, using MYP or block buy contracting can reduce the combined procurement cost of the ships being procured, but can also reduce Navy and congressional flexibility for responding to changes in strategic or budgetary circumstances that might affect Navy shipbuilding plans.[17]

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[15] Government Accountability Office, *Weapon Systems Annual Assessment[:] Updated Program Oversight Approach Needed*, p. 189.

[16] Source: Navy FY2022 program briefing on TAO-205 program for CRS and Congressional Budget Office (CBO), July 19, 2021.

[17] See CRS Report R41909, *Multiyear Procurement (MYP) and Block Buy Contracting in Defense Acquisition: Background and Issues for Congress*, by Ronald O'Rourke.

At an April 26, 2022, hearing on Navy and Marine Corps investment programs before the Seapower subcommittee of the Senate Armed Services Committee, the Department of the Navy witnesses were asked about the savings that might be realized by using Economic Order Quantity (EOQ) purchasing (a feature of MYP contracting and some block buy contracts) for procuring TAO-205s to be procured in FY2023 and subsequent years. A Navy official replied that the Navy had estimated a 7% savings for using a block buy contract to procure a certain group of four amphibious ships (three LPD-17 Flight II class amphibious ships and one LHA-type amphibious assault ship),[18] and that the percentage savings for a group of TAO-205s could be higher, since the ships to be procured in this case would all be of the same class, which would maximize the potential for achieving savings through batch-ordering of common components.[19]

Total Required Number of TAO-205s

Another issue for Congress concerns the total number of TAO-205s the Navy will require in coming years to support its operations. As mentioned earlier, the Navy and DOD have been working since 2019 to develop a new Navy force-level goal to replace the Navy's current 355-ship force-level goal, and the future mix of CLF ships is to include a new class of ship, called the Next-Generation Logistics Ship (NGLS). The Navy is implementing a new operational concept, called Distributed Maritime Operations (DMO), that could lead to the development of a fleet with larger numbers of individually smaller ships, and to more-widely dispersed Navy operations. DMO could affect requirements for Navy logistics, including oilers. The Navy states that

> To support a larger, more distributed force, increased numbers of T-AOs and NGLS platforms improve resiliency of the logistics force. The final CLF force size and mix will continue to evolve pending the NGLS AoA [analysis of alternatives] and additional studies.... [20]

Issues Discussed in June 2021 GAO Report

A June 2021 GAO report—the 2021 edition of an annual GAO report assessing major DOD acquisition programs—stated the following about the TAO-205 program:

> **Technology Maturity, Design Stability, and Production Readiness**
>
> At the 2018 construction start, all Lewis class critical technologies were mature and the design was stable—an approach that typically reduces the risk of cost increase and schedule delays. Over the last 2 years, however, the program experienced challenges with both cost and schedule.
>
> The program projects cost overruns for the first and second ships. In fiscal year 2021, the Navy requested close to $60 million in additional funding to complete construction of these ships and reprogrammed an additional $20 million from other Navy programs. Program officials attributed these overruns to three factors:

[18] For additional discussion of the authority that Congress granted for using such a contract, see CRS Report R43543, *Navy LPD-17 Flight II and LHA Amphibious Ship Programs: Background and Issues for Congress*, by Ronald O'Rourke.

[19] Source: Spoken testimony at the hearing of Frederick J. Stefany, Principal Civilian Deputy, Assistant Secretary of the Navy (Research, Development and Acquisition), Performing the Duties of the Assistant Secretary of the Navy (Research, Development and Acquisition).

[20] U.S. Navy, *Report to Congress on the Annual Long-Range Plan for Construction of Naval Vessels for Fiscal Year 2023*, April 2022, p. 5.

• Higher than expected inflation, especially for materials like steel, due to increased tariffs.

• A 2018 incident involving a flooded dry dock delayed and disrupted the shipbuilder's operations. With fewer ships under construction at one time, the shipyard must now allocate the same fixed overhead costs over fewer ships.

• Shipyard and vendor performance issues stemming from more complex work than anticipated.

Program officials stated that the Navy and the shipyard convened a joint working group to identify and implement cost saving efforts. This group is studying a variety of design changes, ranging from smaller modifications, such as switching to a different design for tie-downs on the flight deck, to larger changes like removing a level from the ship's deckhouse. Program officials stated that many of these could be implemented without affecting the Navy's specifications, but some would limit the program's ability to meet its performance requirements and would require higher-level approvals from the Navy.

The program's schedule continues to experience delays due to the events of the last two years. As we reported last year, as a result of events that began with the 2018 flooding of one of the shipbuilder's dry docks, planned delivery of ships two through six slipped by 5 to 12 months. The incident did not affect the lead ship's schedule, but the late delivery of the ship's main engines and certain other components delayed the lead ship's delivery date by 7 months to June 2021. Since our last review, the initial operational capability date, tied to lead ship delivery, was delayed by 6 months to February 2023.

Software and Cybersecurity

The program's software is almost entirely commercial-off-the-shelf, with only a small fraction of that requiring any customization.

The program has an approved cybersecurity strategy involving both tabletop exercises—people talking through how they would respond to simulated scenarios—and security penetration testing.

Other Program Issues

The program issued a revised acquisition program baseline in February 2020, reflecting changes in planned procurement quantities, as well as schedule changes due to delays. The program postponed procurements for fiscal years 2021 and 2022, and its procurement schedule now runs through 2036, rather than 2035, as originally planned.

For the seventh ship, the Navy plans to award a contract modification on a sole-source basis to the current T-AO 205 contractor. The Navy included up to six ships in its original Detailed Design and Construction contract and had planned to purchase future ships through competitively awarded contracts. Navy officials said they wanted to receive detailed production information developed through the first ship's manufacture before competing future procurements. They stated that this information will not be ready in time to include the seventh ship in the competitive award under the current schedule, and making a competitive award without this information could lead to cost duplication that may not be recoverable through competition. While Navy officials reported they have yet to request a proposal for the seventh ship, they stated that the contractor previewed its expected pricing, which was higher than anticipated and reflected a significantly higher unit cost compared to earlier ships.

Program officials stated that they have yet to understand the full effects of COVID-19 on the program but that some effects are already apparent. Officials stated the shipyard was experiencing increased absenteeism and some supply chain issues, including the April 2020 temporary closing of an important sheet metal manufacturer, but the manufacturer has since reopened.

Program Office Comments

We provided a draft of this assessment to the program office for review and comment. The program office stated that it continues to adhere to best practices to minimize risks, reduce ship costs, and ensure an affordable design. The program stated that as it encountered cost overruns, it has worked with industry to identify over 150 cost reduction initiatives. These initiatives will be evaluated for implementation based on overall return on investment over the ship's life cycle. The program also stated that the first-in-class ship was launched in January 2021, the second ship is more than halfway complete, and construction commenced on the third ship in December 2020. With the design matured and early lessons incorporated into the construction of follow-on hulls, the program office stated that cost and schedule stability has improved.[21]

TAO-205 Ship Self-Defense Equipment

Another issue for Congress is whether to encourage or direct the Navy to build TAO-205s with more ship self-defense equipment than currently planned by the Navy. The issue relates to how changes in the international security environment might affect how the Navy operates and equips its underway replenishment ships. For additional background information on this issue, see **Appendix A**.

Legislative Activity for FY2023

Summary of Congressional Action on FY2023 Funding

Table 1 summarizes congressional action on the Navy's request for FY2023 procurement and advance procurement (AP) funding for additional TAO-205s. The Navy's proposed FY2023 budget requests $794.7 million for the procurement of the ninth TAO-205 class ship and an additional $128.1 million in cost-to-complete procurement funding to cover cost growth on TAO-205s procured in prior years.

Table 1. Congressional Action on FY2023 Funding for Additional TAO-205s

Millions of dollars, rounded to nearest tenth

		Authorization			Appropriation		
	Request	HASC	SASC	Enacted	HAC	SAC	Enacted
Procurement	794.7	1,540.7			794.7		
Advance procurement (AP)	0	0			0		
Cost-to-complete	128.1	128.1			128.1		
(Quantity)	*(1)*	*(2)*			*(1)*		

Source: Navy FY2023 budget submission, committee and conference reports, and explanatory statements on FY2023 National Defense Authorization Act and FY2023 DOD Appropriations Act.

Notes: HASC is House Armed Services Committee; **SASC** is Senate Armed Services Committee; **HAC** is House Appropriations Committee; **SAC** is Senate Appropriations Committee. Cost-to-complete funding, also known as completion of PY (prior-year) shipbuilding programs, is funding for the completion of ships procured in prior fiscal years. Cost-to-complete funding is generally provided to cover cost growth on prior-year-funded ships.

[21] Government Accountability Office, *Weapon Systems Annual Assessment[:] Updated Program Oversight Approach Needed*, p. 189.

FY2023 National Defense Authorization Act (H.R. 7900)

House

The House Armed Services Committee, in its report (H.Rept. 117-397 of July 1, 2022) on H.R. 7900, recommended the funding levels and ship quantity shown in the HASC column of **Table 1**.

FY2023 DOD Appropriations Act (H.R. 8236)

House

The House Appropriations Committee, in its report (H.Rept. 117-388 of June 24, 2022) on H.R. 8236, recommended the funding levels and ship quantity shown in the HAC column of **Table 1**.

Section 8099(a) of H.R. 8236 as reported by the committee states:

> SEC. 8099. (a) None of the funds provided in this Act for the TAO Fleet Oiler program shall be used to award a new contract that provides for the acquisition of the following components unless those components are manufactured in the United States: Auxiliary equipment (including pumps) for shipboard services; propulsion equipment (including engines, reduction gears, and propellers); shipboard cranes; spreaders for shipboard cranes; and anchor chains specifically for the seventh and subsequent ships of the fleet.

Appendix A. TAO-205 Ship Self-Defense Equipment

This appendix provides additional background information on the issue of whether to encourage or direct the Navy to build TAO-205s with more ship self-defense equipment than currently planned by the Navy.

During the Cold War, the Navy procured underway replenishment ships to support a two-stage approach to underway replenishment in which single-product "shuttle" ships (such as oilers, ammunition ships, and dry stores ships) would take their supplies from secure ports to relatively safe mid-ocean areas, where they would then transfer them to multiproduct "station" ships called TAOEs and AORs. The TAOEs and AORs would then travel to Navy carrier strike groups operating in higher-threat areas and transfer their combined supplies to the carrier strike group ships. As a result, single-product shuttle ships were equipped with lesser amounts of ship self-defense equipment, and TAOEs and AORs were equipped with greater amounts of such equipment.

When the Cold War ended and transitioned to the post-Cold War era, threats to U.S. Navy ships operating at sea were substantially reduced. As a consequence, the amount of ship self-defense equipment on the TAOEs and AORs was reduced, and a single-stage approach to underway replenishment, in which oilers and dry stores ships took supplies from secure ports all the way to carrier strike group ships, was sometimes used.

Now that the post-Cold War era has transitioned to a new strategic environment featuring renewed great power competition with countries like China and Russia,[22] and a consequent renewal of potential threats to U.S. Navy ships operating at sea, the question is whether TAO-205s should be equipped with lesser amounts of ship self-defense equipment, like oilers were during both the Cold War and post-Cold War eras, or with greater amounts of ship self-defense equipment, like TAOEs and AORs were during the Cold War. Building TAO-205s with more ship self-defense equipment than currently planned by the Navy could increase TAO-205 procurement costs by tens of millions of dollars per ship, depending on the amount of additional ship self-defense equipment.

Section 1026 of the FY2016 National Defense Authorization Act (S. 1356/P.L. 114-92 of November 25, 2015) required an independent assessment of the Navy's combat logistics force ships. The report was delivered to Congress in February 2016. A copy of the report was posted by the media outlet Politico on March 11, 2016. The report states the following:

> The T-AO(X) will only have a limited capability to defeat a submarine launched torpedo attack and no capability to defeat a missile attack. When delivered, the TAO(X) will have:
>
> —[the] NIXIE Torpedo Countermeasure System [for decoying certain types of torpedoes]
>
> —[the] Advanced Degaussing System (Anti-Mine) [for reducing the ship's magnetic signature, so as to reduce the likelihood of attack by magnetically fused mines]
>
> When required, the T-AO(X) will also have ability to embark Navy Expeditionary Combat Command Expeditionary Security Teams (EST). The ESTs will embark with several crew served weapons and are designed to provide limited self-defense against a small boat attack.

[22] For more on this transition, see CRS Report R43838, *Renewed Great Power Competition: Implications for Defense—Issues for Congress*, by Ronald O'Rourke.

> The T-AO(X) will have Space, Weight, Power and Cooling (SWAP-C) margins for future installations of the following systems:
>
> —[the] Close In Weapon System (CIWS) or SeaRAM (Rolling Airframe Missile) [for defense against missile attack]
>
> —[the] Anti-Torpedo Torpedo Defense System (ATTDS) [for destroying torpedoes]
>
> Even after the installation of a CIWS or ATTDS, if the T-AO(X) was to operate in anything other than a benign environment, the ship will require both air and surface escorts.
>
> The decision to rely on [other] Fleet assets to provide force protection [i.e., defense against attacks] for the T-AO(X) was validated by the JROC [in June 2015].[23]

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Disclaimer

[23] Department of the Navy, *Report to Congress on Requirements for the Fleet Replenishment Oiler, T-AO(X)*, February 2016 (with cover letter dated February 12, 2016), p. 8. The report was posted by Politico on March 11, 2016, at http://static.politico.com/1e/e0/f26a9fb1471aacd5358c420fcf10/navy-oiler-report.pdf, and accessed by CRS on March 15, 2016.