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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 nine have been procured through FY2023. The first six were procured under a block buy contract authorized by Section 127 of the FY2016 National Defense Authorization Act (NDAA) (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. The first ship in the class was delivered to the Navy on July 26, 2022.

Current Navy plans call for procuring a total of 20 TAO-205s. The Navy's proposed FY2024 budget requests \$815.4 million for the procurement of the 10<sup>th</sup> TAO-205 class ship, and an additional \$122.9 million in cost-to-complete procurement funding to cover cost growth on TAO-205s procured in prior years.

Section 128 of the FY2023 NDAA (H.R. 7776/P.L. 117-263 of December 23, 2022) provides authority for the Navy during FY2023 and FY2024 to use multiyear contracting to procure not more than eight TAO-205s. Using multiyear contracting in the form of a multiyear procurement (MYP) contract would require additional approval in a DOD appropriations act. Using multiyear contracting in the form of a block buy contract would not require additional approval in a DOD appropriations act—the authorization provided by Section 128 of the FY2023 NDAA would be sufficient for using a block buy contract.

Issues for Congress include the following:

- cost growth and schedule delays in the TAO-205 program;
- whether to procure in FY2024 one TAO-205 class ship (as requested), no TAO-205 class ship, or two TAO-205 class ships;
- whether to procure TAO-205s in FY2024 and subsequent years under 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 2022 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

Introduction .....	1
Background .....	1
Navy Fleet Oilers .....	1
Role of Fleet Oilers .....	1
Existing <i>Kaiser</i> (TAO-187) Class Oilers .....	2
TAO-205 Program.....	4
Program Name .....	4
Ship Design and Capabilities .....	5
Planned Total Procurement Quantity .....	5
Annual Procurement Quantities .....	6
Unit Procurement Cost.....	6
Builder .....	6
Block Buy Contract for First Six Ships .....	7
Authority for Using Multiyear Contracting in FY2023 and FY2024 .....	7
Legislation Regarding U.S. Content Requirement for Certain Components .....	8
FY2024 Funding .....	9
Issues for Congress.....	9
Cost Growth and Schedule Delays.....	9
Number of TAO-205s to Procure in FY2024.....	11
Multiyear Procurement (MYP) or Block Buy Contracting .....	11
Total Required Number of TAO-205s.....	12
Issues Discussed in June 2023 GAO Report.....	12
TAO-205 Ship Self-Defense Equipment.....	14
Legislative Activity for FY2024.....	14
Summary of Congressional Action on FY2024 Funding .....	14
FY2024 National Defense Authorization Act (H.R. 2670/S. 2226).....	15
House .....	15
Senate.....	15
FY2024 DOD Appropriations Act (H.R. 4365/S. 2587).....	15
House .....	15
Senate.....	15

## Figures

Figure 1. Fleet Oiler Conducting an UNREP .....	2
Figure 2. Fleet Oiler Conducting an UNREP .....	3
Figure 3. Fleet Oiler Conducting an UNREP .....	3
Figure 4. <i>Kaiser</i> (TAO-187) Class Fleet Oiler .....	4
Figure 5. <i>John Lewis</i> (TAO-205).....	5
Figure 6. <i>John Lewis</i> (TAO-205).....	6

## Tables

Table 1. Congressional Action on FY2024 Funding for TAO-205s .....	14
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## **Appendixes**

Appendix A. TAO-205 Ship Self-Defense Equipment..... 16

## **Contacts**

Author Information..... 17

## 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**).<sup>1</sup>

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

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.

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<sup>1</sup> 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.)

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.<sup>2</sup>

**Figure 1. Fleet Oiler Conducting an UNREP**



**Source:** Navy photo accessed May 5, 2014, at [http://www.navy.mil/view\\_image.asp?id=163895](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.<sup>3</sup> 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 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.)

<sup>2</sup> 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.

<sup>3</sup> The oilers shown in **Figure 1**, **Figure 2**, and **Figure 3** are also *Kaiser*-class class oilers.

**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](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](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-I87) 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,"<sup>4</sup> and that the first ship in the class, TAO-205, which was procured in FY2016, was being named for Representative John Lewis,<sup>5</sup> 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.<sup>6</sup> TAO-205 class ships consequently are now known as John Lewis-class oilers.

<sup>4</sup> 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.

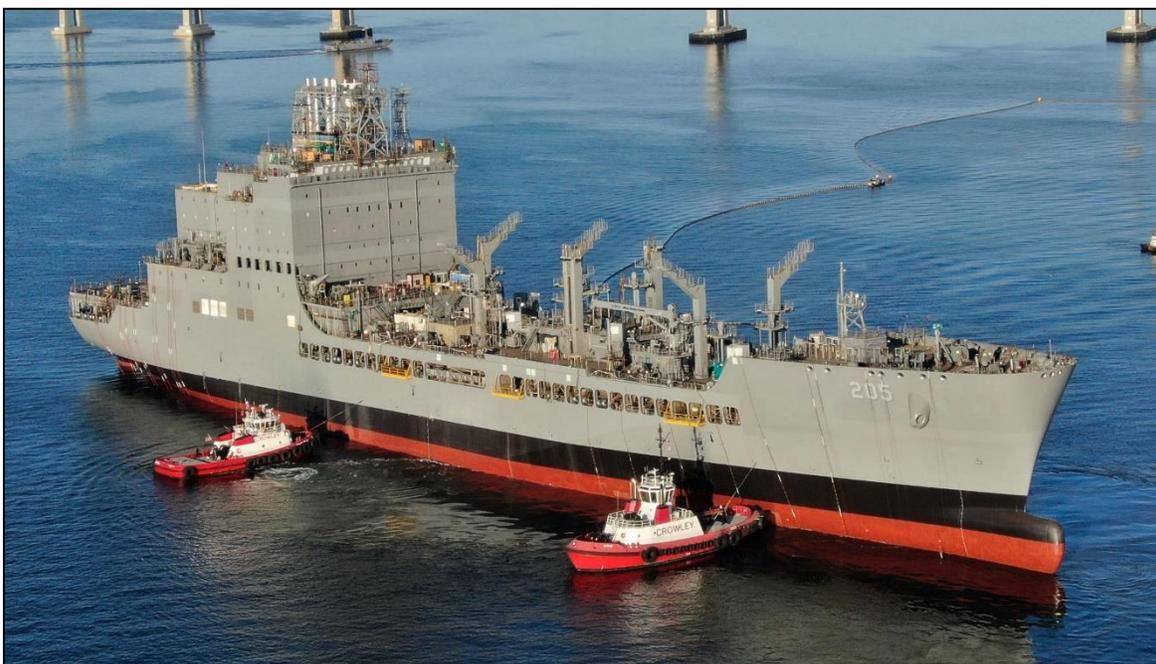
<sup>5</sup> "Secretary of the Navy Ray Mabus Names Fleet Replenishment Oiler," *Navy News Service*, January 6, 2016; Sam LaGrone, "SECNAV Mabus Names First TAO(X) Next Generation Oiler After Rep. John Lewis," *USNI News*, January 6, 2016; "Navy to Name New Oiler after Civil Rights Icon," *Military.com*,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

<sup>6</sup> 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 and Figure 6) 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.<sup>7</sup> Consistent with this plan, the Navy currently wants to procure a total of 20 TAO-205s.

<sup>7</sup> 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.

**Figure 6. John Lewis (TAO-205)**



**Source:** Cropped version of photograph accompanying Team Ships Public Affairs, “USNS John Lewis Conducts Builder’s Trials,” Naval Sea Systems Command, February 7, 2022.

### ***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.<sup>8</sup> 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.<sup>9</sup>

### **Annual Procurement Quantities**

The Navy procured the first TAO-205 in FY2016, and a total of nine have been procured through FY2023 in annual procurement quantities for the period FY2016-FY2023 of 1-0-1-2-2-0-2-1. The Navy’s five-year (FY2024-FY2028) shipbuilding plan programs the procurement of six more TAO-205s in FY2024-FY2028, in annual quantities of 1-0-2-1-2.

### **Unit Procurement Cost**

Under the Navy’s FY2024 budget submission, the TAO-205s to be procured in the five-year period FY2024-FY2028 have estimated unit procurement costs of \$815.4 million, \$816.1 million (an average for the two ships programmed for procurement that year), \$861.0 million, \$875.9 million (an average for the two ships programmed for procurement that year), and \$837.5 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,

<sup>8</sup> 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.

<sup>9</sup> CRS Report RL32665, *Navy Force Structure and Shipbuilding Plans: Background and Issues for Congress*, by Ronald O’Rourke.

and commercial cargo ships. The first ship in the class was delivered to the Navy on July 26, 2022.

### **Block Buy Contract for First Six Ships**

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 (NDAA) (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.<sup>10</sup> The Navy states that about \$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.<sup>11</sup>

### **Authority for Using Multiyear Contracting in FY2023 and FY2024**

Section 128 of the FY2023 NDAA (H.R. 7776/P.L. 117-263 of December 23, 2022) provides authority for the Navy during FY2023 and FY2024 to use multiyear contracting to procure not more than eight TAO-205s. Using multiyear contracting in the form of a multiyear procurement (MYP) contract would require additional approval in a DOD appropriations act. Using multiyear contracting in the form of a block buy contract would not require additional approval in a DOD appropriations act—the authorization provided by Section 128 of the FY2023 NDAA would be sufficient for using a block buy contract.<sup>12</sup>

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<sup>10</sup> 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, 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.

(114<sup>th</sup> Congress, 1<sup>st</sup> 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).

<sup>11</sup> Source: Navy briefing on TAO-205 program for CRS and CBO, April 12, 2019.

<sup>12</sup> For more on MYP and block buy contracting, see CRS Report R41909, *Multiyear Procurement (MYP) and Block Buy Contracting in Defense Acquisition: Background and Issues for Congress*, by Ronald O'Rourke.

## 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)”;

(D) by adding at the end the following new paragraph:

“(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”;

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

(4) in subsection (g)—

(A) by striking “(1) This section” and inserting “This section”;

(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 8100(a) of the FY2023 DOD Appropriations Act (Division C of H.R. 2617/P.L. 117-2328 of December 29, 2022) states

SEC. 8100. (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.

## **FY2024 Funding**

The Navy’s proposed FY2024 budget requests \$815.4 million for the procurement of the 10th TAO-205 class ship, and an additional \$122.9 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. Regarding cost growth, in the Navy’s FY2021 budget submission, the four TAO-205s programmed for procurement during the five-year period FY2021-FY2025 had an average estimated procurement cost of \$556.9 million per ship, while in the Navy’s FY2024 budget submission, the six TAO-205s programmed for procurement during the five-year period FY2024-FY2028 have an average estimated procurement cost of \$843.4 million, a figure that is 51% greater.

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 \$273.8 million in cost-to-complete funding through FY2023. The Navy’s proposed FY2024 budget, as noted earlier, requests an additional \$122.9 million in cost-

to-complete funding, and the Navy's FY2024 budget submission projects that an additional \$37.0 million and \$7.8 million will be requested for FY2025 and FY2026, respectively. The sum of all these figures is \$441.5 million, which equates to roughly half the currently estimated procurement cost of a TAO-205.

Regarding schedule delays, under the Navy's budget submission for FY2016 (the year that the first TAO-205 was procured), the first TAO-205 was scheduled for delivery in August 2020. As noted earlier, the ship was delivered on July 26, 2022, almost two years after the originally scheduled delivery date. The delivery dates for subsequent ships in the program have also been delayed.

One cause of the cost growth and schedule delays in the TAO-205 program is an incident in July 2018 that flooded a graving dock (i.e., dry dock) at the TAO-205 shipbuilder, GD/NASSCO.<sup>13</sup> Other causes of cost growth include cybersecurity change orders that were not provided in the original shipbuilding construction contract award, and cost growth in government-furnished equipment (GFE) for the ship.<sup>14</sup>

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.<sup>15</sup>

The Navy's FY2024 budget submission states

Delay in delivering T-AO 205 to July 2022, combined with delays on other Navy work at NASSCO and continued COVID driven labor shortages that resulted in yard wide manpower shifts, resulted in a seven month delay for T-AO 206 delivery.... Delay in delivering T-AO 205 to July 2022, combined with delays on other Navy work at NASSCO and continued COVID driven labor shortages that resulted in yard wide manpower shifts, resulted in a four month delay for T-AO 207 delivery.... The twelve month T-AO 208 delivery delay is due to a delay caused by the late receipt of the Main Reduction Gear (MRG).... T-AO 209 through T-AO 217 have seven to twenty month delivery delays resulting from TAO 205 through T-AO 208 delays and delays in production timelines reflecting actual shipyard performance.... The production timelines, delivery dates, and Completion of Fitting Out dates for ships awarded in FY 2022 and later assume material costs, supply chain availability, and production timelines that reflect the pre-COVID 19 market place with adjustments for inflation.<sup>16</sup>

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<sup>13</sup> 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.

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

<sup>15</sup> Source: Navy FY2022 program briefing on TAO-205 program for CRS and Congressional Budget Office (CBO), July 19, 2021.

<sup>16</sup> *Department of Defense, Fiscal Year (FY) 2024 Budget Estimates, Justification Book Volume 1 of 1, Shipbuilding and Conversion, Navy*, March 2023, p. 349.

For additional discussion of cost growth and schedule delays in the TAO-205 program, see the section below on issues for the TAO-205 program that are discussed in a June 2022 Government Accountability Office (GAO) report assessing major DOD acquisition programs.

Potential oversight questions for Congress include the following:

- What is the likelihood that estimated unit procurement costs for TAO-205s will continue to increase above the figures in the Navy's FY2024 budget submission? What factors will affect whether the program continues to experience growth in estimated unit procurement costs?
- What impact, if any, has cost growth in the TAO-205 program had on the Navy's ability to fund other Navy program priorities?
- How, if at all, does the 51% increase in estimated unit procurement costs for TAO-205s since the Navy's FY2021 budget submission affect the cost-effectiveness of the TAO-205 program relative to other Navy investments?

## **Number of TAO-205s to Procure in FY2024**

Another issue for Congress is whether to procure in FY2024 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 FY2024; and
- competing Navy or other DOD uses for such funding.

As noted earlier, from FY2016 through FY2023, annual TAO-205 procurement quantities have been as follows: 1-0-1-2-2-0-2-1.

## **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.<sup>17</sup>

As noted earlier, Section 128 of the FY2023 NDAA (H.R. 7776/P.L. 117-263 of December 23, 2022) provides authority for the Navy during FY2023 and FY2024 to use multiyear contracting to procure not more than eight TAO-205s. Using multiyear contracting in the form of an MYP contract would require additional approval in a DOD appropriations act. Using multiyear contracting in the form of a block buy contract would not require additional approval in a DOD

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

appropriations act—the authorization provided by Section 128 of the FY2023 NDAA would be sufficient for using a block buy contract.

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),<sup>18</sup> 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.<sup>19</sup>

## **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....<sup>20</sup>

## **Issues Discussed in June 2023 GAO Report**

A June 2023 GAO report—the 2023 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**

The Navy accepted delivery of the lead ship in July 2022. The shipbuilder originally planned to deliver the lead ship in November 2020 but experienced testing and fabrication challenges that delayed the ship by 20 months. The lead ship also reached its contract ceiling price of \$715.8 million—\$119.3 million over the contract target cost.

Planned delivery dates for the next five ships are also delayed between 22 and 29 months. Shipyard workforce issues are at the center of these delays. According to the program office, the shipyard reported recruitment and retention challenges, exacerbated by an

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<sup>18</sup> 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.

<sup>19</sup> 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).

<sup>20</sup> 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.

increase in retirements. The program office stated that this resulted in a less-experienced labor pool that reduced the anticipated efficiencies for the program.

The shipyard workforce shortages exacerbated the Navy's ability to manage supply challenges. For example, Navy officials stated that the program had delays with the ship's main reduction gear—a critical propulsion component comprised of gears that harness the power generated by the engines to move the shaft and propeller. Main reduction gears are so critical to shipbuilding that shipbuilders often request receipt of these components by a specific date before proceeding with the next stage of production.

According to the Navy and a subcontractor, the manufacturer of the ships' main reduction gear moved aspects of its operations from Europe to the United States to meet growing requirements for U.S.-made content for Navy ships. As a result, the delivery of the main reduction gears was delayed. Program officials stated that to accommodate the delays for the fourth ship, T-AO 208, the shipyard adjusted the order in which it built the ship to prevent the shipyard from having to cut into the side of the hull to install the main reduction gear. However, the main reduction gears for T-AO 208 were damaged during production, according to program officials. The officials said that the gears' delivery is expected to be consequently delayed by 12 months, and the shipyard will have to cut into the hull to install them.

### **Software and Cybersecurity**

Program officials stated that the Navy modified the T-AO contract in August 2022 to include new cybersecurity clauses prescribed by DOD regulations last year.

### **Other Program Issues**

For the first four ships, the costs for which the Navy is responsible increased, thus far, by a total of \$273.8 million. DOD reported that approximately \$164.5 million is the government's share of contract overruns and approximately \$78.2 million is a result of material inflation. The remaining \$31.1 million is due to other reasons, including increases to the purchase price of government-owned equipment.

As we reported last year, the program was working on reducing costs through a working group. To date, the program has identified \$73 million in cost avoidance for the first through sixth ships and more than \$23 million for each subsequent ship. As an example, the group identified that the size of the ship's deckhouse could be reduced, thereby reducing the cost of each ship by \$7.2 million starting with the fourth ship.

In August 2022, the Navy issued a sole source contract modification for ships 7 and 8. The target price totaled \$1.37 billion (\$680 million for ship 7 and \$690 million for ship 8), about \$40 million more than initially planned for each ship. The contract includes an option for the ninth ship in 2023 with a target price of \$715 million. Program officials told us that inflation mainly drove these cost increases. In addition, officials stated that they are still developing the acquisition strategy for the follow-on contract for the final 11 ships, which the Navy plans to award in 2024.

Since our last review, the Navy delayed several key program events by 4 to 7 months. According to program officials, these delays were caused by the lead ship delay. As a result, the planned date for the start of operational testing was delayed from October 2022 to February 2023. The planned dates for initial operational capability and full-rate production were also delayed.

### **Program Office Comments**

We provided a draft of this assessment to the program office for review and comment. The program office provided technical comments, which we incorporated where appropriate. The program stated that the lead ship of the class, T-AO 205, is undergoing post-delivery testing and trials with several successful demonstrations to date. It also stated that, for

follow-on ships, it continues to utilize shipbuilding best practices and leverage commercial vessel design practices to minimize risks, reduce ship costs, and drive affordability into the design. According to the program office, beyond cost reductions identified to date, the Navy and the shipbuilder continue to seek out opportunities to reduce costs, while balancing life-cycle costs and fleet requirements. In addition, the program noted that, to improve schedules, the Navy is working with the shipbuilder to better understand and address post-pandemic related effects on the shipbuilder’s workforce and supply chain, including material and labor related inflation costs.<sup>21</sup>

## 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 FY2024

### Summary of Congressional Action on FY2024 Funding

**Table 1** summarizes congressional action on the Navy’s request for FY2024 procurement and advance procurement (AP) funding for additional TAO-205s. The Navy’s proposed FY2024 budget requests \$815.4 million for the procurement of the 10<sup>th</sup> TAO-205 class ship, and an additional \$122.9 million in cost-to-complete procurement funding to cover cost growth on TAO-205s procured in prior years.

**Table 1. Congressional Action on FY2024 Funding for TAO-205s**

Millions of dollars, rounded to nearest tenth

	Request	Authorization			Appropriation		
		HASC	SASC	Final	HAC	SAC	Final
Procurement	815.4	815.4	815.4		815.4	815.4	
(Quantity)	(1)	(1)	(1)		(1)	(1)	
Advance procurement (AP)	0	0	0		0	0	
Cost-to-complete	122.9	122.9	122.9		122.9	122.9	

**Source:** Navy FY2024 budget submission, committee and conference reports, and explanatory statements on FY2024 National Defense Authorization Act and FY2024 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.

<sup>21</sup> Government Accountability Office, *Weapon Systems Annual Assessment[:] Programs Are Not Consistently Implementing Practices That Can Help Accelerate Acquisitions*, GAO 23-106059, June 2023, p. 162.

## **FY2024 National Defense Authorization Act (H.R. 2670/S. 2226)**

### **House**

The House Armed Services Committee, in its report (H.Rept. 118-125 of June 30, 2023) on H.R. 2670, recommended the funding levels shown in the HASC column of **Table 1**.

### **Senate**

The Senate Armed Services Committee, in its report (S.Rept. 118-58 of July 12, 2023) on S. 2226, recommended the funding levels shown in the SASC column of **Table 1**.

## **FY2024 DOD Appropriations Act (H.R. 4365/S. 2587)**

### **House**

The House Appropriations Committee, in its report (H.Rept. 118-121 of June 27, 2023) on H.R. 4365, recommended the funding levels shown in the HAC column of **Table 1**.

**Section 8093(a)** of H.R. 4365 states:

SEC. 8093. (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.

### **Senate**

The Senate Appropriations Committee, in its report (S.Rept. 118-818 of July 27, 2023) on S. 2587, recommended the funding levels shown in the SASC column of **Table 1**.

**Section 8095(a)** of S. 2587 states:

SEC. 8095. (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,<sup>22</sup> 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.

<sup>22</sup> 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].<sup>23</sup>

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<sup>23</sup> 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.