



DEPARTMENT OF THE NAVY

NAVAL SEA SYSTEMS COMMAND
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MEMORANDUM FOR DISTRIBUTION

From: Director, Cost Engineering and Industrial Analysis
(SEA017)

Subj: TOTAL OWNERSHIP COST (TOC) IMPLEMENTATION GUIDANCE

Ref: NAVSEA TOC Working Group meetings of 7 & 21 Jul 98

Encl: (1) Total Ownership Cost Element Structure
(2) Direct and Indirect Costs

1. This memo provides guidance relative to TOC element structure and direct and indirect costs as discussed during reference (a).

2. The establishment of a standard system for reporting TOC is necessary to ensure consistent approach to developing TOC baselines and TOC Reduction Plans within NAVSEA and associated PEOs. Enclosure (1) is the structure that programs shall use to report their TOC. The program will need to further expand this structure to the detailed required for determining cost drivers. Enclosure (2) provides a common understanding of what should be included in TOC.

3. This policy will remain in effect until cancelled or superseded by separate correspondence. As a matter of convenience, these policies will be posted on the SEA017 Web site (<http://www.navsea.navy.mil/sea017/toc.htm>) along with other TOC materials of interest. Questions regarding this correspondence should be directed to [REDACTED] SEA 0171, 602-1308, x166.


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Total Ownership Cost Element Structure

TOC ES is a product-oriented cost breakdown structure based on MIL-HDBK-881 and OSD(PA&E) Cost Analysis Improvement Group (CAIG) O&S cost structure. The structure was developed to provide placeholders for all relevant areas of TOC.

For completion of TOC templates, the following TOC ES level of detail is mandatory:

Template Reporting Level

1.0		Development
2.0		Production
	2.1	Contractor
	2.2	Government
3.0		Operating & Support
	3.1	Mission Personnel
	3.2	Unit Level Consumption
	3.3	Intermediate Maintenance
	3.4	Depot Maintenance
	3.5	Miscellaneous Contractor Services
	3.6	Sustaining Support
	3.7	Linked Indirect/Infrastructure
4.0		Demilitarization & Disposal

Further Expansion of TOC ES

As Program Managers (PMs) and Life Cycle Support Managers (LCSMs) begin to identify cost drivers, the TOC Element Structure used in the templates will need to be expanded to further levels of detail. TOC Element Structures for shipboard systems or ships are provided on the TOC website (<http://www.navsea.navy.mil/sea017/toc.htm>) as guidance to assist PMs/LCSMs. The structures were developed to provide placeholders for all relevant areas of TOC. Use of the TOC ES's will provide common structures that can be used across programs. All cost elements may not apply to any specific program, but a subset will. By selecting a subset of the TOC ES pertinent to their program, PMs may expand the template-level cost element structure to whatever level of detail is needed. The key is not to employ the TOC ES in its entirety and populate every cost element with data but to select the structure that best fits your program and addresses all relevant areas of your system's TOC.

Direct and Indirect Costs

Total Ownership Cost (TOC) includes direct and linked-indirect costs. Direct costs are costs associated with the research, development, procurement, operation, logistic support and disposal of an individual weapon system. Linked-indirect costs include the total supporting infrastructure that plans, manages and executes that weapon system program over its full life. This also includes the cost of common support items, systems, and facilities that are changed because of the introduction, operation or deletion of that system.

TOC excludes indirect "non-linked" Navy infrastructure costs that are not affected by a program's development, introduction, deployment or operation.

In those cases where it is difficult to determine if a cost is part of the program's TOC or not, a rule of thumb for the PM would be to determine if the cost *should* disappear if the program no longer existed. If the answer is "yes", then the cost is part of TOC. Examples:

- Homeports (excluding major naval bases such as Norfolk or San Diego)
- Services (perhaps transient housing) provided by the host facility which houses a training site directly funded by a program

Historically, Program Life Cycle Cost Estimates (PLCCEs) do not address indirect costs. The PM needs to identify both direct and linked-indirect costs for inclusion in the TOC Baseline. If the PM reports a TOC baseline equal to the PLCCE, it indicates that the PM has probably not included linked-indirect costs and further research is necessary.

During this initial TOC Reduction Plan implementation phase, PM's are not expected to calculate TOC completely for their program. Each PM is expected to include all known costs (direct and linked-indirect) that are appropriate and readily available. This means that this initial program TOC estimate could be the PLCCE with only some known directs, such as the Program Management Office personnel not previously included in PLCCEs, and identifiable linked-indirect/infrastructure for which costs are readily available. For identified linked-indirect/infrastructure for which cost information is not readily available, PM's are expected to develop plans to identify sources of data, collect needed cost data and incorporate it into in the program's TOC baseline and TOC Reduction Plans as these are updated in the future.