



DEPARTMENT OF THE NAVY  
NAVAL SEA SYSTEMS COMMAND  
WASHINGTON, D.C. 20362-5101

IN REPLY REFER TO

NAVSEAINST 7000.8A  
OPR OIP/722  
27 July 1987

NAVSEA INSTRUCTION 7000.8A

From: Commander, Naval Sea Systems Command

SUBJ: SHIPBUILDING AND CONVERSION CONTRACT ESCALATION

1. Purpose. To establish and issue policy and procedures for the submission and monitoring of financial information incident to ship construction/conversion contracts which are subject to escalation and other special economic adjustment clauses.
2. Cancellation. NAVSEAINST 7000.8 of 13 June 1978 is hereby cancelled and superseded.
3. Scope. This applies to all ship construction and conversion contracts containing escalation and special adjustment which are based on incurred costs. The term escalation includes both escalation and special economic adjustment clauses.
4. Background. The Navy Department had adopted several standard contract escalation clauses since 1956 for the purpose of relieving shipbuilding contractors of inflationary costs during the years between contract bid prices and final ship deliveries. The Navy adopted new contract escalation clause provisions in 1962 and in 1975. Additional special economic adjustment clauses have been included in some contracts to ease the contractor's risk in areas of unpredictable cost impacts of energy, taxes, and social legislation. Variations of the 1975 escalation clauses and the dollar magnitude of escalation costs have resulted in a need to measure actual escalation costs against current estimates, and to evaluate and adjust budget estimates.
5. Policy. It is the policy of the Commander, Naval Sea Systems Command, that:
  - a. Cost incurred data attributable to ship construction and conversion contract escalation will be periodically submitted (including cumulative totals), monitored against current estimates, and budget estimates will be adjusted as appropriate.
  - b. Information provided by shipbuilding contractors pursuant to contract provisions applicable to escalation will be utilized to meet the requirements of this instruction.



NAVSEAINST 7000.8A  
27 July 1987

6. Responsibilities. The following organizations are responsible for action as indicated:

a. NAVSEA Ship Acquisition Project Managers (SHAPMs) will analyze cost incurred data (i.e., actual escalation costs vs. the plan) provided by the SCN Appropriation Division (SEA-012) and evaluate the other factors which influence the total requirement such as target cost, schedule, and labor and material splits.

b. Supervisor of Shipbuilding, Conversion & Repair, USN, (SUPSHIPS) and Administrative Contracting Officer (ACO) will forward one copy of the following to the Commander, Naval Sea Systems Command (SEA-012), with a copy to either the cognizant on-site Project Manager's representative or SHAPM:

(1) Contract modifications (A-MOD's) that change the total contract value which affects the payment of escalation entitlement.

(2) Contractor report or request upon which escalation payment is based.

(3) SUPSHIP's computation (or validation of contractor computations) of escalation entitlement.

(4) The contractor's current period and cumulative hull level incurred costs for the following:

(a) Direct Material Cost

(b) Direct Labor Cost

(c) Indirect Cost

(d) Cost of Facilities Capital (Indirect Cost)

(e) Selected Employee Benefits

1. FICA

2. State and Federal Workmen's Compensation (Indirect Cost)

3. Unemployment Compensation (Indirect Cost)

4. Disability (Indirect Cost)

5. Federally Mandated National Health Program (Indirect Costs)

6. Federally Mandated changes to hours of work per week or per day and changes to the payment of overtime (Indirect and Direct Costs)

(f) Energy Costs (Indirect Cost)

1. Electricity

2. Fuel Oils

a) Bunker

b) Diesel

3. Coke

4. Coal

(5) Provide the indices used to calculate the escalation entitlement for the current payment.

(6) Request assistance of Defense Contract Audit Agency (DCAA) when the validity of allowable costs is in question; e.g., separate overhead cost increases for energy, fringe benefits and taxes when contracts contain special clauses and terms governing such factors.

c. SCN Appropriation Division (SEA-012):

(1) Coordinates with applicable SUPSHIPS to resolve discrepancies, missing data or other areas of non-compliance with the provisions of this instruction.

(2) Maintains a Shipbuilding and Conversion Escalation Cost Data Base that contains initial contract baseline cost estimates, monthly data and information for actual costs, and projected final costs, including the variance between initial contract baseline estimates and current estimates.

(3) Provides hardcopy escalation projections to Ship Acquisition Project Managers and the NAVSEA SUPSHIP Management Division (SEA-071).

d. Cost Estimating and Analysis Division (SEA-017):

(1) Prepares escalation estimates for pre-award contract negotiations as requested by SEA 02 or project managers, and escalation estimates for Program Objectives Memoranda (POM) priceouts.

(2) Provides maintenance and enhancement of a computer system and computer escalation model to reflect shipbuilding contracts, including the mathematical algorithms to calculate contract escalation costs.

(3) Collects and distributes BLS shipbuilding escalation indices and any special indices used in shipbuilding contracts (i.e. TRIDENT, LCAC).



J. E. HANCOCK  
Deputy Commander/Comptroller

NAVSEAINST 7000.8A  
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91  
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92  
93  
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