

OSD RDT&E BUDGET ITEM JUSTIFICATION (R2 Exhibit)

May 2009

APPROPRIATION/ BUDGET ACTIVITY
RDTE, Defense Wide BA# 7

PE NUMBER AND TITLE
1001018D8Z - NATO Alliance Ground Surveillance (AGS)

COST (\$ in Millions)	FY 2008 Actual	FY 2009 Estimate	FY 2010 Estimate				
P018 NATO Alliance Ground Surveillance (AGS)	16.150	27.274	74.485				

A. Mission Description and Budget Item Justification:

(U) This project supports the U.S. share of the cost for NATO to acquire a ground surveillance capability similar to what the NATO owned and operated Airborne Warning and Control System (AWACS) provides for air surveillance.

(U) The North Atlantic Council (NAC) validated the requirement in 1995 for a NATO-owned and operated core air-to-ground surveillance capability supplemented by interoperable national assets. Since then, the Major NATO Commanders have consistently made Alliance Ground Surveillance (AGS) their number one equipment acquisition priority.

- October 1997, NATO Conference of National Armaments Directors (CNAD) approved AGS NATO Staff Requirement (NSR).
- May 1999, NATO Washington Summit Defense Capabilities Initiatives (DCI) included need for a NATO-owned and operated core system for ground surveillance
- September 2001, Reinforced NAC (RNAC) re-affirmed need for a NATO-owned and operated AGS capability by 2010 and to move forward with the program.
- November 2002, NATO Prague Summit approved Prague Capabilities Commitment (PCC) that includes an airborne ground surveillance capability.
- December 2003, AGS Steering Committee approved in principle the merger of NATO AGS and the Trans-Atlantic Cooperative AGS Radar (TCAR) sensor projects.
- May 2004, Following a competitive Project Definition Study, CNAD endorsed the Trans-Atlantic Industrial Proposed Solution (TIPS) consortium's selection as the program of record to enter the Design and Development Phase and directed that the TCAR sensor development project be integrated into the AGS program.
- May 2004, AGS Steering Committee approved an updated Master Schedule supporting a 2010 Initial Operating Capability (IOC) with Full Operational Capability (FOC) by 2013.
- November 2005, Risk Reduction Study (RRS) was completed providing the Nations a higher degree of confidence in six areas of concern: program management; harmonization with other pending NATO aircraft programs; interoperability with existing national systems; compatibility with the NATO intelligence, surveillance and reconnaissance architecture; integration of the TCAR sensor; and affordability.
- May 2006, CNAD approved release of a Request for Proposal (RFP) to industry for the Design and Development (D&D) phase, including a mixed fleet (manned and unmanned) and development of at least one radar for either, with a total procurement Not to Exceed of \$3.3B (Base Year euros equivalent to \$5.4B Then Year dollars).
- October 2006, AGS Industries (AGSI, former TIPS consortium) formally submitted a proposal compliant with the RFP. CNAD agreed that the proposal, as submitted by AGSI, would form the basis for negotiations of the D&D contract and tasked the AGS Support Staff (AGS3) to begin negotiations with AGSI.
- November 2006, Heads of State at NATO Riga Summit endorsed the progress on NATO AGS, with a view to achieving real capabilities, as one of a set of initiatives to increase the capacity of NATO forces to address contemporary threats and challenges.
- May 2007, Contract negotiations with AGSI were completed. Total value of the D&D contract was \$545M (Then Year euros equivalent to \$763M Then Year dollars) for the system design activity (to be funded by all participating nations) plus 385M (Then Year euros equivalent to \$539M Then Year dollars) for the radar development activity (to be funded by six nations, including the U.S.). The period of performance was 31 months after award and the contract prices were valid until December 1, 2007.
- June 2007, The AGS Funding Documents (Program Memorandum of Understanding (PMOU), Design & Development Supplement, and the TCAR Implementing Arrangement (IA)) were released to nations for final staffing, leading to their approval and signature. Target completion date was the Fall CNAD meeting in October 2007.

OSD RDT&E BUDGET ITEM JUSTIFICATION (R2 Exhibit)

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APPROPRIATION/ BUDGET ACTIVITY

RDTE, Defense Wide BA# 7

PE NUMBER AND TITLE

1001018D8Z - NATO Alliance Ground Surveillance (AGS)

- July 2007, At an Extra-ordinary CSC meeting, Canada, France, Germany, and The Netherlands indicated they could not support the Program of Record for various reasons, primarily affordability, and that they would probably not participate if carried forward. This lack of key national support caused many other nations concern and the CSC recommended ceasing work on the Program of Record and to go forward with an alternate UAV only capability based on an Off-The-Shelf Global Hawk (OTS-GH) equipped with the U.S. Multi-Platform Radar Insertion Program (MP-RTIP) sensor. This capability was previously endorsed by the user, Supreme Headquarters Allied Command Europe (SHAPE,).
- August 2007, CNAD endorsed the CSC recommendation to officially notify AGS Industries to close the Program of Record. AGS3 was directed to revise the procurement strategy and update the funding documents and the NATO Management Organization Charter for presentation at an Extra-ordinary CSC meeting on September 6, 2007.

OSD RDT&E BUDGET ITEM JUSTIFICATION (R2 Exhibit)

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1001018D8Z - NATO Alliance Ground Surveillance (AGS)

<u>B. Program Change Summary</u>	FY 2008	FY 2009	FY 2010	
Previous President's Budget (FY 2008/2009)	31.194	27.756	75.925	
Current BES/President's Budget (FY 2010)	16.150	27.274	74.485	
Total Adjustments	-15.044	-0.482	-1.440	
Congressional Program Reductions				
Congressional Rescissions		-0.152		
Congressional Increases				
Reprogrammings	-14.140	-0.330		
SBIR/STTR Transfer	-0.847			
Other	-0.057		-1.440	

Restructured program due to affordability and revised MOU signature date

C. Other Program Funding Summary: Not applicable for this item.

D. Acquisition Strategy: Not applicable for this item.

E. Performance Metrics: Not Applicable.

OSD RDT&E BUDGET ITEM JUSTIFICATION (R2a Exhibit)

May 2009

APPROPRIATION/ BUDGET ACTIVITY RDTE, Defense Wide BA# 7		PE NUMBER AND TITLE 1001018D8Z - NATO Alliance Ground Surveillance (AGS)				PROJECT P018	
COST (\$ in Millions)	FY 2008 Actual	FY 2009 Estimate	FY 2010 Estimate				
P018 NATO Alliance Ground Surveillance (AGS)	16.150	27.274	74.485				

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OSD RDT&E BUDGET ITEM JUSTIFICATION (R2a Exhibit)

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- July 2007, At an Extra-ordinary CSC meeting, Canada, France, Germany, and The Netherlands indicated they could not support the Program of Record due to affordability. The CSC recommended ceasing work on the Program of Record in favor of a UAV only capability based on an Off-The-Shelf Global Hawk (OTS-GH) equipped with the U.S. Multi-Platform Radar Insertion Program (MP-RTIP) sensor. This capability was previously endorsed by the user, Supreme Headquarters Allied Command Europe (SHAPE).
- September 2007, CSC directed AGS3 to revise the procurement strategy and update the funding documents and the NATO Management Organization Charter for the restructured program.
- June 2008, NATO AGS Program Memorandum of Understanding released for national staffing.
- October 2008, Request for Proposal for NATO AGS prime development contract released to industry.

B. Accomplishments/Planned Program:

<u>Accomplishments/Planned Program Title:</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
FY 2008 Accomplishments:	16.150			

- Revised the Procurement Strategy, Program Memorandum of Understanding (PMOU), and NATO Management Organization Charter to reflect an Unmanned Air Vehicle (UAV)-only solution based on 8 Off-The-Shelf Global Hawk (OTS-GH) Block 40 UAVs equipped with the Multi-Platform Radar Technology Insertion Program (MP-RTIP) sensor, and 16 ground stations.
- Prepared a RFP for a single, 2-phase contract consisting of a Design, Development, and Demonstration (DD&D) Phase and a Production Phase for a two-orbit, UAV-only, ground surveillance capability. CNAD approved the RFP and a contractual cost ceiling of \$1.4B (~\$2.3B).
- Released revised PMOU for national staffing; completed US national staffing of the PMOU
- Developed plans to transition the NATO AGS Capability Steering Committee (CSC) to a NATO AGS Management Organization (NAGSMO) upon contract award.
- Obtained approval of NAGSMO Charter by the North Atlantic Council. Charter will be in effect upon signature of the PMOU.

<u>Accomplishments/Planned Program Title:</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
FY 2009 Plans:		27.274		

- Sign the Program Memorandum of Understanding.
- Stand-up NATO Management Organization (NAGSMO). Recruit and appoint U.S. Representative to the Board of Directors.
- Establish a NATO AGS Management Agency (NAGSMA). Implement plan to transition AGS3 to NAGSMA. Provide personnel to NAGSMA.
- Receive a formal proposal from industry that is compliant with the RFP.
- Evaluate the contractor proposal, and complete formal negotiations. Award contract.
- Participate in technical and operational Working Groups.

<u>Accomplishments/Planned Program Title:</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
FY 2010 Plans:			74.485	94.400

- Provide personnel to NAGSMA as necessary to maintain proportional U.S. representation.
- Provide for a professional user interface to the NATO AGS program office (NAGSMA).
- Participate in technical and operational Working Groups.

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APPROPRIATION/ BUDGET ACTIVITY RDTE, Defense Wide BA# 7	PE NUMBER AND TITLE 1001018D8Z - NATO Alliance Ground Surveillance (AGS)	PROJECT P018
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- Improve and expand industry and professional association with NATO allies.
- Address Congressional, Government Accounting Office (GAO), Inspector General (IG) Actions regarding program issues as they arise.
- Ensure effective oversight of the program is provided by continuing to participate in the NAGSMA and BOD.

C. Other Program Funding Summary: Not applicable for this item.

D. Acquisition Strategy:

The U.S. will sign a multi-national Program Memorandum of Understanding (PMOU) committing the U.S. government to NATO-derived shares of the AGS prime contract consisting of a Design, Development & Demonstration and a Production of the NATO AGS system. The NATO AGS procurement strategy is consistent with NATO AGS PMOU provisions.

E. Major Performers:

Category	Name	Location	Type of Work and Description	Award Date
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Contractors:

	Northrop Grumman Corporation	Contractor	Northrop Grumman Corporation will be the NATO AGS prime contractor.	
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OSD RDT&E COST ANALYSIS (R3)

BUDGET ACTIVITY 7 - Operational System Development			PE NUMBER AND TITLE 1001018D8Z - NATO Alliance Ground Surveillance (AGS)							PROJECT P018				
I. Product Development	Contract Method & Type	Performing Activity & Location	Total PYs Cost	FY 2008 Cost	FY 2008 Award Date	FY 2009 Cost	FY 2009 Award Date	FY 2010 Cost	FY 2010 Award Date					
NATO AGS Prime Contract	NATO AGS Prime Contract		881	13842		24274	3Q	36545						
NATO AGS Mission Security			29581		4Q	1000		35940						
NATO AGS Study			11725											
ESC/JSX JAIP			1281	208	1-4Q									
Army JAIP-AGS Interoperability and ESC/JSX TCAR	Sub Allocation		5545	100	1-4Q									
Subtotal:			49013	14150		25274		72485						
II. Support Costs	Contract Method & Type	Performing Activity & Location	Total PYs Cost	FY 2008 Cost	FY 2008 Award Date	FY 2009 Cost	FY 2009 Award Date	FY 2010 Cost	FY 2010 Award Date					
NATO AGS Support			4666		1-4Q									
Subtotal:			4666											
III. Test And Evaluation	Contract Method & Type	Performing Activity & Location	Total PYs Cost	FY 2008 Cost	FY 2008 Award Date	FY 2009 Cost	FY 2009 Award Date	FY 2010 Cost	FY 2010 Award Date					
Subtotal:														
IV. Management Services	Contract Method & Type	Performing Activity & Location	Total PYs Cost	FY 2008 Cost	FY 2008 Award Date	FY 2009 Cost	FY 2009 Award Date	FY 2010 Cost	FY 2010 Award Date					
NATO AGS			13378	2000	1-4Q	2000	1-4Q	2000	1-4Q					
Subtotal:			13378	2000		2000		2000						
Project Total Cost:			67057	16150		27274		74485						

Schedule Profile (R4 Exhibit)

May 2009

BUDGET ACTIVITY		PE NUMBER AND TITLE												PROJECT													
7 - Operational System Development		1001018D8Z - NATO Alliance Ground Surveillance (AGS)												P018													
Event Name	FY 08				FY 09				FY 10																		
	1	2	3	4	1	2	3	4	1	2	3	4															
Restructure Program, revise acquisition strategy, update NATO funding documents																											
Notify AGS Industries of Change in Direction, Terminate Program of Record																											
(1) Contract Award																											
Design, Development and Demonstration Phase																											

Schedule Profile (R4a Exhibit)

May 2009

BUDGET ACTIVITY 7 - Operational System Development		PE NUMBER AND TITLE 1001018D8Z - NATO Alliance Ground Surveillance (AGS)					PROJECT P018	
<u>Schedule Detail</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>					
Restructure Program, revise acquisition strategy, update NATO funding documents	1Q - 4Q							
Notify AGS Industries of Change in Direction, Terminate Program of Record	1Q							
Contract Award		3Q						
Design, Development and Demonstration Phase		1Q - 4Q	1Q - 4Q					