

March 13, 2003

CCN 40728

Mr. T. H. (Jack) Reed, Director
Financial Services Division
U.S. Department of Energy
Idaho Operations Office
850 Energy Drive, MS 1240
Idaho Falls, ID 83401-1563

CONTRACT NO. DE-AC07-99ID13727 - COST AND RATE PROJECTIONS FOR OUTYEAR
OVERHEADS (FY 2004 AND FY 2005)

Dear Mr. Reed:

This letter is to inform you of the cost and rate projections for outyear overheads as required for FY 2005 program planning.

This forecast assumes the current contract status. No attempt has been made to predict the effects on outyear overhead rates of reorganizing BBWI into the Idaho Completion Project (ICP) and the Laboratory, nor the effects of re-competing the M&O contract.

Fringe Benefit costs are projected to increase due to the INEEL Retirement Plan. FY 2003 rates contain a \$14M company contribution whereas FY 2004/05 contributions are estimated to be a minimum of \$24M annually, representing a \$10M increase each year. Additionally, the cost of health care benefits for employees is expected to continue to rise. These two factors result in a cost increase of \$10.8M for each year, which has been included in the outyear overhead rates.

Other major assumptions include \$32.7M of earned fee, and 5% labor rate escalation in FY 2004 and in FY 2005.

The sales projection used to develop the indirect rates forecast has been conservatively estimated at \$720M for FY 2004 and FY 2005. This is consistent with our current sales forecast of \$720M for FY 2003 and the assumption that funding will remain relatively flat. It also assumes the level of landlord funding received from NE will be equal to the level currently received from EM.

The following table summarizes the FY 2004/05 rate projections and includes the FY 2003 execution rates as a point of comparison. The table also depicts a composite multiplier that includes the Facilities Service Center rate.

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	FY 2003 <u>Baseline</u>	FY 2004 <u>Projection</u>	FY 2005 <u>Projection</u>
Fringe Benefits	49.50%	53.50%	54.00%
Organization Management	14.40%	14.20%	14.15%
Facilities Service Center	\$ 4.90	\$ 5.20	\$ 5.30
G&A	38.00%	37.50%	37.50%
Composite Multiplier	2.577	2.629	2.629

The total estimated FY 2004 cost impact to each major program area is displayed below.

<u>Program Area</u>	<u>Impact</u>
TRA	\$ 0.9M
SMC	0.8M
EM	7.5M
DOE Other	0.6M
WFO	<u>1.0M</u>
Total	\$10.8M

Please call me at 526-4737 or Bryan Larson at 526-8685 if you have any questions or would like to meet to discuss this further.

Sincerely,

N. F. Grover, Director
Financial Operations

RDD:cfc

Attachment

cc: S. S. Crawford, INEEL, MS 3810 (w/o Att.)
B. M. Grover, DOE-ID, MS 1240
R. J. Hoyles, DOE-ID, MS 1221
P. B. Keele, DOE-ID, MS 1240
C. N. McCammon, DOE-ID, MS 1240
M. L. Searle, DOE-ID, MS 1240
B. D. Shipp, INEEL, MS 3898
K. A. Vivian, DOE-ID, MS 1240
R. E. Williams, INEEL, MS 3560

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bcc: H. L. Birkholz, MS 3580
R. F. DeJourdan, MS 3593
B. J. Larson, MS 3593
Correspondence Control, MS 3106
N. F. Grover Letter File (NFG-32-03)

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