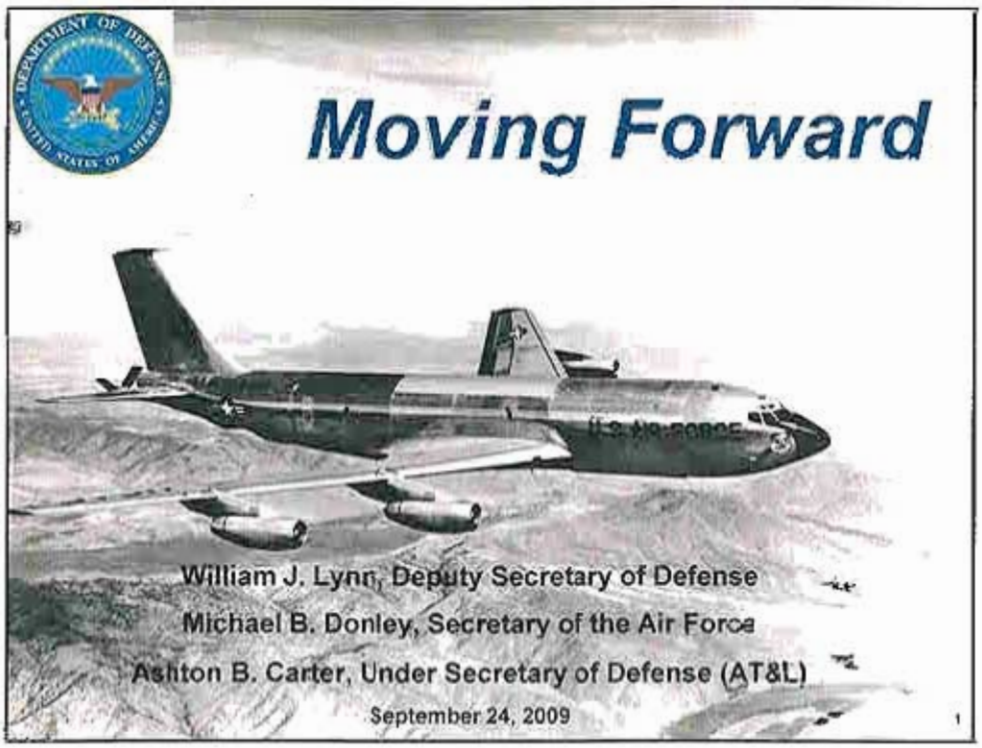
Moving Forward

William J. Lynn, Deputy Secretary of Defense

Michael B. Donley, Secretary of the Air Force

Ashton B. Carter, Under Secretary of Defense (AT&L)

September 24, 2009



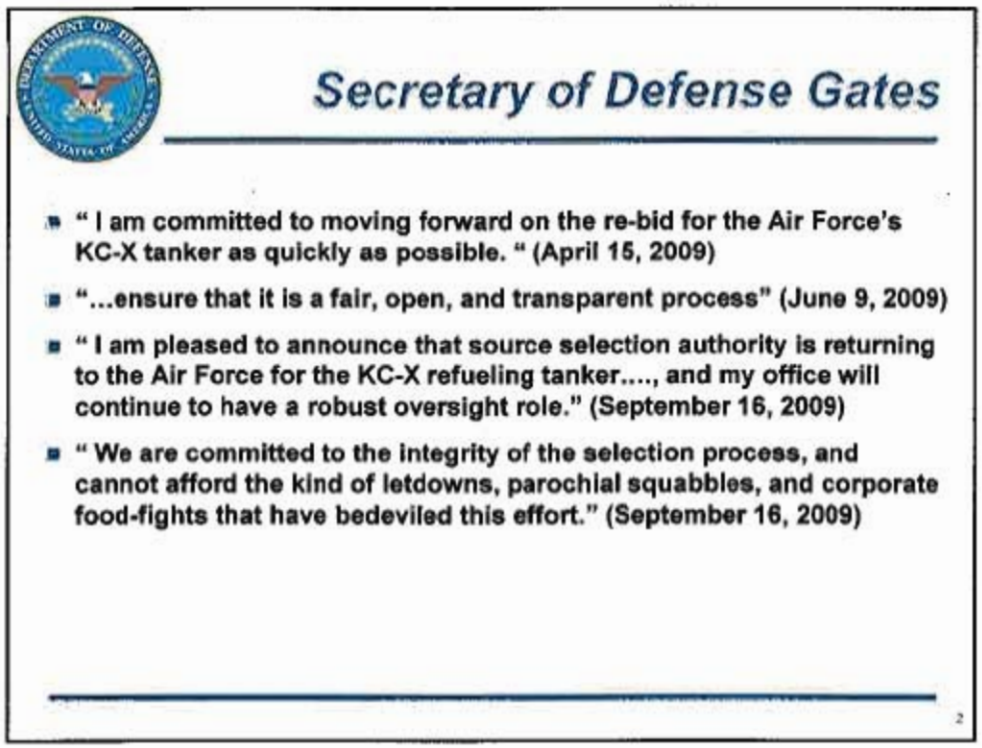
[The draft RFP will be available to the public on the FedBizOpps website http:// www. fbo. gov the morning of 25 Sep.]

Today the Department is announcing its acquisition strategy for a replacement aerial refueling tanker fleet for the aging KC-135 and KC-10 fleet. These aircraft are a critical enabler of joint operations present and future. We need a new tanker, and we would like today to get on the road to getting one soon. The warfighter and the taxpayer expect nothing less.

An aerial refueling tanker is an essential and unique piece of military equipment. At the same time, suitable tankers can be, as they have been historically, derived from commercial airplanes in widespread use. So we realize that in procuring these tankers we are buying from a mature commercial manufacturing and logistics base. This is not a Manhattan Project where new inventions are called for.

We have, however, adjusted our approach from the last time we held a competition for a tanker. As you all know, there is history here.

I will give an overview of Secretary Gates' guidance and the Department's acquisition plan. Air Force Secretary Donley will then describe the warfighter requirements and Air Force Source Selection process. USD (AT&L) Carter will then describe the source selection strategy.

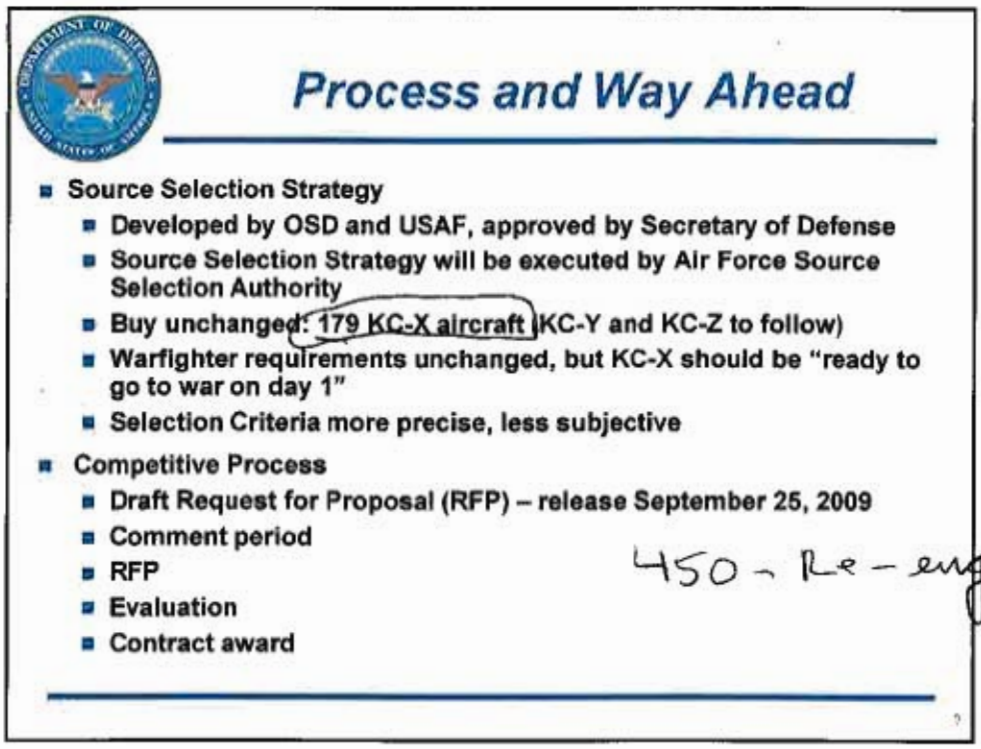


Secretary Gates announced in April that the Department would begin again its effort to acquire a replacement aerial refueling tanker.

He pledged, including to Members of Congress, a fair, open and transparent process.

Last week Secretary Gates announced that the Source Selection Authority for the KC-X will return to the Air Force, where it normally and appropriately would reside. The Office of the Secretary of Defense will exercise robust oversight.

Last, Secretary Gates believes strongly in his responsibility to protect the integrity of the source selection process from, as he put it, "letdowns, parochial squabbles and corporate food-fights" and we will be expecting civility, objectivity, and a focus on the warfighter and taxpayer from all parties.



- The Source Selection Strategy describes how we will choose the winning offeror for the KC-X tanker. This strategy has been devised jointly by OSD and the Air Force and has been approved by Secretary Gates. The Air Force Source Selection Authority (SSA) will execute this strategy.

- As previously, the KC-X buy will be for 179 aircraft, the first of three buys – KC-X, Y , and Z -- that will ultimately recapitalize the entire tanker fleet.

- As Secretary Donley will describe in detail, the warfighter requirements have not changed since the last competition. But the warfighter has specified which requirements are necessary for the tanker to "go to war on day 1" – these are the mandatory requirements – we have also identified capabilities that would provide some additional value but are non-mandatory.

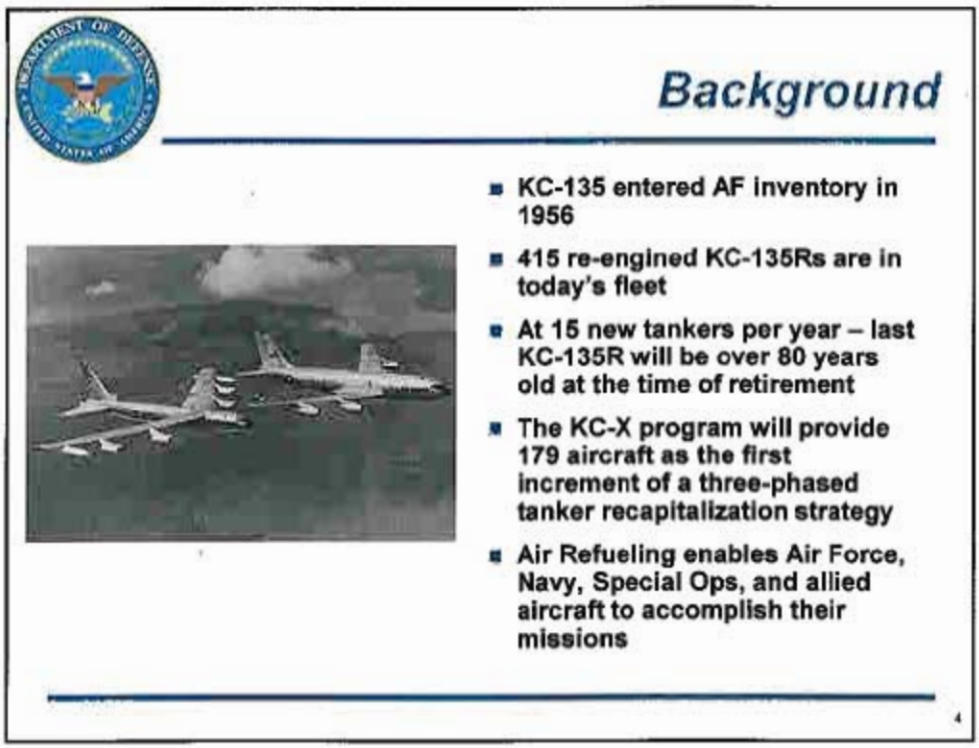
- As Secretary Carter will describe in detail, the source selection strategy has changed from the last competition. The outcome of that competition was overturned on appeal by the GAO. The GAO raised a number of issues, all of which we have been careful to address, but the gist of the GAO findings was that our previous process for choosing a winning bidder was overall too subjective. This time we will be crystal clear about what we want and what the bidders need to do to win.

- You will also see that this strategy weights both price and non-price factors. Thus it is not a Low-Price Technically Acceptable (LPTA) approach. In acquisition parlance, it is a Best Value competition, with both price and non-price factors taken into account. But in the tanker context some people use the term "best value" to mean a re-run of the last competition and, as I indicated, this is not a re-run.

- Finally, this approach is in line with our acquisition reform priorities, specifically this will be a fixed price offering for Engineering and Manufacturing Development, procurement, and initial contractor support,.

- Tomorrow morning the Draft RFP will be released. Secretary Gates pledged to interested Members of Congress that they would have an opportunity to review and comment on the Draft RFP as, of course, will the bidders themselves. After comments have been received and reviewed, the final RFP will be released, the offerors will prepare their bids, the Air Force Source Selection Authority will employ the Source Selection Strategy to choose a winning bidder, and a KC-X contract will be awarded – sometime in mid-2010.

- Let me now turn to Air Force Secretary Donley for the next portion of the briefing.



- As many know, today's KC-135 fleet entered the Air Force inventory beginning in the mid-to-late 1950s. The youngest was delivered in 1964.

- Today, there are 415 re-engined KC-135Rs.

- To highlight why it is so important that we proceed with this program as soon as possible…at 15 new tankers per year…the last KC-135R replaced could be over 80 years old at the time of retirement.

- The KC-X acquisition is scoped to provide the first increment of tanker recapitalization …179 aircraft of a three phased strategy.

- 179 aircraft represents approximately one third of the current tanker fleet of KC-135 and KC-10 aircraft.

- The first production KC-X delivery is planned for 2015, with a planned initial operating capability (IOC) of 2017. Delivery of the 179 KC-X aircraft will take over 15 years. As we integrate the KC-X into the fleet, we will begin evaluating our future tanker needs and begin work on the second phase, KC-Y

- This program is not only important for the Air Force, but for all our Services as air refueling enables the global reach and power of the United States…alone…and in partnership with our allies.

Background cont'd

- The KC-X mission requirement is built on the same wartime requirements as the KC-135R
  - Number of "booms/drogues in the air" (air refueling)
  - Range and Offload (air refueling)
  - Unit self-deployment (airlift)
- To succeed in future conflicts, the KC-X must be better in key areas
  - Permanent centerline drogue
  - Receiver receptacle
  - Defensive systems
  - Improved C2/C4 and CNS/ATM
  - Improved availability
- Thus...the KC-X will be a far more capable weapon system

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- It's important to note that the basis for the KC-X mission requirement stems from our warfighter plans.

- This includes the number of booms and drogues in the air that are needed to deliver air power's global reach and power...how much range and how much fuel is required...and the ability of the aircraft to support unit self-deployments to forward operating locations.

- However, to ensure continued success in future conflicts , the KC-X must improve upon today's KC-135R capabilities in several key areas.

-Therefore, the basic requirements are derived from what the KC-135R can provide today...with improved capabilities needed for tomorrow's mission...a platform that takes advantage of modern technology.

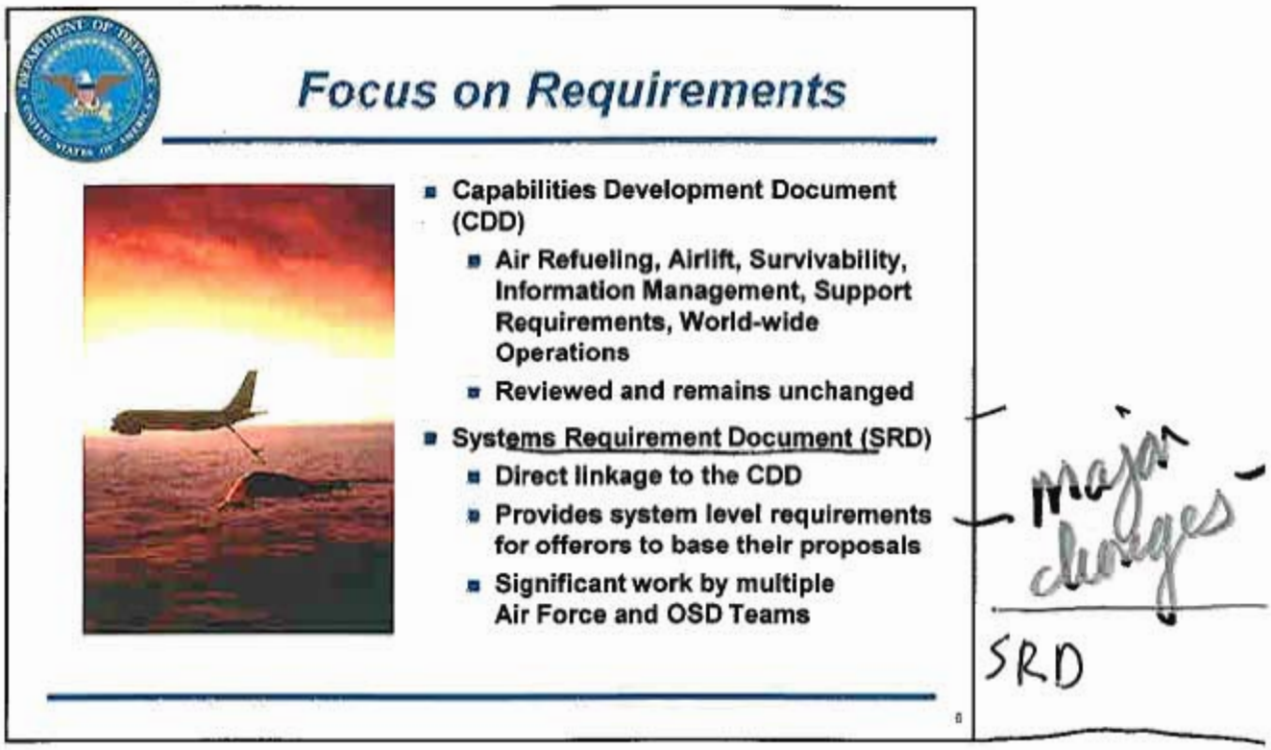
- Examples of mandatory requirements:

Permanent centerline drogue – giving us the ability to refuel receptacle and probe-equipped receivers on every mission

Receiver receptacle – gives us the ability to aerial refuel the KC-X with the KC-135R, KC-10, and other KC-X, extending its operational range

Defensive systems – KC-X will have an integrated Large Aircraft Infrared Countermeasures (LAIRCM) system, unlike the current KC-135 and KC-10 fleet

Improved CNS/ATM – KC-X will be equipped to meet operational demands of the Next Generation Air Transportation System, allowing unfettered access to world-wide airspace

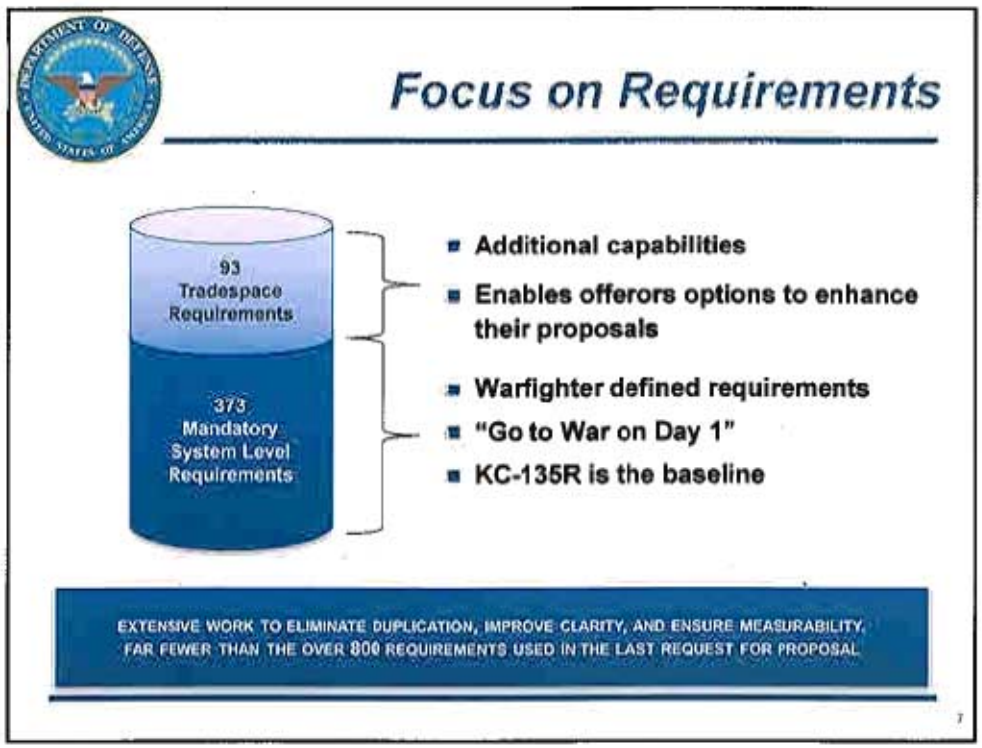


So that everyone is clear…let's take a moment to discuss requirements.

The Capabilities Development Document (the CDD) provides the basic framework upon which specific, system level requirements are written.

Air Force reviewed and re-affirmed the CDD on 13 Jan 09 and the JROC reviewed on 26 Feb 09.

The Systems Requirement Document (the SRD) is where system level requirements are defined and forms the basis for the Request for Proposal. This is what offerors base their proposals upon. A tremendous amount of work has been done in this area, utilizing both Air Force and OSD teams.



As stated earlier, we will provide offerors with clearly defined, measurable requirements on which to base their proposals.

Last time, unlike traditional solicitations, a large trade space was used that gave the offerors numerous options to propose capabilities balanced against prudent cost, schedule, and risk. However, by doing so, offerors indicated confusion because they did not clearly understand what the warfighter valued most.

The other factor was the way the requirements were written and their distribution throughout the RFP, which also led to confusion.

We conducted extensive reviews of the requirements … eliminating duplication, refining definitions, combining where appropriate, and ensuring all requirements are measureable.

373 from 37

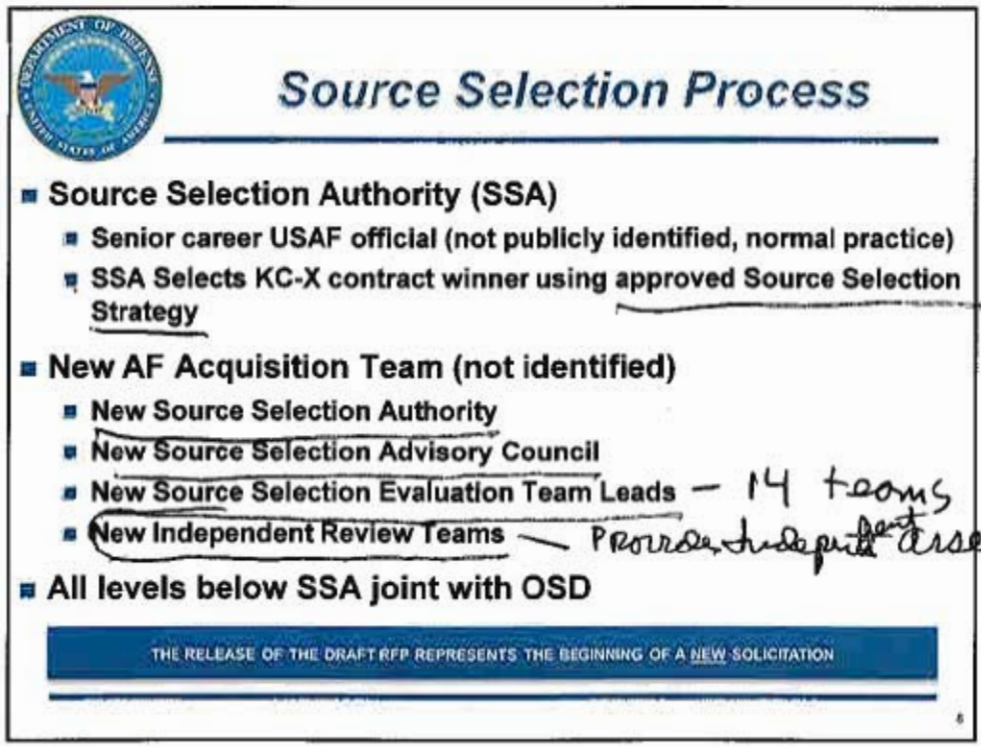
Based on this work, we will be very clear…373 mandatory system level requirements that will ensure that the warfighter will have an aircraft that can go to war on day one.

93 – non-mandatory

However, we also wanted to preserve the ability of offerors to provide capabilities that could add value. These additional capabilities make up the 93 trade space / non-mandatory requirements section of the Request for Proposal.

In sum, this reduced set of clearly articulated requirements will ensure that offerors know what the Air Force must have… a highly capable, "go to war on day 1" aircraft for the warfighter.

Air Mobility Command



It's important to note that we have assembled a highly experienced, well trained Source Selection Team with expertise from across all Services and OSD, that will be supported by multiple levels of independent analysis and review.

We're moving forward with new leadership and a new Source Selection approach from source selection senior leaders, to contracting, to technical evaluation, to independent review teams, we've brought together a team with extensive expertise.

The Source Selection Authority will be a career senior Air Force official.

Consistent with all such acquisitions, names of participants are considered Source Selection Sensitive and as such, we will not identify the individuals who are acting in these positions.

All are committed to what Air Force and Department leadership have pledged…a fair, open and transparent competition.

Now let me turn to Secretary Carter, who will describe the Source Selection Strategy that the Source Selection Authority will execute to choose a winner in the tanker competition.

Criteria for Source Selection Strategy

Objective	More objective, less subjective
Clear	Offerors understand what it takes to win
Transparent	Offerors can see how they were evaluated at every step
Accurate	SSA will evaluate exactly according to the RFP Source Selection Strategy
Accountable	Contract will hold offerors accountable for proposal prices / performance
Fair	Right down the middle for warfighter and taxpayer
Best Value	Mandatory and trade-space capabilities, acquisition price, warfighting effectiveness and day-to-day efficiency all considered.

These are some criteria we used in devising the Source Selection Strategy.

The Department was criticized for subjectivity and lack of clarity last time an RFP was issued for the tanker.

This Source Selection Strategy aims to be much more objective, so it is crystal clear to each offeror what it takes to win; and transparent so that when a winner is chosen everyone can understand why they won.

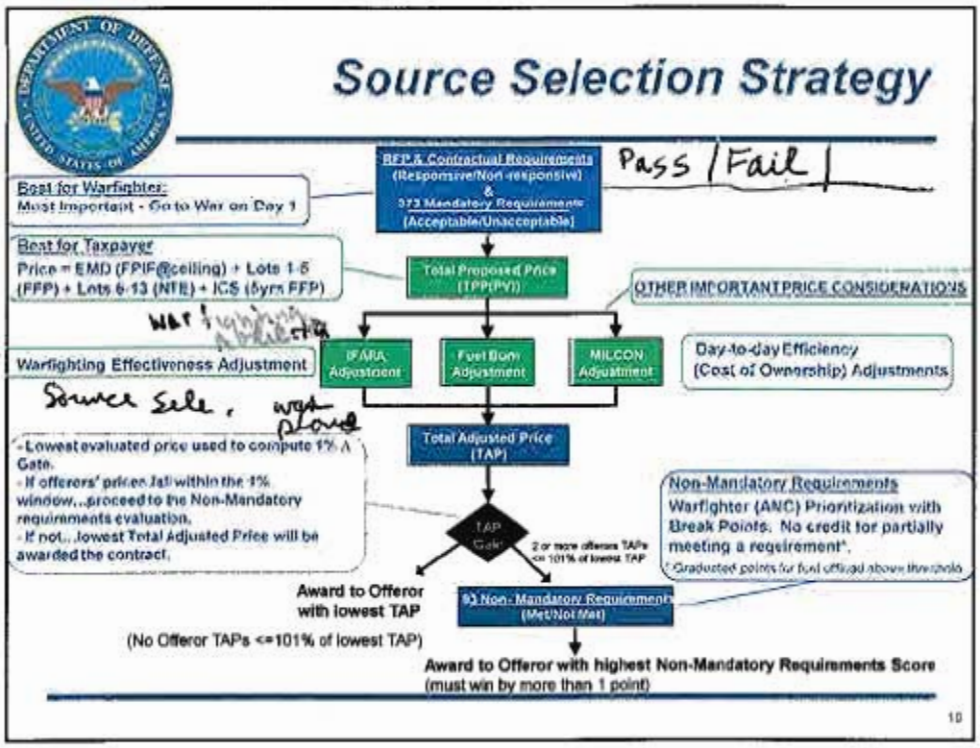
We will be accurate: the SSA will follow the Source Selection Strategy exactly.

The contract vehicle will hold offerors accountable for the prices and performance parameters they propose. If it later turns out they cannot meet those parameters, the contract price will be adjusted accordingly.

The Strategy is right down the middle, favoring only the warfighter and the taxpayer. We three and Secretary Gates expect to get criticized equally from all sides.

Finally, this is a best value acquisition, as is required by the Federal Acquisition Regulation: it combines a number of price and non-price evaluation factors which I will now describe.

War Planes for 2 simultaneous wars.
How many planes required. Cost of Ownership
① Fuel burn ② MILCON



1) fleet of planes
2) 1-5 firm fixed price
3) 6-13 firm fixed price, acquisition

If we stopped here.

price shoot-out

Best Value

We will select the winning offeror in the following way:

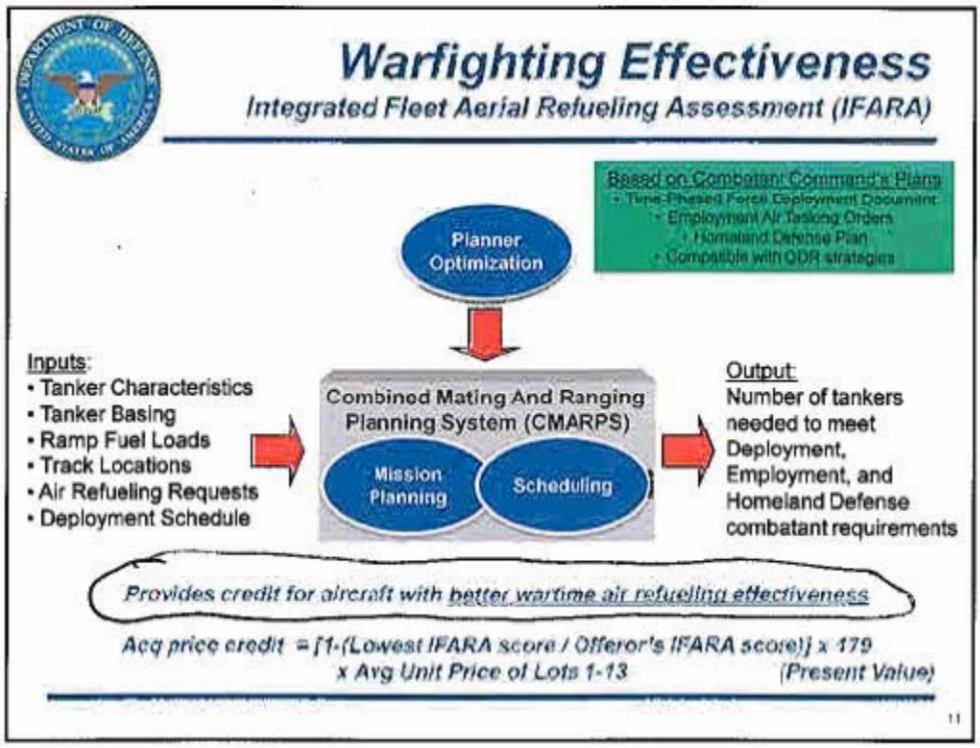
1. To qualify, an offeror must satisfy 373 mandatory Systems Requirement Document (SRD) requirements established by the warfighting customer, as described by Sec Donley, and also show that they can satisfy the RFP requirements (systems engineering, program management, product support, technology maturity and past performance). Each proposal will be evaluated as "Acceptable or Unacceptable".

2. In addition, an offeror will provide a price proposal for a fixed price to develop and deliver 4 Engineering and Manufacturing Development (EMD) aircraft and the first 64 aircraft and necessary spares, and an upper limit on the price of the remaining 111 aircraft together with five years of initial support.

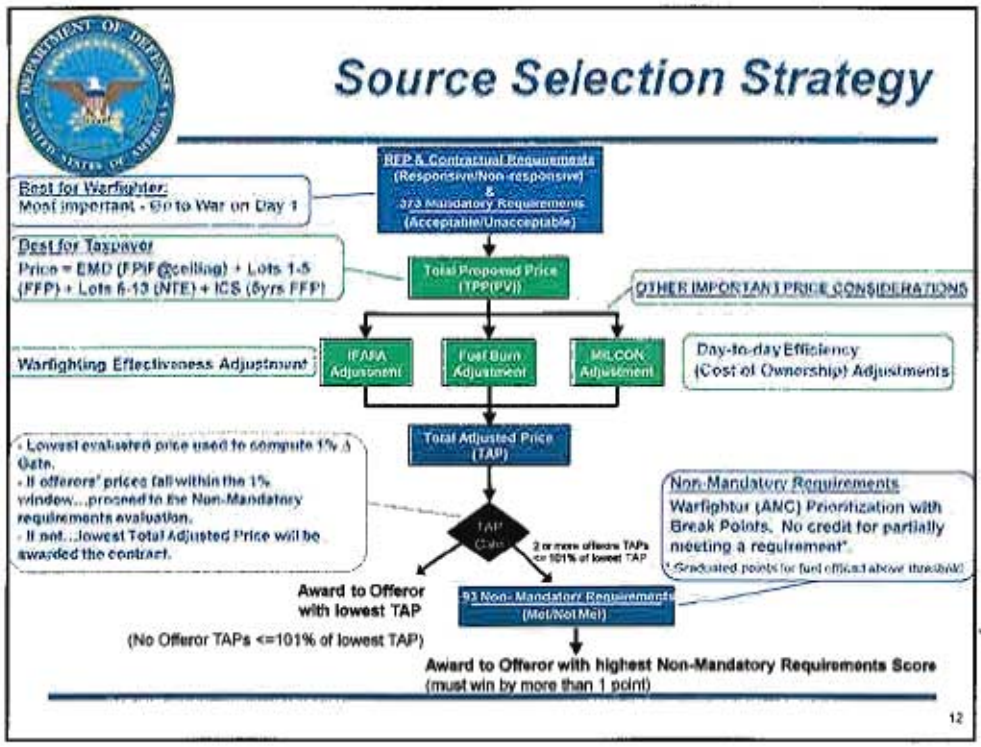
3. This proposed price will be important but will not by itself determine the winner. The reason why acquisition price alone is not sufficient is that two other considerations important to the value obtained by the warfighter and taxpayer must be taken into account. In the first place, we will take into account -- and weigh as part of the overall price -- the wartime effectiveness of each offered airplane. In the second place, we will take into account – and weigh as part of the overall price – the day-to-day efficiency or cost of ownership of the aircraft to include fuel use and MILCON requirements. The acquisition prices offered will therefore be adjusted in a well-defined and precise way to take into account these two factors.

4. If the adjusted prices thus obtained from the two offerors are very close – within 1% of the overall adjusted acquisition price – then the government will consider other features which the warfighting customer has determined are not mandatory requirements, and which are not as important as warfighting effectiveness and day-to-day efficiency, but which add value to the tanker fleet. The warfighter indicated that he would be willing to pay a modest premium for these added features expected to be approximately 1% of the total adjusted price. It will be clear how these additional features, and all other criteria, are weighed in our selection…all this is made crystal clear in the draft RFP, and the offerors will have the opportunity to clarify them further in draft before they are finalized. Once again, we are responding to the allegation last time the Department conducted a competition that our criteria were unclear.

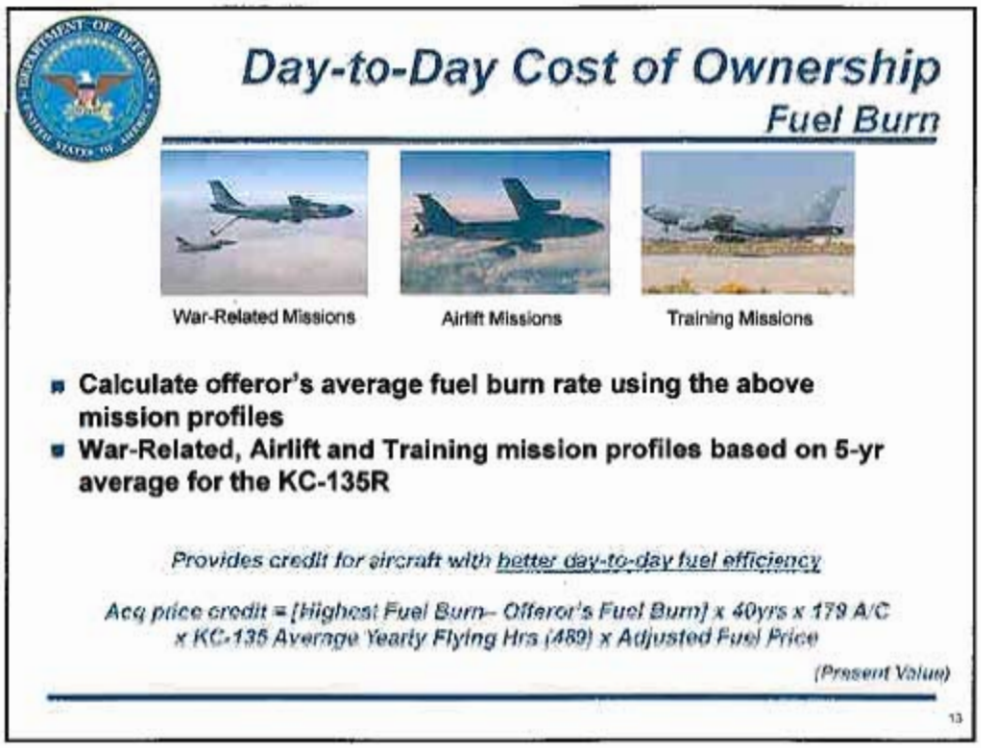
Let me now spell out each of these factors in more detail. I apologize for going into this much detail, but I remind you that we are determined to be fair, open, transparent – and crystal clear. I will begin with Warfighter Effectiveness.



Warfighting effectiveness. Warfighting effectiveness measures a proposed tanker fleet against the most stressing situation, in which the U.S. is called upon to execute several of its war plans simultaneously. This is, of course, a circumstance we hope never to face. But it is the reason we are buying a fleet of tankers this large. Afficionados will recognize this as the Integrated Aerial Refueling Assessment, or IFARA. It was used in the last competition and is a proven model for evaluating fleet mission effectiveness. Its structure is unchanged, though the war plans of course have continued to evolve. Each offered plane's warfighting effectiveness will be tested against these war plans, and we will in effect ask, "How many of each plane would it take to deal with this most stressful contingency?" Let us suppose that the IFARA model indicates that one offeror is more effective in wartime, i.e., could satisfy the demands of the model scenario with fewer planes. Then their price will be adjusted downward to reflect the extra value the Department will obtain from buying their planes. You might think that a larger airplane would always win in the IFARA model, but it's not that simple. While a larger airplane of course has more fuel-carrying capacity, the preponderance of missions would not necessarily use all that capacity, and other factors such as range and basing come into play. Offerors will have access to the IFARA model so they know exactly how it works.



Now let me turn to day-to-day Efficiency . Of course, during most of the forty year projected lifetime of this tanker fleet, the U.S. will not be executing several major war plans simultaneously. But the fleet will be carrying out daily training missions, war-related missions (today, these would be missions in support of operations in Iraq and Afghanistan), and airlift missions. The efficiency of each airplane in this day-to-day use affects the overall cost of ownership of the tanker fleet to the DOD over forty years, and we needed to give weight to this factor in the Source Selection Strategy. Many factors go into the lifecycle cost of an aircraft fleet as it is usually measured: the salaries of the airmen who fly them, training and frequency of maintenance, spare parts, the bases from which they operate, and the fuel they consume. Some of these costs simply cannot be predicted forty years into the future, and many of them – like depot maintenance and military pay scales– are not under the control of the offerors who make the tanker airplanes. So in measuring day-to-day efficiency of the tanker fleet in the competition, we will give weight to the factors that are under the offerors' control and which therefore fairly differentiate them – fuel burn, and military construction (MILCON).



We will measure fuel burn in the following way: The fleet of KC-135s have flown an historical average of 489 hours each per year over the last 5 years. If we envision this many hours being flown per year by the replacement fleet of new tankers over the next forty years, we can calculate how much fuel each fleet will burn, and at prices adjusted for the time value of money, what that fuel would cost. If one tanker burns less fuel than the other, we will adjust its price accordingly to account for the difference in cost of ownership. By the way, in the last competition it was assumed that each airplane would fly 750 hours on average, not 489 hours, but this was a number based on the structural limits of the aircraft, not actual historical usage. This time we are using the more analytically relevant number.

Cost of Ownership
MILCON

- Conduct site survey of eleven representative KC-135R bases
  - 9 CONUS
  - 2 OCONUS
- Evaluate discriminator categories only
  - Ramps, Taxiways, Runways, and Hangars
- Estimates will be based on actual proposed aircraft

Provides credit for aircraft that require the lower MILCON investment

Acq price credit = Highest MILCON Estimate – Offeror's MILCON Estimate

(Present Value)

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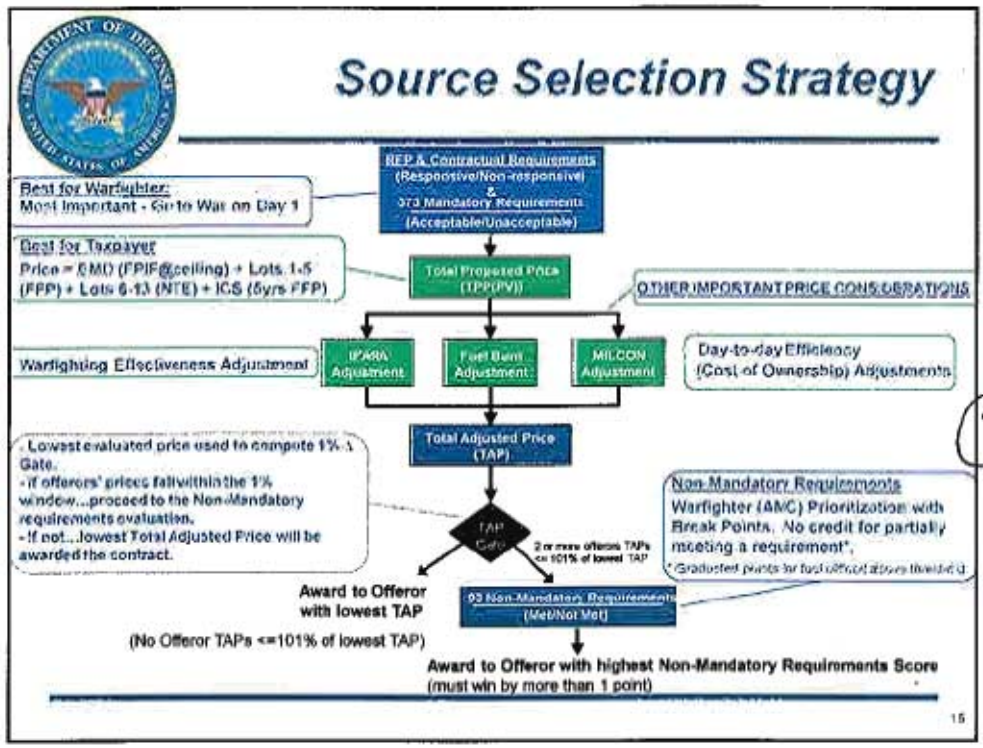
- Based on lessons learned and GAO recommendations from the past solicitation, the Air Force selected 11 bases for the exclusive purpose of conducting a MILCON assessment in the source selection. These present-day KC-135 bases were selected based on receiver demand, proximity to existing operational and training air refueling tracks, coverage of coasts and the central US, Guard and Reserve Bases, and CONUS and OCONUS bases.

- Decisions for actual basing are part of a separate process that occurs several years from now.

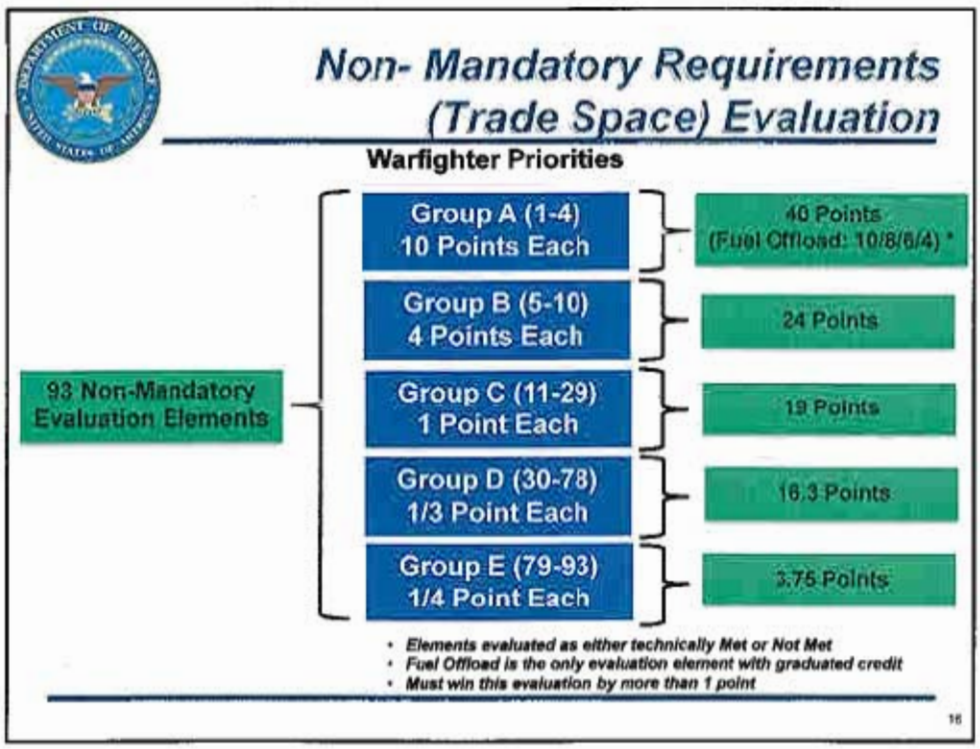
- Past history shows that the factors of relevance to MILCON are ramps, taxiways, hangars, and runways. The government will conduct site visits to perform these assessments.

- Actual aircraft proposed will be used in this evaluation…which will result in a monetized credit to the proposed acquisition price for those aircraft requiring lower MILCON investments.

- You might think that the smaller plane would have a smaller cost of ownership in both fuel burn and MILCON. But just as with wartime effectiveness seemingly favoring the larger airplane, the reality is a bit more complicated. At this time, for example, we do not know the fuel efficiency of the airplanes that will be offered.



The offerors' proposed price, adjusted for IFARA, fuel burn, and MILCON, will result in a Total Adjusted Price. If one offeror's TAP is more than 1% lower than the other's, that offeror will win the competition. But if the TAPs are within 1% or less of each other, the proposals will be compared according to how many and which of the 93 Non-Mandatory Requirements are met.



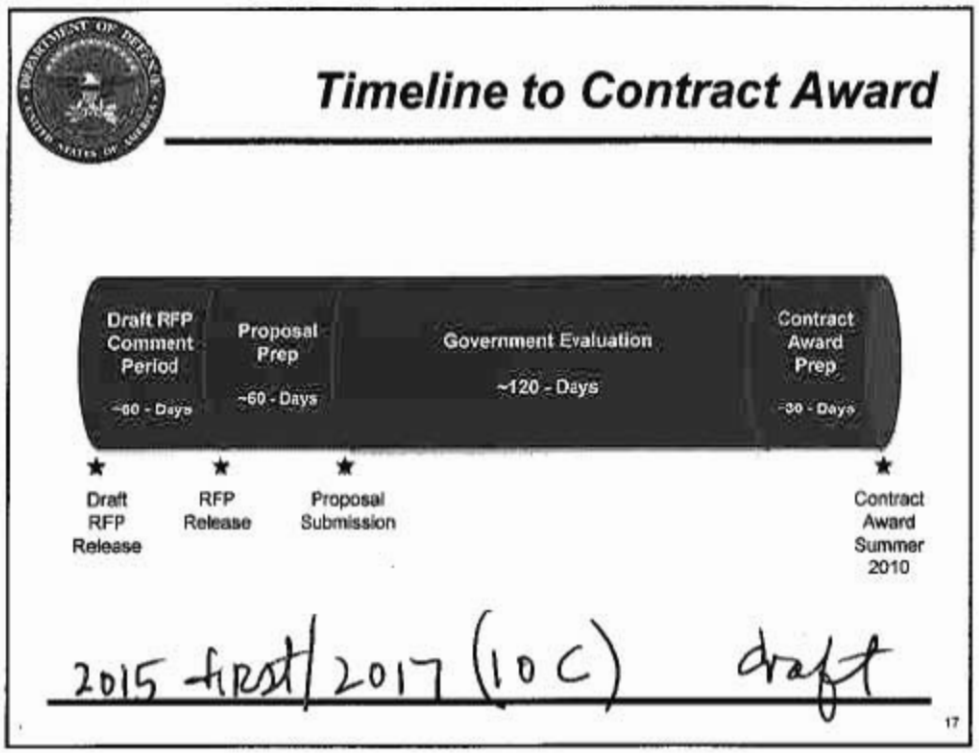
The list of 93 non-mandatory requirements was established by the warfighter. All have been clearly prioritized and relative value assessed by the warfighter. These priorities will ensure clarity to the offerors.

All 93 requirements will be evaluated as Met or Not Met…partial credit will not be given…with one exception…fuel range offload…which will have a graduated credit above the current KC-135R value that is based on additional operational capability.

This process provides ample opportunity for offerors to maximize their offered operational capability at best value to the taxpayer

[If we get to a situation where the offerors' evaluated prices are within 1% of each other, the proposal with the highest trade space point score, by more than one point, will be awarded the contract.

In the event the trade space scores are one or less point apart, then the contract will be awarded to the offeror with the lower Total Evaluated Price.]



R.F.P. for 60 days

Offerors will be provided ample opportunity over the next 60 days to review and comment on the draft RFP, and ensure they fully understand the requirements and the process.

After making any necessary refinements for clarification, we will then issue the Request for Proposal.

Offerors' proposals will be due 60 days after the RFP is released, followed by up to 120 days for government evaluation. The selection will be announced and a contract awarded next Summer.

-It is worth mentioning that Northrop Grumman has suggested that information was disclosed about its previous tanker bid that puts it at a competitive disadvantage. DoD has examined this claim and found both that this disclosure was in accordance with regulation and more importantly that it created no competitive disadvantage because the data in question are inaccurate, outdated, and not germane to this Source Selection Strategy.

- Next, we have been advised that the World Trade Organization recently issued a ruling in a US versus European Union case alleging unfair subsidies to Airbus. We have been further advised that this is an interim ruling, that there is a counterclaim by the European Union regarding Boeing that has not been ruled on, and that final resolution of these cases is many years away. For these reasons, we are not able to take account of these claims in the RFP. We have, however, added a "hold harmless" clause to the draft RFP, meaning that any penalties assessed in final rulings would not be passed to the US taxpayer.

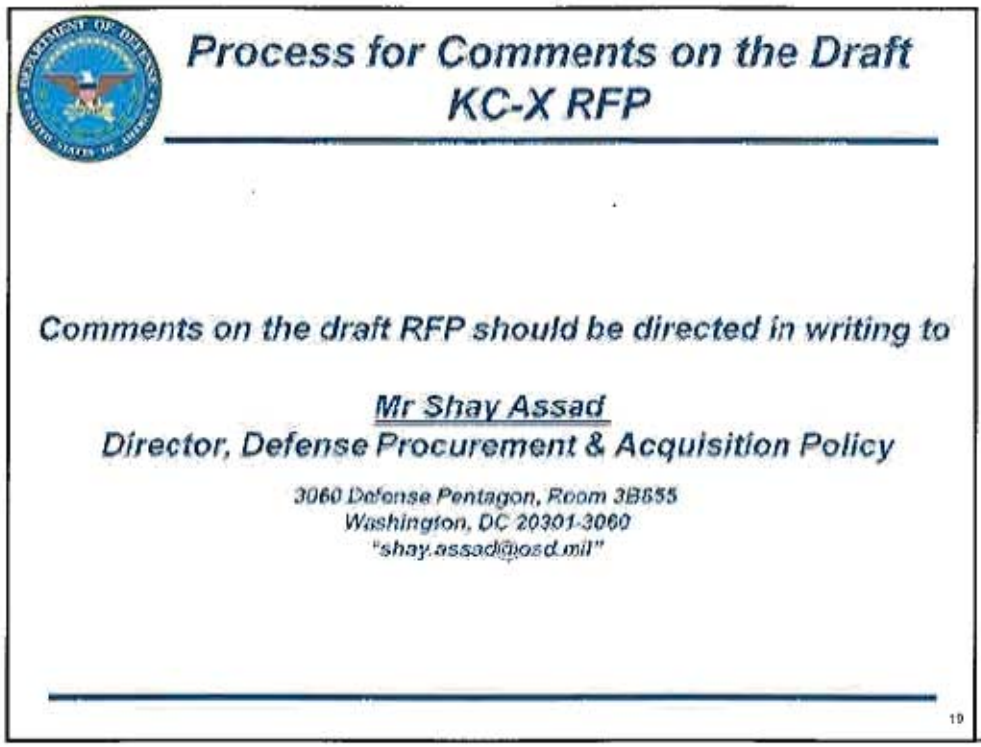
Let me close by summarizing the key features of this Source Selection Strategy.

- **First**, it is not a re-run of the last competition. That competition was criticized for being too subjective. This time, as you have seen, we will be objective and crystal clear about how the winning offeror will be selected. Additionally, the warfighting customer has made precise and prioritized the mandatory and non-mandatory requirements.

- **Second**, this strategy weights both price and non-price factors. Thus it is not a Low-Price Technically Acceptable (LPTA) approach. In acquisition parlance, it is a Best Value competition, with both price and non-price factors taken into account. But in the tanker context some people use the term "best value" to mean a re-run of the last competition and, as I indicated, this is not a re-run.

- **Third**, by requiring fixed price offerings for Engineering and Manufacturing Development, procurement, and initial contractor support, this approach is in line with our acquisition reform priorities.

- **Fourth**, we have crafted this approach to favor no one except the warfighter and taxpayer, We are certain that some would prefer that we not use IFARA, or that we not count cost of ownership, or that we weigh price more or less highly or one requirement more or less highly. We've steered "straight down the middle."



Best Value

Process for Handling Comments

In order to ensure that comments regarding the draft RFP are handled in a completely transparent way, and to ensure that we carefully consider all comments and recommendations concerning the draft RFP we request that all interested Congressional Parties direct their comments regarding the draft RFP, in writing, to the Director of Defense Procurement (DPAP).

The Director, Defense Procurement (DPAP) will be responsible for ensuring that the Department and Air Force leadership as well as the Contracting Officer are informed of the comments/concerns expressed and that each request is acknowledged and responded to in writing.

Any potential offeror will be asked to submit their comments/concerns directly to the Contracting Officer with a copy to the Director, Defense Procurement.

The address is as follows:
Mr. Shay D. Assad
Director, Defense Procurement (DPAP)
3060 Defense Pentagon
Room 3B855
Washington, DC 20301-3060

1. Point Value Scores
2. Size of airplane
3. Implication of Size.
4. How we will analyz
5. Longer?
6. Optimize
7.