

DEPARTMENT OF THE AIR FORCE

PRESENTATION TO THE
HOUSE ARMED SERVICES COMMITTEE
SUBCOMMITTEE ON SEAPOWER AND PROJECTION FORCES
U.S. HOUSE OF REPRESENTATIVES

SUBJECT: Update on KC-46A and Legacy Aerial Refueling Aircraft Programs

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Chairman Akin, Ranking Member McIntyre, and distinguished members of the Subcommittee. We are pleased to update you on the status of our KC-135 and KC-10 fleets and how the KC-46 program is progressing almost 8 months after contract award.

As we have learned from history and current operations in Libya, Iraq, and Afghanistan, we must have a viable tanker fleet to maintain our global mobility advantage. Over the past 50 years, the United States Air Force has provided unparalleled air refueling capability to support our national defense. Air refueling forces provide a vital deployment and sustainment capability for Joint and Coalition forces, delivering essential fuel for worldwide missions ranging from major combat to humanitarian relief operations. Air refuelers enable American power projection and provide us with near-instantaneous global presence. Without these assets, there would be no air bridge to bring our forces and equipment to the fight; no ability to deter an enemy with the threat of a responsive bombing mission deep within their borders; and no extended reach capability to deliver vital humanitarian aid in those first critical hours after a natural disaster. We appreciate Congress's interest in this essential capability and we are grateful for your continued support of efforts to maintain our legacy tanker systems and recapitalize our tanker fleet to support national defense.

The Department of Defense remains mindful of our Nation's budgetary challenges and fiscal constraints; fiscal responsibility is a national security imperative. This environment requires that we balance our capabilities between current combat operations and the need to address emerging threats and future challenges. We seek cost-

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effective systems that leverage existing capabilities and maximize interoperability and integration of legacy and future systems. Although recent interest has focused on the KC-46 program, we have not lost sight of the imperative to support and sustain our aging KC-10 and KC-135 tanker fleets.

The Air Force legacy tanker fleet has long been the backbone of the Department of Defense's global power projection and global reach capabilities. This venerable fleet consists of 414 KC-135 and 59 KC-10 aircraft with a projected service life through 2040. At that time, the average age of the KC-135 aircraft will be over 80 years, and the KC-10 aircraft will average over 54 years. As such, both airframes will be challenged by obsolete parts, diminishing manufacturing sources, and an increased, broader variety of maintenance issues attributed to old age. This will result in higher sustainment costs and lower aircraft availability.

The Air Force is also experiencing a high operational tempo for the legacy tanker fleet due to overseas contingency operations. For example, earlier this year while supporting Operations TOMODACHI, NEW DAWN, ODYSSEY DAWN, ENDURING FREEDOM, NOBLE EAGLE, and UNIFIED PROTECTOR and other commitments, 208 total force tankers out of a total fleet size of 473 were utilized on a single day. Because of this demand, the Air Force is executing multiple initiatives to keep these aircraft viable through a combination of robust modification and sustainment efforts.

For the KC-135, both aircraft availability and mission capable rates have remained steady over the last several years, with aircraft availability near 65% and mission capable rates of 80%. For the KC-10, the aircraft availability and mission

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capable rates are 65% and 79%, respectively. Air Force personnel work hard to attain these rates by careful and vigilant management of sustainment programs.

To sustain and improve these operational performance indicators, the tanker fleet receives routine depot maintenance, and undergoes system modifications to address and mitigate parts obsolescence. Current modifications include modernizing air traffic management and friend or foe identification systems, as well as re-manufacturing obsolete parts, such as the refueling boom control unit for the KC-10 that will run out of spares in 2013. Looking farther out, the Air Force is conducting a six-year teardown study to be completed in fiscal year 2015 on three retired KC-135 aircraft to identify any structural integrity and corrosion issues. This study will help us identify potential emerging sustainment issues before they risk grounding some or all of the KC-135 fleet.

Given the planned service life of both the KC-135 and the KC-10 aircraft, the expected decrease in parts availability over the next 30 years, and the costs of sustaining these aging weapon systems, it is imperative for the Air Force to bring the KC-46 on-line and begin replacing the KC-135 fleet. In the meantime, the long-term sustainment plan for our legacy tanker fleet ensures we will meet our nation's aerial refueling needs while we execute the KC-46 program.

Recapitalizing the tanker fleet remains the Air Force's top acquisition priority. The KC-46's primary role will be to provide in-flight air refueling and will incorporate improved capabilities needed for tomorrow's missions. The KC-46 will enhance warfighter support by refueling both receptacle and probe-equipped receivers on every mission, and having a multi-point refueling system capable of refueling two probe-

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equipped aircraft simultaneously. The KC-46 will also have the flexibility to contribute to a variety of airlift missions to include: airlift of passengers, palletized cargo, and aeromedical evacuation. Not only will it dramatically change our air refueling concept of operations, it will also allow us to improve the efficiency of our air mobility system. Other capabilities include: secure communication links to improve global connectivity, night vision acuity to improve warfighter effectiveness, and on-board defensive systems to allow the KC-46 to operate closer to the fight.

To acquire the capability the warfighter needs at a price the taxpayers can afford, the Air Force conducted a competitive source selection to initiate the first phase of a three-phase tanker recapitalization effort. Secretary Gates asked Secretary Carter and key members of his staff to oversee the process. The OSD staff led a comprehensive, multi-phase peer review and a red team to critically assess and advise the Air Force source selection official. Participants included a significant contingent of senior leaders representing a broad range of functional expertise from across the Department of Defense. The review validated the thoughtful Air Force execution of a sound acquisition strategy that was driven by clearly stated requirements to ensure the KC-46 will be ready to go to war on day one. The competition was fair, open, and transparent. The offerors submitted proposals that were evaluated against 372 mandatory requirements, mission effectiveness, life cycle costs as embodied in fuel efficiency and military construction costs, and final proposal pricing.

On February 24, 2011, the Air Force awarded an engineering, manufacturing and development contract for the KC-46 to The Boeing Company. This contract provides a

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contract ceiling price of \$4.83B for development. The contract structure helps protect the taxpayer by capping the government's cost liability, preventing runaway cost-growth, and providing a mechanism for managing and delivering the Air Force's desired capabilities. The contract features an incentive arrangement designed to motivate the contractor to adhere to cost control and schedule parameters. The development contract will design, develop, integrate, test, and deliver four aircraft by leveraging a commercial Boeing 767 platform using best practices from both the commercial and defense industries. The overall KC-46 program, which includes production, will deliver a capable aircraft at a competitive price, with the final amount depending on which contract options we exercise. The program strategy is to procure a total of 179 aircraft with the first 18 aircraft delivered by the end of FY17.

Maintaining production stability is a top priority. This stability is reinforced by keeping production quantities level, maintaining the baseline funding profile, and eliminating unwarranted engineering changes and requirements creep. As part of this contract, we have established a disciplined change management process to avoid cost overruns incurred by program changes. The contract provides for affordability tradeoffs and built in contract flexibility through variable quantity matrices for firm fixed price Low Rate Initial Production (LRIP) and not to exceed Full Rate Production (FRP) aircraft lot pricing (with and without engines). This provides the flexibility to accelerate aircraft production, should the budget allow, without having to renegotiate the aircraft prices. Similarly, the contract provides for affordability tradeoffs through built-in flexibility in the form of pricing matrices for Interim Contract Support based on the number of cumulative aircraft ordered and main operating bases supported. In addition, the

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Government has procured extensive data rights in order to facilitate organic sustainment and the opportunity to compete maintenance and repair work in the future.

As Congress implements the Budget Control Act of 2011, it will of course consider impacts to KC-46 and other programs. Any reductions imposed by sequestration rules would adversely impact the Air Force's ability to perform its missions. At this point, however, it is too early to determine the specific impacts to aerial refueling programs because such cuts would require the Air Force to rebalance its entire portfolio of programs. Deep cuts to the KC-46 would gravely impact the program and any cuts will require re-negotiation of the contract, which would forgo the pricing achieved under competitive pressure. Likewise, fully funding the KC-46 program under sequestration would necessarily be at the expense of other programs.

As mentioned previously, KC-46 is the first phase of a three-phase tanker aircraft recapitalization effort. KC-46, KC-Y, and KC-Z will replace the legacy tanker fleet of KC-135s and KC-10s. This approach maintains the Air Force's economic advantage by reintroducing competition into the recapitalization process as new platform opportunities emerge, technologies advance, force structure requirements change, and threats evolve. In the initial phase, the KC-46 program will replace approximately one-third of the warfighting capability provided by the current aerial refueling fleet. We will retire legacy tankers on a one-for-one basis after delivery of the first lot of KC-46 aircraft so there will be no loss in capability. Overall, this strategy results in increased capability to the warfighter and savings to the taxpayer.

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Since contract award eight months ago, the KC-46 Team has worked with Boeing, the Federal Aviation Administration, and many Department of Defense stakeholders to complete a comprehensive review of the KC-46 program. Through this rigorous process and in partnership with Boeing, we baselined the cost, schedule, technical performance, and risks of the program. As we work toward the low-rate initial production decision scheduled for late FY15, we are confident we can maintain the cost and schedule of this program while mitigating the identified risks.

The KC-46 beddown locations will be selected according to the long-accepted Air Force Strategic Basing Process. Under this process, Air Mobility Command will recommend basing options to the Secretary of the Air Force and Chief of Staff in December 2011. The Secretary and Chief have one year to make final decisions, which will impact military construction requirements as well as sustainment strategies.

In conclusion, we are committed to fielding the KC-46 on time and on budget so the warfighter is properly supported beyond 2040. In the meantime, the Air Force will continue to address new capabilities and upgrades needed for the legacy KC-135 and KC-10 tanker fleets to meet future airspace mandates and emerging technologies, resolve critical obsolescence and diminishing resource issues, and maintain operational relevancy.

We appreciate the Subcommittee's continued support for our Air Force tanker programs, recognizing they are vitally important to our nation's defense and security.