

Written Statement of
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Before the Senate Homeland Security and Governmental Affairs Committee
Federal Financial Management, Government Information, Federal Services and
International Security Subcommittee

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Mr. Chairman, Senator Coburn and distinguished committee members, thank you for the opportunity to appear before you today to discuss meeting the Nation's strategic airlift demands in the most cost effective manner. As the Assistant Secretary of the Air Force for Acquisition, I am honored to represent the Air Force along with General Schwartz, my customer and Combatant Commander of U.S. Transportation Command, on such a vital national defense topic. My statement will address the Acquisition community's progress to modernize and recapitalize our strategic airlift and tanker fleets and will highlight the C-17, C-5 and KC-X programs.

FLEET MODERNIZATION AND RECAPITALIZATION

The high operations tempo, of the past 17 years, has taken a toll on our airlift and air refueling aircraft. Both fleets are in need of modernization and recapitalization. We cannot allow capability gaps to negatively impact warfighters and the security of our nation and our allies. Older, less capable aircraft are also more expensive to operate and maintain. Retiring cost-prohibitive aircraft allows the nation to recapitalize and improve life cycle cost efficiencies. Upgrading our existing aircraft may provide a cost-effective modernization option, while preventing capability gaps during the long replacement cycle for large fleets. However, the decision to upgrade, replace, or pursue other options depends on near term funding constraints and cost comparisons of both investment and life-cycle operating costs to repair or replace old weapons systems with new weapon systems.

As the Air Force's Acquisition Executive, I have inherited several programs with cost growth challenges because programs are baselined for performance, cost, and schedule well in advance of when we can reasonably project the technical and schedule

issues that can drive costs out of control. It has therefore been my objective, informed by several GAO findings, to put affordability and cost control back into our weapon systems by insisting on better planning, better estimating, and well-defined achievable requirements to drive well-written Requests For Proposals (RFPs). These RFPs require maintenance data rights for organic maintenance and life cycle support; open systems architecture to allow rapid, affordable insertion of innovation; incentive and award fees that reward desirable contractor behavior; time certain development that avoids immature technology; funding to realistic, high confidence and accurate cost estimates; and open and transparent communication that results in fair and open competition.

C-5 AVIONICS MODERNIZATION PROGRAM (AMP) & RELIABILITY ENHANCEMENT AND RE-ENGINEING PROGRAM (RERP)

Modernization of the C-5 fleet remains an Air Force priority to meet Combatant Commanders' requirements for on-time delivery of oversized and outsized cargo. This effort will bring needed capability to the warfighter through the year 2040, getting our troops and equipment to the fight by increasing the mission availability of C-5s with their unmatched outsized and oversized, roll-on/roll-off capability.

The C-5 modernization effort is a combination of two programs. The Avionics Modernization Program provides modernized avionics and allows the aircraft to meet increasingly stringent Communication Navigation System/Air Traffic Management (CNS/ATM) requirements worldwide, thus allowing the C-5 to fly in many places around the world that will otherwise be restricted to us. The second program is the Reliability Enhancement and Re-engineing Program (RERP), which builds upon the C-5 AMP

modification. C-5 RERP replaces the propulsion system and improves the reliability of over 70 systems and components. Once a C-5 is both AMP- and RERP-modified, the fully modernized C-5 will be redesignated a C-5M.

The AMP modification is being accomplished with contractor production teams at Dover AFB, Delaware, and Travis AFB, California. Air Mobility Command (AMC) declared AMP Initial Operational Capability (IOC) on 1 February 2007, after delivery of the 16th AMP-modified aircraft to Dover AFB. IOC also ensured trained operations and maintenance personnel were in place while supplying initial spares to support the mission. Thirty (30) aircraft have been AMP-modified as of 19 September 07. Twenty-six (26) of those aircraft support the warfighter, three (3) support C-5 RERP System Development and Demonstration (SDD), and one (1) aircraft was lost due to the April 2006 crash. Currently, six (6) aircraft are undergoing modification at Dover AFB and Travis AFB (3 at each location). While the AMP suffered some program execution issues, technical challenges, and schedule delays during development, the AMP production is fully funded and on-schedule to complete the upgrade of the entire fleet in FY15.

RERP is currently in System Design and Development (SDD) with a Milestone C production decision scheduled for first quarter CY2008. The RERP test program is flying three modified aircraft—two C-5Bs and one C-5A. As of 18 September 2007, the test aircraft have flown over 515 hours on 165 flight test missions, and the SDD test program is approximately 58% complete and scheduled to complete in FY10. Technical performance has been positive and analysis to date indicates the C-5M will provide at least a 75% wartime Mission Capable Rate. The continued support of Congress to fully

fund the C-5 RERP development is essential to the success of the program.

The C-5 RERP has experienced program cost growth, most notably in the upcoming production program currently scheduled to begin in 2008 and conclude in 2021. The Air Force is evaluating cost growth to determine affordability and the way ahead for this program. C-5 RERP costs have increased due to development delays, budget cuts due to other AF priorities, and production cost increases in the areas of engines, specialty metals, pylons, and touch labor. The C-5 Program Office and the Air Force Cost Analysis Agency completed independent cost estimates and reconciled them into a Service Cost Position (SCP) on 5 September 2007. The SCP takes into account the 17 May 2007 industry production proposal (as amended on 28 August 2007), as well as Air Force budget constraints and other factors that impact cost. The SCP is based on the quantities in the FY2008 President's Budget.

Under the Truth in Negotiations Act (TINA), when dealing in a sole source environment, the contractor is required to certify that the proposal's cost and pricing data is current, complete, and accurate. The current industry proposal lacks the specificity and detail necessary for contractor certification or for the government to immediately enter into a contractual relationship. As a result, the company in late August converted its firm-fixed price proposal to Not-To-Exceed (NTE) prices for Lots 4 and beyond. We are working to get the necessary cost and pricing data for Lots 1 through 3.

The NTE element of the proposal is an initial ceiling cost for work that has not been fully scoped or negotiated. NTEs are often used in time-critical situations in conjunction with Undefined Contract Actions to allow a contractor to begin work prior to the completion of negotiations.

In addition, NTEs include "re-openers" that allow the contractor to adjust the NTE as unknown variables are defined and scoped. "Re-openers" can drive extensive price increases during the fact-finding and negotiation phases. Upon the completion of negotiations, the government and the contractor jointly come to an agreement on the total scope and price of the effort as well as the type of contract vehicle to be used. NTEs typically apply to a narrow scope of effort and do not address the total development costs that will be uncovered during negotiations. These prices will be negotiated as a firm fixed price at a later, to be determined date. These prices will be treated as ceiling costs that cannot be exceeded as long as the requirement and the proposed aircraft quantities remain unchanged. The NTEs would be invalidated, for example, should the Air Force change the number of aircraft to be modified in any given lot.

In the case of C-5 RERP, the initial results of the SCP indicate that the amount of industry's proposal omissions, "re-openers," and standard associated other government costs may exceed \$4.2 billion. This is a sizable amount of risk to the taxpayer if both parties prematurely rush into a contractual relationship. Therefore, the Air Force is moving forward cautiously and scrutinizing the industry proposal to ensure the program risk is well understood and the program is properly scoped and budgeted for success to ensure a quality product is delivered to the warfighter. The SCP will be used as the basis for determining if the program has a Nunn-McCurdy breach, which requires a certification process.

The program office team, as well as the AFCAA, DCAA, and DCMA, have been working with industry since early this year to understand the proposal. Senior Air Force leaders have met with industry representatives to discuss the cost disparities between the

SCP and the NTE production proposal. Additionally, in light of this cost estimate, several Air Force offices are currently examining the various aspects of RERP to determine the most cost effective mix for the strategic airlift fleet. Air Force leadership will continue to work with DoD and Congressional stakeholders to determine the most prudent course for our nation's strategic airlift fleet.

C-17 PROCUREMENT

With regards to the C-17 program, we have accepted delivery of 168 C-17s. The original programmed buy of 180 aircraft was extended to 190 by the FY07 Bridge Supplemental. The supplemental provided 10 additional aircraft, which answered two concerns: our backup aircraft inventory (BAI) shortfall and wartime wear and tear. However, our nation is rapidly approaching a major C-17 production milestone with long-term implications to the mobility enterprise — the decision to terminate production.

In addition to the U.S. procurement of another ten C-17s in FY07, international sales have helped keep the C-17 production line intact. Sales of four aircraft to Australia and a fifth to the UK, along with Canada's recently signed letter of acceptance (LOA) for four C-17s, extend the production line to July 2009. Continued allied acquisition of C-17s strengthens coalition partnerships in Global War on Terrorism (GWOT). The Air Force is also working with the North Atlantic Treaty Organization (NATO) countries as they address the potential purchase of three aircraft. The C-17 is, and will continue to be, a key U.S. strategic airlift asset.

KC-X

The KC-X, the tanker replacement aircraft, is the Air Force's #1 acquisition priority and is currently in source selection. Our goal is to acquire the optimal platform

for the warfighter while garnering the best value for the taxpayer.

While the KC-X is primarily an air-refueling tanker, its multi-mission capabilities can supplement our inter/intra-theater airlift fleets, aid Civil Reserve Air Fleet (CRAF) transload operations, transport passengers, increase aeromedical evacuation options, and ultimately help transform our mobility landscape. Current Tanker units have traditionally “self-deployed” support and maintenance personnel as well as tools, spare parts, and required ground equipment. This not only allows efficient use of this platform, but frees up our airlift fleet to perform their intended missions, such as hauling outsized and oversized cargo or delivering troops to far-forward locations. The military rationale for tanker aircraft to maintain an airlift capability is clearly outlined in long-standing Joint Doctrine and follows a well-established precedent.

CONCLUSION

The dynamic and threatening environment in which the U.S. military operates requires a responsive air mobility enterprise. To meet the requirements of the National Security Strategy, and most importantly, to properly support our warfighters, we must continue to focus our efforts on the future. Air mobility is one of the Department of Defense’s crown jewels. It provides the airlift and air refueling capability our leaders need to execute Day One options. From military actions, to natural disaster, to civilian emergencies, the nation’s air mobility fleet is America’s keystone to rapid movement. From long-distance strategic movements, to short-duration tactical airlift, to air refueling or aeromedical evacuation—air mobility demonstrates national resolve, provides for combat power, and saves lives.

The men and women in Air Force Acquisition take great pride in delivering on our promise to both Air Mobility Command and US Transportation Command to meet the modernized and recapitalized tanker and strategic airlift fleets needed. The Air Force appreciates the opportunity to discuss with the committee the status of the Nation's strategic airlift modernization and recapitalization programs. Thank you again for the opportunity to be here today and I look forward to your comments and questions.