

[The RFP will be available to the public on the FedBizOpps website
<http://www.fbo.gov> on 24 Feb.]

Today the Department is providing an update on the KC-X acquisition program as we release the Request for Proposal.



Secretary of Defense Gates

- "I am committed to moving forward on the re-bid for the Air Force's KC-X tanker as quickly as possible." (April 15, 2009)
 - "...ensure that it is a fair, open, and transparent process" (June 9, 2009)
 - "I am pleased to announce that source selection authority is returning to the Air Force for the KC-X refueling tanker...and my office will continue to have a robust oversight role." (September 16, 2009)
 - "We are committed to the integrity of the selection process, and cannot afford the kind of letdowns, parochial squabbles, and corporate food-fights that have bedeviled this effort." (September 16, 2009)
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2

DsD Lynn

I'm pleased to be with you today and would like to begin by commending all those in the Air Force and OSD involved in the draft RFP process...and for the inputs and dialogue that we have had with industry, Congress, and others.

As you recall, Secretary Gates announced last April that the Department would begin again its effort to acquire a much needed replacement aerial refueling tanker.

He pledged, including to Members of Congress, a fair, open and transparent process and announced that the Source Selection Authority for the KC-X would be returned to the Air Force.

As Secretary Gates and all of us have consistently said, we favor a competition. We structured this RFP to be fair to both sides and, above all, to the taxpayer and warfighter. We need the process of procuring a new Air Force tanker to recommence without delay.

We provided a draft RFP back in September and are now at the point where, following a useful comment and discussion period, we are prepared to release the Request for Proposal.

We expect to receive proposals in the next few months and make an award before the end of the summer.



Process and Way Ahead

- **Source Selection Strategy**
 - Developed by OSD and USAF, approved by Secretary of Defense
 - Source Selection Strategy will be executed by Air Force Source Selection Authority
 - Buy unchanged: 179 KC-X aircraft (KC-Y and KC-Z to follow)
 - Warfighter requirements unchanged, but KC-X should be "ready to go to war on day 1"
 - Selection Criteria more precise, less subjective
 - **Competitive Process**
 - Draft Request for Proposal (RFP) – release September 25, 2009
 - Comment period
 - Final RFP
 - Evaluation
 - Contract award
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Key Features

- **Important changes since draft RFP**
 - Retains overall structure of requirements
 - Important change in the contract pricing strategy
- **Objective, clear source selection strategy**
- **Importance of price and non-price factors**
- **Clear, stable warfighter requirements**
- **Acquisition reform**
- **Straight down the middle**

Before turning to Secretary Donley, I would like to state the key features:

- **First**, as you will see, we have listened to comments and suggestions from the offerors and Congress, and we have made important changes, more than 230 of them overall, in going from the draft RFP to this final RFP. At the same time, the final RFP retains the basic structure of the requirements, as Secretary Donley will elaborate. There is an important change to the contract pricing strategy, which USD(AT&L) Carter will describe.

- **Second**, what is not changed is that we are being objective and crystal clear about how the winning offeror will be selected. The Department was criticized previously for being unclear. As we have said previously, this is not a re-run of the last competition.


- **Third**, our strategy weighs both price and non-price factors. This is a Best Value competition. The factors include warfighting effectiveness, cost of ownership over the 40-year life of these aircraft, and possibly other features than those mandatory requirements needed by the warfighter on day one. So a bidder could actually have a higher proposed price and still win. I should add that during the previous tanker solicitation, the competition was strong on both price and non-price factors.

- **Fourth**, some have suggested we change the requirements to favor one or the other competitor. The requirements are determined by the warfighter and are clear and stable.


- **Fifth**, this approach is in line with the Department's acquisition reform priorities in terms of clearly stated and stable warfighter requirements, transparent source selection strategy, and contract structure designed to provide best value to the taxpayer, including, in this case, a fixed-price structure.

- **Sixth**, we have crafted this approach to favor no one except the warfighter and taxpayer. We've steered straight down the middle.


Let me turn to Air Force Secretary Donley who will cover some of the highlights regarding requirements, and then to USD(AT&L) Carter to describe the acquisition strategy in the final RFP.



Transparent Process



- The Air Force received and answered over 350 questions / comments from industry as part of the normal, draft Request For Proposal (RFP) process
- All non-proprietary questions and answers have been posted on the publicly accessible FedBizOpps website
- Members of Congress and their staffs have received briefings and we will continue to provide updates and respond to inquiries as the process continues



5

Secretary Donley

Thank you.

I would like to take just a few minutes to highlight for you how the Air Force and the Department, working with Congress and industry, has used the Draft RFP period to provide clarity to all parties, in an open and transparent manner...even extending the period for questions to be asked, providing briefings to both offerors, and providing training on the Integrated Fleet Air Refueling Assessment tool to both of them.

The purpose of a draft RFP period is to provide industry with the opportunity to review the draft RFP and ask questions in order to ensure that they have a full and complete understanding of what the warfighter needs. It also provides the Air Force the opportunity to continue to improve the RFP so that the warfighter's requirements are crystal clear, and the offerors know what is expected of them.

We received over 350 questions from industry and these have each been carefully researched, addressed, and published on the publicly accessible FedBizOpps website.

In addition, the three of us briefed members of Congress on the draft RFP and have personally reviewed the questions and comments the Department has received from members of Congress on it.

We continue to benefit from peer reviews which have included members from the other Services and OSD.

We're grateful to all the participants and believe that we have further clarified the RFP based on these interactions.

Let me take a moment to provide some of examples of adjustments regarding requirements.



Adjustments to Draft RFP Requirements: Examples

- **One specific requirement eliminated at the request of the warfighter**
 - **Eliminated need for Microwave Landing System**
- **Over 230 changes incorporated into the RFP**
 - **Vast majority were in response to industry comments... examples...**
 - **Large Aircraft Infrared Countermeasures –changed to Government Furnished Equipment**
 - **Alert quick-start requirement – specified temp range and power cart usage**
 - **Non-ozone depleting fire suppression requirement – clarified for emerging commercial standards**

As part of the review, the warfighter elected to reduce mandatory requirements by eliminating the provision for a Microwave Landing System capability since the tactical environment no longer requires it. There remain, therefore, 372 mandatory requirements.


In total, over 230 changes have been incorporated into the RFP...the vast majority were as a result of industry's comments.

Examples include...


... changing the Large Aircraft Infrared Counter-Measures system to Government Furnished Equipment...

...specifying the temperature range and power cart usage for alert quick-starts...

...and clarifying the non-ozone depleting fire suppression requirement that assures we are compliant with emerging commercial standards.



CDD Remained Unchanged **Mandatory vs Non-Mandatory Requirements**



- Briefed to JROC on 26 Feb 2009
 - JROC made no changes to the CDD
- Cross-functional AF team of subject matter experts, led by the warfighter, identified the minimum mandatory requirements
- Consistent with the KC-X Capability Development Document (CDD), market research, and technology maturity
- All Key Performance Parameters, previously validated, remain as mandatory
- Improved Systems Requirement Document (SRD) adds clarity and consistency with CDD

I would like to clear up some confusion based on some comments we've heard.

The process to categorize KC-X requirements, with examples, was briefed to the JROC on 26 Feb 09. The Air Force and the JROC made no changes to the Capability Development Document (CDD), which dates all the way to December 2006. The JROC affirmed the brief and was cognizant of the Air Force's work to improve and prioritize the System Requirements Document (SRD).

The minimum mandatory requirements were identified by a cross functional AF team of subject matter experts. This team then categorized the mandatory and non-mandatory requirements based on the KC-X CDD. The overwhelming preponderance of RFP mandatory requirements mirror a mandatory requirement (thresholds and shall statements) included in the CDD. On the other hand, the non-mandatory requirements reflect items that had value but were not deemed to be needed to go to war on day 1.

Flowing from that work are improvements made to the SRD that added clarity and consistency with the CDD, removed ambiguous wording, and eliminated redundancies. One question, for example, related to the fuel flow requirement of the boom. The KC-135 maximum boom flow rate is 1,176 gallons per minute (GPM) (8,000 lbs/min). The Air Force does not want the KC-X to have less capability than the KC-135. Thus the KC-X maximum boom flow rate requirement of at least 1,200 GPM is consistent with the KC-135 capability.

Taken together, the warfighter will receive what he believes he needs to go to war with on the day the aircraft is delivered.



Clear and Stable Requirements Are Beneficial to All



- Remain true to warfighter requirements while providing necessary clarifications
- Avoids need for Engineering Change Proposals immediately following award
- Remains a Best Value approach as it provides both offerors opportunities to provide additional value
- Mandatory evaluation elements = required capabilities on Day 1
 - Platform must have all 372

Requirements Produce A Far More Capable Tanker

The Department believes that stability in requirements is important. There may be circumstances where Engineering Change Proposals soon after contract award are warranted...but this should be the exception, not the rule, as this is where cost growth often can originate. Thus, the warfighter, in this case the Air Mobility Command, Commander, took the time to provide a full and complete list of capabilities needed and these are reflected in the now 372 mandatory requirements, all of which are technologically feasible and that also are in keeping with the Department's view of practical vice exquisite requirements.

Additionally, in keeping with a Best Value approach, the warfighter did identify 93 additional or enhanced capabilities which he was willing to commit a limited amount of resources to acquire.

It's worth noting that both offerors last time expressed confusion about what the priorities of the warfighter were and what we specifically needed the aircraft's systems to do. The approach we have taken is of benefit to offerors because they no longer have to guess what our priorities are and don't have to spend time developing proposals for things of limited value.

We have every reason to believe that industry is capable of meeting the mandatory requirements.

Now, some have suggested that we are aiming low or have set requirements that are less than that of today's KC-135. Nothing could be further from the truth. Let me point out that only one of the nine Key Performance Parameters, regarding the requirement for Fuel Offload, is the same as today's KC-135. In the case of fuel offload, the mandatory requirement meets the capability of the KC-135. Exceeding the mandatory fuel offload requirement is given credit in the non-mandatory evaluation.

The other eight KPPs clearly provide a tanker that is far more capable than the KC-135, such as boom and drogue on the same sortie, world-wide navigation and communication, airlift capability on the entire main deck floor, receiver air refueling, improved force protection and survivability, and multi-point air refueling capability on the entire fleet.

So let there be no doubt, we are not seeking the "least capable tanker." We are requiring an aircraft that is, in fact, far more capable.

Again, I'd like to take this opportunity to thank all members of the Department's team for the work accomplished so far...and for the engagement by offerors in the draft RFP process. Together, we have made clarifications that help ensure that the final RFP provides industry with a clear and unambiguous document on which to base their proposals.

The Department believes this is a model for other programs to follow...so it's time now for offerors to sharpen their pencils and produce their proposals.



Source Selection Process

- **New Source Selection Authority (SSA)**
 - Senior career USAF official (not publicly identified, normal practice)
 - SSA Selects KC-X contract winner using approved Source Selection Strategy
- **New AF Acquisition Team (not identified)**
 - New Source Selection Advisory Council
 - New Source Selection Evaluation Team Leads
 - New Independent Review Teams
- **All levels below SSA joint with OSD**

THE RELEASE OF THE RFP REPRESENTS THE BEGINNING OF A NEW SOLICITATION

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.

Let me turn, now, to Dr. Carter to update you on where we are with regard to some issues highlighted during the course of the Draft RFP review and our overall acquisition strategy.



Source Selection Strategy: Issue Highlights



- Issues from Congress and Industry
 - Integrated Fleet Air Refuelling Assessment (IFARA)
 - Cost of Ownership Factors
 - Systems Engineering & Technology Maturity
 - Development & Integration Risk
 - 1% Total Evaluated Price Gate
 - Fixed Price contracts / Corporate Risk
 - Interim World Trade Organization report
 - Release of Bld Information from Prior Competition

10

Secretary Carter


Thank you.

I'd first like to echo DSD Lynn's congratulations to Secretary Donley and the Air Force team, supported by my staff, for the responsive and transparent manner in which they have conducted the draft RFP phase of this important acquisition.

I also wish to thank members of Congress and their staffs, for their thoughtful questions and inputs over the last several months.


Secretary Donley outlined the requirements describing the tanker the Air Force needs to acquire. I'll address the acquisition strategy, and cover those issues which, based on the variety of inputs we received, garnered the most discussion.

You see them listed here, and I will discuss each, separately...in some detail.



IFARA

Integrated Fleet Aerial Refueling Assessment



- Measures warfighting effectiveness, an important non-price factor in the competition.
- The model remains unchanged since last Source Selection
- Ground rules were updated to better reflect how USAF deploys and employs air refueling forces in a wartime scenario
- No Organizational Conflict of Interest (OCI) exists
 - Firewall in place to eliminate any appearance of OCI
- Both offerors were provided extensive training and insights to the process
 - Several days of hands-on training

15

You will recall that in addition to the bidders' price, other factors will be taken into account in this competition: the warfighting effectiveness of the airplane, the cost of ownership of the airplane over 40 years, and possibly certain non-mandatory features the bidders might offer.

Warfighting effectiveness is quantified in a model called Integrated Fleet Air Refueling Assessment (IFARA).

The use of the IFARA model was supported by both vendors last time and upheld in the GAO review.


As we have clarified with all offerors, there are no changes to the basic model that was used in the last competition, apart from the clarifications Sec. Donley mentioned.

To ensure we had incorporated the most up-to-date concepts of employment for air refueling operations, we did update the ground rules in the model to ensure they reflected current operational practices.

A question was raised regarding a potential Organizational Conflict of Interest (OCI)...that an unfair advantage might accrue to one of the offerors since a sector of Northrop Grumman provides contract support to Air Mobility Command to maintain the IFARA software. We have carefully reviewed this and determined that such a conflict of interest or an unfair advantage does not exist and have pointed out that the model, for purposes of evaluation, will only be used by US government personnel. However, to eliminate any appearance of OCI, we have ensured that Northrop Grumman has, in fact, put into place an adequate firewall.

As promised, the Air Force provided several days of extensive insight and training into the entire IFARA modeling process with each of the offerors.



We believe that both offerors now understand how their aircraft will be measured in this part of the evaluation.



Cost of Ownership Factors

Fuel Burn and MILCON

- Additional factors will be weighted in the competition
- Fuel cost and escalation done in accordance with OMB and OSD guidelines
- Bases chosen are a reasonable, representative sample for evaluation purposes only
- Uses real-world profiles for assessment

12

We plan to operate KC-X for 40 years, and the cost of ownership to the Air Force is yet another factor that we will consider besides the offeror's price in selecting a winner.

Some questions arose around the methodology for calculating the price of fuel over a 40 year lifecycle. The KC-X source selection is utilizing fuel cost projections provided by OMB. OMB works with the Department of the Treasury and the Council of Economic Advisors to develop a set of economic assumptions for Federal Agencies to use in preparing their budgets. The OMB fuel cost projections are specifically based on the futures market for West Texas Intermediate crude oil in the New York Mercantile Exchange. The Department's fuel price includes the base price for crude oil, expenses for refining the crude oil, and a factor that includes the Department's transportation and storage overhead costs – it is, for all intents and purposes, a burdened cost of fuel.

Regarding the selection of the bases used in the MILCON analysis, as Secretary Donley has stated previously, they are a reasonable, representative mix of existing tanker bases: CONUS, overseas, active, Guard and Reserve. Decisions regarding the final basing of KC-X are part of a separate process that will take place years from now. The 11 bases provide the appropriate footprint for the basing of 179 aircraft, and offerors will have complete detail as to how their MILCON cost estimates will be developed.

To sum up, MILCON and Fuel Burn measure day-to-day cost of ownership and are balanced with the IFARA evaluation which measures fleet air refueling effectiveness. Throughout, we use real-world profiles as the basis for evaluation, not speculation about the future.



Systems Engineering and Technology Maturity

- **Compliant with the Weapon Systems Acquisition Reform Act**
 - **Rigorous evaluation**
- **“Acceptable” rating means...**
 - **...offerors must substantiate disciplined and institutionalized systems engineering processes consistent with Defense Acquisition Guidebook**
 - **...offerors must substantiate that all critical technologies are at a readiness level of at least 6, along with an approach to maturing technologies to a level 9**
- **An AF and OSD independent technology readiness assessment will be completed as part of Milestone B**

13

In response to the Weapon Systems Acquisition Reform Act (WSARA), the KC-X source selection will rigorously evaluate systems engineering and technology maturity requirements. Consistent with our overall strategy, all mandatory requirements, to include systems engineering and technology maturity, will be evaluated on an acceptable / unacceptable basis.

To be rated acceptable in systems engineering, potential offerors must substantiate a disciplined and institutionalized systems engineering process consistent with the Defense Acquisition Guidebook. To be rated acceptable in technology maturity, potential offerors must substantiate that all critical technologies are at a readiness level of at least 6, along with an approach to maturing technologies to a level 9. An AF and OSD independent technology readiness assessment will be completed as part of the Milestone B process.

As a practical matter, we believe systems engineering and technology maturity risk will be low because both expected offerors have built and tested tankers for international customers; they have prime contractor expertise in integrating advanced technology and military capability; and they are world-class competitors in the large aircraft marketplace, with significant experience satisfying commercial and governmental customers.



Development and Integration Risk



- Addressed in multiple ways
 - "Acceptable" means there is a low to moderate risk of unsuccessful performance
 - "Unacceptable" means there is a high risk of unsuccessful performance
 - Use of Fixed Price Incentive (Firm Target) development contract consistent with 2007 NDAA
 - KC-X EMD is a lower risk, integration of mature technologies
 - Majority of program costs accrue from commercial aircraft sold in the hundreds annually
 - Government will evaluate at ceiling price (125% of target cost), further addressing risk inherent in the EMD program

14

Development and integration risk are addressed in multiple ways:

1. All program requirements will be evaluated on an acceptable/unacceptable basis, with risk as an inherent element of these ratings. In the RFP, the definition of *unacceptable* includes in part the following: "there is an expectation of a high risk of unsuccessful performance" while *acceptable* means there is a "low to moderate risk of unsuccessful performance." We are certainly taking risk into account.
2. The selection of the Fixed Price Incentive Firm (FPIF) development contract for engineering and manufacturing development (EMD) is consistent with the 2007 National Defense Authorization Act (NDAA) mandating fixed price contracts unless the risk warrants a different contract type. A FPIF EMD contract is appropriate because the KC-X EMD is a lower-risk integration effort of mature military technologies onto well-defined commercial derivative aircraft that are sold in the hundreds every year. Additionally, the Government understands that there are numerous similar existing tanker development programs in flight test today. As I stated earlier, the FPIF contract structure with a 125% ceiling and a 60/40 ratio shares program risk appropriately between the government and the offeror.
3. The fundamental nature of a fixed price incentive type contract is to fairly make allowances for whatever uncertainties might exist in a particular offeror's approach. By evaluating the FPIF for EMD at the 125% ceiling, the Government has further addressed in a very reasonable way any additional risk inherent in any EMD program.



Sufficiency of 1% Total Evaluated Price Gate



- Non-Mandatory requirements are enhancements to the 'Go to war on Day 1' requirements
- Non-mandatory requirements are deemed to add value.
- 1% gate could potentially be in the \$300M to \$500M range
 - Warfighter deemed this a reasonable estimate of the added value of non-mandatory requirements

Next, let me address the use of the 1% gate as the trigger for consideration of non-mandatory requirements.

The 1% gate was established as a reasonable dollar value based on the fact that the warfighter – in this case the Air Force's Air Mobility Command – does not wish to pay a significant premium for non-mandatory requirements. AMC determined that although these elements are not required, they do add some value to the warfighter. The Department believes that the anticipated value of the 1% gate (potentially in the \$300 to \$500M range) is a reasonable amount to pay for these non-mandatory capabilities. This factor remains unchanged in the RFP relative to the draft RFP.



Contract Pricing Provisions

Balances Risk – Government and Industry

<ul style="list-style-type: none"> ■ Engineering, Manufacturing Development (EMD) 	<ul style="list-style-type: none"> ■ Fixed Price – Incentive Firm (Target) <ul style="list-style-type: none"> ■ 60/40 Govt / Industry share ratio ■ 125% ceiling mitigates risk
<ul style="list-style-type: none"> ■ Lots 1-2 	<ul style="list-style-type: none"> ■ Firm Fixed Price
<ul style="list-style-type: none"> ■ Lots 3-5 	<ul style="list-style-type: none"> ■ Not to Exceed w/ 2.5% trigger band (FFP with 5% in draft RFP)
<ul style="list-style-type: none"> ■ Lots 6-13 	<ul style="list-style-type: none"> ■ Not to Exceed w/ 1.0% trigger band (5% in draft RFP)
<ul style="list-style-type: none"> ■ Interim Contractor Support 	<ul style="list-style-type: none"> ■ Firm Fixed Price – 5 years <ul style="list-style-type: none"> ■ Extensive company experience with support to airline industry

Adjustments to ensure balanced sharing of risk across the span of time while providing disciplined cost control

Regarding the next subject, contract pricing provisions, we have made some meaningful changes between the draft and final RFP.

An area of much discussion where we have not made changes is the subject of contract type...namely the use of Fixed Price contracts as opposed to Cost Plus for EMD, and the use of Firm Fixed Price contracts rather than Fixed Price Incentive contracts for initial production.

The Department remains steadfast in its intention to use the full range of Best Value tools in its acquisition programs. This is consistent with acquisition reform.

Where there is a high degree of confidence in industry's ability to leverage commercial products and where industry has experience in modifying those products for military use, as is the case here for both companies, then Fixed Price tools are appropriate while still providing safeguards that protect both the taxpayer and industry.

The Engineering and Manufacturing Development period is typically where most risk could be anticipated, although as noted above, the tanker is not a high-risk development as weapons systems go. In the draft and final RFP, we used a Fixed Price Incentive Firm contract. The contract geometry is a 60/40 (government to industry) share ratio with a 125% ceiling and a 12% target profit. Thus there is ample protection to cover potential integration risk during the EMD phase, and the Department plans no changes here.

Now for what has changed: throughout the draft RFP phase, the Department carefully listened to both offerors to understand the financial implications of our contract structure and sought to balance taxpayer interests with industry financial obligations. Taking into consideration these perspectives, we have made the following adjustments to our contract provisions. Lots 1 and 2, which occur in the near-term, are Firm Fixed Price based on the experience of the competitors. Lots 3 thru 13 will use a Not to Exceed structure and Economic Price Adjustment (EPA) provisions which protect both taxpayers and industry by using a 2.5% trigger band in the mid-years and a smaller 1% trigger band in the outyears. Relative to the draft RFP, we have shortened the horizon over which the offerors have to bid a firm fixed price without EPA coverage, and also narrowed the band that will trigger an economic price adjustment.

Taken together, these adjustments provide a rational basis upon which the offerors can base proposals with adequate safeguards for economic fluctuations outside the parties' control.

Finally, given the experience both companies have in providing contracted logistics to their commercial customers, we continue to be confident in their ability to provide a 5-year, Firm Fixed Price, Interim Contractor Support program for newly delivered aircraft. This element is unchanged.



Contract Provisions

Balances Risk – Government and Industry

<ul style="list-style-type: none">■ Progress Payments vs Performance Based	<ul style="list-style-type: none">■ Will consider request for performance-based payments with appropriate consideration for the government, after contract award
<ul style="list-style-type: none">■ Fuel Price Incentive	<ul style="list-style-type: none">■ Will consider request for fuel savings incentive with appropriate consideration for the government, after contract award

For purposes of evaluation, the government will request that offerors base their proposals on a progress payment structure. However, the Department will entertain requests for a performance-based payment process, with appropriate consideration for the government, after contract award.

The draft RFP provided for liabilities if the awardee's fuel burn is greater than stated in the proposal. The final RFP definitizes the calculations as using the fuel price escalators used in the fuel burn price adjustment, so the RFP is internally consistent. Prior to the exercise of production options, we will consider a contractor's request to add a fuel savings incentive provision with appropriate consideration to the government.



World Trade Organization Interim Report



- WTO reviews of US and EU claims are ongoing
- Recent report is first of two, and is the beginning of a multi-phase process
 - Interim report on EU case due in mid 2010
 - 2009 Auth. Act acknowledges connection between the two cases and requires finality in both before DoD studies consequences
- Expect resolution will ultimately be via a government-to-government negotiation led by the US Trade Representative
 - Do not expect resolution of a civil aircraft issue via a military contract
 - Premature to implement any penalty prior to final USTR negotiation
- Taxpayers protected via contract provisions

18

Understandable interest has been shown in the ongoing...and that is the operative word...*ongoing* work of the US Trade Representative on pending complaints before the World Trade Organization with regards to subsidies of commercial aircraft programs.

DoD has been advised that the World Trade Organization issued an *interim* report in a US versus European Union case alleging unfair subsidies to Airbus. We understand that there is a pending report on a case by the European Union regarding Boeing. The final resolution of these cases is likely years away.

Further, the 2009 Defense Authorization Act acknowledges the connection between the two cases and requires *finality* in *both* before DoD studies any potential impact of WTO rulings involving large civil aircraft on the KC-X source selection.

It would be premature as well as inappropriate to take account of the interim WTO ruling in the RFP as any attempt to seek redress can take place only in the institutional framework of the WTO and pursuant to rules and procedures of the Dispute Settlement Understanding.

We have, however, ensured the RFP contains a "hold harmless" clause which has the effect of ensuring that any penalties assessed in any future rulings, to either or both parties, would not be passed along to the US taxpayer.

We will, of course, continue to monitor the situation closely to include the expected ruling of the claim against US companies, currently before the WTO.



Data From Prior Source Selection Disclosed in Accordance with Regulations



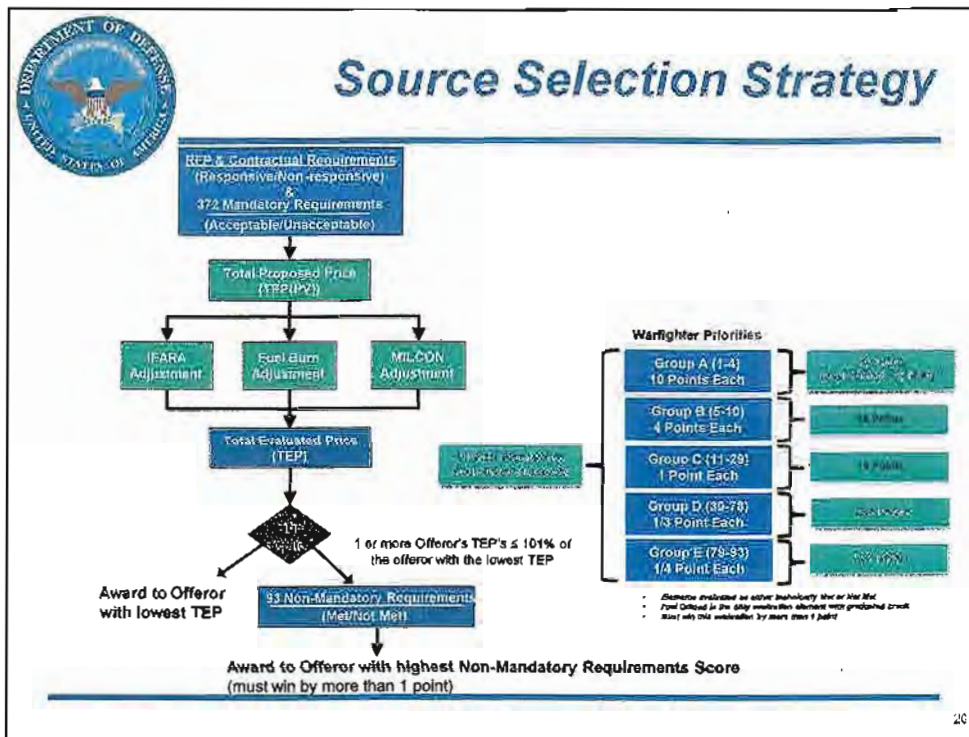
- **DoD legal reviews re-confirm data disclosures were in accordance with regulations, some inaccurate.**
 - **Request to disclose bid pricing not appropriate.**
- **No competitive disadvantage**
- **2-year old data**
- **Nature of this solicitation is different in terms of content and contract type**

19

To clarify for the record, regarding alleged release of information from the previous solicitation, the Department did not disclose Northrop Grumman / EADS bid information. Rather, we *did* disclose information that was in accordance with regulation and more importantly, which creates no competitive disadvantage. Incidentally, the data disclosure that is in question, was both vague and inaccurate. As a result, both companies were cautioned not to rely on the data disclosure.

While the legal basis of our position is clear, context is also important. The data in question are already 2 years old. This is a different solicitation in terms of required content and type of contract. For these reasons, what was offered last time is expected to be demonstrably different, and at a different price....thus making the claim of disadvantage all the more unsupported.

The Department plans no further action on this matter.



So after an expanded comment period for the draft RFP, extensive interaction with industry, Congress, and others, the Department is confident that we have gleaned substantive and valuable inputs that have improved the RFP that we release today.

Needed clarifications have been made that improved the understanding of all parties, training has been provided to ensure understanding of methodologies that will be used in the evaluation process specifically with regards to IFARA, and we have ensured that other evaluation processes are in accordance with accepted governmental practices and legal norms.

We have also made adjustments to provide adequate protection of taxpayer interests, warfighter requirements, and industry financial concerns.

Because of this, the Department believes that this RFP allows for participation and competition that will benefit the warfighter and the taxpayer.

 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 the 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 Source Selection Authority 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.

Finally, this is a best value acquisition. We evaluate acquisition price, wartime effectiveness, important cost of ownership factors, and other non-price factors.

We now expect the interested parties to apply themselves to the opportunity at hand and we will continue the process so ably managed thus far by the Air Force, in partnership with the entire Department.



Timeline to Contract Award



With the release of the RFP, offerors' proposals will be due at the end of an approximately 75 day period.

This period will be followed by an expected 120 days for government evaluation. We expect the selection will be announced and a contract awarded this Fiscal Year.

Secretary Lynn...



Summary

- **Draft RFP Phase Complete - Successful**
 - **“Fair, open, and transparent”** Sec Gates
- **Over 230 changes incorporated**
 - **Improved clarity and understanding**
- **Extensive meetings with industry**
 - **Ensured understanding of evaluation criteria**

23

DsD Lynn

Thanks, Dr. Carter.

I'll close today by underscoring what Secretary Donley and Secretary Carter have said.

Consistent with the guidance we received from Defense Secretary Gates, and with the Air Force in the lead, we have accomplished the following:

- First, the draft RFP phase, conducted in a fair, open, and transparent manner, has been successfully concluded. We have received and responded to industry, members of Congress, and others.

-Second, we've carefully listened to those responses and incorporated over 230 changes in the Request for Proposal that ensure improved clarity and understanding by all concerned.

-Third, we've held extensive meetings with industry officials, to include multiple days of training to ensure that there is a complete understanding of how evaluation criteria will be applied.



Summary cont'

- **Balanced risk and financial considerations**
 - **True to acquisition reform while accounting for long-term variability**
- **Provided an extended period for questions and for proposals**
 - **Proposals due in 75 vice 60 days**
- **Full spectrum of price and non-price factors**
- **Best value for the warfighter and taxpayer**

- Fourth, after extensive consultation and review, we have updated the RFP contracting and financial mechanisms in such a way as to remain true to acquisition reform initiatives of Congress and the Department, while providing balanced risk over the long-term. By requiring fixed price type offerings for Engineering and Manufacturing Development, initial production, and initial contractor support, we are in line with acquisition reform priorities and Congressional guidance.

- Fifth, after providing additional time to the offerors to ask questions, the release of the Request for Proposal marks the beginning of a 75-day period for offerors to complete and submit their proposals.

- Sixth, the strategy continues to weigh 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. But in the tanker context some people use the term "best value" to mean a re-run of the last competition, and this is not a re-run.

- Finally, we are confident that our acquisition strategy favors no one except the warfighter and taxpayer. We've steered "straight down the middle." The requirements are clear, achievable...and we believe that both companies have the ability to not only make a competitive offering, but the opportunity to win the solicitation.

- With that we'll be pleased to take your questions.