

# Frontiers

**Publisher:** Tom Downey  
**Editorial director:** Anne Toulouse

## EDITORIAL TEAM

**Editor:**  
 Paul Proctor: (312) 544-2938

**Managing editor:**  
 Junu Kim: (312) 544-2939

**Designer:**  
 Brandon Luong: (312) 544-2118

**Commercial Airplanes editor:**  
 Dick Schleh: (206) 766-2124

**Integrated Defense Systems editor:**  
 Diane Stratman: (562) 797-1443

**Engineering, Operations & Technology editor:**  
 William Cole: (314) 232-2186

**Shared Services editor:**  
 Mick Boroughs: (206) 919-7584

**Human Resources and Administration editor:**  
 Geoff Potter: (312) 544-2946

**Copy editor:**  
 Walter Polt: (312) 544-2954

## ONLINE PRODUCTION

**Production manager:**  
 Alma Dayawon: (312) 544-2936

**Web designer:**  
 Michael Craddock: (312) 544-2931

**Graphic artists:**  
 Brandon Luong: (312) 544-2118  
 Cal Romaneschi: (312) 544-2930

**Web developers:**  
 Lynn Hesby: (312) 544-2934  
 Keith Ward: (312) 544-2935

**Information technology consultant:**  
 Tina Skelley: (312) 544-2323

## How to contact us:

**E-mail:**  
 BoeingFrontiers@boeing.com

**Mailing address:**  
 Boeing Frontiers  
 MC: 5003-0983  
 100 N. Riverside Plaza  
 Chicago, IL 60606

**Phone:**  
 (312) 544-2954

**Fax:**  
 (312) 544-2078

**Web address:**  
 www.boeing.com/frontiers

Send all retiree address changes to *Boeing Frontiers*, MC 3T-12, P.O. Box 3707, Seattle, WA 98124-2207

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# Seeking a fair hearing

## Boeing execs explain why the company is protesting USAF tanker contract award

**C**iting irregularities with the competition process and the evaluation of bids, Boeing last month filed a formal protest with the Government Accountability Office and asked the agency to review the U.S. Air Force's decision to award a contract for replacing aerial refueling tankers to a Northrop Grumman-European Aeronautic Defence and Space Company team.

During a live March 12 webcast on the Boeing intranet, Mark McGraw, vice president and program manager of KC-767 Tanker Programs, and Beverly Wyse, vice president of the 767 Airplane Program, answered Boeing employees' questions about the contract award and the protest—the first Boeing has filed in more than a decade.

In this special edition of Letters to the Editor, *Boeing Frontiers* offers an edited transcript of this webcast.

**Q: I've heard that Boeing offered a 777 tanker, a direct competitor in size and payload to the A330 tanker, and that the Air Force declined. Is this true?**

**McGraw:** It's not true. Back in the early parts of this program before we had the Air Force's requirements, we did extensive studies about which platform we should offer. We looked very hard at the 767 and the 777, and we always communicated to the Air Force that we would proceed based on what they told us they wanted.

As the requirements came out, it was clear to us the 767 was the right choice. If you looked at what they asked for as far as fuel load, passengers and cargo, the 767 clearly met all the requirements across the board with margin. We also knew the 767 had great advantages in that it used less fuel than the A330, it would have lower maintenance costs, and it would have less of an impact on the Air Force's infrastructure. These were things we thought would be strengths and would make for a great tanker platform.

**Q: What were the negatives of our offering?**

**McGraw:** Typically, a debrief will have a lot of glowing things to say and then will focus on several key weaknesses. The debrief showed we had one weakness that I would characterize as minor: We underestimated the software task, which is very typical. Other than that, we had no major weaknesses. And frankly, our competitor had some significant weaknesses, such as the Aerial Refueling System.

**Q: Did Congress or U.S. presidential candidates have any effect on the contract award?**

**Wyse:** We want to stay focused on the requirements that the Air Force put in the [Request for Proposals] and our ability to meet them. While we very much appreciate all the support [we've received from Congress, Boeing employees and the general public], our focus at Boeing really has got to be on those requirements: Did we understand them, and did we address them?

We'd like to ask [Boeing employees] to really be careful about what you write and how you represent the company. If you personally want to support the many petitions that are out there, you absolutely have a right to do that. Just be very careful not to do it on company time or using company resources.

**Q: Where does mission effectiveness fit into the protest?**

**McGraw:** We were very pleased when [mission effectiveness] was added [to the requirements], because we felt this was really going to assess how a fleet of these tankers would operate in a real-world scenario. We felt

## Letters guidelines

*Boeing Frontiers* provides its letters page for readers to state their opinions. The page is intended to encourage an exchange of ideas and information that stimulates dialogue on issues or events in the company or the aerospace industry.

The opinions may not necessarily reflect those of The Boeing Company. Letters must include name, organization and a telephone number for verification purposes. Letters may be edited for grammar, syntax and size.



Jim Albaugh (right), Integrated Defense Systems president and CEO, makes introductory comments during a recent Boeing live webcast about the U.S. Air Force tanker competition. With Albaugh are Mark McGraw (left), vice president and program manager of KC-767 Tanker Programs, and Beverly Wyse, vice president of the 767 Airplane Program.

THOMAS' GOERTEL PHOTO

the right-size attributes of our offering would really shine. And they did initially.

Our competitor was concerned about this. I think they really struggled with their airplane, because of its size, to complete some of the mission [scenarios]. They pushed very hard and at one point even threatened to not compete any longer. They were able to get changes made in the model that, over time, separated the scenarios from the real-world operations where they started from.

But the Air Force always promised us they would consider what they called "Other Observations and Insights." These observations [covered factors such as] how much fuel the tankers burned, how many bases were used to house those aircraft, and what happens if runways are cut by bombings. It also covered what would happen if a country [prohibits the United States from using] a base or limits what can be done from a base. We did

very well [in these situations], and we were allowed to write a 100-page supplement in our proposal to talk about these things.

Even though our competitor maybe needed slightly less aircraft in these scenarios, they always burned more gas. And they always took up more bases, so there were fewer bases available for C-17s, fighters and other aircraft.

We were always promised that this would get factored in with the tail count evaluation for an overall fleet effectiveness score. But those factors [that we wrote about in our proposal] were downplayed extensively in that briefing and were dismissed. That gets to the fairness issue here of what was said to us, how this was going to be conducted, and what was actually done.

**Q: If Boeing does not win the KC-X, what will this mean for the commercial 767?**

**Wyse:** We have more than 50 767s in our

backlog. At our current rates, that keeps the production line full until the end of 2011. We are still in discussions with airlines today for both passenger and freighter airplanes. There remains a good interest, and we're still focused on keeping that airplane efficient.

The 787 was brought into being to replace the 767. When that airplane is fully operational and there's more availability, we will eventually sunset the 767. But that's a long way off, and there's still [customer] interest [in the 767].

**Q: Did we suffer in past performance?**

**Wyse:** The Air Force uses a series of past programs you've worked on, to help evaluate your risk in performing the program. The process takes specific programs and evaluates, across key criteria, the relevancy of that program to what you're proposing. We had very relevant programs. But if you look at Northrop and

EADS, they don't have the same relevancy.

Now, we did not actually see what programs they were rated on. But we do know that things like the fact that we've had 75 years of experience in tankers, that we've built many, many commercial derivatives, that we're the only company that's built military derivatives—that experience was not taken into account.

If it had—and we talked to [the Air Force] about it—it would be difficult to come up with a result that had us as being riskier.

**Q: I'm concerned that the protest will delay the availability of new tankers. How long will the protest take, and will U.S. warfighters be OK with a delay?**

**McGraw:** That was a key aspect to the decision, and we didn't take this decision lightly.

At the same time, this has been a long process. We've been at this latest round of the competition for almost two years, and I think maybe [the protest will add] another two or three months. Hopefully the impact will not be that great because we are very concerned about further delays.

**Q: How do we protect against damage to our relationship with the Air Force in future competitions?**

**McGraw:** One of the things we considered as we went through this process was would [a protest] impact our relationship with the Air Force. Our competitors protest decisions, and that doesn't seem to have damaged their reputations.

But again, we took this step after a lot of deliberation. And I think we have to do this not only because we don't feel like we were treated fairly, but to really focus a spotlight on the process here—not only for this competition, but all future ones.

**Wyse:** I think the Air Force also recognizes that it's our right to ask these questions. I know it's difficult in terms of the timing, but they understand the process and fully support it. The other thing I think will help us is the fact that our arguments are very, very compelling. ■

# Protests: The basics

Following the U.S. Air Force's recent award of a contract for refueling tanker aircraft to a team of Northrop Grumman and the European Aeronautic Defence and Space Company (EADS), Boeing took a rare and extraordinary step of protesting this decision. In a move that Boeing does not take lightly, the company is citing irregularities with the competition and evaluation process of both bids. Boeing is asking the Government Accountability Office to review the decision and hopes the GAO will overturn it.

The likelihood of such a reversal is low, but it is not unprecedented. The key to winning a protest is to prove potential inconsistencies between the Request for Proposal (RFP) and the Air Force's decision, as well as to prove inconsistencies between the Air Force and federal regulation, procedure or law.

Boeing executives said the company has strong arguments in this case. First, Air Force evaluators quietly decided in the middle of the process—without informing Boeing and for unknown reasons—to suddenly assign more value to a bigger tanker offered by Northrop-EADS than to the medium-sized 767. Boeing contends that is inconsistent with the RFP.

Second, the Air Force assigned Boeing increased development and design risk for failing to “reasonably explain buildup of cost.” In so doing, the Air Force failed to comply with federal regulations for the pricing of commercial items. Such treatment of Boeing's cost/price data is contrary to federal law, Boeing alleged.

So how does the protest process work?

The Air Force is required to file an Agency Report, composed of contract-related documents, to the GAO in 30 days following the protest notification. At that point, the GAO makes the report available to both parties, and both sides have 10 days to file written comments. In some cases, protesters amend their protests, which can have the effect of restarting the entire protest process. The GAO may also call for a hearing to resolve factual and legal issues.

After the hearing, all parties will be allowed to submit written comments. The GAO can sustain or deny the protest. If sustained, the Air Force likely would be required to rebid the program.

While protesting contract awards is uncommon for Boeing, being the target of such protests has become more common in recent years. After the Air Force awarded its contract for the service's combat search and rescue helicopter—known as CSAR-X—to Boeing in 2006, competitors have filed multiple protests that have delayed this contract.

In addition, following a lengthy protest, the Air Force reaffirmed a \$1.1 billion KC-135 programmed depot maintenance contract originally won by Boeing Support Systems. On March 12, Alabama Aircraft Industries filed a second protest with the GAO. Boeing has vigorously fought these protests.

The best-case protest scenarios are wrapped up in 100 days or less. But the reality is that protests can take much longer to resolve. For many companies, the stakes are too high not to take every opportunity to try to win these awards—or at least walk away knowing they made every effort to ensure that the procurement process treated all competitors fairly.

—Stanley Holmes