



ACQUISITION

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MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION,  
TECHNOLOGY, AND LOGISTICS

SUBJECT: PARCA Root Cause Analysis for the Apache Longbow Block III Program

This memorandum summarizes PARCA's root cause analysis of the Apache Longbow Block III (AB3) critical Nunn-McCurdy breaches described in its December 2009 SAR. The critical breaches were 31.2% in APUC and 25.5% in PAUC against the current APB. The SAR attributes the cost growth to the addition of 56 new aircraft and to minor fact of life changes.

The current AB3 APB calls for the remanufacture of 634 existing Apache Block I and Block II aircraft to create the Block III configuration. In 2009, the Army was directed to add 56 Apache Block III aircraft, which were added to the program as newly built rather than remanufactured aircraft. Based on the costs in the SAR, the addition of higher-cost new aircraft raised the program's APUC by 19% and PAUC by 24%. This was the dominant factor in the cost growth that caused the Nunn-McCurdy breach. Factors cited by the Army for causing the additional 7% of growth included configuration changes and higher than expected costs in non-recurring engineering, some system components, and labor.

Although the addition of new-build aircraft was the dominant cause of the Nunn-McCurdy breach, the program that emerges from the recertification process will have substantially higher costs for remanufactured aircraft alone. CAPE estimates show increases for the remanufacture program alone of more than 35% for both PAUC and APUC. This in itself is not news. We note that the program's APB was created using the Army estimate, and that the CAIG (now CAPE) estimate was 32% higher at that time.

We also note that, although the contractor has performed well on the current SDD contract, risks to the program remain. Specific areas of risk include increasing software content, extensions of the SDD schedule, and the ability of the contractor to provide production aircraft at prices consistent with the program baseline.

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