

**GOVERNMENT OF INDIA
DEFENCE
LOK SABHA**

UNSTARRED QUESTION NO:4399
ANSWERED ON:22.04.2013
DEFENCE PROCUREMENTS
Deo Shri Kalikesh Narayan Singh

Will the Minister of DEFENCE be pleased to state:

- (a) the list of defence equipment bought under Life Cycle Cost (LCC) method;
- (b) the details of methodology to calculate LCC;
- (c) whether this methodology has been approved by the competent authority and if so, the details thereof and if not, the reasons therefor;
- (d) whether LCC is being used in any other department of Government of India as a basis for evaluation and if so, the details thereof;
- (e) whether Net Present Value (NPV) is used for all future cash flows (including cost of spares, repairs and fuel) in all evaluations where the LCC method is used and if so, the details thereof; and
- (f) whether consumption of fuel is assumed on the basis of historic, actual and planned deployment of platforms or on a national arbitrary figure and if so, the details of national arbitrary figures of hourly deployment compared with actual planned hourly deployment?

Answer

MINISTER OF DEFENCE (SHRI A.K. ANTONY)

- (a) So far only one contract, i.e. supply of Basic Trainer Aircraft, has been concluded using the Total Cost of Acquisition model under the LCC approach.
- (b) The Total cost of Acquisition (TCA) model consists of all major elements that contribute to the cost of acquiring, maintaining and operating the equipment over its life and which are determinable, quantifiable, verifiable and relevant. These elements are:
 - (i) Direct Cost of Acquisition.
 - (ii) Cost of Total Technical Life (TTL) Based Reserves.
 - (iii) Cost of Time Between Overhaul (TBO) / Mean Time Between Failures (MTBF) based reserves.
 - (iv) Cost of Intermediate Level Servicing.
 - (v) Cost of Depot Level Servicing.
 - (vi) Operating Cost.
 - (vii) Cost of Transfer of Technology (ToT).

Of these, cost of ToT and cost of TBO / MTBF based reserves are used, where applicable. These firmed up elements of TCA are stated up-front in the RFP.

- (c) Yes, Madam. The methodology has been approved by the Defence Acquisition Council.
- (d) This information is not maintained by the Ministry of Defence.
- (e) Out of various elements that constitute the Total Cost of Acquisition (TCA), only the Direct Acquisition Cost is quoted on a firm and fixed basis for the period of delivery and this is reduced to its Present Day Value (PDV) using the Discounted Cash Flow (DCF) technique. All the other elements covered under TCA are also brought to their Present Day Value by
- (f) The actual fuel consumed during a standardized flight profile (which is stated upfront in the RFP) flown during the Field Evaluation Trials is measured and used to compute the operating cost. This fuel consumption is also accepted by the Original Equipment Manufacturer (OEM) and no notional arbitrary fuel figure is used.

