Air Force, SpaceX mum about sky-high rocket costs

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Five years ago, Elon Musk, the multibillionaire CEO of the SpaceX rocket company, smashed his way into the business of launching U.S. military and intelligence satellites, a lucrative market that had been cornered for nearly a decade by United Launch Alliance.

Musk, one of the world's richest men, publicly promised in 2014 to launch Air Force rockets for at least three times less money on average than ULA, a joint venture of Lockheed Martin Corp. and Boeing Co., was then charging. But now SpaceX is poised to charge more—much more—at least for the first in a series of forthcoming spy satellite launches. The higher costs, if they continue, could cost taxpayers billions of dollars.

Musk testified in 2014 that, unlike ULA, "we seek no subsidies to maintain our business." He even sued the Air Force back then for the chance to compete.

The fact that Russian engines powered ULA's rockets pushed Congress in 2016 to require by law that ULA develop new ones and that at least one other company besides ULA be able to compete.

For the past several years, Musk has brought to the ossified world of government contracting some amazing technical innovations such as reusable rockets. He not only offered lower prices than ULA used to charge, he also drove down ULA's own costs.

But the company's bid of $316 million for one launch in fiscal 2022 is roughly double its usual price. And it is nearly double ULA's per-launch bid for this round of launches of $169 million.

There may be logical reasons for some or all of that price difference, but neither the Air Force nor the company will explain them—even, so far, to Congress.

In 2015, the Air Force said it would keep from the public the cost of the development contract for its new B-21 Raider bomber program on the grounds that the number was classified.

That position irked the late Sen. John McCain, R-Ariz., who furiously asked an Air Force general in 2016, "Why would you not want to tell the American people how you are going to spend their dollars?"

'Proprietary' data, public moneyOn today's rocket program, the spy satellite mission is classified but the contract is not. Yet the Air Force effectively said, in response to a query, that even the basic outlines of scores of millions of dollars in spending is not public information.

"Individual launch prices are proprietary to each company," said Ann Stefanek, an Air Force spokeswoman.

SpaceX, for its part, did not reply to requests for information about its higher-than-usual bid. Notably, the Air Force also has yet to clearly explain SpaceX's higher costs even to Congress, senior aides on three of Congress' four defense committees said.

Revealing in broad terms the main drivers of the higher cost would not necessarily reveal SpaceX's corporate data, several analysts said. The definition of what is and is not proprietary information is not fixed, they said, and the government often gives companies broad leeway in defining what they can keep hidden.

Protecting such information makes sense up to a point, said Steven Aftergood, an expert on government information practices at the Federation of American Scientists.

"But it can also make for bad public policy, as when it obscures basic policy decisions, such as the selection of a new launch vehicle, that ought to be made based on a full public record," Aftergood said.

Representatives of other organizations that monitor government spending agreed.

"The Air Force ought to be more transparent and forthcoming about the contract's costs, especially when there are concerns that the government is being badly overcharged to the tune of several hundred million dollars," said Neil Gordon, an investigator with the Project on Government Oversight. "If there is a valid, non-classified reason for SpaceX's higher costs, the Pentagon should be able to explain this to Congress and the public without divulging sensitive information or otherwise putting our national security at risk."

"Instead of defaulting to disclosure as they should, the Pentagon's reflexive response is to clam up and not share important information with taxpayers," said Steve Ellis, president of Taxpayers for Common Sense.

Billions on the lineThe higher SpaceX charge was revealed in an August contract award announcement from the Air Force and the National Reconnaissance Office, America's spy satellite organization.

The Air Force disclosed it would hire both SpaceX and ULA for the next round of up to 34 launches from fiscal 2022 through 2026 under the so-called National Security Space Launch program. More launches will be awarded competitively after that.

SpaceX will get $316 million to conduct its first satellite launch in fiscal 2022, expected to be on a Falcon Heavy vehicle, compared with ULA's $169 million per-launch bid in fiscal 2022 for its new Vulcan Centaur rocket.

ULA's CEO, Tory Bruno, said in an interview that he was surprised when he saw SpaceX's bid amount.

"We did not expect that to be their number at all," Bruno said.

If that price difference continued over the five years of launches, then SpaceX's services would cost almost $5 billion more than ULA's.

Aerospace industry experts say there are likely good reasons for SpaceX's higher cost in fiscal 2022, and they probably won't stay high. But this is conjecture in the absence of word from the Air Force or the contractor.

SpaceX is probably charging the Air Force for hardware the company

needs to meet the unique demands of launching delicately built spy satellites to high orbits, the experts said. These might include a facility for SpaceX to build the satellite atop a vertical Falcon Heavy, instead of its normal practice of horizontally integrating the two. The company may also be building into its bid the money it has laid out to improve the nose cone on the Falcon Heavy.

If those are the reasons, they are probably just one-time expenses, said Todd Harrison, a space expert with the Center for Strategic and International Studies.

The truth about the rockets' costs will emerge only after multiple launches over several years, said Marco Caceres, a space expert at the Teal Group, a market research firm.

It remains to be seen not only if SpaceX's costs will stay so high but also if ULA's costs will stay so low.

ULA, after being the incumbent for so many years, is now the company betting on a new rocket, the Vulcan. Meanwhile, SpaceX's Falcon Heavy has already flown three missions.

Subsidy ironyYet even if the explanation for SpaceX's higher bid is related to infrastructure and development support, that fact indicates that launching spy satellites, which ULA has done for years, requires more government funding for such expenses than does launching the navigation or communication satellites that SpaceX has so far launched, mainly for commercial customers and NASA.

The Air Force said an undisclosed percentage of both companies' fiscal 2022 deals would go toward undefined "launch service support," activities that are not tied to any particular launch, such as ensuring facilities are secure or maintaining launch-pad equipment.

All of this suggests that government support for its contractors' businesses—what some might call, to use Musk's word, a subsidy—is a part of contracting with the Air Force. The open questions include how much each company is getting, for what purposes and for how long.

"Now that SpaceX is an established player, there are no doubt going to be costs that SpaceX did not perhaps perceive when they were the outside player," Caceres said.

Harrison said that "there is a bit of irony" in SpaceX, having fought its way into the market by offering lower prices and decrying subsidies, now apparently accepting such support funds. To be sure, ULA, too, received several billion dollars in subsidies over the years as the sole provider of Air Force national-security launch services.

And ULA won in 2018 nearly $1 billion from the Air Force to develop its Vulcan rocket. SpaceX, too, had competed for such backing but lost.

SpaceX is still suing the Air Force over that decision.