

Include the following in solicitations and contracts when purchasing a volatile commodity and a fixed-price contract is contemplated; there is no major element of design engineering or development work involved; one or more identifiable labor or material cost factors are subject to change and the contracting officer has made the determination that it is necessary either to protect the contractor and the Government against significant fluctuations in labor or material costs or to provide for contract price adjustment in the event of changes in the contractor's established prices. Paragraph (e) shall be deleted if not applicable. Renumber the paragraphs accordingly.

NOTE: PCOs shall use either this local clause (Economic Price Adjustment - Labor and Material - Actual Cost Method) or Economic Price Adjustment - Labor and Material - Index Method, in lieu of the EPA clauses prescribed in FAR 16.203-4.

52.216-4000

**ECONOMIC PRICE ADJUSTMENT –
LABOR AND MATERIAL – ACTUAL COST METHOD**

OCT/2010

(a) In accordance with FAR 16.203, this firm fixed price procurement provides for an Economic Price Adjustment (EPA) for the cost of [insert raw material], which is used in the production of the [insert program]. The EPA calculation shall only apply to the quantities under CLINs [insert CLIN number] through [insert CLIN number]. The EPA calculation will not be used to adjust CLINs [insert CLIN number] through [insert CLIN number].

(b) The amount of any increase or decrease in line item prices will be limited to the cost of the actual fluctuation in the [insert raw material] only and shall not include indirect costs and profit.

(c) The Contracting Officer will notify the contractor approximately 45 days prior to exercising any options or issuance of a Delivery Order (out year). Within 20 days of the notice, the Contractor shall provide computations for any increases or decreases related to [insert raw material], including related documentation (i.e. current vendor quotation) to support proposed changes. The out year unit prices will be awarded at the negotiated unit price plus or minus the contractor's substantiated EPA, subject to the percentage threshold noted below, without interest.

(d) The total increase for any out year unit price made under this clause shall not exceed ten (10) percent of the original proposed out year unit price, inclusive of the cost of [insert raw material] identified in Section B. There is NO percentage limitation on the amount of decreases that may be made under this clause.

(e) (Insert if Applicable) - The amount of the EPA related contract adjustment will be reduced by ___ percent. This reduction represents an amount the parties agree reflects a reasonable amount associated with price changes on the contractor's [insert raw material] yield. The amount of the reduction (___ percent) is fixed for purposes of calculating the EPA adjustment.

(f) EPA Formula – Contract adjustments will be based on the difference between the [insert raw material] price included in the Contractor's end-item price at the time of contract award versus the purchase order or invoice price for [insert raw material] used to produce the end item in the relevant contract modification, minus the ___% reduction(if applicable).

There shall be no contract adjustment for any change in the cost of [insert raw material], which would not result in a net change of plus or minus ___ percent of the total price for the end item(s) associated with the relevant contract modification. The ___ percent limitation applies to the figure remaining after all calculations have been made.

An Example of this calculation follows:

Cost of [insert raw material] associated with Out year Price Per Section B = R1

Raw Material Adjusted per EPA = R2

Out year Unit Price (Exclusive of [insert raw material]) = O

R1 = \$50 Qty = 10,000 units
R2 = \$70 Scrap Yield = 10%
O = \$200 Trigger Threshold for EPA = 5%

Step 1: Out year Unit Price per Section B of contract

O + R1

200 + 50 = \$250 (Out year Unit Price + Cost of [insert raw material], without EPA)

Step 2: Out year Unit Price with Economic Price Adjustment

O + R2

200 + 70 = \$270 (Out year Unit Price with EPA)

Step 3: Calculate the percent change of the out year unit price with EPA from out year unit price awarded, which includes the cost of [insert raw material], from Section B, including the 10% reduction.

$(O + R2 \text{ (Out year unit price w/ EPA)} / O + R1 \text{ (Unit price initially awarded)} - 1) \text{ (Scrap Yield reduction)}$

$(\$270 / \$250 - 1) (1 - 10\%) = .072 \text{ (7.2\%)} \text{ (Percentage change of initially awarded unit price)}$

Conclusion: Since the EPA is only applicable if the adjusted price is plus or minus 5% of the unit price initially awarded and the increase calculated above is 7.2%; the out year unit price is subject to an Economic Price Adjustment.

Based on the sample quantity of 10,000 each, the results of the EPA adjustment is as follows:

$\$250 * 7.2\% = \$18.00 * 10,000 = \$180,000$

(g) As the actual cost of [insert raw material] may fluctuate from the EPA substantiated cost, a final EPA adjustment may be necessary to reflect the final cost of [insert raw material]. The Contractor shall submit a final analysis which compares actual EPA costs to EPA substantiated costs from paragraph (c) above within 30 days following the receipt of the final invoice for [insert raw material] associated with the total out year quantity exercised. The Contractor's supporting data shall include copies of purchase orders or invoices showing the actual unit cost to include base price of [insert raw material], any surcharges and total quantity of the applicable [insert raw material] material that the contractor procured to produce the [insert program]. The Contracting Officer will modify the contract to reflect the final EPA price adjustment.

(h) In addition to the above, any price adjustment under this clause is subject to the following limitations:

(1) Any price adjustment shall be limited to the effect on the unit price resulting from the increases or decreases in the cost for [insert raw material]. There shall be no adjustment for:

(i) Supplies or services for which the production cost is not affected by such changes;

(ii) Changes in line item unit price based on materials other than [insert raw material]; or

(iii) Changes in the usage quantity of [insert raw material] from that proposed for the production of the [insert deliverable end item].

(i) The contractor must submit adequate information to establish the baseline from which adjustments will be made.

The Contracting Officer may require verification of the data submitted to the extent necessary to permit reliance upon the data as a reasonable baseline. Offerors shall provide the above detailed data required by the EPA clause with their original proposal submission. Supporting documentation is also required in the form of a Vendor Quote, Purchase Order, Invoice, etc. (Including any escalation applied by the contractor) to substantiate the cost for [insert raw material] submitted above.