

Include the following in solicitations and contracts when purchasing a volatile commodity where the contract amount subject to adjustment is substantial; and the economic variables for labor and materials are too unstable to permit a reasonable division of risk between the Government and the contractor, without this type of clause.

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

**52.216-4001**

**ECONOMIC PRICE ADJUSTMENT –  
LABOR AND MATERIAL - INDEX METHOD**

**OCT/2010**

(a) In accordance with FAR 16.203, this firm fixed price procurement provides for an Economic Price Adjustment (EPA) on 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] or any other non EPA related CLINs, as they either contain a cost for [insert raw material] which is not subject to adjustment or they do not require the purchase of [insert raw material] for contract performance.

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

(c) The Index for the Base Period and all successive index values used for all EPA adjustments in this contract will be derived from a published index established at contract award. For example if the Bureau of Labor Statistics is selected:

U.S. Dept. of Labor, Bureau of Labor Statistics  
Producer Price Index Industry Data  
Series ID: insert series ID  
Industry: insert industry  
Product: insert product  
Site: <http://www.bls.gov/xxxxxxx>

(d) When out year CLINs are awarded, the unit price is the sum of the CLIN unit price for the out year and the respective raw material in Section B. This price may be subject to further adjustment in accordance with the following EPA calculation:

Economic Price Adjustment – Index Method:

R = [Raw Material per Section B within respective quantity range]  
O = [Out Year Unit Price exclusive of R]  
I1 = [Index Value at Contract Award]  
I2 = [Prior Months Published Index at Award of Out year]

1.  $O + R$  = Out year Unit Price per Section B of contract (A).

2. EPA Adjusted Unit Price =  
 $[(I2 / I1) \times R] + O$  = Out year Unit Price with EPA (B)

3. Out year Unit Price shall be adjusted only if the percent change is plus or minus \_\_\_\_\_ percent of the unit price initially awarded. The percent change is calculated as follows:

$(B / A) - 1$  = Percent changed from initial award

Note:

(1) The modified contract price which incorporates the impact of the EPA shall not be adjusted after the execution of a contract modification due to subsequent changes, updates, and revisions to the cited index.

(2) No EPA will be applied to any cost or price in this contract except for the cost of [Insert Raw Material]. The EPA included in this contract shall apply only to the material cost of [Insert Raw Material], to include any acceptable waste attributed to production.

(3) When the contractor is not required to submit cost or pricing data as provided for in FAR 15.403-1, 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.

An example of this calculation follows:

Raw Material per Section B \$10	Index Value at Contract Award 1.00
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Out year Unit Price \$100 per unit	Index at Award of Out Year 1.25
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R = 10  
O = 100  
I1 = 1  
I2 = 1.25

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

O + R

100 + 10 = 110 = Out year Unit Price without EPA (A)

Step 2: Out year Unit Price with Economic Price Adjustment

$$\frac{1.25}{1.00} \times 10 + 100$$
$$1.25 \times 10 + 100$$

12.5 + 100 = \$112.5 = Out year Unit Price with EPA (B)

Step 3: Calculate the percent change of out year unit price with EPA from out year unit price with raw material from Section B.

$(B / A) - 1 =$  Percent changed from initial award

$$(112.5 / 110) - 1$$
$$[112.5 / 110] - 1 = .0227 = 2.27\%$$

Conclusion: Assume for this example an EPA is only applicable if the adjusted price is plus or minus 5% of the unit price initially awarded. The increase calculated above is 2.27%, therefore, the out year unit price is not subject to an Economic Price Adjustment.