DEPARTMENT OF VETERANS AFFAIRS
DEPUTY ASSISTANT SECRETARY FOR ACQUISITION AND MATERIEL MANAGEMENT
WASHINGTON DC 20420

IL 049-05-12
September 2, 2005

OFFICE OF ACQUISITION AND MATERIEL MANAGEMENT INFORMATION LETTER

TO: Under Secretaries for Health, Benefits, and Memorial Affairs; Assistant Secretary for Management; Chief Facilities Management Officer, Office of Facilities Management; Veterans Integrated Service Network Directors; Directors, VA Medical Center Activities, Domiciliaries, Outpatient Clinics, Medical and Regional Office Centers, and Regional Offices; Directors, Denver Distribution Center, Austin Automation Center, Records Management Center, VBA Benefits Delivery Centers, and VA Health Administration Center; and the Executive Director and Chief Operating Officer, VA National Acquisition Center

ATTN: Heads of the Contracting Activity and VA Contracting Officers

SUBJ: Economic Price Adjustment Clauses

1. This Information Letter (IL) provides guidance to contracting officers on economic price adjustment (EPA) clauses and their use in solicitations and contracts. The Federal Acquisition Regulation (FAR) at 16.203 and in Part 52 provides guidance and sample clauses (i.e., EPA clauses using adjustments based on standard supplies, semi-standard supplies, and on the actual cost of labor and material) for use in certain specified situations that rarely apply to Department of Veterans Affairs (VA) acquisitions. The clause using adjustments based on standard supplies might be appropriate for use in a contract for blood products. However, in most cases, the appropriate type of clause for use in VA firm-fixed-price contracts with EPA would be a clause that bases adjustments on a cost index of labor or material, such as the "Consumer Price Index for All Urban Consumers (CPI-U)" (for adjustments to the total contract or unit price) or the "Weekly U.S. Retail Gasoline Prices, Regular Grade' Index" (for adjustments to a portion of the contract or unit price). However, the FAR at 16.203-4(d) does not provide any clause samples for EPA clauses based on cost indexes. Rather, the FAR requires that such clauses be prepared and approved in accordance with agency procedures. The VA Acquisition Regulation (VAAR) also does not provide samples. Rather, the VAAR at 816.102(a) requires that proposed contracts which include an EPA clause be submitted for prior approval of the Deputy Assistant Secretary for Acquisition and Materiel Management (DAS for A&MM).

2. Before including options or an EPA clause in a solicitation, contracting officers should first consider issuing solicitations for a base year only, without options or an EPA clause. FAR 17.202(c) provides that options shall not be used when a contractor would incur undue risk due to the price or availability of materials not being reasonably

foreseeable (e.g., the price or availability of fuel) or when market prices are likely to change substantially (e.g., during periods of potentially high inflation or when markets are highly dependent on the availability of specific materials (e.g., oil)). Such situations apply to many VA acquisitions. Options may be included in a solicitation, provided the contracting officer fully considers the provisions of FAR 17.202(b) and (c) and complies with the requirements of 17.205. An EPA clause shall not be used unless the contracting officer determines that the use of an EPA clause is necessary either to protect the contractor or the Government against fluctuations in costs (see FAR 16.203-3). If use of an EPA clause would reduce the risk to the contractor, it may make it possible to consider the use of options even if prices may be unstable. However, the use of options or the use of an EPA clause should not become routine or a standard operation procedure. Option years and EPA clauses should be carefully considered and used only when appropriate.

3. Even when an EPA clause is used, the potential impact of any cost factors not specifically addressed by the EPA clause must be considered when selecting the number of option years used. The use of an EPA clause that covers a broad range of price changes (e.g., the CPI-U, as used in Attachment 1) may be of limited benefit to a contractor who experiences a major price increase in one component cost of the contract (e.g., gasoline), since the CPI-U spreads that price increase over a broad range of other price increases and decreases. The use of an EPA clause affecting only a component part of the contractor's costs (as used in Attachment 2) would have no impact on any of the contractor's other costs and would leave the contractor at risk for major increases in the cost of living or major increases in other component costs not covered by the clause. Even when a component EPA clause similar to that in Attachment 2 is used, the contracting officer should consider limiting the number of option years in a solicitation in order to mitigate the risk to the contractor due to other price increases and in order to comply with FAR 17.202(c).

4. The two sample clauses provided in this IL are for use in adjusting the full contract or unit price (Attachment 1) or only a component part of the contract or unit price (Attachment 2).

a. The Attachment 1 clause should not be used with a specific commodity index, such as an index that tracks the price of gasoline, unless the entire contract is only for the purchase of the particular product (e.g., the purchase of gasoline). If this clause is used with an index that only tracks a component part of the overall contract cost, any increase or decrease in the component cost would be unfairly applied to the total contract price. If the index went down, the contractor's entire contract price would be lowered even though all of its other component costs had not gone down, thus penalizing the contractor.

b. The Attachment 2 clause should be used cautiously and the number of option years included in the solicitation should be limited, as adjustments for the cost of only one component of the contract price will have no effect on any of the contractor's other costs and the contractor's risks are not necessarily reduced by the use of the clause.

c. It may be theoretically possible to develop a clause that combines the two EPA sample clauses included herein, with one part of the combined clause making adjustments for a specific component (e.g., gasoline) and the second part of the combined clause making adjustments for all other costs based on the CPI-U (but excluding or deleting the component adjustment, since the CPI-U already includes adjustments for the component cost). Contracting officers wishing to develop a combined clause may do so, but must submit the clause for approval of the DAS for A&MM as required by 816.102(a).

5. EPA clauses can be complicated and difficult to draft and administer. The contracting officer must be thoroughly familiar with the market, with the costs associated with that market, with the cost index to be used as the basis for price adjustments, and with the relationship between that cost index and the cost components of the contract. To assist contracting officers, two sample EPA clauses are provided herein, one based on the Consumer Price Index or some other broad-based index and used to adjust whole contract or unit prices and the other based on a specific commodity index and used to adjust only a component part of the contract or unit price. If contracting officers use either of these clauses as provided herein, the requirement at 816.102(a) for approval of the DAS for A&MM is waived (but legal and technical review of the solicitation may still be required by 801.602-70). The use of any other EPA clause must still be submitted for approval as required by 816.102(a), but addressed to the Director, Acquisition Resources Service (049A5). A class deviation to the VAAR now allows the Director (049A5) to approve EPA clauses. For guidance on evaluating sealed bids containing EPA clauses, see FAR 14.408-4.

6. Please direct any questions regarding these clauses or this IL to Don Kaliher, Acquisition Policy Division, via e-mail or phone at (202) 273-8819.

Thomas J. Cooper
Acting Director, Acquisition Resources Service

Attachments: 2

Distribution: RPC 7029

IL 049-05-12 **Attachment 1**
September 2, 2005

EPA CLAUSE BASED ON A PRICE INDEX

There are a number of different Consumer Price Indexes prepared by the Department of Labor, as well as other broad-based indexes. The contracting officer must select the index that best suits the type of goods or services being acquired. For instance, when acquiring consumer supplies, the most appropriate index might be the Consumer Price Index for All Urban Consumers (CPI-U) 1982-84=100, Not Seasonally Adjusted (see http://www.bls.gov/cpi/home.htm). When acquiring general consumer services, the best index might be the CPI-U for the specific geographical location where the services are being provided (i.e., the CPI-U, 1982-84=100, Northeast Urban, Size A (for a city of over 1.5 million), from Table 3, CPI-U, Selected Areas, all item index (see http://www.bls.gov/news.release/cpi.t03.htm). When acquiring medical services, the best Index might be the CPI-U, 1982-84=100, Medical Care Services, U.S. City Average, Not Seasonally Adjusted, ID CUUR0000SAM2 (see http://data.bls.gov/cgi-bin/surveymost?cu). The contracting officer must select a specific index, clearly identify in the solicitation the specific index that will be used, and state where that index can be found. When using the CPI-U, the seasonally adjusted (SA) indexes should not be used, use only the non-seasonally adjusted (NSA) indexes for EPA calculations. Also note that some CPI-U Indexes for regional areas or other subsets are not published monthly. The contract adjustment periods in paragraph (d) should be set accordingly.

The following sample format may be used when changes to a price index will be used to calculate corresponding changes in the total contract price or the unit prices of the contract. Do not use this clause when changes to the price index will apply to only a component part of the contract price (e.g., when changes in the price of gasoline will result in a proportional change to prices under an ambulance contract). Also, do not publish or include the footnotes in the solicitation, they are only included herein to provide guidance to contracting officers.

ECONOMIC PRICE ADJUSTMENT OF CONTRACT PRICE(S) BASED ON A PRICE INDEX

(a) To the extent that contract cost increases are provided for by this economic price adjustment clause, the offeror warrants that the prices in this proposal for any option periods do not include any amount to protect against such contingent cost increases.

(b) The Base and Adjusting Indexes, for the purpose of price adjustment under this clause, shall be ________________________[1], as contained in ______________[2], as published by ____________________[3]. All adjustments authorized under this clause shall be made by using the Base Index and Adjusting Indexes, which are published ______________[4].

(1) The Base Index, for the purposes of price adjustment under this clause, shall be the most recent Index published prior to the closing date for receipt of offers, or the due date for receipt of best and final offers if discussions were held. The Base Index shall remain constant for the entire term of the contract, including all option periods.

(2) The Adjusting Index shall be the most recent Index published prior to the date of contract adjustment, as specified in paragraph (d).

(c) The percentage difference between the Base Index and the Adjusting Index, rounded to the nearest .01 percent (e.g., 4.57%), will be used in calculating all adjustments to the following line items: ______________[5]. The prices for these line items will be multiplied by the percentage increase or decrease and the resulting amount will be added to or deducted from the original line item price for that contract period (e.g., Base Year) to arrive at the new contract price for those line items from

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[1] The contracting officer shall conduct market research to determine a suitable Consumer Price Index or other independent broad-based index to use for the solicitation. The index used must be related to the type of commodity or service being acquired and must be expected to approximately track the economic changes expected to affect the contractor's costs. Selection of the wrong index may result in a claim and reformation of the contract. For example, for medical services, an appropriate index may be the Consumer Price Index that tracks medical services. For a contract for physician services, an appropriate index may be the Consumer Price Index that tracks professional medical services. For instance, in a solicitation for laboratory testing services, the contracting officer might enter into this block "the Consumer Price Index for All Urban Consumers (CPI-U) 1982-84 = 100, Medical Care, Medical Care Services".

[2] Specify where the Index can be found, such as in a solicitation for laboratory services, the contracting officer might enter "Table 1, CPI-U: U.S. City Average, by expenditure category and commodity and service group, found at http://www.bls.gov/news.release/cpi.t01.htm" (or at whatever is the then current Web address).

[3] Provide the information on who publishes the applicable Index used, such as, in this example for laboratory services, "the U.S. Department of Labor".

[4] State how often the Index is published, such as "monthly, around the middle of the month". Note that some Consumer Price Indexes are not published monthly. Ensure that the correct information is provided for the specific Index used.

[5] Enter the line items that will be subject to adjustment or revise this paragraph to otherwise state what prices are subject to adjustment under this clause.

the effective date of the adjustment to the beginning of the next contract adjustment period, rounded to the same number of decimal points as the prices originally bid. Calculations for option year contract terms will be based on the offered prices for those option years, but those offered prices should not include contingent costs covered by potential increases or decreases in the Index referenced in this clause, as provided in paragraph (a).

(d) The dates of contract adjustment shall be ____________________[6] and the starting date of each option year, if not already included in these dates. The contracting officer shall retain a copy of the Base Index in the contract file and, on each date of adjustment specified in this paragraph (d), shall obtain a copy of the Adjusting Index. The contracting officer shall calculate the adjustment due and shall, within 5 business days, issue a modification to the contract adjusting the unit or contract prices, as specified in paragraph (c). The adjusted unit or contract prices shall be effective for all orders placed or services provided after the date of contract adjustment as specified in this paragraph (d) until the beginning of the next contract adjustment period. If the contracting officer fails to act, the contractor shall request a contract adjustment in writing and any subsequent adjustment shall be retroactive to the applicable date of contract adjustment specified in this paragraph (d). The contractor's entitlement to price increases for a prior contract period (base year or option year) is waived unless the contractor's written request for an adjustment under this clause is received by the contracting officer no later than 30 days following the end of the base year for changes applicable to the base year, or 30 days following the end of each option year for changes applicable to that option year. The Government's right to contract decreases for prior contract periods (base year or option year) is waived unless the contracting officer processes a contract modification no later than 30 days following the end of the base year for changes applicable to the base year, or 30 days following the end of each option year for changes applicable to that option year.

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[6] Establish time periods for when the contracting officer will process adjustments. This could be "the first day of every quarter, January, April, July, and October" or "Annually on October 1st" or some other similar time periods. Since the contracting officer is responsible for initiating the change, the contracting officer must establish a reminder mechanism to ensure that the adjustments are accomplished within the time period specified.

(e) An example of an adjustment calculation is provided herein for informational purposes only.

(1) For purposes of this example, the contract prices for the line items as specified in paragraph (c) will be adjusted by the percentage calculated as follows:

The Adjusting Index for the current period	196.6
Minus the Base Index	-188.0
Equals the Index Point Change	8.6
The Index Point Change Divided by the Base Index	8.6 ÷ 188.0 = .0457*
Result Multiplied by 100 Equals the Percentage Change (The Index Point Change Percentage)	4.57%

*This figure shall be rounded to the fourth decimal place. When the fifth decimal is 1 to 4, the figure shall be rounded down, 5 to 9, rounded up.

(2) For a line item with an original bid price of $25.00 and a 4.57 percent Index Point Change increase as of the first contract adjustment period, as shown above, the calculations for a new contract price for the first contract adjustment period would be as follows: $25.00 X .0457 = $1.14, $25 + $1.14 = $26.14**. The new contract price for this line item from the beginning of that first contract adjustment period until the start of the next contract adjustment period would be $26.14 and the contracting officer would issue a contract modification reflecting this price change.

**The unit price adjustment shall be rounded up or down, as in paragraph (e)(1) above, to match the number of decimal places in the original bid.

(3) The original contract price or line item prices for that contract term (e.g., base year) will be used for all calculations during that particular contract term and new calculations shall be made for each and every contract adjustment period specified in paragraph (d) during that contract term. If the Adjusting Index went down for the second adjustment period, reflecting only a 3 percent Index Point Change increase over the Base Index, the new price for this sample line item would be reduced for the second contract adjustment period from $26.14 to $25.75 as follows: $25 X .03 = $0.75, $25 + $0.75= $25.75. Note that the calculations for

the second contract adjustment period are based on the original contract price for that contract term of $25.00. The contract price for this line item would be modified to reflect this new price for the second contract adjustment period.

(4) At the start of the first option year and each subsequent option year period (as well as for each contract adjustment period specified in paragraph (d) during that option year, if different), the contracting officer shall recalculate the contract or unit prices submitted in the original offer based on any changes between the Adjusting Index and the Base Index, from the original contract award date to the start of the first option period, and based on the contractor's new option year prices. Assume the contractor's bid price for the first option year for the above sample line item was $25.50 and the calculations shown in paragraph (e)(1) above at the start of the first option period reflected a 6 percent Index Point Change. The new contract price for this sample line item at the start of the first option period would be calculated as follows: $25.50 X .06 = $1.53, $25.50 + $1.53 = $27.03. Rather than a first option price of $25.50 for this sample line item as of the start of the first option year period, as originally bid, the contracting officer would process a contract modification reflecting a revised contract price of $27.03 for the first contract adjustment period in the first option year. However, all calculations made during that first option year will be based on the original first option year bid price ($25.50 in this sample).

(f) Price adjustments pursuant to this clause, which shall be made by contract modification issued by the contracting officer, shall show the Base Index (see paragraph (b)(1)), the Adjusting Index, the adjusted contract prices (see paragraph (c)), the mathematical calculations used to arrive at the adjusted contract prices, and the effective date of the adjustment (see paragraph (d)).

(g) At the start of each option year, the contracting officer shall, within 5 days of the start of the option year period, process a contract modification adjusting the option year prices by the then current Index Point Change percentage, if any, reflecting the new adjusted prices for that first contract adjustment period in that option year. Future economic price adjustments made during that contract term (i.e., the option year) shall be made using the original bid prices for that option year.

(h) In the event that ________________[7] discontinues, or alters substantially, its method of calculating the Index cited herein, the parties shall mutually agree upon an

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[7] Enter in the name of the entity whose index is used in the clause. In most cases when using this clause format, the index used would be a CPI-U Index and the contracting officer would enter "the U.S. Department of Labor".

appropriate substitute for determining the price adjustment described herein. If the contracting officer determines that the Index consistently and substantially fails to reflect market conditions, the contracting officer may modify the contract to specify the use of an appropriate substitute index, effective on the date the Index specified herein begins to consistently and substantially fail to reflect market conditions.

(i) Any dispute arising under this clause shall be resolved in accordance with and subject to the "Disputes" clause of the contract.

(End of Clause)

PROPORTIONAL EPA OF CONTRACT PRICE(S)

The following sample format may be used when the cost of a specific commodity, such as gasoline, would have, or would be expected to have, a disproportionate impact on the cost of performing a contract and the price stability of that product is of concern to the contracting officer. Under this clause, since the particular commodity does not account for 100% of the cost of performing the contracted service or producing the supplies, changes in the price of that commodity should result in only a proportional change to the total contract price or unit price. For instance, in an ambulance contract, just because the price of gasoline goes up 10% doesn't mean that the entire contract price should go up 10%. The cost to the contractor for gasoline only represents a small portion of the total contract price and thus only a proportional part of the contract price should be adjusted based on increases or decreases in the cost of gasoline.

The following sample format may be used when changes to an industry price index will be used to calculate changes to only a portion of the contract price or the unit prices of the contract. This sample should not be used when a change in the index price will be applied directly and totally to the contract price or the unit prices, such as when the Consumer Price Index (CPI) is used to calculate changes and a 5% increase in the CPI would result in a 5% increase in the total contract price or the unit prices. Also, do not publish or include the footnotes in the solicitation, as they are only provided herein for guidance to contracting officers. Note that the method used to calculate price changes in this clause sample is not the same as the method used in the CPI clause sample.

PROPORTIONAL ECONOMIC PRICE ADJUSTMENT OF CONTRACT PRICE(S) BASED ON A PRICE INDEX

(a) To the extent that contract cost increases are provided for by this economic price adjustment clause, the offeror warrants that the prices in this proposal for any option periods do not include any amount to protect against such contingent cost increases.

(b) The cost index, for the purpose of price adjustment under this clause, shall be ______________________________________[8], as contained in

[8] The contracting officer shall conduct market research to determine a suitable cost index for use in the solicitation. The index used must be directly related to the type of commodity or service most likely to impact the contractor and must approximately track the economic changes affecting the contractor's costs. Selection of the wrong index may result in a claim and reformation of the contract. For transportation services, an appropriate index might be one that tracks the price of gasoline or diesel fuel. For example, in a solicitation for ambulance services, the contracting officer might enter into this block "the "Weekly U.S. Retail Gasoline Prices, Regular Grade" Index for New England" (or California or whichever index is the most appropriate).

________________[9], as published by ______________________[10]. All adjustments authorized under this clause shall be made by using the Base Index and Adjusting Indexes, which are published ________________[11].

(1) The Base Index, for the purposes of price adjustment under this clause, shall be the most recent Index published prior to the closing date for receipt of offers, or the due date for receipt of best and final offers if discussions are held. This Base Index shall remain constant throughout the life of the contract, including all options.

(2) The Adjusting Index shall be the most recent Index published prior to the date of contract adjustment, as specified in paragraph (f).

(c) For purposes of this clause, it will be conclusively presumed that ___[12] percent (%) of the price of ______________________[13] represents the Base Cost of ________________[14], and the resulting Base Cost will be the basis upon which adjustment will be made under this clause. This Base Cost will be used in calculating all adjustments to the following line items: ______________[15]. A new Base Cost will be calculated for each option year period based on the new option year prices.

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[9] Specify where the index can be found, such as in an example for gasoline, "the Energy Information Administration Web site at http://tonto.eia.doe.gov/oog/info/gdu/gasdiesel.asp".

[10] Provide the information on who publishes the index, such as, in an example for gasoline, "the U.S. Department of Energy".

[11] State how often the index used is published, such as, in an example for an index for gasoline, "weekly each Monday at 5:00 PM (Eastern time), or Tuesday if Monday is a holiday".

[12] Prior to issuing the solicitation, the contracting officer must conduct market research to determine an appropriate percentage to include in this paragraph. The percentage should reflect that portion of the unit price for the services or supplies being acquired that is applicable to the indexed commodity. For instance, in the case of an ambulance contract, research might indicate that, at the time the solicitation is being drafted and based on prior per-mile bid prices, the cost of gasoline accounts for 10% of the per mile cost of operating an ambulance. For example, if the prior bid price had been $1.60 per mile, if ambulances average 10 miles per gallon, and if the cost of gasoline had been $1.559 per gallon, 1 mile worth of gasoline ($ .16) would be approximately 10 percent of the prior per-mile bid price of $1.60 per mile. This percent must be stated in the solicitation so that the same figure applies to all bidders. This figure remains constant throughout the life of the contract.

[13] Enter in this block the portion of the contract that will be subject to price adjustment, e.g., "each one-way mile of ambulance services," or the line items that will be subject to price adjustment.

[14] Enter in this block the commodity applicable to the index being used, as in an example for an ambulance contract, "regular grade gasoline".

[15] Enter the line items that will be subject to adjustment, as in an example for an ambulance contract, the line items that reflect the one-way cost per mile for ambulance services for the base year and for each option year.

(d) The percentage of the price of the indexed commodity (see paragraph (c)) remains fixed throughout the life of the contract and is not subject to modification under this clause. Any pricing actions pursuant to the "Changes" clause or other clause or provision of the contract, except for this clause, will be priced as though there were no provisions for economic price adjustment.

(e) All price adjustments shall be applicable only to the specific contract adjustment period to which the calculations are made. For every contract adjustment period, new calculations shall be made and new prices determined. Every adjustment during the Base Year shall be based on the original contract prices for that contract year and every adjustment during an option year shall be based on the original contract prices for that option year. The contracting officer must make new calculations for each and every contract adjustment period specified in paragraph (f) and at the beginning of each new option year, if different.

(f) The dates of contract adjustment shall be ____________________[16] and the starting date of each option year, if not already included in these dates. The contracting officer shall retain a copy of the Base Index in the contract file and, on each date of adjustment specified herein, obtain a copy of the Adjusting Index. The contracting officer shall calculate the adjustment due and shall, within 5 business days, issue a modification to the contract adjusting the contract or unit price(s). The adjusted contract or unit price(s) shall be effective for all orders placed or services provided after the date of contract adjustment, as specified in this paragraph (f), until the date of the next contract adjustment. If the contracting officer fails to act, the contractor shall request a contract adjustment in writing and any subsequent adjustment shall be retroactive to the applicable date of contract adjustment. The contractor's entitlement to price increases for a prior contract period (base year or option year) shall be waived unless the contractor's written request for an adjustment under this clause is received by the contracting officer no later than 30 days following the end of the base year for changes applicable to the base year, or 30 days following the end of each option year for changes applicable to that option year. The Government's right to contract decreases for prior contract periods (base year or option year) shall be waived unless the contracting officer processes a contract modification no later than 30 days following the end of the base year for

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[16] Establish time periods for when the contracting officer will process adjustments. This could be "the first day of each month" or "the first day of every quarter, January, April, July, and October" or "annually on October 1st" or some other similar time periods. Since the contracting officer is responsible for initiating the change, the contracting officer must establish a reminder mechanism to ensure that the adjustments are accomplished on time.

changes applicable to the base year, or 30 days following the end of each option year for changes applicable to that option year.

(g) An example of an adjustment calculation is provided herein for informational purposes only.

(1) For purposes of this example, assume that a contract is for ambulance services, that the contract price is $2.10 per mile one way, that price adjustments will be made on the basis of the cost of gasoline, that the cost of gasoline represents 10% of the total cost per mile (the Base Cost is 10% of $2.10 (the per mile one way price in Line Item X), or $0.21), and that contract adjustments will be made quarterly. If the Base Index (the price of gasoline the week prior to receipt of bids) is $1.559 per gallon and the price of gasoline at the first date of contract adjustment is $2.129 per gallon, the calculations for contract price adjustment would be as follows:

Adjusting Index (most recent Index cost of gasoline as of the date of the first adjustment period)	$2.129 per gallon
Minus the Base Index (Index cost of gasoline as of the date of receipt of offers)	-$1.559 per gallon
Equals increase (or decrease) to the Base Index	$0.570
Divide increase (or decrease) to the Base Index by the Base Index	$0.570 ÷ $1.559 = .3656* (36.56% increase)

Base Cost of $0.21 (10% of $2.10) multiplied by .3656 = $0.0768 unit price increase

New Unit price following the adjustment is $2.10 plus $0.0768 = $2.1768 per mile (rounded to $2.18)**

*This figure shall be rounded to the fourth decimal place. When the fifth decimal is 1 to 4, the figure shall be rounded down, 5 to 9, rounded up.
**The unit price adjustment shall be rounded up or down, as above, to match the number of decimal places in the original bid.

(2) For the second contract adjustment period, all calculations would be based on the original contract bid price for that contract year, $2.10 per mile in this example. If the price of gasoline goes down during the second adjustment period to the original Base Index price of $1.559 per gallon, the adjusted contract price for that second period would return to $2.10 per mile (there would be a zero percent increase or decrease to the Base Cost and thus no change to the original bid price for that contract adjustment period). The contracting officer would then issue a contract modification returning the contract price to from $2.18 to $2.10 per mile for that contract adjustment period. If, on the other hand, the price of gasoline actually went below the Base Index price, say to $1.449 per gallon, the calculations for the second economic price adjustment period would be as follows:

Adjusting Index (most recent Index cost of gasoline as of the date of the second adjustment period)	$1.449 per gallon
Minus the Base Index (Index cost of gasoline as of the date of receipt of offers)	-$1.559 per gallon
Equals increase (or decrease) to Base Index	($0.110) (a negative $.11)
Divide increase (or decrease) to the Base Index by the Base Index	($0.11) ÷ $1.559 = (.0706) (7.06% decrease)

Base Cost of $0.21 (10% of $2.10) multiplied by (.0706) = ($0.0148) unit price decrease

New Unit price following the second economic price adjustment is $2.10 minus $0.0148 = $2.0852 per mile (rounded to $2.09)

(3) At the start of the first option year, the contracting officer shall recalculate the price per mile based on any changes in the price of gasoline from the original contract award date and based on the contractor's new first option year price per mile. Assuming the contractor's bid price per mile for the first option year was $2.25 per mile, the new Base Cost for gasoline would be 10% of $2.25, or $0.225 (note that the original percent figure from paragraph (c) (10% in this sample) stays constant throughout the life of the contract), but the Base Cost would change if the

option year contract price changes. If the Adjusting Index for gasoline at the start of the first option year was now up to $1.899 per gallon, the new first option year price for the first contract adjustment period would be calculated as follows:

Adjusting Index (most recent Index cost of gasoline as of the first day of the first option period)	$1.899 per gallon
Minus the Base Index (Index cost of gasoline as of the date of receipt of offers)	-$1.559 per gallon
Equals increase (or decrease) to the Base Index	$0.340
Divide the increase (or decrease) to the Base Index by the Base Index	$0.34 ÷ $1.559 = .2181 (21.81% increase)

Base Cost of $0.225 (10%* of $2.25) multiplied by .2181 = $0.0491 unit price increase

New Unit price for the first contract adjustment period in the first option year is $2.25 plus $0.0491 = $2.2991 per mile (rounded to $2.30 per mile)

*Note that the percentage remains constant (10%) but that the Base Cost has been increased for the first contract adjustment period in the first option year, since the Base Cost is a percentage of the first option year unit cost per mile (in this sample), and the unit cost per mile has increased in this sample for the first option year from $2.10 to $2.25.

Although the new unit price for the first contract adjustment period of the first option year following application of the economic price adjustment in this sample would be $2.30 per mile, all economic price adjustment calculations made during that first option year would be based on the original first option year bid price ($2.25 in this sample). If in the second contract adjustment period of the first option year, the calculations resulted in a unit price increase for gasoline of $0.0332, the adjusted price for that period would be $2.25 + $0.0332 = $2.2832, rounded to $2.28 per mile.

(h) Price adjustments pursuant to this clause, which shall be made by contract modification issued by the contracting officer, shall show the Base Index (see paragraph (b)(1)), the Adjusting Index, the Base Cost (see paragraph (c)), the mathematical calculations used to arrive at the adjusted contract unit price, and the effective date of the adjustment.

(i) In the event that ________________[17] discontinues, or alters substantially, its method of calculating the Index cited herein, the parties shall mutually agree upon an appropriate substitute for determining the price adjustment described herein. If the contracting officer determines that the Index consistently and substantially fails to reflect market conditions, the contracting officer may modify the contract to specify use of an appropriate substitute index, effective on the date the Index specified herein begins to consistently and substantially fail to reflect market conditions.

(j) Any dispute arising under this clause shall be determined in accordance with and subject to the "Disputes" clause of the contract.

(End of Clause)

[17] Enter in the name of the entity whose index is used in the clause. In the example for ambulance services using the 'Weekly U.S. Retail Gasoline Prices, Regular Grade" index, the contracting officer would enter "the Energy Information Administration, Department of Energy".