LONG-TERM CONTRACTING HANDBOOK

FOREWORD

(Supplementation is permitted at all levels.)

This handbook provides technical guidance for the use of a variety of long-term contracting types and techniques. It provides information for contracting, supply, technical, quality, and finance personnel to use in developing an understanding of alternate contracting approaches. Long-term contracting compliments our Total Quality Management (TQM) efforts as a means of achieving long-term and quality oriented supplier relationships in an effort to better serve our customers. This handbook is structured to provide definitions, discussions, explanations, regulatory references, and recommendations to assist in achieving the optimum use of the long-term contracting types and techniques available. The handbook will be revised as policy changes and technical improvements are introduced. Users of this publication are encouraged to submit recommended changes and comments to improve the publication, through channels, to HQ DLA, ATTN: DLA-PPR.

BY ORDER OF THE DIRECTOR

JAMES J. SINGSANK
Colonel, USA
Staff Director, Administration

DISTRIBUTION 2

COORDINATION: DLA-CR, DLA-G, DLA-LP,
DLA-LR, DLA-OS, DLA-SE, DLA-U
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AAMF     Advance Agreement Master File
ADP      Automated Data Processing
AID      Acquisition Item Description
ALT      Administrative Lead Time
ANMCS    Anticipated Not Mission Capable - Supply
ASP      Automated Small Purchase
ASTM     American Society for Testing and Materials
BEQ      Best Estimate Quantity
BPA      Blanket Purchase Agreement
CAGE     Commercial And Government Entity
CARRS    Computer Assisted Requisition Review Reentry System
CGDO     Computer Generated Delivery Order
COPAD    Contractor Operated Parts Depot
CTDF     Contracting Technical Data File
DPARS    DoD Federal Acquisition Regulation Supplement
DLA      Defense Logistics Agency
DLAH     Defense Logistics Agency Handbook
DLAM     Defense Logistics Agency Manual
DLAR     Defense Logistics Acquisition Regulation
DOD      Department of Defense
DQC      Definite Quantity Contract
DSAC     DLA Systems Automation Center
DSAR     Defense Supply Agency Regulation
EA       Each
EDD      Estimated Delivery Date
EOQ      Economic Order Quantity
FAR      Federal Acquisition Regulation
FPI      Federal Prison Industries, Incorporated (also referred to as UNICOR)
FSC      Federal Supply Class
FSS      Federal Supply Schedule
GFP      Government Furnished Property
GPO      Government Printing Office
GSA      General Services Administration
HCA      Head of the Contracting Agency
ICP      Inventory Control Point
IDC      Indefinite Delivery Contract
IDTPO    Indefinite Delivery Type Purchase Order
IPG      Issue Priority Group
IQC      Indefinite Quantity Contract
JWOD     Javits Wagner O'Day Act
LTC      Long-Term Contracting
MFPR     Military Interdepartmental Purchase Request
MRO      Material Release Order
NIB      National Industries for the Blind
NISH     National Industries for the Severly Handicapped
NNSN     Non National Stock Number
NMCS     Not Mission Capable - Supply
NSN      National Stock Number
PALT     Procurement Lead Time
PDLT     Production Lead Time
PGC      Procurement Group Coding
PGI      Procurement Guidance Information
PID      Procurement Item Description
POPS     Paperless Order Placement System
PR       Purchase Request
QAP      Quality Assurance Provision
QAR      Quality Assurance Representative
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1. GENERAL. Long-term contracting complements our Total Quality Management (TQM) efforts as a means of achieving long-term and quality oriented supplier relationships. It also allows us to increase productivity by reducing the number of routine contracting actions required. Long-term contracting can shorten Administrative Lead Times (ALTs), thus increasing our ability to react swiftly to increasing or decreasing demand, and thus increasing our supply availability and decreasing potential supply excess. Long-term contracts reduce the contractor's administrative burden and result in stable production runs, thereby incentivizing contractors to do business with the Department of Defense (DoD). In our efforts to better serve the customer, we must seek the methods which enable us to buy quality and value. Used properly, long-term contracting can complement these efforts.

2. PURPOSE. The purpose of this handbook is to assist contracting offices in utilizing long-term contracting types and techniques. It provides information for contracting, supply, technical, quality, and finance personnel to use in developing common sense applications of acquisition methods that result in extended contractual coverage. Long-term contracting is not a panacea and has its disadvantages as well as advantages. This handbook can assist you in achieving an overall understanding necessary to the successful utilization of the appropriate long-term contracting approach. The handbook attempts to integrate and correlate the multitude of long-term contracting techniques, explains how they can be used in conjunction with one another, and explains the various roles and functions of the complete spectrum of logistics specialists in achieving the optimum contracting approach for the most efficient utilization of resources and sustained supply support.

3. STRUCTURE. The handbook is structured to provide definitions, discussions, explanations, regulatory references, and recommendations to assist in achieving an understanding of the variety of long-term contracting techniques and applications available. It is not regulatory in nature and is not intended to be used to limit authority within the acquisition process. The handbook should be used as a guide to achieve maximum success through the application of contracting methods outlined in the FAR. The handbook contains five sections. The sections are contract types, contract techniques, small and other simplified purchases, automation of long-term contracts, and advance acquisition planning.
SUBJECT: Long-Term Contracting Guidebook
TO: Recipients of the Long-term Contracting Guidebook, DLAH 4105.2

1. Our objective is to establish the type of contract that is most appropriate to each acquisition. Long-term contracting offers a versatile and useful contracting approach that saves administrative time and cost, results in lower prices through increased production quantities, and improves service to our customers. Long-term contracts also contribute to more stable and satisfying business relationships between the DoD and our defense contractors.

2. The Long-Term Contracting Guidebook, DLAH 4105.2, provides a compendium of long-term contract types and techniques. The guidebook is based on current regulatory requirements, past experiences, and expectations for the future. The advantages and disadvantages of each type or technique of long-term contracting are included to assist you in identifying the most appropriate long-term contracting approach. Teamwork is emphasized as an essential part of our acquisition planning efforts and the guidebook attempts to bring together the various roles and functions of personnel in the Directorate of Quality Assurance, Supply Operations, Technical Operations, and Comptroller, as well as Contracting and Production.

3. Our commitment to Total Quality Management requires us to be customer oriented, focusing on continuous improvement. We are entering an era of contracting where quality and value are emphasized. To complement this effort, we must consider the advantages and disadvantages of various contracting types and techniques and take advantage of those approaches which allow us to fulfill our mission more effectively and efficiently. The primary purpose of the guidebook is to encourage the use of the variety of long-term contracting approaches that best meet the needs of an acquisition, by providing you with a guide to the various long-term contracting types and techniques available for use.

FOR THE DIRECTOR:

R. F. CHIESA
Executive Director
Contracting
SECTION I LONG-TERM CONTRACT TYPES

1. INDEFINITE DELIVERY CONTRACTS (IDC) (REFERENCE FAR/DFARS/DLAR 16.5)

   a. DESCRIPTION. Indefinite Delivery Contracts (IDC) are contracts that are established to cover all or a portion of projected requirements for a specified period of time, which is normally 1 year. There are three types of IDCs. They are definite quantity, requirements, and indefinite quantity contracts. Under IDC procedures, the Government establishes a contract with one or more contractors for estimated requirements for one item or for a group of similar items. When requirements develop, delivery orders are issued against the IDC, in accordance with the price and delivery schedule agreed upon when the contract was established. The contract may specify the minimum and maximum delivery order limitations and the maximum amount the contractor is required to deliver within a specified period of time. This ordering period limitation may vary depending upon the procurement cycle of the items covered by the contract, the normal industry practice, and the production capacity of the IDC holder.

   b. APPLICATION. To be considered for acquisition under an IDC, a stable item design must be present. However, the item need not be exclusively a commercial or modified commercial item. Part numbered items and items made to a specification or drawing are considered appropriate. Items do not have to have a National Stock Number (NSN) assignment to be purchased under an IDC. Recurring stable requirements must exist and there must be a reasonable expectation that future requirements will materialize. The industry producing the item must be receptive to a long-term IDC arrangement. Pricing of items subject to unpredictable price fluctuations may be tempered through the use of an economic price adjustment, when appropriate. Generally, there should be multiple delivery orders anticipated to be issued against an IDC.

   c. TYPES. The three types of IDCs are discussed below.

      (i) DEFINITE QUANTITY CONTRACT (DQC) (REFERENCE FAR 16.502)
          (A) DESCRIPTION. A definite quantity contract is an indefinite delivery contract that is established for a specified quantity. The Government is obligated to purchase the exact quantity specified in the contract.
          (B) ADVANTAGES. A DQC provides flexibility regarding delivery terms only, as the Government is obligated to purchase the quantity specified in the contract and funds are obligated for that total amount upon execution of the contract. This method is preferred if precise requirements are known, as the contract price tends to be lower.
          (C) DISADVANTAGES. Lack of flexibility and the upfront obligation of funds makes this method of long-term contracting less desirable. DLA has not traditionally used DQCs, as the flexibility provided by the two remaining types of IDCs is greater. DQCs are the least flexible IDC.
          (D) APPLICATION. DQCs are appropriate for use when yearly requirements (or longer) are known in precise quantities and are not subject to change. It is the least flexible IDC in terms of obligation and funding requirements. The DQC is most appropriate for items with a short production lead time (PDLT).

      (ii) REQUIREMENTS CONTRACTS (RTC) (REFERENCE FAR 16.503)
          (A) DESCRIPTION. An RTC is an indefinite delivery contract established for a specified period of time, under which the Government must place all orders for RTC covered items, which materialize during that period, and which fall within the established minimum and maximum quantities. The Government can be cited for breach of contract if RTC covered items, falling within specified limitations, are obtained from other than that RTC holder. However, the Government is not obligated to purchase any material until requirements actually materialize and a delivery order is issued. Funds are obligated upon issuance of each delivery order. The Government is not required to identify the exact quantity that will be ordered during the life of the contract. However, it is imperative that an accurate
estimate of anticipated requirements is provided since the contractor, although not guaranteed orders, may price his offer in accordance with this estimate and may even set aside production capacity in anticipation of receiving orders. Repeated unrealistic estimates could discourage contractors from future participation. When the solicitation contains a maximum quantity estimate, it should also indicate that offers will be evaluated based on the maximum quantity estimate.

(B) ADVANTAGES. The primary advantage of the RTC, in addition to the quantity flexibility, is the shift in shelf life management to the contractor, who is better able to handle it because of a larger base of commercial customers.

(C) DISADVANTAGES. The primary disadvantage of this type of contract is the potential for supply shortages should the contractor fail to deliver or deliver non-issuable stock. It may be useful to include some type of "escape clause" to allow the Government to purchase an item or items from a different supplier should the contractor become delinquent during the life of the RTC.

(D) APPLICATION. Under the RTC, the contractor assumes the risk, as requirements may never materialize. The RTC is the most appropriate IDC when requirements are prone to fluctuation. Items with a longer Production Lead Time (PDLT) may be appropriate, as contractors may be willing to maintain limited stocks when the Government will obtain all of its requirements from that contractor. Since funds are obligated with the issuance of individual delivery orders, the RTC provides funding flexibility and may be desirable in times of fund uncertainty.

(iii) INDEFINITE QUANTITY CONTRACT (IQC) (REFERENCE FAR 16.504)

(A) DESCRIPTION. An IQC is an indefinite delivery contract established for a specified period, reflecting a stated minimum quantity, for which the Government is obligated to purchase. The Government may issue delivery orders up to the contract maximum quantity.

(B) ADVANTAGES. A primary advantage of the IQC is that the Government is not contractually obligated to purchase all requirements from one contractor, as is the case with the RTC. The Government is obligated to purchase the stated minimum quantity and funds are obligated for this minimum amount when the basic contract is awarded. The minimum quantity may be satisfied by issuance of one or several delivery orders during the life of the contract or by simultaneous issuance of a delivery order for that stated minimum at the time of award of the basic contract. For the remaining contract quantity, the Government is only obligated to the extent that delivery orders are issued. If additional requirements never materialize, the Government is not penalized. When the solicitation contains a maximum quantity, it should also indicate that offers will be evaluated based on this maximum quantity, to discourage offerors from offering only on the minimum quantity.

(C) DISADVANTAGES. The two disadvantages of the IQC are the possibility that prices may be slightly higher than those under a definite quantity contract and the fact that flexibility is limited in cases of falling demand because the Government is obligated to a minimum quantity.

(D) APPLICATION. An IQC is appropriate when recurring requirements exist, but precise quantities above the contract minimum cannot be predetermined. The specified minimum quantity should be sufficient to attract industry interest in the acquisition and should also represent an economic order quantity. Generally, the contractor assumes more risk as economical order requirements above the contract minimum may never materialize. Beyond the contract minimum, the IQC provides the same flexibility as the RTC. Since funds are obligated by issuance of delivery orders, for the amount above the stated minimum, IQCs may be desirable in times of fund uncertainty.

2. MULTIYEAR CONTRACTS (REFERENCE FAR/DFARS/DLAR 17.1)

a. DESCRIPTION. Multiyear contracts are contracts covering more than 1 year's requirements and extending beyond 1 year's delivery time. (Contracts that extend beyond 1 year as a result of a long production lead time, but are for only 1 year's requirements, are not considered multiyear contracts. Contracts for more than 1 year's requirements which are bought and delivered within 1 year are not considered multiyear contracts.)
b. APPLICATION. Multiyear contracting may be used for the acquisition of a wide range of supplies and services, both commercial and military unique. Although multiyear contracting was once associated with the acquisition of major systems and services, multiyear contracting is being used increasingly in DLA for the acquisition of recurring demand items, with stable design technology. (The practicality of using multiyear contracts for commercial warehouse services has been identified and statutory authority for multiyear contracting for such services is being pursued by DLA.)

(i) SERVICES. A written determination made by the HCA (Reference DLAR 17.103-1 for delegation authority) is required for multiyear contracting for services. The determination must state that: (1) There will be a continuing requirement for the services consonant with current plans for the proposed period; (2) The furnishing of such services will require a substantial investment in plant or equipment or the incurrence of substantial contingent liabilities for the assembly, training, or transportation of a specialized work force, or other substantial start-up costs; and (3) The use of such a contract will promote the best interests of the United States by encouraging effective competition and promoting economies of operation.

(ii) GENERAL CRITERIA. General criteria indicating use of a multiyear contract may be appropriate.

(A) The minimum needs of the Government are expected to remain unchanged. Because the Government is liable for cancellation costs if future years' requirements never materialize, stability and predictability of future demands is essential.

(B) There must be a reasonable expectation of funding for the supplies or services in the future. Because the Government is liable for cancellation costs if funding is not received by specific contract dates, coordination between the inventory manager, the comptroller, and the contracting officer is especially important.

(C) In the case of supplies, the item of supply must have a stable design. It can be a part numbered item or be made to a specification or drawing and the item may be commercial or military unique.

(D) The use of a multiyear contract should result in reduced total costs. Estimates of both the cost of the multiyear contract and the anticipated cost avoidance through the use of the multiyear contract can be determined realistically.

c. SOLICITATION. Special contracting issues to consider when using multiyear contracting.

(i) PREBID CONFERENCE. Because of the unique features of multiyear contracting, past limited use in DLA, and the possibility it may be used for the first time to purchase certain items, the conduct of a prebid or presolicitation conference may be appropriate to identify problems before they occur and to alert potential contractors to this type of contracting.

(ii) PRICING. In multiyear contracting, prices are solicited for both the current single year requirements and for the total multiyear requirements. When price and price related factors are the basis for the evaluation, award is based on the offer that produces the lowest overall price to the Government for all years. A cost benefit/cost avoidance technique is used to compare single year procurements with the multiyear procurement through discounted cash flow and net present value techniques. (Refer to DODI 7041.3, Economic Analysis and Program Evaluation for Resource Management, for further guidance.) The head of the contracting activity or designee may authorize the use of a solicitation requesting only multiyear prices, provided it is found that such a solicitation is in the Government's interest.

(A) LEVEL UNIT PRICING. Level unit pricing is a method of amortizing certain costs over the entire contract quantity, which results in identical unit prices for each line item or service for all years of the multiyear contract. Level unit pricing is generally used for the evaluation of multiyear offers. However, the
head of the contracting activity may approve the use of variable unit pricing, provided there is a valid method for evaluation of offers.

(B) ECONOMIC PRICE ADJUSTMENT. An economic price adjustment (EPA) clause is a valuable tool to use with multiyear contracting, as it offers the contractor and the Government protection against fluctuating prices over the life of the contract. The use of an EPA clause may be the catalyst needed to attract industry interest in multiyear contracts.

d. FUNDING. For multiyear contracts, at the time of award, funds are only obligated for the first year's requirements. After the first year, each contract year's funds are annually obligated.

(i) TYPES. Multiyear contracting may be used with no-year funds (funding that does not require obligation in any specific year, such as the DLA stock fund); multiyear funds (funding covering more than 1 fiscal year); and 1 year funds (operation and maintenance funding) when multiyear contracting is specifically authorized by statute (for example, use of a multiyear contract for base services for refuse collection and disposal is authorized under Public Law 90-378).

(ii) LIMITS. Specific statutory authority is needed for an agency to make financial commitments for amounts greater than those appropriated annually by Congress (see 31 U.S.C. 1341(a)(1)).

e. FUNDING LIABILITIES. Multiyear contracts are subject to unique funding liabilities, which are discussed below.

(i) CANCELLATION. Under a multiyear contract each contract year is obligated annually. If funds are not available to support the succeeding years' requirements, the balance of the contract must be cancelled. Cancellation cannot occur during the first year or between years as funds are obligated for the entire year. The contracting officer must notify the contractor of the availability of funds, or lack thereof, by a suspense date established in the contract. If the contracting officer fails to notify the contractor of the availability of funds by the specified date, all remaining contract years will be cancelled.

(A) CANCELLATION CEILING. If applicable, the contractor may be protected from loss resulting from cancellation of the remaining years through a contractually established cancellation ceiling, which allows for reimbursement of costs. The cancellation ceiling is the maximum amount the Government will pay the contractor upon cancellation. The cancellation ceiling is not to be used as a factor for evaluation (see FAR 17.103-3(b)), but may be subject to negotiation.

(B) ANNUAL CEILING. A cancellation ceiling is established for each year after the first year under the multiyear contract. Each ceiling must exclude costs included in prior years' contract prices that were amortized on the basis of the multiyear contract proceeding to completion. Thus, the cancellation ceiling is proportionally lower for each succeeding year.

(C) CEILING COSTS. The cancellation ceiling generally includes only nonrecurring costs or those production costs which are generally incurred on a one time basis, such as those for special tooling/test equipment. (The inclusion of recurring costs or those production costs that vary with the quantity being produced, such as those for labor and materials, in cancellation ceilings, requires approval by the agency head and may be appropriate in some situations.) Cancellation costs need not be funded before cancellation occurs. For most DLA managed items, cancellation costs should be minimal in that start up (nonrecurring) costs are low or the items have a substantial commercial market to carry the start up burden. In some cases, a zero dollar cancellation liability is sufficient.

(ii) TERMINATION FOR CONVENIENCE. In addition to and separate from cancellation, multiyear contracts are also subject to termination for the convenience of the Government for the total or any partial quantity at any time throughout the life of the contract. A unique requirement of the multiyear contract in regard to the liability of the Government under the termination for convenience provision is that the cancellation costs are included in the termination liability.
(Reference FAR 17.101). This is to protect the contractor from losing cancellation costs in the event a contract is terminated for convenience prior to the contract completion date. The termination liability, which is similar to the cancellation ceiling, is the maximum cost the Government will incur if the contract is terminated. The termination liability includes the amount for the current year termination and remaining years' cancellation costs when a multiyear contract is terminated prior to completion of the total contract.

f. ADVANTAGES. While the risk of cancellation associated with multiyear contracting may be significant, the benefits derived from this type of contracting are substantial. Multiyear contracts tend to result in lower costs, increased standardization, reduced administrative burden, continuing production, and a stabilized work force. Contractor benefits include improved efficiency and productivity because of the contractor's willingness to invest in capital facilities, attracting more firms and increasing competition because of the assurance of a multiyear contract, and overall improvements in quality.

g. DISADVANTAGES. The Government liability as a result of the cancellation ceiling is the primary disadvantage of the multiyear approach. However, with the proper level of planning and through the use of a zero dollar cancellation ceiling, this disadvantage may be overcome.

h. MULTIYEAR APPROACHES

(i) MULTIYEAR/MODIFIED REQUIREMENTS CONTRACT. A multiyear contract using a modified RTC approach can be used in situations when anticipated annual requirements, expressed as the Best Estimated Quantity (BEQ), can be projected with reasonable certainty (Reference FAR 17.104-4). Under the multiyear/RTC method, a fixed price contract is awarded for specified supplies and/or services up to a designated maximum quantity. Delivery orders are placed as requirements materialize during the contract period, in the same manner as an RTC.

(A) DIFFERENCES. The primary difference between the traditional RTC and the multiyear/RTC is that under this modified approach the contractor is entitled to reimbursement for preproduction and other nonrecurring costs. These costs represent the cancellation ceiling/liability of the Government to the contractor, in the event the Government orders less than the specified BEQ. Quantities in excess of the BEQ up to the stated maximum are not subject to cancellation reimbursement and are priced exclusive of the nonrecurring costs amortized on the BEQ.

(B) SOLICITATION. The solicitation contains a line item that applies to the quantities exceeding the BEQ up to the maximum amount specified. The price established for this line item is applicable to all units ordered in excess of the aggregate BEQ (i.e., the total of the individual year's BEQ) up to the total multiyear contract maximum quantity. The solicitation procedures applicable to multiyear contracting also apply to this modified approach.

(C) ADVANTAGES. The advantages of this approach over the standard RTC approach include reduced prices, stabilized long-term contracting arrangements, and the reduction of risk for both the Government and the contractor, as the contractor is guaranteed a certain quantity and the Government, once the BEQ is reached, no longer has the threat of the cancellation liability. If this approach is used, funding occurs upon placement of respective delivery orders, rather than for the entire year's requirements.

(ii) SUPPLY/RESUPPLY MULTIYEAR CONTRACT. Defense Personnel Support Center - The Medical Directorate has successfully used multiyear contracts for shelf life dated pharmaceutical items. Under this program, the contractor stores the item for Government usage. The contractor rotates the dated inventory with updated stock as the expiration date approaches. These supply/resupply contracts have been established for 5-year periods with a 5-year option term.

(A) DEVIATIONS. Use of this approach requires a deviation from FAR 17.103-1(b)(2), which states that agencies shall not use multiyear contracts when
requirements exceed a 5-year planned program, and a deviation from the Government Furnished Property (GFP) clause at FAR 52.245-2, regarding the traditional handling of GFP.

(B) ADVANTAGES. The advantages of utilizing a multiyear rotational contracting approach include the following:
   (1) Enables DLA to maintain stocks under DLA service accountability.
   (2) Assures availability of war reserve items in time of national emergency.
   (3) Reduces stocks held in supply depots.
   (4) Minimizes destruction of outdated or expired material.
   (5) Provides flexibility for the Government to enter into a new contract should unexpected changes in technology, requirements, or pricing structure occur.
1. OPTIONS (REFERENCE FAR/DFARS/DLAR 17.2)

   a. DESCRIPTION. A contract option is the unilateral contractual right of the Government to order additional supplies or services under an existing contract and/or extend the term of an existing contract. The option is synopsized with the basic award in the Commerce Business Daily and competed with the basic award requirement. Normally, the option is evaluated with the basic award to satisfy the competition requirements of FAR Part 6. If the option is not evaluated at the time of award, a justification for other than full and open competition is required at the time the option is exercised. For the inventory manager, this translates to a flexible means to satisfy unplanned requirements, and significantly reduce administrative lead time. For the buyer, the option represents an administrative time saver, allowing an immediate award to be processed without the requirement to resynopsize and recompete the option quantity. When funding for future requirements is uncertain, the option can be used to obtain needed requirements when additional funds become available after the basic award is made, as funds are obligated when the option is exercised.

   b. TYPES. There are basically two types of options available.

      (i) OPTION FOR INCREASED QUANTITY. The first is an option for increased quantity. Under an option for increased quantity, the Government has the unilateral right to purchase additional supplies and/or services in the amount specified in the contract.

         (A) EXPRESSION. The option quantity can be specified as a percentage of the basic contract quantity, as a specific quantity increase in a contract line item, or as an additional numbered line item.

         (B) LIMITATIONS. There is generally no limit which may be specified for the option quantity (except when it is necessary to limit the price of the option to the same price offered for the basic requirement, in which case the option quantity cannot exceed 50 percent of the basic quantity, unless authorized at a level above the contracting officer). A partial exercise of a quantity option provides for flexibility in obtaining supplies when requirements have decreased.

      (ii) OPTION TO EXTEND THE TERM OF THE CONTRACT. The second option type is the option to extend the term of the contract. The option to extend the term of the contract is generally used in Indefinite Delivery Contracts (IDC) or service contracts. However, an option extending the term of a multiyear contract to provide for longer periods of uninterrupted service may also be appropriate. The option can protect the Government from loss of coverage resulting from delays in placing subsequent contracts, such as a lengthy preaward survey, processing of a certificate of competency, or evaluation of alternate offers.

         (A) EXPRESSION. Options extending a contract term may be expressed as an extension of the term of the contract, as an amended completion date, or as additional time for performance, stated as days, weeks, months, or years.

         (B) LIMITATIONS. FAR 17.204(e) limits this type of option to a total duration of 5 years. However, this time limit is not statutory and may be waived, providing no other statutory limitation exists for that type of contract. DLAR 17.204(e) delegates this waiver authority to the chief of the contracting office. Coordination with the Office of Counsel prior to waiving the 5-year limit is appropriate to ensure there are no statutory restrictions.

   c. APPLICATION. General criteria indicating that the use of an option may be appropriate:

      (i) PRICES. The market price of the item is stable. Options may not be appropriate for items subject to wild price fluctuations. However, use of an economic price adjustment (EPA) clause may offer the needed protection to the
contractor and to the Government where prices are not expected to remain stable or if the contract covers a long period of time.

(ii) QUANTITIES. Options are not used when firm quantities are known and funds are available for those quantities. This is because the contractor will generally offer a lower unit price for the larger firm commitment.

d. SPECIAL CONTRACTING ISSUES

(i) EVALUATION. The FAR requires evaluation of options at the time of award of the basic contract, unless it has been determined at a level above the contracting officer that the evaluation would not be in the best interest of the Government. The contracting officer relies on past experience when making the determination to include an option provision in a solicitation, as evaluation of the option may affect the contract outcome. Options should not be included in the solicitation if it is not likely the option will be exercised. If, after soliciting, it becomes apparent that the option will not be exercised, the contracting officer does not have to evaluate the option, as FAR 52.217-5, Evaluation of Offers, allows the Government to disregard evaluation of options when it is determined, in accordance with FAR 17.206(b), not to be in the Government's best interest. FAR provision 52.217-5, Evaluation of Options, allows the contracting officer to reject offers that are "materially unbalanced", i.e., offers where the price for the basic quantity and the option quantity vary an excessive amount.

(ii) PRICING. Solicitations that include an option provision allow option quantities to be offered without limitation to price, except when (1) the option cannot be evaluated, or (2) future competition for the option is impracticable (Reference FAR 17.203(f) & (g)). This means the offeror may specify a different price for the option, either higher or lower than the price offered for the basic requirement. FAR 17.203(d) provides that solicitations which include an option provision and allow the offer of options at unit prices which differ from the unit price for the basic requirement must allow offerors to quote varying prices depending on the quantities actually ordered and the date when the option is exercised, i.e., a contractor may offer a lower price for option quantities exercised immediately after award.

(iii) EXERCISE. The contract states the period in which the option may be exercised. The inventory manager should be aware of the option expiration date and quantity limitations to ensure maximum use of the option. The option exercise period should provide for continuous production to promote the lowest possible pricing structure. When determining whether to exercise the option in lieu of resoliciting the requirement, a thorough and timely market test is utilized to determine the most appropriate method to pursue.

e. USE OF OPTIONS WITH LONG-TERM CONTRACTS

(i) INDEFINITE DELIVERY CONTRACTS. The option provision is a flexible contracting tool that can be used in conjunction with other long-term contracting methods to produce optimum contracting approaches. The use of an option with an IDC allows the Government to enter into a contract covering more than the basic contract requirements (generally year's requirements), without the cancellation liability associated with the use of a multiyear contract. Under an IDC-option combination contract, the Government has the option to exercise yearly extensions. The two types of options discussed below may be used alone or in combination with each other with most IDCs.

(A) OPTION TO INCREASE THE QUANTITY. This type of option is allowed for use in an Indefinite Quantity Contract (IQC) under MIP Deviation 88-17. The MIP DEV allows a deviation from the requirements at FAR 17.202(c)(3) and authorizes the contracting officer to include an option for increased quantity in an IQC, when appropriate. This option provides the Government with the unilateral right to
increase the contract quantity maximum. This type of option provides additional flexibility when contracting for items or services with fluctuating demands. 

(B) OPTION TO EXTEND THE TERM OF THE CONTRACT. This option provides the Government with the unilateral right to extend the contract period beyond the initial contract period. Normally, the contract period under the IDC is established for 1 year. Through the use of an option provision, the contract period can be extended for more than 1 year. As mentioned earlier in this section, the FAR provides for a 5-year limit for the duration of a contract. However, if certain conditions are present, this limit can be waived by the chief of the contracting office (Reference DFARS 17.204(e)). (Additional constraints may apply if any statutory limits exist for specific situations.) Use of options with an IDC may represent a certain amount of risk, as it becomes difficult for offerors to project costs beyond certain timeframes. This should be considered on an individual basis when making the determination to use options. In addition, use of short term option extensions to cover delays in awarding follow-on contracts should be considered. This type of option should be considered even when use of an option is not desired, as it provides the Government with protection against supply shortages or lack of an essential service coverage.

(ii) MULTIYEAR CONTRACTS. Use of the option provision with multiyear contracts can result in long-term coverage extending beyond the 5-year FAR limit. This provides for increased standardization, reduced routine contracting tasks, and confidence in supply availability. The overall benefit is increased productivity at reduced costs. As mentioned previously in this section, DLAR 17.204(e) delegates waiver authority to the chief of the contracting office as the approving official for exceeding the 5-year limitation. Coordination with the Office of Counsel prior to waiving the 5-year limit is appropriate to ensure there are no statutory restrictions.

2. ECONOMIC ORDER QUANTITIES (REFERENCE FAR 7.2)

a. BACKGROUND. 10 U.S.C. 2384a(a)(1) requires agencies to procure supplies in such quantities as will result in the total cost and unit cost most advantageous to the Government, where practicable, and that does not exceed the quantity reasonably expected to be required by the agency. FAR 7.203 requires contracting officers to include FAR provision 52.207-4, Economic Purchase Quantity- Supplies, in solicitations for supplies. The provision requests the offeror to identify economic order quantities and quantity price break information. However, the offeror is not required to provide any information requested by the provision. The contracting officer is responsible for ensuring that the information collected relative to the provision is transmitted to the inventory manager. The inventory manager and the contracting officer work together to determine the most cost effective quantity to purchase when the information provided by the offeror indicates a different quantity may result in a lower unit price. If the information is not used on the instant procurement, the inventory manager retains the data for consideration in determining future requirements.

b. DESCRIPTION. The DoD economic order quantity (EOQ) is that quantity for which item annual order costs and holding costs are balanced to minimize total variable costs. The current EOQ supply model does not necessarily represent the actual manufacturer economic purchase quantity, as that information can generally only be provided by the offeror. Selected variances from the EOQ are authorized when industry practices or economic considerations prevail, including those cases where vendors offer quantity price breaks. When such discounts are offered by suppliers, the decision to accept or decline the offer of a quantity discount will take into account the recognized holding cost and demand rate as well as the potential unit cost savings. This discussion is included in this handbook to alert users to the potential application of a long-term contracting approach, that of increasing instant purchase quantities to economic proportions relative to the DoD EOQ model and the contractor's economic production capacity.
3. INCREMENTAL BIDING PROCEDURES (NO FAR/DFARS COVERAGE REFERENCE DLAR 14.201-5(c)(92) and 15.406-5(c)(91))

a. DESCRIPTION. Although incremental bidding by itself is generally not considered a long-term contracting approach, it is a method by which we may acquire more than 1 year's requirements through the use of one solicitation and contract. Incremental bidding allows the offeror to identify quantity price breaks and allows the contracting officer to more readily take advantage of those price breaks. It provides a medium for offerors to quote a range of prices for different fixed quantities.

(i) While appropriate in some situations, inclusion of an option does not always provide an incentive for offerors to quote a lower price for the option quantity, as there is no guarantee as to what part, if any, of the option will be exercised.

(ii) Incremental bidding provides the basis for offerors to offer on fixed quantities, allows the inventory manager to calculate requirements to coincide with the time of award, and affords the contracting officer the opportunity to select the most advantageous price and quantity combination.

(iii) Either the contracting officer or the inventory manager can suggest that incremental bidding be incorporated in a solicitation.

b. APPLICATION. Incremental bidding can be used in sealed bid or negotiated procurements, as well as in small purchases. Each Center has unique procedures in place regarding how to identify the varying incremental quantities. In many cases, it is more appropriate for the inventory manager to determine the increments.

(i) The solicitation includes a notice or provision advising the offerors that only one quantity or range of quantities will be selected for evaluation and award and that award will be made on that quantity and price combination which is most advantageous to the Government.

(ii) The inventory manager and the contracting officer determine the most appropriate increment at which to make the award. This increment is normally determined immediately following bid opening or proposal closing.

(iii) Generally, the quantity that produces the lowest unit price is the most appropriate. However, the incremental quantity selection must be tempered by the supply position at the time of award. If a downward trend in demand is indicated, the largest incremental quantity, and presumably the lowest unit price, may not be the most appropriate on which to base the award.

(iv) By combining an option for increased quantity provision and incremental bidding procedures, we can further increase the flexibility of the acquisition. This is especially important in times of funding uncertainty and fluctuating demands.

c. PROCESS

(i) DEFINITIONS. The solicitation provides for offerors to submit prices on fixed quantities, expressed in the solicitation as basic and alternate quantities.

(A) Basic quantity - The quantity reflected on the purchase request which represents the requirement at the time the purchase request was initiated.

(B) Alternate quantity - The quantity stated in the solicitation which represents projected requirements. There is usually more than one alternate quantity included in the solicitation.

(ii) EXAMPLES. To illustrate the definitions, assume the basic quantity or the initial purchase request quantity is 50 each. The following are examples of two incremental formats that could be used:

(A) Incremental quantities set at specific numbers:

EXAMPLE 1:
Basic quantity - 50 EA
Alternate quantity - 75 EA
Alternate quantity - 100 EA

EXAMPLE 2:
Alternate quantity - 25 EA
Basic quantity - 51 EA
Alternate quantity - 75 EA
Alternate quantity - 100 EA

(B) Incremental quantities may also be defined as quantity ranges as illustrated below:

EXAMPLE:
Basic quantity - 25 to 50 EA
Alternate quantity - 51 to 75 EA
Alternate quantity - 76 to 100 EA

4. PROCUREMENT GROUP CODING (PGC)

a. DESCRIPTION. Procurement Group Coding (PGC) is the concept of grouping together items with some similar characteristic to achieve efficiency in the procurement and supply process. PGCs can be formed wherever similarities between items are identified and are not confined to groups of National Stock Numbers (NSNs) within a Federal Supply Class (FSC). Similar manufacturing processes, material composition, and end item use are examples of characteristics that can be considered when determining how to group items.

(i) The primary limitation to grouping of items is the capability of an industry to produce a combination of items. If market research indicates that several companies within an industry can generally provide a group of related items, then the contracting officer should consider grouping the items accordingly.

(ii) As a general rule, PGCs are not formed where competition is threatened or inhibited by grouping items into a single buy. If individual items within a group have been successfully procured under the SBA 8(a) program or through a small business set-aside, they should be excluded from the PGC, unless the entire group can be reserved from the 8(a) program or set-aside for small business.

b. TYPES. Generally, there are two types of groupings.

(i) SIZED PGC - A grouping of items, all of which are described identically, except for one differentiating characteristic, such as size, length, color, or resistance.

(ii) LIKE ITEM/FAMILY GROUPING. A grouping of items linked together for procurement purposes that may not have a similar description, but are acquired from the same segment of industry or suppliers.

c. PROCESS. The SAMMS PGC process for buys works as follows:

(i) A requirements cycle is run and an NSN breaches the reorder point (ROP) level.

(ii) The ROP study is cancelled if the NSN is included in a PGC. A flag is placed on the PGC to trigger a review of all NSNs included in the PGC, to be accomplished in the next requirements cycle.

(iii) The next requirements cycle is run and all NSNs that are in a flagged PGC are reviewed to see if they are within the specified time of breaching the ROP level. All NSNs in the PGC that are at the ROP level will be output with reason study codes RP (i.e., buy study code used when an item has reached its ROP and procurement/repair is recommended) and RG (i.e., buy study code used for items in a procurement group that are not at the ROP, but are within a minimum procurement cycle of ROP). Buys for both of these reasons for study codes will come out on the same requirements cycle.
At present, all buys that are reinput in the same requirements cycle produce purchase requests (PRs) dated the same day. This means that if the same PGC has several buys that are input on different requirements cycles, then the PRs could come out on different days. A SAMMS program has been developed that holds all input from the same PGC until all cards are reinput by the item manager into the requirements cycle. In addition, the DLA Systems Automation Center (DSAC) is attempting to produce a single PR for all NSNs included in a PGC recommended buy. The expected process for the two types of PGCs is described below. However, this process is not yet operational at any Center.

(A) Sized PGC - When a recommended buy (RB) is passed to the SAMMS Contracting Subsystem, coded for a sized PGC, the Contracting Technical Data File (CTDF) will be assessed and data reviewed by the PGC. The Procurement Item Description (PID) of the PGC will be selected and printed on the PR, i.e., Optional Form (OF) 336, Continuation Sheet. The PID will be applicable for all items in that PGC. The PGC Specification/Drawing/Standard/Publication will be applicable for all items within the PGC and, if available, will be printed on the PR immediately following the PID. Procurement Guidance Information (PGI), if recorded in the CTDF, will be selected and printed on the PR trailer and will be applicable to all items within the PGC.

(B) Like Item/Family Grouping - Data review for like item/family grouping will be by individual NSN CTDF record. When an RB is passed to the SAMMS Contracting Subsystem, coded for a PGC like item grouping, the CTDF will be accessed and data reviewed by each NSN will be selected and printed on the PR, i.e., OF 336, Continuation Sheet. PGI data, if recorded in the CTDF, will be selected and printed on the PR trailer for each individual NSN.

d. APPLICATION. Under PGC, one solicitation is issued for a group of items. A Request for Proposals may be more appropriate when soliciting for a group of items, unless competition is expected on all of the items. Grouping of similar items increases the dollar value of the solicitation, thereby potentially increasing industry interest in the acquisition. However, it may be appropriate to prohibit "all or none" offers to encourage competition on individual items. Because of the increase in requirements resulting from the PGCs, a long-term contracting approach may be used to promote an optimum contracting and supply tool. An added benefit of utilizing PGC, is the increased compatibility of spare parts.

e. RESPONSIBILITIES. General responsibilities and special areas of concern are discussed below:

(i) TECHNICAL OPERATIONS. Technical personnel identify similar technical characteristics of items and act as the primary initiator of identification of family grouping of items. Since items are to be grouped primarily by technical characteristics, technical personnel generally have the highest level of expertise in identifying similar characteristics of items. However, if a contracting officer has knowledge of a potential grouping, this information should be passed to the appropriate technical focal point. When considering the formation of a PGC, the following areas are reviewed to ensure there are no complications in the procurement process:

(A) Technical problems and customer complaints need to be resolved before an item is included in a PGC.

(B) There should be no ongoing standardization actions. All standardization will have taken place before the item is added to the PGC.

(C) Manufacturing capabilities of the industry should be researched to ensure the appropriateness of the groups.

(D) Verification of packaging requirements and establishment of one packaging requirement for all items.

(E) A determination as to whether or not consideration will be given to evaluation of alternate offers must be made and documented.
(ii) QUALITY ASSURANCE. Testing and inspection requirements should be similar, as it may be inappropriate to include items that require in-process inspection with items that can be inspected at destination.

(iii) SUPPLY OPERATIONS. The inventory manager must manage recommended buy studies and ensure simultaneous purchase request generation. DLAM 4140.2 Volume II, Supply Operations Manual: Defense Supply Center Supply Operating Procedures, provides for the establishment of PGC which causes the Standard Automated Material Management Subsystem (SAMMS) to simultaneously review all NSNs within a PGC for recommended buys once any of the NSNs within a PGC reaches a reorder point. As a result of this review, recommended buys are simultaneously created for inventory manager review. The purpose of this review is to assure that requirements are computed and resulting purchase requests are simultaneously processed so as to arrive to the buyer for consolidated procurement.

(iv) CONTRACTING & PRODUCTION. The contracting officer has the responsibility to utilize the most efficient method of contracting to realize the benefit of the identification of the family grouped items. Additionally, the contracting officer has the responsibility to pass along to the technical focal point any information received from industry relative to existing or potential item groupings. Care must be taken to assure that the item groups promote, rather than inhibit competition.

5. MULTISOURCE CONTRACTING

a. DESCRIPTION. Multisource contracting involves awarding more than one contract for the same item to more than one supplier under the same solicitation. When it is planned to award more than one contract, a solicitation is issued advising offerors that the Government reserves the right to make more than one award under the solicitation. As a result, all or none and block bid offers are prohibited and FAR 52.215-34, Evaluation of Offers for Multiple Awards, is not included in the solicitation. The total quantity is divided into economic production quantities to help ensure the individual contract unit prices will be reasonable. This approach has historically been used in support of industrial mobilization items to ensure continual coverage, to expand the industrial base, or to prevent any shrinkage of an existing industrial base. However, this approach may also be used in business risk situations, utilizing full and open competition. In such cases, a written justification must be developed on the basis of the individual circumstances surrounding the acquisition. The justification must substantiate the minimum needs of the Government to make multiple awards at other than the lowest overall cost and address restricting all or none offers.

b. APPLICATION. Multisource contracting may be appropriate in the following situations:

(i) ESTABLISHING OR MAINTAINING ALTERNATIVE SOURCES. When the contracting officer determines it is in the best interest of the Government to award partial quantities in order to establish or maintain competition in accordance with FAR 6.202(a)(1), Establishing or maintaining alternative sources.

(ii) INDUSTRIAL MOBILIZATION. Multisource contracting may be used when it is necessary to divide current production requirements among two or more contractors to provide for an adequate industrial mobilization base in accordance with FAR 6.203-3(b)(1)(vii).

(iii) PRODUCTION TEST. Multiple awards may be made for the purpose of determining mass-producibility of new items or items for which the specification requirements have undergone major revisions. This authority is properly utilized when the Government's needs are primarily to determine that a specification can be mass-produced and secondly to obtain delivery of supplies. The quantity being procured in this case should be limited to the smallest economic production run required to assure an adequate production test. The authority for such purchases is normally full and open competition. DLAR 4125.1, Production Testing of DSA Managed Items, outlines the DLA policy and procedures for contracting for production testing purposes.
(iv) CONTRACTOR NOT RESPONSIBLE FOR ENTIRE QUANTITY.

(A) FAR 9.103 provides that award only be made to responsible prospective contractors. Therefore, once the contracting officer determines that the low offeror cannot provide the full quantity of supplies or services required, the contracting officer is not required to consider that source for quantities beyond its capacity and may award the balance of the requirement to the next low responsive, responsible offeror. When using this authority to make multiple awards, the responsibility determination must reflect a reasonable and detailed rationale for determining that award of a single contract to one contractor will overtax that contractor's production or service capacity.

(B) FAR provisions 52.214-10 and 52.215-16, Contract Award, provide the Government the flexibility to make an award for quantities less than the quantity offered.

(v) SUPPLY ASSURANCE. Multiple awards under full and open competition may be appropriate to ensure the availability of supplies in business risk situations. A business risk may be present in a variety of situations, including supply shortages resulting from delinquencies or a terminated contract.

(A) If use of multiple awards is contemplated because of a perceived business risk, before substantial work has begun to prepare a record justifying possible use of multiple awards, you should consult with legal counsel to ensure that an adequate basis exists for multiple awards.

(B) The contract file must contain adequate evidence that multiple awards may be necessary to obtain the Government's requirement when it is needed. For instance, the purchase request should indicate, as a separate line item, the minimum essential quantity required to support the Government's mission. The contract file should also contain documentation about the history of the item and suppliers which supports the possibility of making multiple awards. This could include information on the existence of difficult or complex specifications combined with a short delivery schedule. A history of poor performance, including defaults and delinquencies unrelated to Government caused delay, could also support such a decision. Information on supply availability should also be obtained from Supply Operations and included in the file. The file should also contain a description of how multiple awards will reduce or eliminate past performance or supply availability problems, as well as the specific evaluation criteria which will be used in making the award decision.

(C) When a business risk situation is anticipated, and multiple awards are contemplated, the solicitation must include a provision reserving the right to make multiple awards, or to award the entire requirement to the low offeror. Although multiple awards may be contemplated early in the acquisition process, a determination to use multiple awards in a business risk situation cannot be conclusively made until after receipt of offers and evaluation of the supply posture at that stage of the acquisition.

(D) When this acquisition situation is expected to occur, offerors may be advised, through the use of a solicitation provision, that only one price per item regardless of the quantity solicited, awarded, or eventually ordered may be offered. However, if more than one destination is involved, a different unit price may be offered for each destination. If there are multiple destinations, each destination should have a maximum quantity specified for that destination. A sample solicitation provision follows: "AWARD OF MULTIPLE CONTRACTS - The items to be acquired under this solicitation are necessary for this Center to perform its mission of providing support to the Military Services. In order to ensure a constant and sufficient supply of these items, the Government reserves the right to make more than one award under this solicitation. The Government further reserves the right to award the entire requirement to the low offeror. Offerors shall submit one price per destination when multiple destinations are involved. The Government may award option quantities over and above the minimum quantity depending upon the criteria as addressed in Section M of the solicitation."

c. FEATURES OF THE MULTISOURCE CONCEPT
(i) Multisourcing may be employed: with or without the application of source selection buying best value techniques; with or without options; with or without application of PGC; or with or without application of any other long-term contracting technique; and, depending on the circumstances of the procurement, the competition category for multisourcing may be full and open or other than full and open.

(ii) Multiple awards may be made on the basis of other than the lowest aggregate cost to the Government. As a result, the use of this concept must be justified in the contract file (depending on the circumstances, this justification may be included in the acquisition plan or it may be required to be included either in a justification and approval (J&A) for other than full and open competition or a determination and findings (D&F) for full and open competition after exclusion of sources. Further, FAR 52.215-34, Evaluation of Offers for Multiple Awards, may not be included in the solicitation.

(iii) All or none and block bid offers must be prohibited when multisourcing is a part of the planned acquisition strategy.

(iv) The solicitation must provide that offerors submit one price per item regardless of the quantity solicited, awarded, or eventually ordered. However, if more than one destination is involved for each item of the solicitation, the solicitation should permit offers of prices by destination for each item.

d. CONSIDERATIONS/LIMITATIONS. Considerations and/or limitations that must be taken into account when planning for use of the multisource concept include the following:

(i) The solicitation must clearly state that there is a possibility that the Government may elect to award to more than one source and that the Government may award to other than the low offeror.

(ii) When provision is made for multiple awards based on either an anticipation that an offeror will not be found responsible for the entire solicitation quantity or on supply assurance rationale, the contracting officer may plan for multiple awards to be made, but cannot reach a decision to do so until after offers are received and the evaluation of offers and of offerors capabilities dictates that award to more than offeror is appropriate.

(iii) The solicitation must specifically describe the method for evaluating all offers.

(iv) Advice of local counsel should be obtained in the solicitation planning phase of the procurement when consideration is being given to utilizing a multiple source approach.

e. MULTISOURCE APPROACHES

(i) INDEFINITE DELIVERY CONTRACTS

(A) MULTISOURCE/INDEFINITE QUANTITY CONTRACT. The multisource contracting concept may be combined with a long-term contracting approach to achieve extended coverage. One such approach is the multisource/indefinite quantity contract (IQC). Under full and open competition, two or more IQCs are awarded for the same item. Once the guaranteed minimum quantities have been ordered under each individual IQC, the contracting officer uses a matrix designed to evaluate price, quality, and delivery factors, to determine which contractor will receive follow-on orders. This type of contracting approach assures that delivery and quality are evaluation factors considered in the placement of future orders. Additional protection against supply failure is achieved from the use of this approach, as more than one source is available to produce the item, thus reducing the potential for a supply failure.

(B) MULTISOURCE/MODIFIED REQUIREMENTS CONTRACT. The multisource contracting concept may be employed to make multiple awards with no stated minimum guaranteed quantity. The procedure, as outlined in paragraph (A), also applies to this approach, except that no basic award of a minimum quantity need be made, as is true of RTC procedures. The contracting officer awards delivery orders based on price and other factors, as considered appropriate. Additional contract coverage
may be provided through the use of options, which may be awarded based on performance under the orders issued under the initial basic contract.

(C) IDC EVALUATION MATRIX. Under IDC multisource contracting, placement of delivery orders may be based on performance as well as price. Once the guaranteed minimum order quantities under an IQC have been ordered, an evaluation matrix may be used to determine which contractor will receive subsequent orders. When delivery orders are generated prior to completion of delivery on the initial orders, price is the determining factor in order placement (Factor 1). However, when delivery orders are generated after completion of delivery of the initial orders, performance is also considered (Factors 2 and 3). Thus, this approach incentivizes better performance in the placement of orders. The following is an example of an evaluation matrix when multiple IDCs are awarded for the same item. (Additional factors may be added as appropriate.)

**FACTOR 1: Price**

<table>
<thead>
<tr>
<th>No. of Points</th>
<th>Evaluation Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>Lowest contract price</td>
</tr>
<tr>
<td>7</td>
<td>Second lowest contract price</td>
</tr>
<tr>
<td>6</td>
<td>Third lowest contract price</td>
</tr>
</tbody>
</table>

**FACTOR 2: Delivery**

<table>
<thead>
<tr>
<th>No. of Points</th>
<th>Evaluation Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>All delivery increments due under previous delivery orders have been delivered on schedule.</td>
</tr>
<tr>
<td>4</td>
<td>No delivery increment due under a previous delivery order is more than 30-days delinquent.</td>
</tr>
<tr>
<td>2</td>
<td>No delivery increment due under a previous delivery order is more than 60-days delinquent.</td>
</tr>
<tr>
<td>1</td>
<td>No delivery increment due under a previous delivery order is more than 90-days delinquent.</td>
</tr>
<tr>
<td>0</td>
<td>One or more delivery increments due under previous delivery orders are more than 90-days delinquent.</td>
</tr>
</tbody>
</table>

**FACTOR 3: Quality**

Number of points and evaluation criteria are established for this factor in a similar manner.

(ii) MULTISOURCE/MULTIYEAR CONTRACT. Another approach involves the combination of multisource/multiyear contracting for industrial mobilization. This approach combines multiyear contracting with the exception to full and open competition as provided by 10 U.S.C. 2304 (c) (3). This authority allows the Government to forego full and open competition in order to maintain a facility, producer, manufacturer, or other supplier available for furnishing supplies or services in case of a national emergency or to achieve industrial mobilization. Specific FAR coverage is included at FAR 6.302-3 (b) (1) (vii) and FAR 17.1. The authority of 10 U.S.C. 2304 (c) (3) allows the Government to divide current production requirements among two or more contractors to provide for an adequate industrial base. Benefits of utilizing this type of contracting include maintaining a warm mobilization base, ensuring the availability of production sources and employee skills in the event of mobilization, maintaining balanced sources of
supply, reducing costs due to learning savings and bulk material purchases, reducing the administrative burden in awarding yearly contracts, and eliminating start up costs after the first year. In addition, this approach is beneficial to the contractor, as it provides for continuity of production and acts as an incentive for contractors to invest and expand their businesses. These benefits are especially important when promoting and maintaining a warm industrial base for the purpose of national defense.
1. **BLANKET PURCHASE AGREEMENT (BPA)** (REFERENCE FAR/DFARS/DLAR 13.2)

   a. DESCRIPTION. A BPA is a simplified method of filling anticipated repetitive needs for supplies or services by establishing "charge accounts" with qualified sources of supply. A BPA is an agreement and not a contract. The Government is neither financially nor contractually obligated to place calls against an established BPA.

   (i) A BPA is designed to reduce administrative costs in accomplishing small purchases by eliminating the need for issuing individual purchase orders.

   (ii) The BPA is established for a specified period of time, and if performance is satisfactory, it is automatically renewed for the next specified period of time. The period of time that a BPA is established may vary and is dependent on the contracting office procedures, industry, and commodities.

   (iii) The agreements are reviewed annually to assure contractor conformance to the terms and conditions of the agreement and satisfactory performance, as well as to update clauses.

   (iv) This contracting type provides for long-term coverage for small, repetitive buys that can be extended indefinitely. When the BPA is combined with electronic transmission, greater efficiency is realized.

   (v) Clauses normally included in purchase orders are also required in the BPA. However, if the clause prescription includes a dollar threshold, the clause need only be included in the BPA if any individual calls issued under the BPA are expected to meet or exceed that threshold. There are also clauses that apply to BPAs regardless of the dollar threshold of individual calls.

   b. APPLICATION. Establishment of a BPA may be appropriate when a wide variety of items are purchased from one contractor. Precise quantities and delivery requirements are generally not known and are not stated in the agreement. BPAs are established without the issuance of a purchase request and without accounting and appropriation data cited on the agreement. The BPA is established with the use of the DD Form 1155, Order for Supplies or Services, except for BPA's issued by DPSC-Subsistence, which may be issued on its form "Order for Subsistence". Generally, a BPA should only be established with firms from which numerous individual purchases are likely to be made and where past experience indicates those firms are responsible and consistently supply at fair and reasonable prices. When necessary, preaward surveys, including a Walsh-Healey determination, should be conducted prior to the establishment a BPA. In addition, small purchases, including the establishment of a BPA, are reserved exclusively for small business concerns as set forth in FAR 13.105 and 13.204 (c), unless the contracting officer determines there is no reasonable expectation of obtaining quotes from two or more small business concerns, or one small business concern if the dollar threshold is $2,500 or less.

   (i) BASE SUPPORT. Local/base support offices use BPAs, established with local suppliers, to provide authorization for the placement of phone orders and provide for immediate delivery.

   (ii) SCHEDULES. A BPA may also be established with Federal Supply Schedule contractors (FAR Subpart 8.4) and GSA nonmandatory ADP Schedule contractors (FAR Part 38), if it is consistent with the terms of the applicable schedule contract. The BPA may be established for both non-FSS and/or FSS items. When a BPA is established with an FSS contractor for both non-FSS items and FSS items, a distinction between such items is made in the agreement. A BPA with a FSS contractor that covers only non-FSS items contains a statement that the BPA excludes all items on the FSS.

   (iii) HARD TO FIND ITEMS. At the hardware centers, the commodity buying divisions, in support of the Inventory Control Point (ICP) mission, establish Special Blanket Purchase Agreements (SBPA) with vendors that agree to perform the service of locating "hard to find" items. A call is issued against a SBPA for a
specific "hard to find item" that the SBPA holder has indicated it is willing to furnish, if it can. The SBPA holder is required to notify the Government of price and availability of the item within a specified period of time, generally 60 days. Preliminary results regarding this special form of BPA reflect that an overall reduction in small purchase procurement lead time is achieved as the SBPA holders are generally responsive to these small purchases.

(iv) AUTOMATED BPA. Within DLA, the BPA is most commonly used under the Standard Automated Small Purchase Phase I System (SASP I). Individual calls are limited to $2,500. Under this system, calls are issued automatically, on a rotating basis, to BPA holders. A BPA holder is identified in the system according to Commercial and Government Entity (CAGE) code and Federal Supply Class (FSC) for the items they have indicated they can furnish. The CAGE codes are obtained from Cataloging Handbook H4-1, Name to Code, available from the Government Printing Office (GPO). To ensure fair and reasonable prices are paid under the automated BPA, the Cost and Price element at the Defense Supply Centers reviews those orders for which the system indicates potential overpricing. However, whenever overpricing is suspected under a BPA, the contracting officer has the responsibility to make an inquiry regarding the fairness of the price. Failure of the BPA holder to respond to the inquiry may result in termination of the BPA.

c. ORDERING. Under a BPA, orders are placed under what is termed a "call." A call is a notice to a BPA holder that the Government has a requirement and would like the supplier to fill it. The BPA holder has the option to accept or reject the call and is generally required to respond to a call within a specified time, indicating whether or not the item will be shipped and at what price. Calls against BPAs can be made by any of the individuals identified in the BPA as authorized to place them. Calls do not have to be placed by the contracting officer.

(i) COMPETITION. By rotating calls against BPAs established with more than one supplier for the same item, competition is promoted even though competition is not required for purchases of less than $2,500 (Reference FARS DEV 88-15, Test of Raising the FAR 13.106(a) Threshold). For purchases valued over $2,500, calls issued against a BPA are subject to the same competition requirements as those that govern other small purchases of that dollar value (Reference FAR 13.106). In these cases, the person making the purchase is required to solicit quotes from other sources, if they exist, when competition cannot be obtained through use of established BPAs.

(ii) THRESHOLD. Individual calls issued against BPAs are limited to the small purchase dollar threshold ($25,000), except for calls for subsistence, which are unlimited as to dollar value. However, such actions that exceed the small purchase dollar threshold, must satisfy the competition requirements in FAR PART 6. There is no requirement to specify a maximum aggregate dollar amount of all calls issued against one BPA. However, the head of the contracting activity may specify the aggregate dollar amount, if any, of all calls to be issued against one BPA.

(iii) FORMAT. Individual calls may be oral, may be issued on the DLA Form 1224, Shipping Instruction; the DD Form 1155; DPSC Form 300, Order for Subsistence; or they may be electronically transmitted (as discussed in Section IV).

d. CONTENT. A BPA contains the following information:

(i) Description of agreement, i.e., supplies to be furnished, if and when requested by those persons authorized to place calls, during a specified period and up to a specified aggregate amount, if applicable.

(ii) Extent of the obligation, i.e., a statement that the Government is only obligated to the extent that authorized calls are issued.

(iii) A statement that prices shall be as low or lower than those charged the supplier's most favored customer for similar quantities and conditions, in addition to any discounts for prompt payment.
(iv) Purchase limitation, i.e., the dollar limit of individual calls issued against the BPA. (Under Automated Small Purchase Phase I (ASP I), the dollar limit is $2,500.)

(v) Notice of individuals authorized to purchase under the BPA. For items covered under ASP I, the BPA contains a statement that due to the use of an automated purchasing system, no list of individuals authorized to place calls shall be provided.

(vi) Requirement for delivery tickets by the BPA vendor to include the name of vendor, BPA number, date of purchase, call number, list of supplies furnished, quantity, unit price, and extension, less any discounts, and date of shipment.

(vii) Invoices may be submitted in one of the following ways:
- (A) Summary Invoice. Submitted at least monthly (or upon expiration of the BPA, whichever occurs first) for all deliveries made during a billing period, identifying delivery tickets covered therein, stating their total dollar value, and supported by receipted copies of the delivery tickets.
- (B) Itemized Invoice. Submitted at least monthly (or upon expiration of the BPA, whichever occurs first) for all deliveries made during a billing period for which payment has not been received. Itemized invoices need not be supported by copies of delivery tickets.
- (C) Individual Invoice. When billing procedures provide for an individual invoice for each delivery, the invoices shall be accumulated, provided that a consolidated payment will be made for each specified period and the period of any discounts will commence on the final date of the billing period or on the date of receipt of invoice for all deliveries accepted during the billing period, whichever is later.

2. INDEFINITE DELIVERY TYPE PURCHASE ORDER (IDTPO)

a. DESCRIPTION. A long-term procedure currently under consideration, but not yet in use, is an IDTPO. This is a small purchase procedure that applies the indefinite delivery contract concept to small purchases. An IDTPO, when established by agreement of the contractor (unilateral), establishes a standing price quotation from the contractor for a definite period for an indefinite quantity of supplies. However, when established as a contract (bilateral), an IDTPO establishes a firm commitment that the contractor will perform under subsequent orders issued, at the purchase order price for a definite period for an indefinite quantity of supplies.

b. APPLICATION. Use of an IDTPO is appropriate where repetitive low dollar value purchases are made for the same item, the price of the item is expected to be stable, and anticipated yearly or other long-term demands are not sufficient to establish a large purchase indefinite delivery contract. The aggregate total dollar value of orders issued against an IDTPO during the ordering period may not exceed $25,000.

(i) An IDTPO should not be used for items that can be purchased under a BPA, through the Standard Automated Material Management System (SASPS) Phase I. Requirements which would normally be acquired through large purchase procedures are specifically not to be split to qualify for use of an IDTPO (see FAR 13.103 (b)). Only one IDTPO may be established per item.

(ii) The ordering period should normally not exceed 1 year. The decision to establish an IDTPO is normally made by the contracting officer in coordination with the inventory manager.

c. METHODS OF ESTABLISHMENT

(i) UNILATERAL. An IDTPO may be established unilaterally. When this is done, notwithstanding the fact that a vendor has quoted against the provision, the vendor, as with any unilateral purchase order quote, will not have entered into a contract that binds it to the IDTPO provision for performance under subsequently issued orders. Likewise, the Government is not obligated to place subsequent orders
under the IDTPO provision. Effecting the purchase in this manner provides the flexibility to determine the method of purchase for a subsequent requirement (e.g., order against the IDTPO, or issue a new solicitation) that is in the best interest of the Government.

(A) PUBLICATION

(1) POSTING. When the dollar value of the combined basic requirement and the anticipated projected requirements is expected to exceed $5,000, posting of the basic requirement along with the anticipated IDTPO projected requirements, in accordance with FAR 5.101, will preclude the need to post subsequent orders exceeding $5,000 before they are placed.

(2) SYNOPSIS. The requirements of FAR 5.2, concerning synopsis, need be followed only when an individual order for a noncompetitive item is estimated to exceed $10,000. However, if the estimated total quantity anticipated to be ordered under the IDTPO is included in a synopsis notice, then subsequent orders issued under the IDTPO need not be individually synopsized.

(B) EVALUATION AND AWARD. The solicitation requests quotes on the basic requirement and requests that the offeror state if it agrees or does not agree to accept subsequent orders within a stated quantity range for the offered price. Quotations from offerors that do not quote against the additional quantities are not rejected. Award is made to that responsible offeror that submits the lowest, acceptable quotation for the basic requirement. If this offeror (awardee) has offered to accept the IDTPO provision (additional quantities), then when the price for the projected requirements is determined fair and reasonable at the time of award for the basic requirement, price reasonableness determinations need not be made for subsequent orders placed under the IDTPO provision.

(i) BILATERAL. An IDTPO may also be established bilaterally. Under this approach, offerors are advised that acceptance of the basic purchase order binds the contractor to accept and perform on additional orders, within the stated minimum and maximum quantities, as ordered by the designated ordering officer. Use of this approach establishes a binding contract, yet does not bind the Government to place orders against the IDTPO (i.e., the IDTPO is an IQC).

(A) PUBLICATION

(1) POSTING. The solicitation is posted in accordance with FAR 5.101 when the dollar value of the combined anticipated basic requirement and the projected IDTPO requirements are estimated to exceed $5,000.

(2) SYNOPSIS. The solicitation is synopsized when the dollar value of the combined basic requirement and the projected IDTPO requirements are estimated to exceed $10,000 for noncompetitive items.

(B) EVALUATION AND AWARD. The solicitation states whether or not the Government will reject quotes if the offeror refuses to agree to supply additional quantities. Award is made to that offeror that submits the low, technically acceptable quotation for either the minimum basic requirement, or for the combined basic and IDTPO requirements, depending on the solicitation conditions. When the prices for the projected requirements are determined fair and reasonable at the time of award of the basic requirement, there is no need for price reasonableness determinations to be made for subsequent orders placed under the IDTPO.

3. LONG-TERM ARRANGEMENTS FOR PURCHASES FROM THE NATIONAL INDUSTRIES FOR THE BLIND (NIB), THE NATIONAL INDUSTRIES FOR THE SEVERELY HANDICAPPED (NISH), AND THE FEDERAL PRISON INDUSTRIES, INC. (FPI) (UNICOR) (REFERENCE FAR/DLAR 8.6 AND 8.7 (NO DFARS COVERAGE))

a. BACKGROUND

(i) FPI, INC (UNICOR) (REFERENCE FAR 8.6). As implemented by FAR 8.602, agencies are required to purchase supplies of the classes listed in The Schedule of Products made in Federal Penal and Correctional Institutions, at prices not to exceed current market prices from the Federal Prison Industries, Inc. (FPI). In addition, agencies are encouraged to use the facilities of FPI to the maximum extent practicable in purchasing supplies that are not listed in the Schedule and
in purchasing services that are listed in the Schedule. FPI is also commonly referred to as UNICOR.

(ii) NIB/NISH (REFERENCE FAR 8.7). Title 41, part 51-1.1 of the Code of Federal Regulations sets forth the policy of the Committee for Purchase from the Blind and Other Severely Handicapped. The Committee for the Purchase from the Blind and Other Severely Handicapped was established by Public Law 92-28 (the Act) June 23, 1971, for the purpose of directing the procurement of selected commodities and services by the Federal Government to qualified workshops serving blind and other severely handicapped individuals with the objective of increasing the employment opportunities for these individuals.

(A) PROCUREMENT LIST. The Committee is required to establish and publish in the Federal Register a procurement list of:

(1) SUPPLIES. Commodities produced by any qualified nonprofit agency for the blind or by any qualified nonprofit agency for other severely handicapped.

(2) SERVICES. The services provided by any such agency which the Committee determines are suitable for procurement by the Government pursuant to the Act.

(3) STOCK. Workshop supplies available from the General Services Administration (GSA) stocks at supply distribution facilities and the Defense Logistics Agency (DLA) system.

(B) REQUIREMENTS. The Act further provides that any entity of the Government, which intends to procure any commodity or service on the procurement list, must procure such commodity or service at the price established by the Committee, from a qualified nonprofit agency for the blind or agency for the other severely handicapped if the commodity or service is available within the normal period required by that Government entity. (This requirement does not apply to the procurement of any commodity which is available from FPI, Inc.)

b. GENERAL

(i) ORDER OF PRECEDENCE. FPI/NIB/NISH may produce identical supplies or offer the same services. When this occurs, ordering offices are required to purchase supplies and services in the following order of priority:

(A) SUPPLIES -

(1) FPI

(2) NIB

(3) NISH

(B) SERVICES -

(1) NIB

(2) NISH

(3) FPI

(ii) ORDERS. Orders placed by DLA with FPI/NIB/NISH are not governed by traditional contractual requirements. When DLA purchases items from FPI and NIB/NISH, a delivery order or letter is issued in lieu of a contract. The DD Form 1155 is generally used to issue orders to NIB/NISH and to FPI. 18 U.S.C. 4124 prescribes arbitration procedures for disputes by or with FPI regarding price, quality, character, or suitability of products. When a NIB/NISH workshop fails to perform under the terms of an order, the ordering office makes every effort to resolve the noncompliance with the workshop involved and to negotiate an adjustment before taking action to cancel the order. Orders issued to FPI/NIB/NISH are not subject to termination for default, but are cancelled for failure to perform.

c. LONG-TERM ARRANGEMENTS

(i) GENERAL. DLA is especially sensitive to the problems faced by these organizations. One such problem is the need to provide advance notice to FPI and to NIB/NISH workshops concerning our future requirements. With such information, FPI and the NIB/NISH workshops can make long-term commitments for supplies and subcontracts and can better train and utilize their work force by avoiding periods of work shortages and layoffs.
APPLICATION. Contracting officers and inventory managers periodically review their requirements for mandatory FPI/NIB/NISH items, to determine if quantities and ordering frequencies lend themselves to a long-term arrangement. Whenever possible and appropriate, a long-term agreement should be established. Coordination with the Center Small Business Office is required, as that office is the focal point for mandatory FPI/NIB/NISH purchases. The inventory manager and the contracting officer should coordinate to adjust desired delivery schedules to the required inventory levels to the greatest extent possible.

FORMAT. Although it is not necessary to establish a contract with FPI or a NIB/NISH workshop for such long-term agreements, to accommodate these organizations, an approach similar to an Indefinite Delivery Contract may be used. The DD Form 1155 may be used for both the two party basic agreement and for issuing delivery orders against the basic agreement. The basic document should include an estimated delivery schedule for the initial ordering period, as well as the anticipated delivery schedule for any projected follow-on requirements that may be ordered during the period covered. Such agreements specify the period of time covered by the agreement and may include option periods. This information, and such a commitment, allows the workshop to make long range production plans in an attempt to eliminate production peaks and valleys to the greatest extent possible.
1. PAPERLESS ORDER PLACEMENT SYSTEM (POPS)

   a. DESCRIPTION. POPS is an automated purchasing system under which delivery orders are issued electronically against established Indefinite Delivery Contracts (IDCs). The program provides for the capability to place orders directly with contractors via electronic means. By using computer to computer interfacing to place orders, hardcopy delivery orders are eliminated.

   (i) Under POPS, commercially available distribution systems are utilized in lieu of maintaining large inventories at the Defense Supply Depots. The POPS system allows the contractor to fill Government orders for commercially available items, by shipping directly to the requisitioner from contractor inventories at a regional warehouse, thereby bypassing the supply center storage and shipping functions.

   (ii) Benefits derived from using POPS include increased productivity while working with fewer resources, as well as the savings realized from the reduced inventory levels required. (The Government may only need to maintain a safety level inventory to ensure that: emergency requirements, mobilization requirements, shipments to remote locations, or orders below the minimum order quantity can be satisfied.)

b. APPLICATION

   (i) CONTRACTS. The POPS system utilizes long-term priced contracts, such as IDCs or multiyear contracts. An option to extend the term of the contract is normally used to provide for extended coverage under the IDC. The long-term coverage makes the initial investment required to achieve computer capability more worthwhile for the contractor.

   (ii) DISTRIBUTION SYSTEM. Items supplied through the POPS are generally commercial and are available through a commercially established contractor distribution system. The POPS contractor may have a regional, national, or international warehouse distribution system.

   (iii) PACKAGING. The American Society for Testing and Materials (ASTM) D3951-82, Standard Practice for Commercial Packaging, must be adequate for POPS candidate items.

   (iv) INSPECTION. Destination inspection must be suitable for items to be considered for POPS inclusion, as shipment is made upon receipt of the electronic delivery order and inspection and acceptance occur at destination.

c. PROCESS. The Computer Assisted Requisition Review Reentry System (CARRRS) is a distribution data processing system used for support of requisitions for commercial products through POPS from the contractor regional warehouses. CARRRS screens the requisition, determines if the requisition meets established criteria, and directs shipment from the POPS contractor.

d. RESPONSIBILITIES. To achieve success through using the POPS concept, coordination between all functional elements involved in the acquisition process is essential. The individual directorate areas of concern are outlined below.

   (i) CONTRACTING:

      (A) Nominates and evaluates items for potential inclusion under the POPS systems.

      (B) Conducts market research to determine if the industry would be receptive to POPS.

      (C) Solicits and awards POPS contracts using Indefinite Delivery Contract (IDC) procedures.

      (D) Requests appropriate programming changes in support of new POPS vendors.

   (ii) QUALITY:
(A) Advises whether origin inspection requirements can be converted to destination inspection, when appropriate.

(B) Writes Quality Assurance Provisions (QAPS) appropriate for POPS covered items.

(iii) TECHNICAL:

(A) Nominates and evaluates items for potential inclusion under the POPS system.

(B) Reviews technical and descriptive data to ensure it is current and correct.

(C) Verifies that commercial packaging is appropriate.

(iv) SUPPLY:

(A) Nominates and evaluates items for potential inclusion under the POPS system.

(B) Determines pertinent supply characteristics of candidate items, such as number of requisitions, estimated annual demand quantity, and dollar value, and makes data available to Contracting.

(C) Initiates system specification requests for programming support when a new POPS vendor is to be added to the system.

(D) If considered appropriate, publishes and maintains a POPS catalog (i.e., a list of items available under the POPS system), including distribution to users. Coordinates with other directorates (Comptroller, Technical, Quality, and Contracting), when appropriate.

(v) COMPTROLLER:

(A) Establishes a standard price on POPS NSNs that is the cost of the item plus surcharges for retail losses and inflation. These surcharges are subject to yearly changes.

(B) Works toward an expanded POPS concept to include an automated billing payment system.

2. COPAD - CONTRACTOR OPERATED PARTS DEPOT

a. DESCRIPTION. COPAD is a totally electronic system that provides for a contractor to supply repair parts to the Government through the operation of a commercially established distribution center. Under COPAD, delivery orders issued against an IDC are generated by the system and electronically transmitted to the COPAD contractor for processing. The contractor delivers to the DLA supply depot which is collocated with the COPAD. The supply depot is responsible for packaging and shipping to the requisitioning activity.

b. ADVANTAGES. The goal of COPAD is to reduce the order processing and shipping time through the utilization of the commercial market. The Government benefits from the commercial distribution and storage system established by the manufacturer for commercial use. The Government also benefits from a reduction in required inventory levels, as only the safety level stock is maintained.

c. APPLICATION. The Defense Construction Supply Center (DCSC) uses the COPAD approach to support construction equipment, material handling equipment, and automotive repair parts requirements. Unlike POPS, COPAD does not cover specific NSNs, but supports any price listed item that is covered by any of the CAGE codes listed in the COPAD contractor's basic contract. (The COPAD system screens RBs against a COPAD eligibility CAGE code Table.)

d. PROCESS. Under COPAD, hardcopy delivery orders issued against IDCs are transmitted electronically to the COPAD contractor. Four hardcopies of the COPAD delivery order are printed, i.e., two copies accompany the shipment, one copy is retained by the COPAD contractor, and one copy is maintained by the receiving supply depot. During the processing of the COPAD order, a Material Release Order (MRO) is established and retained by the depot pending receipt of the material from the contractor.
e. DELIVERY
   (i) REQUIRED DELIVERY DATE. The required delivery date (RDD) for COPAD IDC orders is computed by adding a number of days to the issue date of the order.
      (A) Issue Priority Group (IPG) 1: 5 days.
      (B) IPG I/II (Not Mission Capable-Supply (NMCS), Anticipated Not Mission Capable-Supply) ANMCS, 555, 999): 5 days.
      (C) IPG II (exclusive of NMCS, ANMCS, 999, 555): 8 days.
      (D) IPG III: 10 days.
   (ii) DELIVERY PERFORMANCE. If the contractor cannot meet the RDD, an alternate delivery date may be negotiated with the contracting officer. The contractor is paid incentives or assessed liquidated damages based upon contract delivery effectiveness. By delivering before the order delivery due date, the contractor earns a bonus (incentive). If the contractor delivers after the order delivery due date, liquidated damages are charged. The schedule of incentives and liquidated damages is established in the basic contract.

f. REPORTS. The COPAD system produces reports which provide vital support and review data. The following list includes a description of some of the primary reports used:

   (i) COPAD Financial Data 1 (Monthly) - This report documents the monthly incentives which will be earned by the contractor and provides for a summary by Issue Priority Group (IPG), Number of Lines Delivered, and Average Number of Days.
   (ii) COPAD Financial Data 2 (Monthly) - This report is used by the Comptroller as a payment support document.
   (iii) Weekly COPAD Price Review and Analysis Feeder Report - This report covers orders delivered during the previous week and is used by the Directorate of Contracting and Production for price reviews and by the Directorate of Technical Operations for review of substitute part number suitability. (This report is issued weekly and monthly.)
   (iv) Order/Shipment Time by Segment - This report tracks requisitions by submission time, processing time, and transportation time.
   (v) Vendor Response Review Report (Monthly) - This report provides a comparison between the Required Delivery Date (RDD) and the Estimated Delivery Date (EDD) furnished by the contractor when responding to the COPAD order.

3. AUTOMATED DELIVERY ORDERS AGAINST ADVANCE AGREEMENTS
   a. DESCRIPTION. Through the use of the Standard Automated Material Management System (SAMMS), a Computer Generated Delivery Order (CGDO) can be utilized to award delivery orders against existing contracts. The primary objectives of the Advance Agreements program are to minimize costs, administrative leadtime, and vendor response time. These agreements have the added benefit of increasing productivity.

   b. APPLICATION. Under this automated program, existing contracts are termed "Advance Agreements." There are three types of Advance Agreements covered by the program.
      (i) Requirements Contracts (RTC);
      (ii) Indefinite Quantity Contracts (IQC);
      (iii) Federal Supply Schedules (FSS), when it is determined that the FSS source of supply is the preferred source for specified items (i.e., the contracting officer would award to the FSS source under manual procedures).

   c. PROCESS. Once an RTC or IQC is awarded or a sole source Federal Supply Schedule is identified and the information is included in the Advance Agreement Master File (AAMF), mechanical preparation and award of delivery orders is possible. The program screens Recommended Buys (RBs) against the AAMF. When the RB meets all parameters established in the AAMF, funds are obligated and a CGDO is issued. This in turn causes an update of all applicable SAMMS files. The DD350 will
be prepared on-line. When the RB is unmatched in the AAMF, it will be excluded and sent to Purchase Request Management for traditional processing. Matched RBs that do not meet all the parameters will reject to the item manager or the contracting officer for additional review and correction. RBs with order data meeting the Center designated review threshold will be directed to the buying section for the appropriate manual review.

4. SPEDE - SAMMS PROCUREMENT BY ELECTRONIC DATA EXCHANGE

a. DESCRIPTION. SPEDE is an electronic ordering system that is based on computer interfacing. Under SPEDE, the Government transmits an electronic Shipping Information Sheet (SIS) to the contractor. The contractor, in turn, responds to the Government call/order via an electronically formatted Vendor Response Card (VRC). Thus, the requirement to issue a hardcopy call/order is eliminated.

b. APPLICATION. SPEDE is based on a pre-established Blanket Purchase Agreement (BPA) or an Indefinite Delivery Contract (IDC). Currently, the SPEDE system utilizes the SAMMS Automated Small Purchase System Phase 1 (SASP 1).

c. PROCESS. Prior to entering the system, a BPA holder/IDC contractor is provided a software package that provides the basic interface required to participate in the SPEDE system. Participants in the system must have a personal computer, a telephone modem, and phone line. In addition, certain communication protocol must be observed. For example, the SPEDE vendor is required to respond to calls/orders generated by the Government through the use of codes. The codes allow the Government to take the appropriate action upon receipt of the electronic response. The vendor response codes are listed below to illustrate the limits of the system.

<table>
<thead>
<tr>
<th>CODE</th>
<th>EXPLANATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>S</td>
<td>Order will be filled at the price indicated. No changes will be made.</td>
</tr>
<tr>
<td>C</td>
<td>Order will be filled, but there is some change in the order as originally required. The allowable changes are governed by the Basic Agreement, i.e., if substitution of obsolete parts is allowed, etc.</td>
</tr>
<tr>
<td>N</td>
<td>Unable to supply the item as specified. Reason provided under note section.</td>
</tr>
<tr>
<td>P</td>
<td>Total dollar value of award will exceed $2,500. (The current dollar threshold of calls issued against BPAs under the SASP I system.)</td>
</tr>
</tbody>
</table>
CONCLUSION

1. PLANNING. Advance acquisition planning is the key to the effective utilization of available contracting tools. Through advance planning, barriers which prevent the successful use of various long-term contracting types are identified, lead time is significantly reduced, and potential quality problems are addressed. Advance acquisition planning permits the evaluation of technical merit, in addition to price, and assures the Government will receive the "best value" for the money spent. Small Business Office participation in acquisition planning ensures that small businesses will not be negatively impacted by utilization of an alternate contracting approach. The review of items/services, in search of the optimum contract approach, is ongoing. As new systems are developed, innovative deviations are granted, and existing procedures are changed, the dynamics of item selection criteria will also shift. Continual review and upfront planning will facilitate the use of new contracting approaches.

2. PLANNING MEETINGS. To provide for continuity in achieving maximum success in the effort to increase long-term contracts, it may be helpful to hold advance planning meetings at regular intervals. The groups should formulate alternative long-term contracting approaches for future procurements, based on background information and anticipated requirements. Participation in the planning meetings of an individual from each office involved with the acquisition is essential. Each specialist is responsible for bringing the appropriate background information to the group. Specifically, the inventory manager identifies past requirements, future estimated requirements, and demand data; the quality assurance representative identifies past quality problems, issues, and testing requirements; the technician identifies the stability of the item design, commerciality, the impact of alternate offers, and potential family grouping of items; the contracting officer identifies past buying practices and problems, competition requirements, pricing issues, and industry responsiveness to alternate contracting approaches; the financial expert identifies funding issues and problems that may impact contract type. Effective exchange of information will allow the participants the opportunity to understand and identify blocks in the overall acquisition process. When the contract has been awarded, each office involved in the acquisition process should be advised of the type of contract awarded, the reasons for selecting a specific contract type and/or technique, and any additional information that may be used to enhance future attempts at achieving long-term contract coverage.

3. CAUTIONS. The contract types and techniques discussed in the handbook are possible alternatives to routine contracting approaches. Each type or technique may present unique risks and problems associated with that particular approach.

   (i) For example, DCSC has discontinued the use of multiyear contracting for Military Interdepartmental Purchase Requests (MIPRs) for construction equipment because of the difficulty in guaranteeing out-year quantities and funds, providing timely funding, and holding economic price adjustment (EPA) dollars. To avoid the risks associated with multiyear contracting, DCSC converted to Indefinite Quantity Contracts, with option year extensions. However, use of the option year extensions has resulted in slightly higher prices.

   (ii) Consideration of the dollar value related requirements or restrictions that will apply if a long-term contracting type or technique is used and how the problems can be avoided should be addressed in the acquisition planning process. For example, since options must be included in the acquisition value for determining applicability of the Trade Agreements Act (TAA), the decision to use options may impact the award process. In a recent acquisition, the decision to use an option for subsequent years created a situation where award could not be made to the low offeror because of application of the TAA. The low offer was for a product manufactured in Mexico and was much lower than the second low offer. When the Trade Agreements Act applies, award on foreign offers other than designated country or Caribbean Basin country end products is prohibited. Since Mexico is not a
designated or Caribbean Basin country, the use of options to accomplish long-term contracting prohibited award at the lowest offered price, even though this offer would have been awardable using the 50 percent price differential under the Buy American Act. This example demonstrates that the decision to use any contract type or technique should be based on a thorough analysis of the risks, as well as the benefits.