852.216-72 Proportional Economic Price Adjustment of Contract Price(s) Based on a Price Index.

As prescribed in 816.203-4(e)(2), insert the following clause:

Proportional Economic Price Adjustment of Contract Price(S) Based on a Price Index (MAR 2018)

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

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

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

[2] Specify where the index can be found, such as in an example for gasoline, "the Energy Information Administration website (see VAAM M816.203-70).

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

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

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

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

(c) For purposes of this clause, it will be conclusively presumed that ______ percent (%) [5] of the price of ______ [6] represents the Base Cost of ______ [7] and the resulting Base Cost will be the basis upon which adjustment will be made under this clause. This Base Cost will be used in calculating all adjustments to the following line items: ______. [8] A new Base Cost will be calculated for each option year period based on the new option year prices.

[5] Prior to issuing the solicitation, the Contracting Officer must conduct market research to determine

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

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

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

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

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

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

(f) The dates of contract adjustment shall be ______ [9] and the starting dates of each option year, if not already included in these dates. The Contracting Officer shall retain a copy of the Base Index in the contract file and, on each date of adjustment specified herein, obtain a copy of the Adjusting Index. The Contracting Officer shall calculate the adjustment due and shall, within 5 business days, issue a modification to the contract adjusting the contract or unit price(s). The adjusted contract or unit price(s) shall be effective for all orders placed or services provided after the date of contract adjustment, as specified in this paragraph (f), until the date of the next contract adjustment. If the Contracting Officer fails to act, the Contractor shall request a contract adjustment in writing and any subsequent adjustment shall be retroactive to the applicable date of contract adjustment. The Contractor's entitlement to price increases for a prior contract period (base year or option year) shall be waived unless the Contractor's written request for an adjustment under this clause is received by the Contracting Officer no later than 30 days following the end of the base year for changes applicable to the base year, or 30 days following the end of each option year for changes applicable to that option year. The Government's right to contract decreases for prior contract periods (base year or option year) shall be waived unless the Contracting Officer processes a contract modification no later than 30 days following the end of the base year for changes applicable to the base year, or 30 days following the end of each option year for changes applicable to that option year.

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

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

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

Adjusting Index (most recent Index cost of gasoline as of the date of the first adjustment period)	$2.129 per gallon.
Minus the Base Index (Index cost of gasoline as of the date of receipt of offers)	−$1.559 per gallon.
Equals increase (or decrease) to the Base Index	$0.570.
Divide increase (or decrease) to the Base Index by the Base Index	$0.570 + $1.559 = .3656 * (36.56% increase).
Base Cost of $0.21 (10% of $2.10) multiplied by .3656 = $0.0768 unit price increase. New Unit price following the adjustment is $2.10 plus $0.0768 = $2.1768 per mile (rounded to $2.18) **	

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

Adjusting Index (most recent Index cost of gasoline as of the date of the second adjustment period)	$1.449 per gallon.

Minus the Base Index (Index cost of gasoline as of the date of receipt of offers)	−$1.559 per gallon.
Equals increase (or decrease) to Base Index	($0.110) (a negative $.11).
Divide increase (or decrease) to the Base Index by the Base Index	($0.11) + $1.559 = (.0706) (7.06% decrease).
Base Cost of $0.21 (10% of $2.10) multiplied by (.0706) = ($0.0148) unit price decrease	
New Unit price following the second economic price adjustment is $2.10 minus $0.0148 = $2.0852 per mile (rounded to $2.09)	

(3) At the start of the first option year, the Contracting Officer shall recalculate the price per mile based on any changes in the price of gasoline from the original contract award date and based on the Contractor's new first option year price per mile. Assuming the Contractor's bid price per mile for the first option year was $2.25 per mile, the new Base Cost for gasoline would be 10% of $2.25, or $0.225 (note that the original percent figure from paragraph (c) (10% in this sample) stays constant throughout the life of the contract), but the Base Cost would change if the option year contract price changes. If the Adjusting Index for gasoline at the start of the first option year was now up to $1.899 per gallon, the new first option year price for the first contract adjustment period would be calculated as follows:

Adjusting Index (most recent Index cost of gasoline as of the first day of the first option period)	$1.899 per gallon.
Minus the Base Index (Index cost of gasoline as of the date of receipt of offers)	−$1.559 per gallon.
Equals increase (or decrease) to the Base Index	$0.340.
Divide the increase (or decrease) to the Base Index by the Base Index	$0.34 + $1.559 = .2181 (21.81% increase).
Base Cost of $0.225 (10%* of $2.25) multiplied by .2181 = $0.0491 unit price increase	
New Unit price for the first contract adjustment period in the first option year is $2.25 plus $0.0491 = $2.2991 per mile (rounded to $2.30 per mile).	

[2]

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

(i) In the event that ______ [10] discontinues, or alters substantially, its method of calculating the Index cited herein, the parties shall mutually agree upon an appropriate substitute for determining the price adjustment described herein. If the Contracting Officer determines that the Index consistently and substantially fails to reflect market conditions, the Contracting Officer may modify the contract to specify use of an appropriate substitute index, effective on the date the Index specified herein begins to consistently and substantially fail to reflect market conditions.

[10] Enter in the name of the entity whose index is used in the clause. In the example for ambulance services using the “Weekly U.S. Retail Gasoline Prices, Regular Grade” index; the Contracting Officer would enter the “Energy Information Administration, Department of Energy”.

(j) Any dispute arising under this clause shall subject to the “Disputes” clause of the contract.

(End of clause)

Parent topic: Subpart 852.2 - Text of Provisions and Clauses

[1]

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

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

[2]

* Note that the percentage remains constant (10%) but that the Base Cost has been increased for the first contract adjustment period in the first option year, since the Base Cost is a percentage of the first option year unit cost per mile (in this sample), and the unit cost per mile has increased in this sample for the first option year from $2.10 to $2.25. Although the new unit price for the first contract adjustment period of the first option year following application of the economic price adjustment in this sample would be $2.30 per mile, all economic price adjustment calculations made during that first option year would be based on the original first option year bid price ($2.25 in this sample). If in the second contract adjustment period of the first option year, the calculations resulted in a unit price increase for gasoline of $0.0332, the adjusted price for that period would be $2.25 + $0.0332 = $2.2832, rounded to $2.28 per mile.