

# T-AIM 9X ADJUSTMENT OF PRICE FOR QUANTITY AND ESCALATION

**1.0 Introduction.** The parties agree to the pricing in the LRIP Pricing Table (LPT) for Lot options 1, 2 and 3 to this contract. The parties also agree to the use of a Procurement Price Commitment Curve (PPCC) for production Lots 4 through 7 as defined in Paragraph 2.4 below. The purpose of this clause is to:

- Define the LRIP requirements for option pricing for the exercise option quantities
- State the specific requirements associated with the PPCC for Lots 4 through 7
- Identify an Economic Price Adjustment clause to protect against abnormal fluctuations in labor and material costs for Lots 4 through 7.

## **2.0 LRIP Pricing Table (LPT).**

**2.1 Definition.** For the purposes of this clause, the LPT Requirement is the unit price, expressed in then-year US\$, for various quantity ranges for LRIP Lots 1, 2 and 3 and are to be provided in the LPT. Each LPT Requirement specified in the LPT is the total procurement price of the Units divided by the number of units per lot.

**2.2. LRIP Pricing Table Requirements.** The Seller's LPT Requirements are stated in the LRIP Pricing Table (LPT). The LPT Requirement covers a unit price for any order quantity associated with an Order Quantity Range as indicated in the LPT. The total price of an option shall be the LPT Requirement times the order quantity as taken from the LPT. The individual LPT Requirements are subject to adjustment due to Buyer-caused Engineering Change Proposals in accordance with this request.

**2.3 LRIP 3 LPT Requirement in Constant GFY 96\$.** The Seller's LPT Requirement for Lot 3 for \_\_\_\_\_ units expressed in constant GFY 96\$ is \_\_\_\_\_.

## **2.4 PROCUREMENT PRICE COMMITMENT CURVE (PPCC)**

The Seller and the Buyer agree to the use of a Procurement Price Commitment Curve (PPCC) to determine pricing requirements inclusive of profit or fee for production Lots 4 through 7. The PPCC here under will be based on the following the calculation:  $Y = AX^B * PCI$  (See paragraph 2.5 for definition of variables), where B is \_\_\_\_\_ (\_\_\_% curve), and shall project prices for out year production Lots 4 through 7. Adjustments to the PPCC are allowed for: changes in quantity; Economic Price Adjustment; and Buyer-caused changes under the "Changes" clause. This PPCC is a commitment by the Seller to specific unit prices inclusive of profit or fee for production units to be procured in Lots 4 through 7. The PPCC derived unit prices for specific quantities for each of Lots 4 through 7 are set forth in paragraph C below. Units associated with the PPCC are defined to be identical in terms of performance and configuration to the LRIP Lot 3 Units. This PPCC clause or a substantially similar clause will be in effect and placed in every contract awarded for lots 4 through 7.

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The Buyer anticipates awarding follow-on, firm fixed price (FFP) contract(s) for Lots 4 through 7. These contract(s) may be on a multi-year basis, a base year with options, or some other basis. To that end, the Buyer anticipates issuing a solicitation to the incumbent Seller for Lots 4 through 7 not later than one-hundred twenty (120) days after the exercise of Lot 3 of this contract.

A. If the Buyer issues a solicitation(s) for and purchases Lots 4 through 7 and provided the Seller submits a proposal(s) for Lots 4 through 7, in response to the solicitation(s), that meets or improves on the prices in the PPCC, the following actions will occur. (However, the decision not to issue a solicitation for or purchase Lots 4 through 7 is dependent on the buyer receiving a contract from the US Government for this product, the US Government has not specified a change eliminating the Unit, and is final and shall not be subject to dispute by the Seller under the "Disputes" Clause or any other clause of the contract and shall not be appealable to any Board of Contract Appeals, Claims Court, or any other Court. Nor shall the decision create any cause of action under or related to the contract in any court.)

(1) Provided the Seller's performance in the areas of cost, schedule and quality is acceptable through the decision date for contract award, the Buyer will issue sole source contracts to the Seller for all Units covered by the solicitation(s) for Lots 4 through 7.

(2) The Buyer will consider waiving the requirement for certified cost or pricing data and making the above awards for Lots 4 through 7 on the basis of price analysis.

(3) The Seller will retain configuration control allowing him the opportunity to make changes that do not affect the requirements found in the system specification or cause a need for requalification of the Unit, missile AUR or other missile subsystems.

(4) The Buyer may continue to use the Seller for the Unit maintenance and repair.

B. If the Seller submits a proposal(s) for Lots 4 through 7, in response to the solicitation(s), that exceed the prices in the PPCC, the Seller will be required to submit certified cost and pricing data. In addition, the Buyer reserves the right to invoke any or all of the following:

(1) The Buyer may require the contractor to deliver to the Buyer, at no additional cost, a technical data package suitable for reprourement by the Buyer. Further, the Buyer will have the right to use this data package for reprourement purposes.

(2) The Buyer will have the option of increasing in-plant oversight.

(3) The Buyer may choose to release a competitive solicitation(s) for Lots 4 through 7.

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C. The following are the Seller's PPCC derived unit prices for Lots 4 through 7 (based on the most likely quantities on LRIP Lots 1 through 3):

		Then Year \$	GFY96 \$
Lot 4	600 Units* :	FY03 \$ _____	\$ _____
Lot 5	600 Units* :	FY04 \$ _____	\$ _____
Lot 6	600 Units* :	FY05 \$ _____	\$ _____
Lot 7	600 Units* :	FY06 \$ _____	\$ _____

\*Note: Units associated with the PPCC are defined to be identical in terms of performance and configuration to the Units priced in LRIP Lot 3.

**2.5 Procurement Price Commitment Curve (PPCC) Equation.** The following equation shall be used to project unit prices for lots 4 through 7. The equation in GFY96 \$ (i.e. before adjustment for escalation) must fit the LRIP Lot 3 constant GFY 96 \$ value for \_\_\_ units (see paragraph 2.3) assuming \_\_\_ prior units had been produced. The quantities above are the most likely quantities, the final equation will use the actual units ordered in LRIP Lot 3 and the actual prior units produced in LRIP Lots 1 and 2. There will be no additional profit or fee adjustment made to the calculated Lots 4 through 7 pricing.

$Y = AX^B * PCI$  where:

Y = Lot Average Unit Cost (Then Year Dollars)

A = Theoretical 1st Unit Cost (GFY96\$)

X = True Lot Midpoint

B = Coefficient of the Price Reduction Curve

PCI = Predicted Composite Index (Table 5)

The True Lot Midpoint Equation is as follows:

$$X = \left[ \frac{(L+.5)^{B+1} - (F-.5)^{B+1}}{(B+1) * (L - F + 1)} \right]^{1/B} \text{ where:}$$

X = True Lot Midpoint

L = Last Unit of Lot

F = First Unit of Lot

B = Coefficient of Price Reduction Curve (82% Curve)

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## 3.0 Economic Price Adjustment (EPA).

The purpose of this clause is to provide the means for either upward or downward adjustments to the PPCC for Lots 4 through 7 due to abnormal fluctuations in labor and material costs. This adjustment shall also apply if the Buyer determines a program slippage is beyond the control of the Seller.

3.1 Any adjustments under this clause shall be made on a composite basis as indicated below. Adjustments to the PPCC for Lots 4 through 7 (see paragraph 2.4) will occur only if the actual labor and material composite index (ACI: Table 6) varies by more than +5% or -5% from the Table 5 predicted composite index (PCI) at the time of the final billing for the associated Lot option.

3.2 The following indices will be used as a standard measurement in this clause:

<u>Category</u>	<u>DRI/CIS Index</u>
Labor	1. AHE3761LNS - AVE HOURLY EARNINGS, MISSILES, INCLUDING LUMP SUM WAGES
Material	2. A simple average of PPI367NS - ELECTRONIC COMPONENTS (MACHINERY AND EQUIPMENT) and WPI10 - METAL PRODUCTS

If any of the above indices are discontinued, or the method of calculating the indices changes, the parties hereto shall agree on an appropriate substitute.

3.3 For the purposes of this clause, it is agreed that the PPCC for Lots 4 through 7 are subject to the following:

3.3.1 The labor category (Table 3) will be weighted at 30% to calculate a composite escalation index.

3.3.2 The material category (Table 4) contains the simple average of the two material indices listed in paragraph 3.2 and will be weighted at 70% to calculate the composite escalation index.

3.4 The following indices and Table values and formulas will be utilized as specified in paragraph 3.6.

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First Quarter '96 DRI/CIS Indices

Table 1: AHE3761LNS

CY 1996:	19.268
CY 1997:	20.020
CY 1998:	20.853
CY 1999:	21.740
CY 2000:	22.642
CY 2001:	23.640
CY 2002:	24.651
CY 2003:	25.714
CY 2004:	26.867
CY 2005	28.073
CY 2006	29.272
CY 2007	30.531
CY 2008	31.844

Table 2: Simple Average of  
PPI367NS and WPI10

CY 1996:	1.170
CY 1997:	1.181
CY 1998:	1.199
CY 1999:	1.222
CY 2000:	1.244
CY 2001:	1.262
CY 2002:	1.279
CY 2003:	1.301
CY 2004:	1.325
CY 2005	1.349
CY 2006	1.376
CY 2007	1.403
CY 2008	1.431

Note: Table 3 and 4 indices are normalized to base year CY96

Table 3: AHE3761LNS

CY 1996:	100.000
CY 2002:	127.938
CY 2003:	133.454
CY 2004:	139.438
CY 2005	145.698
CY 2006	151.920
CY 2007	158.454
CY 2008	165.269

Table 4: Material Simple Average

CY 1996:	100.000
CY 2002:	109.316
CY 2003:	111.197
CY 2004:	113.248
CY 2005	115.299
CY 2006	117.607
CY 2007	119.915
CY 2008	122.308

Table 5

Predicted Composite Index (PCI)

CY '96: 100.00

CY '02: (CY '02 Table 3 value x .30) + (CY '02 Table 4 value x .70) = 114.903

CY '03: (CY '03 Table 3 value x .30) + (CY '03 Table 4 value x .70) = 117.874

CY '04: (CY '04 Table 3 value x .30) + (CY '04 Table 4 value x .70) = 121.105

CY '05: (CY '05 Table 3 value x .30) + (CY '05 Table 4 value x .70) = 124.419

CY '06: (CY '06 Table 3 value x .30) + (CY '06 Table 4 value x .70) = 127.901

CY '07: (CY '07 Table 3 value x .30) + (CY '07 Table 4 value x .70) = 131.477

CY '08: (CY '08 Table 3 value x .30) + (CY '08 Table 4 value x .70) = 135.196

(Subject to Buyer approval, the Seller can propose a different midpoint of effort under this clause with the proposal.)

3.5.3 Within thirty calendar days after the paragraph 3.2 indices become available for the midpoint year of Lot 4, Lot 5, Lot 6, and Lot 7 contracts, should a contract be awarded, the Seller shall submit to the Buyer, its economic price adjustment calculations, made in accordance with paragraph 3.6 below.

3.5.4 In the event the Seller does not submit the calculations required by paragraph 3.5.3, the Buyer may make the EPA calculations in accordance with paragraph 3.5.

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3.6 Calculations: Economic adjustment amounts for Lots 4 through 7 will be calculated as follows:

$$\text{Formula 1: } \text{CPA} = (\text{ACI} - \text{PCI}) / \text{PCI} \times \text{LPT}$$

where CPA = Composite Price Adjustment  
PCI = Predicted Composite Index (Table 5)  
ACI = Actual Composite Index (Table 6)  
LPT = LPT Requirement