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<p>The use of options provides the Government with a contracting flexibility it would not otherwise have. Long term needs, being difficult to predict, can be contractually provided for by options. The Government can obtain a position in the market against rising prices by prudent use of the contract option. The purpose of this study was to determine whether this Command (AMCCOM) is making optimum use of option quantity clauses in contracting procedures or if improvements could be made to enhance the process. Conclusions drawn from this study may have applications in other procuring organizations and include:</p> <ul style="list-style-type: none"> <li>→ Guidance on the policies and procedures relating to the use of options should be consolidated and up-to-date;</li> <li>→ Item production managers should recommend the option percent which should be added to supply control studies along with the expiration date of the option.</li> </ul>			
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Block 19 continued.

→ A report should be established that alerts item/production managers that an option is close to expiring; i.e., 90 days,

- Option clauses that are more "aggressive" or creative would make options more competitive and/or realistic. For example, prices could be tied to specific dates and/or quantities.

→ The Varian Decision has resulted in a "gun-shy" attitude toward the exercise of options.

→ The concept of "testing the market" should be consistent and the in-house cost of resolicitation vs. exercising an option should be taken into account, and

→ Contractors need to be alerted as to the affect of the Varian Decision on the exercise of options. Contractors who desire additional work via the option clause must realize that they need to submit realistic, competitive option proces or they may not get the award. *Keywords: Government procurement. (SDW)*

AMCCOM  
MANAGEMENT STUDY  
OF  
CONTRACT OPTION QUANTITIES  
AUGUST 1984

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I. EXECUTIVE SUMMARY

## I. EXECUTIVE SUMMARY

This study was conducted in response to a verbal request from the Commanding General, AMCCOM to determine if this command is making optimum use of option quantities in our contracting procedures.

An option is a provision provided for in contracts whereby the Government has the prerogative to purchase quantities of the same item over and above the amount originally contracted for. Option clauses may be included in contracts if increased requirements within the period of contract performance are foreseeable. Consideration is given to the contractor by establishing the time frame in which an option may be exercised and allowing the contractor to specify the price at which he would supply the additional quantity.

The advantages of using options are:

- 0 locks in good prices for future additional procurement
- 0 reduces workload in the Procurement community
- 0 reduces the lead time to procure additional quantities needed
- 0 early obligation of funds

The study was primarily oriented to answering two questions: (1) What is the extent that option quantity clauses are being placed in contracts? (2) What is the extent that these clauses are being exercised? It was anticipated that, based on preliminary research, these two questions could be answered statistically using the current procurement systems data base. However, it was discovered during the onsite phase of the study that the information contained in the data base was incomplete and unreliable and, due to limited time and resources, a manual "scrub" of contracts could not be performed.

The study team did review a limited sample of contracts and, based on this review and discussions with the involved contract specialists, the following conclusions were developed:

1. It does appear that option clauses are being included in all contracts, where appropriate, by the procurement community.
2. Options are being exercised to the extent that current local policy and guidance allows. The option is considered to be a very beneficial tool and every attempt is being made to exercise options. However, there is a lack of consistency in the interpretation and application of the various requirements



associated with the exercise of options which, in turn, may be limiting the number of options that are being exercised.

DP:  
ACTION!

In assessing the current procedures in the use of options, several areas surfaced which could be improved and, in turn, help this headquarters optimize the use of options.

A summary of the study recommendations and the rationale for such are provided below:

1. The AMCCOM Acquisition Instruction be expanded to incorporate all guidance and instructions on the use of options and be updated or changed as new guidance is received. The lack of clear, concise guidance for the application of the requirements associated with option clauses is resulting in inconsistencies in the exercise of options. " "

2. Develop a check list or series of check lists (as appropriate to specific types of procurement) to be used as part of the solicitation package to insure that options have been considered before a solicitation is performed. ] " Where options are available but not exercised, document the reason the option was not considered appropriate.

3. Purify the data base and publish clarifying guidance to: (a) insure all contracts which have option clauses are identified and that correct option expiration dates are reflected; (b) account for options exercised. ] "

4. In conjunction with the development of the data base, expand and define the use of the "Option Expiration Date Notice" report for a more effective and efficient "management-by-exception" tool for use by the item/production managers. The report should:

a. be expanded to include the use of the "Option Percent/Option Quantity Exercised" column;

b. include the production managers/Production Directorate on the distribution list;

c. include a separate section to identify those options that will expire within the next 90 days;

5. Develop monitoring and reporting procedures to be used by management to track the use and exercise of options. Include the information in reports submitted to the Deputy for Procurement and Production and in the Review and Analysis provided to the CG.

GET MAXIMUM OPTION "LIFE"  
I-2

6. Design more "aggressive" or creative option clauses that would encourage lower or more competitive option prices.

DP-  
ACTION

7. When the requirements of FAR 17.206 are met, structure solicitations so that option prices will be evaluated in the overall analysis for award of contract. Any determination not to evaluate the option price must be documented in the contract file.

8. Take steps to make sure that contractors are aware of the importance of the Varian decision.

9. Require that item managers/production managers utilize block 21 on the PWD input sheet to indicate their desired option percentages. This enhances the communication process between the "customer" and the "buyer."

] DL  
DS  
~~PM~~  
ADM

10. Include the option percentage and expiration date in Sector 08 of the supply control studies used by the item managers, thus eliminating the need to maintain separate records.

1/

11. Develop a model reflecting the in-house costs associated with soliciting/awarding a new contract versus the costs to exercise an option. This model would be used to:

1/

a. Make a cost comparison and assist in determining if an option should or should not be exercised (when it is determined by AMSMC-DP and AMSMC-GC (R) that this is permissible by regulation or higher headquarters).

1/

b. Calculate the "cost avoidance" savings for reporting into RESHAPE/Cost Control Initiative Programs.

1/

AMSMC-DP  
AMSMC-GC  
AMSMC-GR

II. PURPOSE AND SCOPE

## II. PURPOSE and SCOPE

### A. PURPOSE:

The purpose of this study is to examine the use of option quantity clauses in AMCCOM contracts, to document the current procedures, guidance and knowledge pertaining to such clauses, and to determine whether this command is making optimum use of option quantity clauses in contracting procedures or if improvements can be made to enhance the process.

### B. SCOPE:

This study encompasses the three HQ, AMCCOM sites with primary emphasis on the HQ, AMCCOM (R) elements which interface with option provisions in contracting for supplies. Higher headquarters elements and lateral MSC's were also contacted to discuss their application of option quantities.

III. BACKGROUND

### III. BACKGROUND

#### A. Study Origination

1. This study was directed by the Commanding General, via the Deputy Commanding General for Procurement and Readiness, to answer the following question:

"Are we making the optimum use of option quantities in our contracting?"

2. Appendix A contains the study Plan of Action which was approved by the Commanding General on 14 May 1984.

#### B. Methodology

1. In order to respond to the Commanding General's question, the following areas were addressed by the study team, the results of which are contained in this study report:

a. Current policies, operating procedures, directives and procurement law pertaining to the use of option quantity clauses.

b. Advantages or disadvantages associated with using option quantities in contracts.

c. The extent that option quantity clauses are included in contracts and the rationale as to why option quantity clauses are or are not utilized.

d. The extent that option quantity clauses are being exercised and the rationale as to why option quantity clauses are or are not exercised.

2. The emphasis of the study was within the Procurement Directorate, HQ, AMCCOM, at Rock Island Arsenal (AMSMC-PC); contract specialists and procuring contracting officers (PCOs) provided the majority of information. Other areas which provided information were the Material Management Directorate, the Production Directorate, the P&P Policy and Management Directorate, and the Office of Chief Counsel for Procurement and Readiness (R). Additional activities contacted were the CECOM, TACOM, and MICOM Plans and Policy Offices and the AMCCOM counterparts at Dover and Edgewood. Opportunities for the application of option quantities at ARDC and CRDC are restricted because of the limited production quantities required during item development.

IV. CONCEPT AND APPLICABILITY

#### IV. CONCEPT AND APPLICABILITY

##### A. Concept

1. An option is a unilateral right in a contract by which, for a specified time, the Government may elect to purchase additional quantities of the supplies called for by the contract.

2. An option clause is one of many provisions provided for in a contract for the procurement of supplies or services. A contract is defined as an agreement between two or more parties, especially one that is written and enforceable by law. The key word here is law; i.e., a set of rules or customs governing a discrete field or activity. Subject to the attitudes and strength of public opinion, special-interest groups, political pressures, and legal interpretation, contracting techniques and methods can and do vary over time and/or situation.

3. Exercise of an option reduces lead time and reduces workload by eliminating the requirement for a new solicitation and contract.

##### B. Applicability

1. Option clauses may be included in contracts if increased requirements within the period of contract performance are foreseeable. Because options require offerors to guarantee prices for definite periods of time with no assurance that the options will be exercised, their improper inclusion could result in prices which are unfair to either the Government or the contractor. Therefore, an option clause normally should not be included if it can reasonably be foreseen that (i) minimum economic production quantities will be required at some future date, and (ii) startup costs, production lead time, and probable delivery requirements would not preclude adequate future competition.

2. Option clauses shall not be included in contracts, and option provisions shall not be included in solicitations, if:

a. The supplies being purchased are readily available on the open market;

b. the contractor would be required to incur undue risks (e.g., the price or availability of necessary materials or labor is not reasonably foreseeable);



c. an indefinite quantity contract or requirements contract is appropriate except that options for continuing performance may be used in such contracts;

d. market prices for the supplies involved are likely to change substantially; or

e. the option quantities represent known firm requirements for which funds are available unless (i) the basic quantity is a learning or testing quantity and there is some uncertainty as to contractor or equipment performance, and (ii) realistic competition for the option quantity is impracticable once the initial contract is awarded.

3. In addition, options are not applicable to small purchases, GOCO contracts, federal prison contracts, and, generally speaking, to basic ordering agreements (BOA's), time and material contracts, and contracts negotiated under the public exigency exception (except that options may be included in urgent procurements if there is reason to believe that additional urgent requirements may be forthcoming and that the option will be exercised only if such a requirement is, in fact, urgent).

4. In comments on the draft report (paragraph 2b, Appendix P), as clarified through discussion with the DP community, the Deputy for Procurement and Production noted that the reason option clauses are not routinely included in contracts negotiated under the public exigency exception is a 1974 Comptroller General decision which stated that options should not be included in contracts so negotiated. While option clauses are included in some contracts negotiated under this exception, the study team found no instances where the option was exercised for other than urgent requirements. The Army Audit Agency, in its 31 January 1984 report of their audit of this headquarters (Appendix T), recommended that options exercised under the public exigency exception be properly justified.

V. DISCUSSION

## V. DISCUSSION

### A. Regulatory Guidance

1. The basic regulatory guidance on the use of options is contained in Section 1, Part 15, of the Defense Acquisition Regulation (DAR) for all solicitations initiated prior to 1 April 1984 (Appendix B). For all new solicitations issued on and after 1 April 1984, the DAR has been superceded by the Federal Acquisition Regulation (FAR). The FAR guidance, with reference to the use of options, was found to be substantially the same as in the DAR.

2. The procurement activities under consideration in this study were governed by the DAR.

B. Basic Procedure. DAR guidance on option procedures addresses the following considerations:

1. Procedures for deciding when and what kind of option provision should be included in a solicitation - paragraph 1-1503.

2. Specific considerations as to whether or not the evaluation of bids/proposals will be on the basis of the quantity to be awarded exclusive of the option quantity - paragraph 1-1504.

3. Considerations as to the exercise of options - paragraph 1-1505.

### C. AMCCOM Basic Policy.

1. Mrs. Isabelle Hansen, Deputy for Procurement and Production, indicated that options are the best tool to lock in a good price for additional quantities. In addition, their use reduces lead time and workload in the contracting area. Mrs. Hansen advised that there has been recent pressure from the Department of the Army to increase the use of options.

2. Mr. Arnold Kublin, Deputy Director, Procurement Directorate, advised that the primary objective of his directorate is to support readiness at the lowest possible cost. Therefore, current directorate policy calls for the maximum exercise of options consistent with that objective.

3. In view of the uncertainties of the availability of funds to support total requirements, guidance has been provided the AMCCOM procurement community to include option quantity clauses in all contracts, where applicable.

### D. Local Implementing Guidance

1. In the discussions with the contract specialists, they were asked whether they were aware of any local written policy guidance with regard to the

use of options other than the ARRCOM Acquisition Instruction. (The ARRCOM Acquisition Instruction provides only limited guidance beyond the DAR. The ARRCOM Acquisition Instruction is in process of revision to become the AMCCOM Acquisition Instruction.)

2. Although the general response to the question raised in paragraph 1, above, was in the negative, we were provided copies of the following by individual contract specialists:

a. DF, 22 December 1977, from Policy Branch, Procurement Directorate to Legal Office, subject: Extension of Option Expiration Date, with CMT 2, 17 January 1978 (Appendix C).

b. DF, 23 February 1979, from Financial Analysis and Cost Estimating Division, Procurement Directorate to the procurement community, subject: Factors to be Considered Before Exercising an Option (Appendix D).

c. DF, 15 January 1980, from DRSAR-PP to DRSAR-PC, subject: Exercise of Option Prior to First Article Test (Appendix E).

d. DF, 3 March 1980, from the Procurement Directorate Policy Branch to the procurement community, subject: Documentation to Exercise Option Provisions (Appendix F)

e. Preparation of Standard Form 30, Amendment to Solicitation/Modification of Contract Instructions, undated with no office of issue indicated (Appendix G). (Standard Form 30 is the vehicle for initiating the exercise of an option.)

f. The Light Weapons Branch, Primary Support Contract Division, does have a standard procedure on this subject titled: "Handbook I, Contract Specialist Operations, Receipt of the PRON to Bid Opening, FY 84." This handbook has instructions for completing ARRCOM Form 120-R, Statement of Justification for Use of an Option Clause, copies of completed samples of this form, and a statement that an option clause will be used in all solicitations.

g. The Light Weapons Branch also has a draft Handbook II, Receipt of Bid Opening/Proposed Closing Results to Award of Contract. The option data contained in this draft is at Appendix H. Legal's review of the draft report identified nine elements in this data which require modification (para 1e, Appendix O). The Deputy for Procurement and Production's review identified three of these elements (paragraph 2d, Appendix P).

3. Copies of CECOM, MICOM, TACOM, and AMCCOM (D) local implementing guidance were reviewed. The CECOM guidance (Appendix I) was found to be more comprehensive

and definitive than that of the other commands, including this command. It does not, however, address all of the considerations of policy and procedures discussed in this report.

E. Implementation of Policy at the Operating Level. During the on-site phase of the study, discussions were held with 25 contract specialists who represented all elements of the HQ, AMCCOM (R) Procurement Directorate's Ammunition, Weapons and Primary Support Divisions. Without exception, the contract specialists interviewed expressed the following:

1. They were aware of directorate policy to use options to the maximum extent possible.
2. Individually, they support the use of options because it simplifies and expedites the procurement process.
3. They include option clauses in all solicitations/contracts they process, when appropriate.
4. They recommend the exercise of options to the maximum extent appropriate

F. Testing Implementation of Policy.

1. Inclusion of Option Clauses in Contracts.

a. The study team identified 26 contracts placed during the period 1 January 1983 - 31 December 1983 which did not contain option clauses. These contracts were reviewed to determine the rationale for not including option clauses in those contracts. (Problems arose in selecting contracts for review. These problems are discussed in paragraph K below.) The rationale given by the contract specialists involved for not including option clauses in these contracts were as follows:

- 11 - Contracts for commercial items
- 10 - Federal prison contracts
- 3 - Contracts negotiated under the public exigency exception
- 1 - Contract for a non-recurring requirement
- 1 - Contract awarded as the result of a termination for default action

b. The above rationale are considered appropriate by the survey team and supported by the DAR and local policy. As discussed previously in Section IV, contracts negotiated under the public exigency exception may include options if there is reason to believe that additional urgent requirements may be forthcoming.

## 2. Exercise of Options to the Maximum Extent Appropriate

a. The study team identified 18 situations where new contracts were awarded when contracts with unexpired options for the same items existed. The rationale given by the contract specialists involved for not exercising these options were as follows:

- 6 - Quantity required was in excess of option quantity available
- 5 - Varian decision (See paragraph H below)
- 4 - Contractor delinquency/default
- 1 - Basic contract negotiated under public exigency exception. The new requirement was not urgent.
- 1 - Contractor in financial difficulty. Option not exercised in the best interest of the Government
- 1 - Mobilization producer operating at capacity

b. The rationale given for not exercising the option are considered appropriate by the study team and supported by the DAR and local policy.

c. A number of contract specialists indicated that the trend in the future would be for a decrease in options exercised based on the Varian decision (this is discussed in paragraph H, below) and, in the short term only, on a recent requirement that written guarantees (warranties) be included in all contracts. What was pointed out to the study team was that when a basic contract does not include a warranty requirement, and a warranty for the option quantity would not be provided by the contractor without an increase in price, the option cannot be exercised.

d. Legal's comments on the draft report (paragraph 1c, Appendix O) referenced a DRSMC-DP DF to DRSMC-PC, 16 March 1984, subject: Guidance on Implementation of Section 794 of the Department of Defense Appropriations Act for 1984. This DF addresses the requirement for written guarantees in connection with the procurement of weapons systems and each component thereof. Paragraph 4k of the DF states: "Exercise of Options-If the option is a firm prepriced option and is exercised without any further negotiations, the guarantee clause does not apply. If any terms of the contract are changed as a consequence of exercising the options, a guarantee clause will be required." Legal's comments further indicated that this does not preclude the exercise of an option provision since once the option price is negotiated, that price could be increased as a consequence of the guarantee requirement.

e. Some questions were raised at the operating level with regard to the requirement for synopsisizing proposed procurements and as to whether the proposed

exercise of an option must be synopsisized. Legal's comments on the draft report (paragraph 1d, Appendix O) indicate that its position has been that if the original synopsis of the procurement stated that an option provision would be included in any resulting contract, that further synopsis at the time of exercise was not necessary. If, however, no option was discussed in the original synopsis, then the option provision would require a synopsis at the time of exercise.

G. Policy To Enhance The Ability To Make Early Obligations

1. DF, 20 April 1984, from DRSMC-DP (R) to DRSMC-PC, subject: Options (Appendix J), requested that the use of options be expanded to enhance the ability to make early obligations. The area of concern was those cases where the procurement requirement represents a consolidation of requirements for several customers for which program and funds have not all been received (primarily CAWCF requirements).

2. Relating to the DRSMC-DP DF on options, DF, 4 May 1984, DRSMC-PD (R), subject: Processing Suspense for Program Documents in DRSMC-PD (R), (Appendix K) directed the production community, in those cases where program and funds have not been received from all customers, to send a message to the remaining customers, indicating that PWDs were being released and that, if they wish to have their order included, their program must be received ASAP. The DF further states that the PWD's for available funds are to be generated within 30 days after receipt even if remaining customer funds are not received. The previous practice had been to defer preparation of the PWD's until program and funds had been received from all customers.

3. By CMT 2 (Appendix J), AMSMC-PC advised AMSMC-DP that AMSMC-PP and DRSMC-GC (R) had been tasked to research the law and regulations and prepare a position paper/policy statement relative to the AMSMC-DP guidance set forth in the basic DF.

4. A resolution in this area had not been achieved at the time this report was being written. NOTE: During the final staffing of this report, letter, AMSMC-DP, 10 Aug 84, subject: Acquisition Policies and Objectives, was published. This letter directs the use of options in this area.

H. The Varian Decision, Testing the Market, and Negotiating Option Prices After Award

1. The Varian decision of the General Accounting Office is a recent development which contract specialists and procuring contracting officers indicated will tend to reduce the opportunity for exercising options.

a. International Telephone and Telegraph Co. (ITT) and Varian Associates were the only two companies which sold klystron tubes to the Government. The market was highly competitive; the difference between the companies' prices in 1982 was less than 3 percent. Three days after awarding a Klystron tube contract to ITT, the Army found that it needed more tubes. Accordingly, the agency negotiated with ITT to lower the company's option price and then exercised the option.

b. Varian, which was not given an opportunity to supply the additional tubes, protested the Army's exercise of the option. GAO sustained the protest ruling that the Army's actions constituted an improper sole source procurement. GAO agreed with Varian (who had originally proposed lower option prices) that DAR 1-1505(d)(2) requires a contracting officer to determine whether exercise of an option is the most advantageous method of fulfilling the government's needs. Thus, GAO concluded that the contracting officer had failed to test the market as required by the DAR, and ordered the Army to terminate the option contract with ITT.

c. On reconsideration, the Army contended that the contracting officer had fulfilled the requirements of DAR 1-1505. The agency pointed out that the 3 day period between the initial contract award and the option exercise was so short that it was reasonable to assume that ITT's revised option price would be the lowest price available.

d. GAO rejected the Army's contention, noting that the market for klystron tubes between Varian and ITT is highly competitive. Moreover, ITT's original option price was 1.4 percent higher than Varian's option price and nearly 10 percent higher than the ITT base price, GAO observed, "We cannot agree that no survey of prices was needed."

e. Furthermore, GAO rejected the Army's reliance on a previous GAO decision to justify exercise of the option. In that case, GAO upheld an agency's decision to renegotiate an option because resolicitation would have created "rather unusual direct and indirect costs to the government." GAO noted that 33 offers had been submitted, but that none offered a lower price than the awardee. In contrast, Varian clearly offered to provide klystron tubes at a price lower than that offered by ITT, GAO emphasized.

f. In addition, GAO stressed that an option should be clear and definite and not require further negotiation to work out important and essential terms. The solicitation clause in question stated that the government could increase the



quantity of the supplies called for, not to exceed the "percentage in section B and at the unit price set forth below." The term "not to exceed" in the clause refers to the quantity of items and not to the option price, GAO explained. "An option is an unaccepted offer to sell upon agreed terms which may be unilaterally accepted by the government." Accordingly, any option cannot be the subject of further negotiations after award, GAO concluded.

g. However, GAO added that new evidence justified not terminating the option contract with ITT. The costs of terminating the contract could exceed \$200,000, and the Army and Varian agreed that such a payment was not in the government's best interest. Therefore, GAO modified its earlier decision to the extent that it permitted continuance of ITT's option contract.

h. The GAO determination in this case was to the effect that an agency may not exercise an option for additional supplies without testing the market to determine whether lower prices could be obtained for the option quantities, and that negotiation of a lower option price with ITT constituted sole source negotiations and an improper sole source award.

2. In the interviews with the contract specialists, one area of discussion in connection with the Varian decision produced a wide variation in responses. That area was the concept of "testing the market". The responses ranged from reviewing the proposals submitted in response to the solicitation for the basic contract to initiating a new solicitation. The AMSMC-DP comments on the draft report (paragraph 3b, Appendix P) cited the DAR provision which contains concise procedures for determining if an option should or should not be exercised. The AMSMC-GC (R) comments (paragraph 1i, Appendix O) indicated that in their opinion "testing the market" is an informal method for determining that an option price is the best price available.

3. It was indicated during the onsite interviews that if price was the only consideration, and a price lower than the option price was obtained on testing the market, the option would not be exercised. Instead, a resolicitation would be made. Not taken into account, however, are the in-house costs associated with doing the resolicitation. There could be instances where the price difference is only a few cents and the net savings would be less than the total cost to perform the resolicitation.

4. Another area requiring clarification is the concept of negotiating option prices after award. The Varian decision includes a GAO conclusion that an option price is not subject to such negotiation. Comments received during the course of

discussion indicated that not only do contractors sometimes voluntarily reduce option prices, but that procurement personnel would be negligent in their duties if they did not try to negotiate a better price. The AMSMC-DP comments (paragraph 2g, Appendix P) indicate that contracting officers, after determining that the option price is the most advantageous method available for fulfilling the government's need, in conformance with all of the applicable DAR requirements, could accept a lower price from the contractor if it was offered because lowering the price would have no effect or bearing on the option price in connection with displacing an otherwise lower offeror. Legal's comments (paragraph li and j, Appendix O) indicate that under the Varian decision, when informal testing of the market would show that the option price is not the best price available, there is not authority to negotiate the price downward. They indicate further, however, that the problem of authority can be overcome with a Determination and Findings to negotiate and the conduct of oral negotiations.

5. A comment from a number of the contract specialists and a provision of the Light Weapons Branch draft Handbook (paragraph B 1b, Appendix H) indicate that an option will not be exercised if the option price is higher than the base price of the second low bidder. This does not appear to be a correct interpretation of the Varian decision. Legal's comments on the draft report (paragraph l, e, iv, Appendix O) indicate that even if the option price is higher than the base price of the second low bidder, if a test of the market indicates that the option price is now the best price available, there is no reason why the option should not be exercised.

I. Check Lists to Insure Consideration of Available Options.

1. In view of the headquarters policy that options should be exercised to the maximum extent, inquiry was made during discussions with the contract specialist as to whether there was a check list to insure that consideration was given to exercising an available option.

2. Answers received indicated that such a check list is used only in the Ammunition Division. DRSAR Form 907, Presolicitation Review/Procurement Plan includes Item 17; "Open options are available under existing contracts which could be exercised. (Explain if options are not to be utilized) ( ) Yes ( ) No."

J. Communication. In discussion with contract specialists in AMSMC-PC, item managers in AMSMC-MM and production managers in AMSMC-PD, there is, in general, a high degree of coordination to assure the optimum use of options. The general practice includes early notification to the contract specialist of forthcoming PWDs and notification to the item/production managers of options due to expire.

K. Statistics.

1. No statistics are maintained on options exercised vs not exercised or the percentage of option quantities exercised.

2. The study team planned to perform two statistical analyses, as follows:

a. Review a listing of all contracts placed during the period 1 January -31 December 1983 which were appropriate for the inclusion of option quantity clauses. From this listing, identify those contracts which did not have option quantity clauses and, dependent on the number of such contracts identified, either do a 100%, or statistically reliable sample, to determine the rationale for not including an option clause in those contracts.

b. Review a listing of all contracts placed during the period October 1981-31 March 1984. From that listing, select a statistically reliable sample of contracts awarded, when earlier contracts with available options for the same item existed, and determine the rationale for not exercising the available options.

3. During the research phase of the study, the study team was advised by Management Systems and Analysis Division, AMSMC-PPM, that contract listings, in the detail required to do the above analyses, could be developed. It was determined, however, during the onsite phase of the study, that the contract listings provided were unreliable. The listings did not reflect all contracts with options and, in many instances an erroneous 1 January 1999 option expiration date was reflected.

4. The problem results from the fact that the actual option expiration date is not known at the time of input of PADDs solicitation data and a lack of clarity in, or understanding of, the PADDs input instructions for insuring entry of the date when known. As indicated in PADDs input instruction (Appendix L), in order for the PADDs data base to reflect that a contract has an option clause, the PADDs input must include the option expiration date. Some contract specialists have been entering the fictitious "1 January 1999" date, but are not correcting the date at the time the actual expiration date is known. Others are not entering any expiration date, so that contract listings developed from the data base do not reflect that the contracts have options.

5. A report, "Option Expiration Date Notice-All Open Options", is distributed to item managers in AMSMC-MM. This report provides a listing of all open options, by item manager, contract, and line item, option quantity percentage,

and the option expiration date. There is also a header to provide the options percentage exercised to date but the use of this column has not, as yet, been implemented. A copy of a page from the March 1984 edition of this report is at Appendix M. Little confidence is placed in this report by the item managers for the reasons given in paragraph 3, above. The Primary Support Contract Division, recognizing that the report is not reliable, prepare and distribute a manual listing of option expiration data for its own contracts.

6. This problem was recognized as far back as 1980. The 21 March 1980 edition of the ARRCOM Acquisition Bulletin includes an item which addresses this problem. A copy of this item is at Appendix N.

L. Use of Options at ARDC.

1. Studies Branch personnel in Dover were requested to obtain data on the use of options at ARDC.

2. Option quantity clauses are not usually included in production contracts until such time as the TDP has been stabilized. Recommendations to the contracting officer on inclusion of option clauses are prepared by the production element in conjunction with the developmental project officer. The decision on inclusion of option clauses is that of the PCO.

3. Option quantity clauses are included in approximately one third of the contracts placed by ARDC. These include production contracts placed by ARDC prior to transition of the item to HQ, AMCCOM (R).

4. ARDC option guidance is included in the ARRADCOM Procurement Instruction (Appendix Q) and in an ARRADCOM letter (Appendix R). The ARDC guidance essentially refers back to the basic option guidance in FAR 17.200.

VI. CONCLUSIONS

## VI CONCLUSIONS

### A. POSITIVE ASPECTS OF OPTION

1. The concept of including and using option clauses in contracts for the procurement of AMCCOM's mission items is considered to be a very beneficial and useful tool. This conclusion is supported by a consensus of all personnel interviewed during the course of the study.

2. The use of options provides the Government with a contracting flexibility it would not otherwise have. Long term needs, being difficult to predict, can be contractually provided for by options. The Government can obtain a position in the market against rising prices by prudent use of the contract option.

3. For the contract specialist, the exercising of the option precludes the necessity of a new solicitation/negotiation and developing a new contract, both of which are time consuming and costly. In addition, options take advantage of current production runs, eliminating such considerations as non-recurring/start-up costs and first-article testing. Item managers and production managers are charged with insuring that the proper quantities of the right items are on hand and available where and when needed. Use of the option works to their advantage by reducing the Administrative Lead Time (ALT) for procuring those items, as well as procuring smaller quantities at a price associated with a larger quantity.

4. Options also allow for early or quick obligation of funds. Although this is not the primary reason for using options, it is, in itself, the result of using options.

### B. DIFFICULTIES OF OPTIONS

1. In a master's thesis by J.W. Hudkins, entitled "Option Contracts, A Study of Variable Quantity Contracts Which Do Not Obligate the Government", Air Force Institute of Technology, 1983, the author states that "the rules governing contracts, contained in the various procurement regulations, both limit somewhat the occasions which they can be used as well as create technical requirements attending their exercise. A study of options in Federal Government contracts is a considerably different undertaking than a similar study of options in the common law context."

2. Government contracting operates in an environment which is dependent as much on general guidance as it is on specific "hard and fast" rules. In considering the use of options, each individual situation must be analyzed and judged on its own merits and peculiarities. There are many variables that affect the inclusion and exercise of an option, in which any one variable or a combination of variables must be weighed by the PCO/contract specialist that would result in the most advantageous method of fulfilling the Government's need.

3. Written material/guidance received from MICOM, TACOM, CECOM, and AMCCOM (D), as well as that reviewed locally, differed in terms of detail of content, emphasis, and in limited areas, appeared contradictory. This is evidence of the fact that treatment of options vary and interpretation and emphasis on options are inconsistent.

4. Although option clauses provide for the procurement of additional quantities against an existing contract at a given price, this may, in fact, be a negative aspect of options. Unless the option price is equal to or less than the base price, the price paid for any additional items may be too much, and is subject to criticism. In taking advantage of the option provision, small quantity requirements may eliminate the possibility of obtaining lower, competitive, unit prices for the item. Given material cost to be equal, it would be difficult for new producers to compete with an on-line producer. On the other hand, if the option price is too high and, in testing the market, lower prices could be obtained, then the option provision provides no advantage.

#### C. WORKING ENVIRONMENT

1. As delineated in the Plan of Action at TAB A, the study primarily was oriented to answering two questions. First, what is the extent that option quantity clauses are being placed in contracts and secondly, what is the extent that these clauses are being exercised? Answers to these two basic questions would determine whether or not this headquarters is optimizing the use of option quantities in its contracting.

2. With respect to the first question, the study team determined that option clauses are being included in all contracts where appropriate. With respect to the second question, due to the lack of available statistical data, or a reliable data base from which statistics could be developed, the study team could not verify that these options, once they are placed in the contracts, are being exercised to the optimum. Since it was confirmed that options are an advantageous tool, it is important to the Procurement community that it refine

its data base and develop appropriate statistics so that objective data is available to track the extent to which they are taking advantage of opportunities to exercise options.

3. Knowledge of option provisions as part of the solicitation process and formalized contract procedures was evident throughout the interviews, not only in the procurement community, but also by the item managers and production managers. Although the item managers and production managers have a basic interest in the fact that a contract can or does have an exercizable option, it is the PCO/contract specialist who must deal with the intricacies involved in the entering into and monitoring of contracts and making determinations and findings with respect to such contracts. Although the PCO has the ultimate responsibility for the total contract package, it is the contract specialists who develops, maintains, and monitors the individual contracts. All the contract specialists were aware of the concept and use of the options. However, actual practice varied according to experience and background, plus guidance from their PCO. On-the-job training is the main source of training, not only in the area of options, but for contracting procedures in general, although there are formal and correspondence courses available for the basic procedures.

4. Communication between the PCO/contract specialist and the item/production manager seems to be excellent. In general, for any particular item, a one-on-one relationship exists between a contract specialist and an item/production manager, i.e., the same contract specialist and the same item/production manager have reciprocal responsibilities for any one given item. This not only creates an environment of rapport between the contract specialist and the item/production manager, but also makes them very knowledgeable of the item and the contractors involved. Communication is an on-going process, from the time a requirement is known, to the placement on contract, and during the production and delivery stages.

5. Both the contract specialist and the item/production manager would prefer to exercise an option, when available, and in the best interest of the Government. As a general rule, when a new requirement is received, one of the first things a contract specialist, as well as an item/production manager, will do is to see if any existing open options are available to satisfy the requirement. It is, after all, less costly and time consuming to exercise an option than to award a new contract. If there is an option and all conditions are favorable, an option will be exercised.



6. PADDs provides standardized option clause formats to be included in solicitations. It also allows clauses to be modified to meet the special needs or conditions related to the requirements or production peculiarities. This offers the opportunity to develop alternative ways to use options and thus promote maximization of their use.

7. Statistics

a. Difficulties were encountered in trying to develop any type of statistics to show in quantitative terms the extent of inclusion of option clauses in contracts or the extent of exercise of open options. PADDs is set up to provide a data base to include the identification of all contracts with options and the expiration dates for exercising these options. This data base is used to develop the "Option Expiration Date Notice" report. However, much of the information is being erroneously entered, not entered at all, or not being updated when changes are made. This information is important for tracking contracts with open options, i.e., indicating the availability of exerciseable options and alerting the item/production managers to the fact that options are about to expire. If this data base was reliable, it could also be used to identify those contracts that do not have options. Since it is this command's policy to maximize the use of options, this information could be used to isolate those contracts without option clauses for the purpose of validating the exclusion of such clauses.

b. There is no system available for tracking options exercised and, as such, there was no way to develop any type of count to show the extent of options exercised. This information, if available, would reflect options exercised, the quantity exercised and the quantity remaining and available to be exercised. In addition, with the increased pressure to utilize options, data of this type could be used to track and report the extent of options exercised.

c. It must be realized, however, that goals should not be established in terms of exercising options. Other than the fact that options should be exercised to the maximum extent possible, the establishment of goals, e.g., "50 percent of options will be exercised" or "comparison to past year's use", are not practical and may result in improperly exercised options.

8. Evaluation of the Option

a. Under given conditions the option price can be considered in the evaluation for award of a contract. Although options are mainly provided as a reserve for future unforeseen requirements, there are many cases where requirements are known or anticipated, but due to the unavailability of funds, cannot be

specifically contracted for. FAR 17.206 restricts the use of this clause (TAB S). The desired affect for evaluating the option is to obtain an overall lower cost for the entire procurement. One important consideration for this concept is that there is reasonable certainty that funds will be available thereafter to permit exercise of the option. The study team found, however, that this command rarely uses this option provision.

b. Evaluation of the option price would appear to be appropriate for consideration when the procurement requirement represents a consolidation of requirements for several customers (as spelled out in Appendix J) for which program and funds have not all been received, and the provisions of FAR 17.206 have been met.

D. PROCEDURES

1. The ARRCOM Acquisition Instruction is the only Procurement Directorate-wide guidance that was readily available that specifically addressed the policies and procedures relating to the use of options. However, the content of the section on options was basically a reiteration of specific parts of the DAR. Several documents were found that did concern themselves with policy and procedural aspects of options, but these were obtained from individual contract specialists on a piece-meal basis. Nowhere did the study team find a guidance file that contained all the various "bits-and-pieces" of information that specifically affect option clause procedures in contracting, nor was it known if the documents provided are still valid.

2. The lack of a single document providing command guidance for the treatment of options results in a lack of consistency of understanding and agreement among the contract specialists in such areas as testing the market, synopsis requirements, negotiation of option prices after award, extension of option expiration dates, guarantee requirements, and option considerations in connection with contracts negotiated under public exigency.

3. The item/production manager has the opportunity to indicate the desired option quantity for the option clause via the PWD input sheet, DRSAR Form 825-1; Block 21 provides space for indicating the option percent desired. Even though the procurement community automatically includes options, when applicable, and item/production managers do, on occasion, fill in the block, it is not standard practice to do so; they leave it up to the contract specialist to determine the quantity. By having the item/production managers recommend the option percent, the process should be improved because it will result in these item/production managers taking a more active role in future buys.

4. Supply control studies are the "drivers" for new requirements for the item managers. It was suggested by one, and agreed to by other item managers, that putting the option percentage and expiration date in Sector 08 of the supply control study would make the information more readily available and eliminate the need for maintaining separate records.

5. Option Expiration Date Notice

a. Current system requirements and input instructions for option data fail to insure that option availability and correct expiration dates are being entered and accounted for in the PADDS and interfacing automated systems. As a result, the currently published Option Expiration Date Notice report is an incomplete report containing erroneous information.

b. The current report is set up to report all contracts with open option clauses, i.e., options available to be exercised. This not only results in a fairly large report, but includes options which may expire in as much as five years in the future. A report like this serves the purpose of assisting in long range procurement planning but falls short of being a "flash" report, as it is referred to by the item managers. The report would have more meaning for use as a "management-by-exception" tool if it also alerted the item/production managers that an option is close to expiring, i.e., within 90 days, and should be expedited if they desire to take advantage of the option.

c. This report is currently being distributed only to the item managers in AMSMC-MM. The report would be just as beneficial to the production managers in the Production Directorate (AMSMC-PD).

6. PADDS provides three basic option clauses, providing for one option price and one expiration date. However, examples were seen of modified clauses, either designed by the contract specialist or submitted by the contractor, that took advantage of different events. Option clauses that are more "aggressive" or creative would make options more competitive and/or realistic. Prices could be tied to specific dates and/or quantities. As an example, CECOM uses a 2-phase clause; one price for the first 30 days from time of award and a second price for the remaining period. Another clause might state that for the first 30 or 60 days after award, the option price would be the same as the base price (limited to first 50 percent) and then request a price for the remaining quantity.

E. The Varian Decision

1. The Varian decision has had a significant impact on the procurement community and its attitude toward exercising options. A lack of specific

guidance has resulted in misconceptions and a "gun-shy" attitude toward the exercise of options, the consequences of which may lead toward a trend of lower incidence of exercised options.

2. Testing the market.

a. Inconsistencies or misunderstanding of the concept of "testing the market" may result in inappropriate methods for determining if a better price could be gotten or may delay or even prevent the option from being exercised.

b. Failure to account for the in-house cost of resolicitation vs. exercising an option, even though a lower unit price may be found by testing the market, may result in higher cost over the long run. No cost standard/models are currently being used to determine if it would be cost effective to exercise an option. As a simplified example, the following cost-related data was developed:

	<u>OPTION</u>	<u>SOLICITATION</u>
1. Analyst time	4 hrs	20 hrs
2. Review process:		
PCO-Policy-Legal	ONCE	TWICE
3. TDP's:		
#Cards X 24¢ X # of bidders	NONE	# OF BIDDERS
4. ALT: up to -	4 days	150 days
5. Mailing & Handling costs:	CURRENT CONTRACTOR	TO ALL BIDDERS

c. Since cost seems to be the predominant factor in determining whether or not an option will be exercised, the lack of any model or formula to test the "cost-effect" of exercising an option vs. a new solicitation when the "best" price determined as the result of testing the market is only marginally lower than the option price, may result in an inappropriate rejection of an option price.

d. Legal has indicated that they know of no DAR/FAR provision or Comptroller General decision which either allows or prohibits consideration of in-house costs in determining whether an option should be exercised.

3. Contractors need to be alerted as to the affect of the Varian decision on the exercise of options. Contractors who desire additional work via the option clause must realize that they need to submit realistic, competitive option prices or they may not get the award.

VII. RECOMMENDATIONS

## VII RECOMMENDATIONS

All recommendations in this section are to be implemented by AMSMC-DP except for Recommendation 9 which is to be implemented by both AMSMC-DP and AMSMC-DL.

1. Expand the Command Acquisition Instruction (AI) on the use of options. The AI should be designed to incorporate all current guidance and be updated or changed as new guidance is received. The AI should also be designed for ease of supplementation by the users of the AI and would be the vehicle for containing all information on options pertinent to any particular organization. Emphasis should be placed on the implications of the Varian decision, the concept and procedures for testing the market, the conditions for negotiation of the option price and the requirement to synopsize.

2. Associated with the AI, develop a check list, or series of check lists (as appropriate to specific types of procurement). Include in the check list(s) a requirement that the following be addressed: "Open options are available under existing contracts which could be exercised (Explain if options are not to be utilized)." This is the statement currently being utilized only in the Ammunition Division of the Procurement Directorate (DRSAR FORM 907).

3. Purify the data base and publish clarifying guidance to insure that option quantities and correct expiration dates are being entered and accounted for in the PADDs and interfacing automated systems for all contracts with options.

4. Develop and implement new instructions to account for options exercised. This information will provide two sets of data; first, to show how much of the option is left to exercise and second, to track and account for those contracts where options have been exercised.

5. Upon implementation of recommendations 3 and 4, above:

a. Expand the "Option Expiration Date Notice" report to include the use of "Option Percent/Option Quantity Exercised" column.

b. Include the production managers/Production Directorate on the distribution of the "Option Expiration Date Notice."

c. Include a separate section to identify those options that will expire within the next 90 days.

d. Develop monitoring and reporting procedures to be used by management to track the use and exercise of options. Include the information in reports submitted to AMSMC-DP and in the Review and Analysis provided the CG.

6. Design option clauses that are more "aggressive" or creative that would make options more competitive and/or realistic; make the clause work for us. Phase the clause over the life of the entire option period, e.g., one price for first 30 days, another for the remaining first half of the delivery schedule, and another for the remaining period (tailored to the specific item.)

7. When the requirements of FAR 17.206 are met, structure solicitation so that option prices will be evaluated in the overall analysis for award of contract. Any determination not to evaluate the option price must be documented in the contract file.

8. Take steps to make sure that contractors are aware of the importance of the Varian decision.

9. Require that item managers/production managers utilize Block 21 on the PWD input sheet to indicate their desired option percentages.

10. Include in Sector 08 of the Materiel Management Supply Control Studies the option percentage and expiration date.

11. Develop a model reflecting the in-house costs associated with soliciting/awarding a new contract versus the costs to exercise an option. This model would be used to:

a. Make a cost comparison and assist in determining if an option should or should not be exercised (when it is determined by AMSMC-DP and AMSMC-GC (R) that this is permissible by regulation or higher headquarters).

b. Calculate the "cost avoidance" savings for reporting into RESHAPE/Cost Control Initiative Programs.

APPENDIX A  
STUDY PLAN OF ACTION



Plan of Action  
Study of  
Contract Option Quantities

1. Background: A study has been directed by the Commanding General to answer the following question:

"Are we making the optimum use of option quantities in our contracting?"

2. Definition: An option is a unilateral right in a contract by which, for a specified time, the Government may elect to purchase additional quantities of the supplies or services called for by the contract or may elect to extend the period of performance of the contract. Option clauses may be included in contracts if increased requirements within the period of contract performance are foreseeable, or if continuing performance beyond the original period of contract performance may be in the best interest of the Government.

3. Purpose:

a. The purpose of this study is to respond to the Commanding General's question. In doing so, the following areas will be addressed:

(1) Current policies, operating procedures, directives and procurement law pertaining to the use of option quantity clauses.

(2) The extent that option quantity clauses are included in contracts and the rationale as to why option quantity clauses are or are not utilized.

(3) The extent that option quantity clauses are being exercised and the rationale as to why option quantity clauses are or are not exercised.

b. Based on an analysis of the areas mentioned above, an evaluation will be made as to whether this command is making optimum use of the option quantity clauses in contracting procedures. Conclusions and recommendations will be made, as appropriate.

4. Scope: The study will encompass all HQ, AMCCOM elements which interface with option provisions in contracting. In addition, higher headquarters elements and lateral MSC's will be contacted to discuss the use of option quantities.

5. Methodology:

a. Study Team Composition: The study team will be organized as follows:

Mr. Ed Lowenberg, DRSMC-CPM (R), Lead Management Analyst  
Mr. Harry Rubin, DRSMC-CPM (R), Management Analyst  
Mr. Harry Lyons, DRSMC-CPM (R), Management Analyst

b. Research Phase: The study team will:

(1) Review regulations, directives, internal SOP's, policies, legal decisions and any other pertinent documents relating to option quantity clauses in contracting procedures. Initial discussions with knowledgeable persons were conducted to assist the team in developing the Plan of Action.

(2) Determine availability of, and request, contracting data for analysis.

c. Fact Finding: On-site interviews will be conducted within pertinent HQ, AMCCOM elements to obtain current practices and procedures, to document the use of option quantities in contracting, and to identify any pertinent problems or constraints.

d. Analysis of Data:

(1) Findings and data collected will be analyzed to develop conclusions and recommendations.

(2) Additional research/interviews may be conducted, as needed, based on the results of the analysis.

e. Report Preparation:


(1) A draft study report will be prepared noting the findings, conclusions, and recommendations for improvement resulting from the analysis. This draft will be provided all involved AMCCOM elements for review and comment.

(2) A final report will then be prepared and submitted to involved deputies, directorates and/or offices for concurrence prior to submission to the Commanding General for approval.

6. Study Schedule:

	<u>Start</u>	<u>Complete</u>
Research	05 Mar 84	06 Apr 84
Prepare/Submit Plan of Action	09 Apr 84	11 Apr 84
Fact Finding	12 Apr 84	11 May 84
Analysis of Data	14 May 84	25 May 84
Draft Report Preparation & Coordination	29 May 84	22 Jun 84
Final Report Preparation & Submission	25 Jun 84	<del>06 Jul 84</del> 29 Jun 84

Approved  
 Disapproved

  
PETER G. BURBULES  
Major General, USA 14 MAY 1984  
Commanding

APPENDIX B  
EXTRACT, DEFENSE ACQUISITION REGULATION

## GENERAL PROVISIONS

## Part 15—Options

**1-1500 Scope of Part.** This Part applies to contracts for supplies and services other than for (i) the construction, alteration, or repair of buildings, bridges, roads, or other kinds of real property and (ii) research and development. It does not preclude the inclusion of appropriate options in such construction and research and development contracts.

**1-1501 Definition.** As used in this Part, an option is a unilateral right in a contract by which, for a specified time, the Government may elect to purchase additional quantities of the supplies or services called for by the contract, or may elect to extend the period of performance of the contract.

**1-1502 Applicability.**

(a) Option clauses may be included in contracts if increased requirements within the period of contract performance are foreseeable, or if continuing performance beyond the original period of contract performance may be in the best interest of the Government. Because options require offerors to guarantee prices for definite periods of time with no assurance that the options will be exercised, their improper inclusion could result in prices which are unfair to either the Government or the contractor. Therefore, an option clause normally should not be included if it can reasonably be foreseen that (i) minimum economic production quantities will be required at some future date, and (ii) startup costs, production lead time, and probable delivery requirements would not preclude adequate future competition.

(b) Option clauses shall not be included in contracts, and option provisions shall not be included in solicitations, if:

- (i) the supplies being purchased are readily available on the open market;
- (ii) the contractor would be required to incur undue risks (e.g., the price or availability of necessary materials or labor is not reasonably foreseeable);
- (iii) an indefinite quantity contract or requirements contract is appropriate except that options for continuing performance may be used in such contracts;
- (iv) market prices for the supplies involved are likely to change substantially; or
- (v) the option quantities represent known firm requirements for which funds are available unless (A) the basic quantity is a learning or testing quantity and there is some uncertainty as to contractor or equipment performance, and (B) realistic competition for the option quantity is impracticable once the initial contract is awarded.

(c) In recognition of (i) the Government's need in certain service contracts for continuity of operation and (ii) the potential cost of disrupted support, options may be included in service contracts if there is an anticipated need for a similar service beyond the first contract period, but see 1-322.

(d) Solicitations normally should allow option quantities to be offered without limitation as to price, and there shall be no limitation as to price if the option quantity is to be considered in the evaluation for award pursuant to 1-1504.

1-1502

**GENERAL PROVISIONS**

In unusual circumstances, solicitations may require that option quantities be offered at prices no higher than those for the initial quantities. Such circumstances may exist, for example, when (i) the option cannot be evaluated pursuant to 1-1504(c) or (d) because additional requirements are foreseeable but not known, and (ii) realistic competition for the option quantity is impracticable once the initial contract is awarded. However, because such limitations as to option prices tend to cause a "frontloading" of costs on the basic quantity which are transferred from the option quantity to equalize the prices offered, their improper inclusion could result in prices which are unfair to the Government should the options not be exercised. Therefore, the procedures in 1-1503(d) shall be followed.

(e) The total of the basic and option periods shall not exceed five years in the case of services, and the total of the basic and option quantities shall not exceed the requirement for five years in the case of supplies. This 5-year limitation shall not apply to automatic data processing equipment, software, and maintenance services; however, the basic option periods shall not exceed the approved systems life as defined in 4-1102.

**1-1503 Procedures.**

(a) If a contract is to contain an option clause, the solicitation must contain an appropriate option provision. The contract shall limit the additional quantities of supplies or services which may be procured, or the duration of the period for which performance of the contract may be extended under the option and will fix the period within which the option may be exercised. This period shall be set so as to afford the contractor adequate notice of the requirement for performance under the option but with respect to service contracts may extend beyond the contract completion date when exercise of the option would obligate funds not available in the fiscal year in which the contract would otherwise be completed. In fixing the period within which the option may be exercised, consideration shall be given to (i) necessary lead time in order to assure continuous production and (ii) the time required for additional funding and other necessary approval action. The period specified for exercising the option shall in all cases be kept to a minimum. The quantities and the period under option and the period during which the option may be exercised shall be justified and documented by the contracting officer in the contract file. If the contract is to be negotiated, the determination and findings shall set forth the approximate quantity to be awarded and the extent of the increase to be permitted by the option.

(b) If exercise of the option would result in increased quantities of supplies, the option may be expressed in terms of (i) percentage of specific contract line items, (ii) a number of additional units of specific contract line items, or (iii) additional numbered line items identified as the option quantity with the same nomenclature as line items initially included in the contract. If exercise of the option would result in an increase in the performance of services by the contractor, the option may similarly be expressed in terms of percentages, increase in specific line items, or additional numbered line items, expressed in terms of the units of work initially used in the contract such as man hours, man years, square feet, pounds or tons handled. If exercise of the option would result in an extension of duration of the contract, the option may be expressed in terms of an extended terminal date or of an additional time period, such as days, weeks, or months.

(c) Solicitations which allow the offer of option quantities at unit prices which differ from the unit prices for the basic contract quantities shall also state that varying prices may be offered for the option quantities depending on the quantities actually ordered and the date or dates when ordered. However, if the

**1-1503****ARMED SERVICES PROCUREMENT REGULATION**

## GENERAL PROVISIONS

solicitation contains an *Evaluation of Options* provision pursuant to 1-1504, it shall also specify the price at which the options will be evaluated (e.g., highest option price offered or option price for specified quantities or dates).

(d) If a solicitation is to require the offering of option quantities at prices no higher than those for the initial quantities pursuant to 1-1502(c), then:

- (i) the inclusion of such limitation as to option price shall be justified and documented by the contracting officer in the contract file;
- (ii) the solicitation shall also include a conspicuous notice adjacent to such limitation as to option price cautioning offerors that an offer containing an option price higher than the base price may be accepted only if such acceptance does not prejudice any other offeror; and
- (iii) if the option is for additional quantities of supplies, an option quantity shall not exceed 50% of the initial quantity of the same contract line item or of the line item with the same nomenclature; *provided*, however, that in unusual circumstances a greater percentage of quantity may be approved in writing by the Chief of the Purchasing Office.

(e) When it is anticipated that the Government may exercise an option to fulfill Foreign Military Sales requirements, the solicitation shall notify contractors of the Government's intent in this regard and shall identify the Foreign Military Sales requirements. The contract shall contain an additional paragraph in the option provision substantially as set forth in 7-104.27(d) which provides for the Government's right to exercise the option for Foreign Military Sales purposes (see 6-1309).

## 1-1504 Evaluation.

(a) Except as otherwise provided in this paragraph, solicitations containing option provisions shall state that evaluation will be on the basis of the quantity to be awarded exclusive of the option quantity.

(b) If it is anticipated that the Government may exercise the option at time of award, the solicitation shall include an *Evaluation of Options* provision substantially as set forth in 7-2003.11(a).

(c) The option quantity may be considered in the evaluation for award of a firm fixed-price contract, a fixed-price contract with economic price adjustment provisions, or such other types of contracts as may be approved by Departmental procedures, if, before issuance of the solicitation, it has been determined by the Chief of the Purchasing Office that:

- (i) there is a known requirement which exceeds the basic quantity to be awarded, but either (A) the basic quantity is a learning or testing quantity and there is some uncertainty as to contractor or equipment performance, or (B) due to the unavailability of funds, the option cannot be exercised at the time of award of the basic quantity; *provided* that in this latter case there is reasonable certainty that funds will be available thereafter to permit exercise of the option; and
- (ii) realistic competition for the option quantity is impracticable once the initial contract is awarded and hence it is in the best interests of the Government to evaluate options in order to eliminate the possi-

1-1504

ARMED SERVICES PROCUREMENT REGULATION

## GENERAL PROVISIONS

bility of a "buy-in" (1-311). This determination shall be based on factors such as, but not limited to, substantial startup or phase-in costs, superior technical ability resulting from performance of the initial contract, and long preproduction lead time for a new producer.

In such cases, the solicitation shall contain an *Evaluation of Options* provision substantially as set forth in 7-2003.11(b).

(d) The option quantity may be considered in the evaluation for award of a fixed-price incentive contract if the determination in 1-1504(c) has been made before issuance of the solicitation, and if the solicitation (i) specifies a cost-sharing arrangement applicable to all proposals, and (ii) specifies that the ceiling price and target profit for the basic and option quantities are to be based on stated percentages of the offeror's target cost. These percentages shall be set forth in the solicitation and shall be applicable to all proposals. In such cases, the *Evaluation of Options* provision in 7-2003.11(c) shall be inserted in the solicitation.

**1-1505 Exercise of Options.**

(a) The exercise of an option by the Government requires the contracting officer's written notification to the contractor within the time period specified in the contract.

(b) When the contract provides for economic price adjustment and the contractor requests revision of price pursuant to such provision, or the provision applies only to the option quantity, the effect of economic price adjustment on prices under the option must be ascertained before the option is exercised.

(c) Options should be exercised only if it is determined that:

- (i) funds are available;
- (ii) the requirement covered by the option fulfills an existing need of the Government. A Foreign Military Sales (FMS) commitment undertaken by the United States Government on behalf of a foreign country constitutes such need. However, in the latter case, the contract shall expressly provide for the Government's right to exercise the option for FMS purposes (see 1-1503(e) and 6-1309); and
- (iii) the exercise of the option is the most advantageous method of fulfilling the Government's need, price, and factors in (e) and (f) below considered.

(d) Insofar as price is concerned, the determination under (c)(iii) above shall be made on the basis of one of the following.

(1) A new solicitation fails to produce a better price than that offered by the option. If the contracting officer anticipates that the option price will be the best price available, he should not use this method of testing the market but should use one of the methods in (2), (3), or (4) below.

(2) An informal investigation of prices, or other examination of the market, indicates clearly that a better price than that offered by the option cannot be obtained (see 1-309).

(3) The time between the award of the contract containing the option and the exercise of the option is so short that it indicates the option price is the lowest price obtainable, considering such factors as market stability and a comparison of the time since award with the usual duration of contracts for such supplies or services.

1-1505

ARMED SERVICES PROCUREMENT REGULATION

**GENERAL PROVISIONS**

(4) Established prices are readily ascertainable and clearly indicate that a new solicitation can obviously serve no useful purpose.

(e) The determination under (c)(iii) above should, among other things, take into account the Government's need for continuity of operations and potential costs to the Government of disrupting operations, including the cost of relocating necessary Government-furnished equipment (as, for example, in certain repair and overhaul contracts for aircraft or other complex equipment).

(f) Insofar as factors other than price were considered for award of an originally negotiated procurement (see 3-501(b)(3)Sec.M(i)), and are therefore for consideration in exercising the option, the determination under (c)(iii) above shall be made on the basis of one of the following.

(1) A new solicitation fails to produce a more advantageous offer than that offered by the option. If the contracting officer anticipates that the option will be the most advantageous offer, he should not use this method of testing the market but should use one of the methods in (2) or (3) below.

(2) An informal investigation of the market indicates clearly that a more advantageous offer than that offered by the option cannot be obtained, and that a new solicitation would obviously serve no useful purpose (see 1-309).

(3) The time between the award of the contract containing the option and the exercise of the option is so short that it indicates clearly that the option is the most advantageous offer obtainable, considering such factors as changes in relative technical merit of the contractor and competitors, market stability, and a comparison of the time since award with the usual duration of contracts for such supplies or services.

(g) When it has been determined that an option may properly be exercised in accordance with the principles set forth herein, such determination shall be set forth in writing and made a part of the contract file. Written notification to the contractor of the exercise of the option and any contract modification resulting therefrom shall cite the option clause contained in the original contract as authority for the procurement of the option quantity; and no citation under 10 U.S.C. 2304(a) is required. Reporting, however, shall be in accordance with the instructions applicable to DD Form 350 (Individual Procurement Action Report).

**1-1506 Examples of Option Clauses.** Examples of Option clauses are set forth in 7-104.27 and 7-1903.22.

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**Part 16—Reserved**

**For Novation coverage, see Section XXVI, Part 4.**

**ARMED SERVICES PROCUREMENT REGULATION**



APPENDIX C  
DF, EXTENSION OF OPTION  
EXPIRATION DATE

DRSAR-CCP (22 Dec 77)

SUBJECT: Extension of Option Expiration Date.

TO: DRSAR-PCP-P

FROM: DRSAR-GCP

DATE: 27 JAN 1978 CMT 2

Mr. Harrington/kf/6124

1. It is possible for an option to be revived by a contractor after its expiration date and exercised by the Government following a written determination and findings by the Contracting Officer in accord with ASPR 1-1505. Expiration of the option exercise period enables the contractor to refuse to perform any requirement awarded to it thereafter and deprives the Government of any right to create a contract by acceptance action. Nevertheless, the contractor may waive the option time limitation before or following expiration of the option exercise period, if it is still willing to accept an award on the basis of the option terms as submitted. In this respect, the option period is for the benefit of the contractor, providing him with a definite date beyond which he cannot be held to his option price.

2. The determination required by ASPR 1-1505 is unchanged whether the original option period is unexpired, extended before expiration or revived after expiration. The Contracting Officer must determine that exercise of the option is in the best interest of the Government, price and other factors, such as need for continuity of operations, potential costs to the Government of disrupting operations and urgency of needed deliveries, considered. In making this determination, the Contracting Officer is in reality deciding whether it is in the best interest of the Government to treat the new requirement as a new procurement and resolicit, or whether a new procurement would simply produce a situation almost identical to that which would result from the exercise of an option. The expiration of the option exercise date does not mean that the circumstances which make an option exercise in the best interest of the Government are no longer present. Indeed, the Contracting Officer's request that an option be revived reflects a preliminary determination that an option exercise may still be in the best interests of the Government.

3. Revival of an expired option or extension of an option which is about to expire is preferable to an extended option period in the original procurement. The effect of an extended option period, requiring the contractor to guarantee prices for a considerable period in advance, is to require bidders either to include a "cushion" in their prices to take care of possible increases in production cost, or gamble that additional orders will be placed and figure their bid prices on more than the minimum quantities. The Comptroller General is of the opinion that the first alternative results in unnecessary increased cost to the Government, and the second alternative is unfair to bidders. Decision B-148019, 20 April 1962, 41 Comp. Gen. 632.

17 JAN 1970

SUBJECT: Extension of Option Expiration Date

4. Exercise of an option which has been revived can be distinguished from a contract extension requiring new negotiating authority on the basis that the option quantity and price were within the scope of the original procurement. Purchase of the option quantity at the option price was bargained for at the time of the original procurement under the authority which supported the original procurement. Expiration of the option period does not mean that the bargain as to the quantity to be procured by option or the price is no longer valid or that the Contracting Officer's original authority to procure by option is destroyed. As stated in the first paragraph above, option expiration operates to protect the contractor from the right of unilateral exercise of the option by the Government after a certain period of time. This is a right which was granted by the contractor under the contract. The contractor may agree to extend this right for an additional period of time, either before or after expiration of the original period. Exercise of the option will be valid so long as (1) the material terms of the original option agreement are not exceeded, i.e., no more than the agreed upon quantity is procured at no more than the agreed upon price, and (2) the determination required by ASPR 1-1505 can be made. If the Government seeks to procure a larger quantity than that allowed by terms of the original option, or the contractor seeks a higher price than that specified in the original option, the scope of the original agreement has been exceeded and the parties are negotiating a new agreement. This requires a new determination of negotiating authority, a review of non-competitive procurement and justification for extending a contract.

5. A modification adding an option for increased quantities to an existing contract is also an extension requiring new determinations and a justification for extending the existing contract. The reason is the same: the modification exceeds the scope of the original agreement and negotiating authorities.

6. Should further clarification or discussion of the above problem be desired, Dave Harrington of this office may be contacted on extension 6124/6835.

*ADARS 1-350 (deleted by CH 1 to ADARS)  
no longer applicable*

*Mike G. Patrakis*  
MIKE G. PATRAKIS  
Acting Chief, Procurement Law Division

*the authority to extend a  
K no longer exists however  
we have been able to use  
sm. purch. auth. to exceed  
the opt. qty.*

# DISPOSITION FORM

For use of this form, see AR 240-25, the proponent agency is TAGCEN.

*Copies follow*

REFERENCE OR OFFICE SYMBOL

SUBJECT

S: 16 Jan 78

RSAR-PCP-P

~~Extension of Option Expiration Date~~

TO DRSAR-GCP

FROM DRSAR-PCP-P

DATE 22 DEC 1977 CMT 1  
Mrs. Hayden/smm/3324

1. When known requirements are forthcoming and a contract contains an option provision that will cover these requirements, it has been the practice of the Procurement Directorate, in those cases where the option is close to expiring or at times has expired, to request an extension of the option expiration date. If the contractor agrees to the extension, the option is then exercised when the requirement is received. Documentation such as a D&F to Negotiate or Review of Noncompetitive Procurement are not prepared for extending the option expiration date and subsequent award.
2. The question has arisen as to whether the extension of the option expiration date must be received from the contractor prior to the original expiration date or if an extension of the option can take place at anytime prior to contract completion.
3. Request comments from your office by COB 16 Jan 78 on the practice of option extensions in general and specifically, if any legal ramifications are involved in extending the option expiration date after the option has expired.

*John B. Ritter*  
JOHN B. RITTER  
MAJ, ORDC  
Chief, Policy Branch

APPENDIX D  
DF, FACTORS TO BE CONSIDERED BEFORE  
EXERCISING AN OPTION

# DISPOSITION FORM

For use of this form, see AR 340-15, the proponent agency is TAGCEN.

REFERENCE OR OFFICE SYMBOL

SUBJECT

DRSAR-PCF-A

Factors to be Considered Before Exercising an Option

TO SEE BELOW

FROM DRSAR-PCF

DATE 23 Feb 79 CMT 1

Mr. Dalziel/3705

1. Attached is a listing of factors and/or guidelines (Incl i) to be considered prior to negotiating option prices.
2. It is requested that these guidelines be considered before implementing any option quantity/price. These guidelines will help establish higher efficiency for the Procurement Directorate and this Headquarters relative to exercising the option, cost data, technical evaluations, and a closer working relationship for all parties concerned.
3. If there are any questions relative to subject item, please contact Mr. Dalziel, Chief, Cost/Price Analysis Branch A of this Division, DRSAR-PCF-A, tel. ext. 3725.

1 Incl  
as

*W. H. Coffenberry*  
W. H. COFFENBERRY  
Chief, Financial Analysis/  
Cost Estimating Division

DISTRIBUTION:

DRSAR-PCG  
DRSAR-PCA  
DRSAR-PCW  
DRSAR-PCS  
DRSAR-PP

## Option Pricing

1. Just as price negotiation objectives are required prior to negotiations on basic quantities, price negotiation objectives are required prior to any final action to exercise an option. The use of options can introduce complexities in evaluating bids and proposals, pricing option quantities and determining a fair and reasonable option price. In addition, prior to exercising an option, it must be determined that the exercise of the option is the most advantageous method of fulfilling the Government's need, price and other factors considered.

2. Before an option price is negotiated and/or exercised, there are a number of factors that should be investigated by the contract specialist. A partial listing of the factors to be considered or that the contract specialist should look into are as follows:

- a. What is basic price?
- b. Has the price of material gone up or down since award of the basic quantity?
- c. What is the time period between award of the basic contract and exercise of the option?
- d. Has the contractor's labor costs risen through a new union contract or other reasons?
- e. Has the state of the art changed (production methods)?
- f. What, if any, is the effect of a learning curve?
- g. What is the quantity to be delivered under the option?
- h. What is the required delivery date?
- i. Are non-recurring costs involved that the contractor expects to recover on the option quantity from a too low bid on the basic quantity?
- j. Market stability
- k. Effect of EPA if provided for in the contract and the contractor has requested adjustment
- l. Are there performance incentives?
- m. Is there audited cost information from contract awards in process or recently negotiated contracts?

n. Review of data on subcontracted items which constitute a major portion of the contract

o. Prices of standard commercial items which constitute a major portion of the contract

p. Current labor rates

q. Current overhead rates

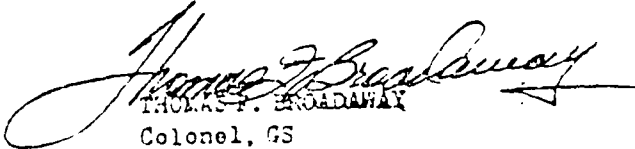
r. Have there been changes in the technical data package?

s. Effects of inflation

t. With regard to FMS, what country is involved and the effect on price?

u. Were non-recurring (start-up) costs amortized over the basic quantity?

3. The above list is just some of the considerations the contract specialist should take into account when determining a pre-negotiation objective. Not all the factors are applicable in every situation and many are interrelated. There is some information required for comparison of the basic and option quantity prices which can be obtained from the DD 633 submitted for the basic contract. In any event, the advice and assistance of the price analyst can always be obtained in procurements involving complex pricing techniques and in evaluating option prices.

  
THOMAS P. BROADAWAY  
Colonel, GS  
Director, Procurement Directorate



APPENDIX E  
DF, EXERCISE OF OPTIONS PRIOR TO  
FIRST ARTICLE TEST

REPLY TO THIS OFFICE  
DRSAR-PPC

SUBJECT  
Exercise of Options Prior to First Article Test

177  
A

TO DRSAR-PC

FROM DRSAR-PP

DATE 15 JAN 1965  
Mrs. Boettcher/cgc/420

1. There has recently been high level concern about exercising options prior to first article tests in some cases where there was a lack of evidence that the manufacturer could or would produce satisfactory product. The inherent danger in this practice is self-evident.
2. As a general policy, options should not be exercised prior to first article test approval; however, it is recognized that in some instances it is both necessary and appropriate to exercise options before first article tests.
3. To insure that options are exercised before first article test only when it is necessary and appropriate to do so, no options shall be exercised prior to completion of satisfactory first article tests unless fully justified and approved in writing by the Division Chief or higher prior to exercising the option. A copy of the approved justification shall be included in the contract file.

*Isabelle Hansen*  
 ISABELLE HANSEN  
 Chief, P&P Policy and Plans Office

APPENDIX F  
DF, DOCUMENTATION TO EXERCISE  
OPTION PROVISIONS

RSAR-PCP-P

Documentation to Exercise Option Provision

4

DRSAR-PCA  
DRSAR-PCF  
DRSAR-PCG  
DRSAR-PCS  
DRSAR-PCW

DRSAR-PCP-P

3 Mar 80  
Mrs. White/bs/3470

1. New emphasis is being placed upon us concerning the areas of first article requirements and/or whether a contractor is delinquent and we wish to exercise the option provision. It should be noted that only the emphasis is now. We have always been required to justify exercising the option as noted in DAR 1-1605.
2. Effective immediately, two paragraphs will be added to the Determination and Finding to Justify Exercising the Option. One paragraph will address whether or not the contract has a first article provision and the status. If the first article hasn't been produced and approved, further explanation will be required. An approval line will be required for Division Chief, or higher level, signature.
3. The second paragraph to be added will address whether the contractor is delinquent, why he is delinquent, and the PCO's decision. See draft DARCOMPI 1-884.1 for further guidance and requirements for approval line signature. (See ex-2)

RICHARD P. SOMMER  
POL, CI  
Chief, Policy Branch

APPENDIX G  
GUIDANCE ON PREPARATION OF STANDARD FORM 50

***Preparation of  
Standard Form 30,***

AMENDMENT  
OF  
SOLICITATION/MODIFICATION  
OF  
CONTRACT INSTRUCTIONS

INDEX

1. Preparation of Standard Form (SF) 30, July 1966, Amendment of Solicitation/Modification of Contract Instructions.
2. Attachment I - Definitions.
3. Attachment II - Examples.
4. Attachment III - Guidance for Completion of Block 11 of the SF 30.

Amendment of Solicitation/Modification of Contract

1. This Appendix provides guidance for use and completion of the Standard Form (SF) 30, July 1966, Amendment of Solicitation/Modification of Contract.
2. The SF 30 shall be used for amendment of solicitations or modification of contracts when such action is required.
3. In order to alleviate problems resulting from incorrect completion of the SF 30, the following are block-by-block instructions for completion of this form.

a. Block 1, Amendment/Modification No: In accordance with DAR 20-204.3(b), supplementary identification numbers for modifications shall be assigned in consecutive chronological assignment. Modification numbers shall be assigned only after it has been determined that a modification is to be issued. At Headquarters, ARRCOM, contracting personnel are to contact DRSAR-PCP-SP to insure that the modification number being used is the next consecutive number.

b. Block 2, Effective Date: In accordance with DAR 16-104.4, the effective date shall be the issue date of an amendment, change order, or administrative change. For a supplemental agreement, the effective date shall be the date agreed to by the contracting parties. (Definition and other information concerning change order, administrative change, and supplemental agreement are located at Attachment I of this Appendix).

c. Block 3, Requisition/Purchase Request No: Enter the PRON number or requisition number in this block. If there are multiple PRON's/Requisitions which cannot be placed in block 3, an asterisk and the words "See Block 12" should be entered. The PRON/Requisition numbers should be the first entry in block 12. (See Example II-3, Attachment II for example.) If there is no PRON/Requisition number involved, this block should be left blank.

d. Block 4, Project No: Enter the project number if there is a project number assigned for this action. If there is no project number, this block should be left blank.

e. Block 5, Issued by: In accordance with DAR 16-104.4, insert the name and address of the issuing office. In the Code Block, insert the appropriate DODAAD code for the issuing office. Directly below the address insert: Buyer/Symbol, followed by the appropriate buyer's name and routing symbol. Directly below the Buyer/Symbol insert: Phone: followed by the buyer's phone number and extension. At Headquarters, ARRCOM this block would be completed generally as follows:

Commander  
US Army ARRCOM  
Rock Island, IL 61299  
Buyer/Symbol: Mr. John Doe/DRSAR-PCZ-Z  
Phone: A/C 309-794-0000  
Code Block: W52PIJ



f. Block 6, Administered by: Insert the name and address of the DCASMA that is administering the contract. Also, include the ADP point code in the clear of block 6. In the code block, enter the DODAAD code for the appropriate DCAS office. If the contract is being administered by HQ, ARRCOM the ADP PT: W52H09 would be entered in the clear of block 6 and the code W52PIJ would be entered in the code block. For amendments to solicitations this entire block shall be left blank.

g. Block 7, Contractor Name and Address: In accordance with DAR 16-104.4, this block should be completed for modifications to a contract or order. The contractor's name, address, and code as shown in the original contract or order should be entered in this block unless these items are being changed by this modification or had been changed by a prior modification.

h. Block 8: In accordance with DAR 16-104.4, check the appropriate block and in the corresponding blanks insert number and date of original solicitation, contract or order.

i. Block 9, This Block Applies Only to Amendment of Solicitations: Self-explanatory.

j. Block 10, Accounting and Appropriation Data: In accordance with DAR 16-104.4, for those awards utilizing an Accounting Classification Reference Number (ACRN) pursuant to DAR 20-308.1, indicate the impact of the modification on each affected accounting classification by inserting one of the following entries:

ACRN Accounting classification  
Net increase \$ \_\_\_\_\_  
ACRN Accounting classification  
Net decrease \$ \_\_\_\_\_

Note: Should changes to multiple ACRN's occur on a modification which cannot be placed in Block 10, an asterisk and the words "See Continuation" should be inserted.

If there is no change in contract amount, so state in this block.

k. Block 11, This Block Applies Only to Modification of Contracts/Orders: This block lists the three types of modifications. Discussion of the three types of modifications is shown at Attachment I. Information concerning the selection of the proper type of modification and the proper authority is shown at Attachment III. When a modification accomplishes more than one action, e.g., exercise of option and correction of a typographical error, the authority stated in block 11 would be the action of major importance. If all actions being accomplished are determined major, consideration should be given to stating more than one authority in block 11.

l. Not used.

m. Block 12, Description of Amendment/Modification: This block should describe the purpose of the modification or amendment. In accordance with DAR 16-104.4,

amendments or modifications shall be set forth under appropriate Uniform Contract Format (UCF) section headings from the applicable solicitation or contract document. A UCF table of contents shall not be set forth. Indicate the impact of the modification on the overall total contract price by inserting one of the following entries:

Total contract price increased by \$ \_\_\_\_\_.  
Total contract price decreased by \$ \_\_\_\_\_.  
Total contract price unchanged.

n. Block 13: If the modification is a Change Order or Administrative Change, the first box in this block shall be checked, and the contractor's signature will not be required. If the modification is a Supplemental Agreement, contractor's signature will be required, the second box shall be checked and the number of copies to be returned to issuing office shall be inserted, but see 1-706.6(d)(3), 1-706.7(e)(3), and 1-804.2(c)(3) when the form is being used for acceptance of an offer for a set-aside portion of a procurement. (DAR 16-104.4) In the case of urgency, the contractor can submit his confirmation of accepting the modification by submitting a teletype or letter. This teletype/letter shall be made a part of the modification. Blocks 13, 14 and 15 will be completed as shown on Example ii-1 at Attachment II.

o. Block 14, Name of Contractor/offeror: Self-explanatory.

p. Block 15, Name and Title of Signer: Self-explanatory.

q. Block 16, Date Signed: Self-explanatory.

r. Block 17, Signature of Contracting Officer: Contracting Officer's signature is not required when amending a solicitation.

s. Block 18, Name of Contracting Officer: Self-explanatory.

t. Block 19, Date Signed: Self-explanatory.

Attachment I

A contract modification means any written alteration in the specification, delivery point, rate of delivery, contract period, price, quantity or other contract provisions of an existing contract, whether accomplished by unilateral action in accordance with a contract provision or by mutual action of the parties to the contract (DAR 1-201.2). The types of contract modifications are shown below:

a. Administrative Change (DAR 16-103(b)(iv))

(1) The administrative change is a unilateral contract modification used to make corrections on contractual documents contingent upon such change having no effect on the intent of the agreement nor any infringement upon the rights of the contractual parties. The buyer must constantly exercise due precautions to prevent entrapment in situations that may later be arguable as a constructive change. For example, a change in contract number (to correct an error) is a normal use for this type of modification, but if the contract requires that the contract number be shown on the packaging and the contractor has expended money printing an incorrect number prior to receipt of the correction, he is obviously entitled to reimbursement. Therefore, be certain that the administrative change contemplated does not exceed the parameters intended. The administrative change procedure shall not be used to effect substantive changes in language tantamount to reformation.

(2) Examples of Administrative Changes are listed in Attachment III.

b. Change Order (DAR 1-201.1, 26-206.1 and DARCOMPI 26-204.80(c))

(1) The "Changes" clause, DAR 7-103.2, provides that the PCO may direct changes within the scope of the contract in one or more of the following:

(a) Drawing, designs, or specifications where the supplies to be furnished are to be specifically manufactured for the Government.

(b) Method of shipment or packing.

(c) Place of delivery.

(NOTE: Changes in these three areas would be the only time the "Changes Clause" would be a valid authority cite in Block 11 of the SF 30.)

(2) A Change Order is a written order signed by the PCO directing the contractor to make changes which the changes clause of the contract authorizes the contracting officer to order without the consent of the contractor.

(3) When change orders are not forward priced they require two documents: the change order and a supplemental agreement reflecting the resulting equitable adjustment in contract terms. If an equitable adjustment in the contract price or delivery terms or both can be agreed upon in advance, only a supplemental

agreement need be issued. Changes issued pursuant to a clause giving the Government a unilateral right to make a change (e.g., an option clause) initially require only one document, the change order.

(4) In accordance with DARCOMPI 26-204.80(c), a ceiling price must be established prior to issuing a change order. Procedures for requests for approval to issue an unpriced change order pursuant to DARCOM guidance are located at ARRCOMAI 26-204.80. The preferred method is to firmly price change orders before they are issued.

c. Supplemental Agreements (DAR 1-201.18 and 26-301)

(1) The term supplemental agreement means any contract modification which is accomplished by the mutual action of the parties.

(2) As stated in DAR 26-301, supplemental agreements are used:

(a) to reflect the agreement reached in the negotiation of change orders.

(b) in preference to a change order when a supplemental agreement is considered feasible even though authority exists to accomplish the modification by change order.

(c) to definitize letter contracts.

(d) to reflect other agreements of the parties modifying the terms of contract; and

(e) to definitize provisional items orders.



STANDARD FORM 30, JULY 1966 GENERAL SERVICES ADMINISTRATION FED. PROC. REG. (41 CFR) 1-16.101		<b>AMENDMENT OF SOLICITATION/MODIFICATION OF CONTRACT</b>		PAGE 1 OF 1
1. AMENDMENT/MODIFICATION NO. PO0003		2. EFFECTIVE DATE	3. REQUISITION/PURCHASE REQUEST NO. M100 6963 M1	4. PROJECT NO. (If applicable)
5. ISSUED BY Commander US Army Armament Command Rock Island, IL 61299 Buyer/Symbol: R. Rogan/DRSAR-PCZ-Z Phone: AC 309-794-0001		CODE W52P1J	6. ADMINISTERED BY (If other than block 5) Commander, DCASIA Springfield 240 Route 22 Springfield, NJ 07081 ADPPT: S3910A	
7. CONTRACTOR NAME AND ADDRESS  Contractor's Name Contractor's Street Address City, State, Zip Code <small>(Street, city, county, state, and ZIP Code)</small>		CODE 1A000	FACILITY CODE	8. <input type="checkbox"/> AMENDMENT OF SOLICITATION NO. _____ DATED _____ (See block 9) <input checked="" type="checkbox"/> MODIFICATION OF CONTRACT/ORDER NO. DAAA09-81-C-XXXX DATED 31 Jun 01 (See block 11)
9. THIS BLOCK APPLIES ONLY TO AMENDMENTS OF SOLICITATIONS <input type="checkbox"/> The above numbered solicitation is amended as set forth in block 12. The hour and date specified for receipt of Offers <input type="checkbox"/> is extended, <input type="checkbox"/> is not extended. Offers must acknowledge receipt of this amendment prior to the hour and date specified in the solicitation, or as amended, by one of the following methods: (a) By signing and returning _____ copies of this amendment; (b) By acknowledging receipt of this amendment on each copy of the offer submitted; or (c) By separate letter or telegram which includes a reference to the solicitation and amendment numbers. FAILURE OF YOUR ACKNOWLEDGMENT TO BE RECEIVED AT THE ISSUING OFFICE PRIOR TO THE HOUR AND DATE SPECIFIED MAY RESULT IN REJECTION OF YOUR OFFER. If, by virtue of this amendment you desire to change an offer already submitted, such change may be made by telegram or letter, provided such telegram or letter makes reference to the solicitation and this amendment, and is received prior to the opening hour and date specified.				
10. ACCOUNTING AND APPROPRIATION DATA (If required) AB 21 12034 1658251 P4111 2610 S11173 Net Increase: \$17,040 Net Increase \$17,040.00				
11. THIS BLOCK APPLIES ONLY TO MODIFICATIONS OF CONTRACTS/ORDERS (a) <input checked="" type="checkbox"/> This Change Order is issued pursuant to <u>The Option Clause of the Contract</u> The Changes set forth in block 12 are made to the above numbered contract/order. (b) <input type="checkbox"/> The above numbered contract/order is modified to reflect the administrative changes (such as changes in paying office, appropriation data, etc.) set forth in block 12. (c) <input type="checkbox"/> This Supplemental Agreement is entered into pursuant to authority of _____ It modifies the above numbered contract as set forth in block 12.				
12. DESCRIPTION OF AMENDMENT/MODIFICATION NSN: 2470-01-900-3844 Item: (state nomenclature)  1. Pursuant to the Option for Increased Quantity Clause as set forth on page 24 of the basic contract, the quantity required by the Government is increased by 8,520 each from 8,520 each to 17,040 each. 2. The total dollar amount of the contract is increased by \$17,040 from \$19,170 to \$36,210.  (This action is an exercise of an option quantity at the price stated in the Option Clause of the basic contract.)				
Except as provided herein, all terms and conditions of the document referenced in block 8, as heretofore changed, remain unchanged and in full force and effect.				
13. <input checked="" type="checkbox"/> CONTRACTOR/OFFEROR IS NOT REQUIRED TO SIGN THIS DOCUMENT <input type="checkbox"/> CONTRACTOR/OFFEROR IS REQUIRED TO SIGN THIS DOCUMENT AND RETURN _____ COPIES TO ISSUING OFFICE				
14. NAME OF CONTRACTOR/OFFEROR		17. UNITED STATES OF AMERICA		
BY _____ <small>(Signature of person authorized to sign)</small>		BY _____ <small>(Signature of Contracting Officer)</small>		
15. NAME AND TITLE OF SIGNER (Type or print)	16. DATE SIGNED	18. NAME OF CONTRACTING OFFICER (Type or print)	19. DATE SIGNED	

STANDARD FORM 30, JULY 1966  
GENERAL SERVICES ADMINISTRATION  
FED. PROC. REG. (41 CFR) 1-16.101

## AMENDMENT OF SOLICITATION/MODIFICATION OF CONTRACT

PAGE 1 OF 1

1. AMENDMENT/MODIFICATION NO. P00003		2. EFFECTIVE DATE		3. REQUISITION/PURCHASE REQUEST NO. * See Block 12		4. PROJECT NO. (If applicable)	
5. ISSUED BY Commander US Army Armament Command Rock Island, IL 61299 Buyer/Symbol: Brown/DRSAR-PCZ-Z Phone: AC 309-794-3456		CODE W52PTJ		6. ADMINISTERED BY (If other than block 3) Commander, DCASMA Santa Ana 34 Civic Center Plaza PO Box C 12700 Santa Ana, CA		CODE S05134	
7. CONTRACTOR NAME AND ADDRESS Western Enterprises 9331 Schultz Ave. Costa Mesa, CA 92626 <small>(Street, city, county, state, and ZIP Code)</small>		CODE T3200		FACILITY CODE		8. AMENDMENT OF SOLICITATION NO. DATED _____ (See block 9) MODIFICATION OF CONTRACT/ORDER NO. DAAA09-81-C-XXXX DATED 80 Oct 14 (See block 11)	
9. THIS BLOCK APPLIES ONLY TO AMENDMENTS OF SOLICITATIONS <input type="checkbox"/> The above numbered solicitation is amended as set forth in block 12. The hour and date specified for receipt of Offers <input type="checkbox"/> is extended, <input type="checkbox"/> is not extended. Offers must acknowledge receipt of this amendment prior to the hour and date specified in the solicitation, or as amended, by one of the following methods: (a) By signing and returning _____ copies of this amendment; (b) By acknowledging receipt of this amendment on each copy of the offer submitted; or (c) By separate letter or telegram which includes a reference to the solicitation and amendment numbers. FAILURE OF YOUR ACKNOWLEDGMENT TO BE RECEIVED AT THE ISSUING OFFICE PRIOR TO THE HOUR AND DATE SPECIFIED MAY RESULT IN REJECTION OF YOUR OFFER. If, by virtue of this amendment you desire to change an offer already submitted, such change may be made by telegram or letter, provided such telegram or letter makes reference to the solicitation and this amendment, and is received prior to the opening hour and date specified.							
10. ACCOUNTING AND APPROPRIATION DATA (If required) ACRN: AB, AC, AD 21 12034 1658251P4111 2610 S11173 Net Decrease \$1,000							
11. THIS BLOCK APPLIES ONLY TO MODIFICATIONS OF CONTRACTS/ORDERS (a) <input type="checkbox"/> This Change Order is issued pursuant to _____ The Changes set forth in block 12 are made to the above numbered contract/order. (b) <input type="checkbox"/> The above numbered contract/order is modified to reflect the administrative changes (such as changes in paying office, appropriation date, etc.) set forth in block 12. (c) <input checked="" type="checkbox"/> This Supplemental Agreement is entered into pursuant to authority of DAR-8-602.4 It modifies the above numbered contract as set forth in block 12.							
12. DESCRIPTION OF AMENDMENT/MODIFICATION * M11D0020M1M1, M11D0021M1M1, M11D0022M1M1 NSN: 1503-00-302-2342 Item: Cable 1. The purpose of this modification is to extend the delivery schedule as set forth on page 2 in accordance with DAR 8-602.4. 2. In consideration for this extension, the total contract dollar amount is decreased by \$1,000 from \$97,421.32 to \$96,421.32.  (EXTEND SCHEDULE IN LIEU OF DEFAULT)							
Except as provided herein, all terms and conditions of the document referenced in block 8, as heretofore changed, remain unchanged and in full force and effect.							
13. <input type="checkbox"/> CONTRACTOR/OFFEROR IS NOT REQUIRED TO SIGN THIS DOCUMENT <input checked="" type="checkbox"/> CONTRACTOR/OFFEROR IS REQUIRED TO SIGN THIS DOCUMENT AND RETURN 4 COPIES TO ISSUING OFFICE							
14. NAME OF CONTRACTOR/OFFEROR BY _____ (Signature of person authorized to sign)				17. UNITED STATES OF AMERICA BY _____ (Signature of Contracting Officer)			
15. NAME AND TITLE OF SIGNER (Type or print)		16. DATE SIGNED		18. NAME OF CONTRACTING OFFICER (Type or print)		19. DATE SIGNED	





Attachment III

Purpose of the Modification	Cite in Block II of SF 30	Type	Authority	Remarks
1. <u>Exercise of Option Clause</u>				
a. Awarded at price indicated in the contract	CO	Option Clause of the Contract		DMR 26-206.1 states that if a Clause gives the Government a unilateral right to make a change, all that is required is a change order.
b. Awarded at price lower than that entered in the contract	SA	Option Clause of the Contract and DMR 26-301(i)		Since the option is being issued at a price other than that in the contract, agreement should be reached on price prior to execution; therefore, this is in fact an agreement reached in negotiation of change orders.
c. Awarded at a ceiling price	SA	Option Clause of the Contract		
d. Definition of the ceiling price	SA	Option Clause of the Contract and DMR 26-301(i)		
2. <u>Extension of the contract delivery schedule</u>				
a. Excusable delay as described in DMR 7-103.11(c)	SA	DMR 7-103.11(c) and DMR 26-301(ii)		
b. Extension of delivery schedule in lieu of Termination for Default	SA	DAR 8-602.4		
c. Extension of delivery schedule for convenience of the Government	SA	DMR 26-301(iv)		
d. Extension of delivery schedule in order to reestablish Government's rights	SA	DAR 7-103.11(a)(i)		
3. <u>Changes to Specifications</u>				
a. Incorporate a Request for Deviation/Request for Waiver	SA	Changes Clause (DAR 7-103.2) and DMR 26-301(i)		At time the RFQ or RFM is incorporated into contract, any price reduction should be negotiated; therefore, this would also be an agreement reached in negotiation of change orders.

## Attachment III (Continued)

Purpose of the Modification	Cite in Block II of SF 30	Type	Authority	Remarks
b. Incorporate an Engineering Change Proposal and/or change testing requirements				
(1) At a ceiling price	SA	Changes Clause (DAR 7-103.2) and DAR 26-301(ii)		
(2) At a firm price, to include definitization of a previous ceiling price modification, or no change in dollar value	SA	Changes Clause (DAR 7-103.2) and DAR 26-301(i)		
4. Definitize a ceiling price order under a BOA	SA	Definitization Clause of the BOA		
5. Change acceptance to destination from contractor's plant	SA	DAR 14-306 and DAR 26-301(iv)		
6. Changes in packaging and/or packaging level				
(a) At a ceiling price	SA	Changes Clause (DAR 7-103.2) and DAR 26-301(ii)		
(b) At a firm price, to include definitization of a previous ceiling price modification, or no change in dollar value	SA	Changes Clause (DAR 7-103.2) and DAR 26-301(i)		
7. Increase contract quantity (not by use of an option clause)				
(a) Over \$25,000.00	SA	An authority under DAR Section III, Part 2 would be required		Adding additional quantities outside the scope of the current contract is considered a new buy. Therefore, a DMF to negotiate and a Review of Noncompetitive Procurement is generally required.
(b) Under \$25,000.00	SA	10 U.S.C. 2304(a)(3) and DAR 3-203		

Attachment III (Continued)

Purpose of the Modification	Type	Cite in Block II of SF 30 Authority	Remarks
8. Change place of delivery			
a. At a ceiling price	SA	Changes Clause (DAR 7-103.2) and DAR 26-301(ii)	
b. At a firm price, to include definitization of a previous ceiling price modification or no change in dollar value	SA	Changes Clause (DAR 7-103.2) and DAR 26-301(i)	
9. Changes as a result of the Economic Price Adjustment Clause of the Contract	SA	State the appropriate EPA clause of the contract	
10. Alteration to other contract provisions of an existing contract	SA	DAR 26-301(iv)	
11. The following are examples of administrative changes. Block b in block II of the SF 30 would be checked in these cases and no authority shall be cited:			
a. Transfer accountability for GFE from one contract to another.			
b. Correct data due to typographical error; however, note the caution in paragraph a of Attachment I.			
c. Change items such as PRON number, Customer Order number, customer document number, etc.			
d. Revise CLIN data.			
e. Assign document numbers, P/N's etc.			

Note: The above information is not intended to be all inclusive. If at HQ, ARRCOM an individual is uncertain of the type of modification and/or the authority to cite, he should contact DKSAR-PCP-P. At the subordinate contracting offices, it is recommended that to maintain consistency in this area one office and/or individual be appointed to determine the appropriate citation.

APPENDIX H  
EXTRACT, LIGHT WEAPONS BRANCH SOP

## OPTIONAL CLAUSE DATA

The following has been taken verbatim from the Handbook II, the standard operations procedures reference for the light weapons branch.

### A. Insertion of the Option Clause in solicitations.

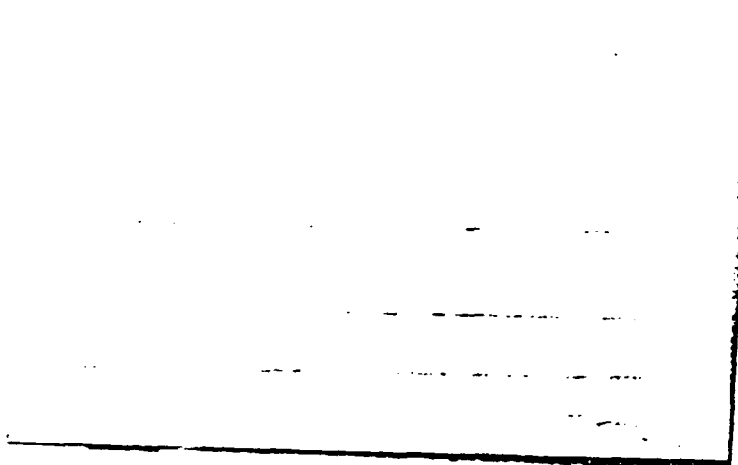
1. An option clause will be inserted in every solicitation and contract.
2. All "off-the-shelf" items will have a 100% option quantity.
3. All specialty items will have a 200% option quantity.
4. In an award without the first article requirement, the time limit on exercising the option will read as follows:
  - a. Preceding 30 days prior to the last scheduled delivery, or
  - b. 240 days after the award of the contract.
5. In an award with the first article requirement, the time limit on exercising the option will read as follows:
  - a. Preceding 30 days after the approval of the first article, or
  - b. Preceding 30 days prior to the last scheduled delivery.

### B. Exercising the Option Clause.

1. An option will not be exercised if any of the following conditions exist:
  - a. The option has expired.
  - b. The option price is higher than the base price of the second low bidder.
  - c. The contractor is currently delinquent in the performance of a government contract.
  - d. The quantity required is greater than the remaining option quantity under the contract.

2. Inversely, the option will be exercised if all of the following conditions exist:

- a. The option has not expired.
- b. The option price is lower than the base price of the second low bidder.
- c. The contractor is not delinquent in the performance of a government contract.
- d. The quantity desired is equal to or less than the remaining option quantity under the contract.



APPENDIX I  
CECOM OPTION GUIDANCE

ACQUISITION INSTRUCTIONS

Section I - General Provisions  
Part 15 - Options

1-1503 Procedures.

1-1503.90 Inclusion of Option Provisions in Solicitations.

(a) In addition to the Contracting Officer's justification for including an option provision in a solicitation (DAR 1-1503(a)), the following file documents shall refer to the option:

- (1) PWD or other written request from the requiring activity.
- (2) Synopsis.
- (3) Determination and Findings (Authority to Negotiate).  
(when applicable)
- (4) Sole Source Approval. (when applicable)

(b) The following format is appropriate for formally advertised contracts only, and where the option can be expressed in terms of a percentage. (Justification statements will vary based upon specific circumstances and method of procurement - See DAR 1-1503(a) and (b)).



ACQUISITION INSTRUCTIONS

Section I - General Provisions  
Part 15 - Options

1-1503.90

Date:

MEMORANDUM FOR: FILE

SUBJECT: Contracting Officer's Justification for Increased Option  
Provision Solicitation No. \_\_\_\_\_

1. The subject solicitation will contain an option provision limiting the additional quantity of CLIN \_\_\_\_\_ to \_\_\_\_\_ % and the period within which the option may be exercised will be from date of award until \_\_\_\_\_ days (prior)(after) the initial production delivery.

2. In accordance with DAR 1-1503(a) the quantities and the period during which the option may be exercised are justified based on the following:

- (i) The quantity does not exceed the requirement for five years;
- (ii) Necessary lead time has been allowed in order to assure continuous production and afford the Contractor adequate notice of the requirement;
- (iii) Consideration has been given to allow for time required for additional funding and other approval actions; and
- (iv) Delivery of the items added by the exercise of the option shall continue immediately after and at the same peak rate as delivery of the initial equipment.

\_\_\_\_\_  
Contracting Officer

(1-1503.90)

ACQUISITION INSTRUCTIONS

Section I - General Provisions  
Part 15 - Options

1-1505 Exercise of Options.

(a) When considering exercising an option, the Contracting Officer must determine that a valid option exists. Said determination must include an express and detailed statement showing that the time period for the exercise of the option (as defined in the option provision of the contract) has not expired. The instructions set forth herein pertain to valid, existing options. It must also be determined by the Contracting Officer, prior to the exercise of an option, that the conditions set forth in DAR 1-1505(c) and (d) have been met. Certain factors which must be considered when determining the feasibility of exercising an option are set forth in detail at DAR 1-1505(e) and (f). The following factors should also be considered.

- (1) The administrative cost to resolicit.
- (2) Non-recurring/start-up costs.
- (3) Any other factors which affect the overall procurement costs.

(b) The exercise of an option by the government requires the Contracting Officer's written notification to the contractor within the time period specified in the contract for exercise of the option. Such notification must be transmitted so as to reach the contractor prior to the expiration of the option period. The use of certified mail is advisable.

(c) When it has been determined in accordance with DAR 1-1505(d) that an informal investigation/testing of the market may be advantageous, the following procedure should be followed:

- (1) The market may be tested informally by means of an RFQ. This informal RFQ may be either oral or written (Standard Form 18/Letter RFQ).
- (2) The number of informal RFQ's to be issued will be determined by the Contracting Officer, at his discretion, who may choose to solicit only the three low bidders on the basic requirement. This should give the Contracting Officer some indication of current market conditions.
- (3) In accordance with DAR 1-309 the following must be included in all written or oral requests for quotation:

ACQUISITION INSTRUCTIONS

Section I - General Provisions  
Part 15 - Options

1-1505

"THE GOVERNMENT DOES NOT INTEND TO AWARD A CONTRACT ON THE BASIS OF THIS REQUEST FOR QUOTATION, OR OTHERWISE PAY FOR THE INFORMATION SOLICITED."

(4) If it is apparent, after the informal testing of the market by means of an RFQ, that a lower price than that offered by the option may be obtained, the option should not be exercised; a formal solicitation should then be issued. Conversely, all other factors considered (see paragraph (a) above), if the option price is lower than the price(s) offered as a result of the informal investigation, the Contracting Officer may proceed with the exercise of the option.

(d) The above described procedure for informally testing the market need not be synopsisized; however, a synopsis of the requirement must be published when it is the Contracting Officer's intent to issue a formal solicitation.

(e) When it has been determined to issue a formal solicitation, the solicitation must be fully competitive. The original source list with appropriate changes may be used along with those additional bidders appearing on the abstract of bids.

1-1505.90 Exercise of Options to Increase Quantities Prior to Start of Production.

(a) Prior approval of the Chief of the Procurement Branch is required when options to increase quantities are to be exercised before the contractor has passed First Article, if applicable, or started actual fabrication/manufacture of production units.

(b) Before exercising an increase option, the Contracting Officer will ascertain from DCAS if the contractor has started actual fabrication/manufacture of production units, and if not, obtain from the contractor the target date for the start of actual fabrication/manufacture of production units. The contract file will be documented to reflect the results of this inquiry.

(c) Where compelling reasons require the exercise of the option, prior to approval of First Article, if applicable, or the start of production by the contractor, approval for such action shall be requested (see paragraph (a) above) by DF signed by the Contracting Officer. Requests shall contain pertinent information as to the need to exercise the option at the earlier date, and as a minimum will include the following:

(1-1505.90)

ACQUISITION INSTRUCTIONS

Section I - General Provisions  
Part 15 - Options

1-1505.90

- (1) Name and address of contractor
- (2) Contract number
- (3) Date of Award
- (4) Description of option item
- (5) Quantity of option item in basic contract
- (6) Proposed increase (percentage and/or quantity)
- (7) Contractor's target date for start of First Article Testing/  
approval (if applicable) or actual fabrication/manufacture of production units.
- (8) Option period as set forth in contract
- (9) Reason or need to exercise the option prior to approval of First  
Article, if applicable, or start of actual fabrication/manufacture of production  
units.

-1505.91 Review of Current Options.

(a) When a Procurement/Work Directive is received by contracting personnel and the exercise of an option is contemplated to fulfill the requirement, special care must be taken where options are available on more than one contract. A suggested procedure to follow is discussing the legal and regulatory aspects of the procurement with an attorney-advisor prior to taking any action. (Also see -1505.92(b)). The following additional guidance in this matter is provided below.

(1) All branches of each Procurement Division receive on a monthly basis the 429 Computer Printout, Number P06CC14034M, which lists all current options, by date, in analyst code and national stock number sequence, with the associated contract number. The procurement branches shall make the current Printout available to individual Contracting Officers and Contract Specialists for review.

(2) Contracting personnel should review the printout both upon receipt of the Procurement/Work Directive and again just prior to award to insure that an existing contract does not, in fact, contain an option price lower than the proposed award price.

(1-1505.91)

ACQUISITION INSTRUCTIONS

Section I - General Provisions  
Part 15 - Options

1-1505.91

(b) Discussions with the present contractor(s) regarding a change in the price of an item included in an option are inappropriate. Such discussions would be tantamount to negotiations. Where there is more than one open option available for the same item, contracting personnel should follow the procedure for informally testing the market as described in 1-1505(c) above.

1-1505.92 Required Reviews/Approvals.

(a) A review at a level above the Contracting Officer and a legal review will be accomplished prior to the exercise of an option priced in excess of \$100,000. This review requirement does not preclude the review requirement set forth in 1-403.52(b)(2)(i).

(b) An approval of the Division Chief must be obtained, and a legal review performed, prior to the exercise of an option, under the following two circumstances:

- (1) More than one firm has an option for the required item.
- (2) An unsolicited reduction in the option price is received.

<u>NUMBER</u>	<u>SUBJECT OR TITLE</u>	<u>WHEN USED</u>
H.99 **	Service Contract Act (SCA) Minimum Wages and Fringe Benefits (formerly DAR 7-2003.85)	- DAR 12-1004, in S/C when (a) H.95, "Service Contract Act of 1965, As Amended," applies; (b) this contract succeeds an ongoing contract for substantially the same services; (c) incumbent contractor has or is negotiating a CBA with some or all of its service employees; & (d) all applicable Dept of Labor wage determinations have been requested but not received. (See DAC 76-49.) - Complete SPI.
H.100 **	Patent Rights - Small Business Firm or Domestic Nonprofit Organization (SBIR Program) (formerly DAR 7-302.23(i))	- In all R&D S/C for procurements under the SBIR Program. (See DAC 76-43.)
H.101 **	Option Requirement - Supplies	- Use in S/C for supplies when inclusion of an option is appropriate, the option will neither be exercised upon award nor evaluated for award, and option prices may be offered without limitation. Use with I.40 when option quantity is expressed as percentage of basic quantity or additional quantity of specific line item, or with I.41 when option is identified as a separately priced line item. Also use M.5 in competitive solicitations. (rev 3)  - On SPI:  (1) In first blank in para a, state option quantity, expressed as percentage of basic quantity or additional quantity of specific line item, or identified as separately priced line item. (2) In second blank in para a, state period during which option may be exercised, expressed as " <u>x</u> days after delivery of <u>x</u> production units (not to include first article)," or, when it is not possible to establish an option period based on delivery of a specified number of units or other actual event, " <u>x</u> days after award." When option period is expressed in

<u>NUMBER</u>	<u>SUBJECT OR TITLE</u>	<u>WHEN USED</u>
H.101 (Cont)		<p>terms of number of days after award, contracting officer is required, by DARCOMPI 1-1500, to prepare a justification for the contract file.</p> <p>(3) When option prices are to be solicited on a ranged quantities basis, specify ranges in blanks under "Range" column in para b.</p> <p>(4) In para d mark block preceding statement which is appropriate for S/C. If second statement is used, insert data SLIN's in blank.</p> <p>(5) In para e mark block preceding appropriate statement and, if second statement is used, block preceding appropriate clause. (See "When Used" guidance for these clauses to determine which is appropriate.)</p> <p>(6) In para f mark block preceding appropriate statement and, if second statement is used, identify EPA clause applicable for option, in blank.</p>

#### "OPTION REQUIREMENT - SUPPLIES

a. In accordance with the 'Option for Increased Quantity' or 'Option for Increased Quantity - Separately Priced Line Item' clause in Section I, the Government may increase the quantity of supplies called for in Section B by up to but not exceeding \_\_\_\_\_ at the unit prices specified below. The contracting officer may exercise this option at any time and from time to time, from date of award until \_\_\_\_\_, by giving written notice to the contractor.

b. The offeror may indicate below (or on a continuation thereof) unit prices for the option quantities. For pricing purposes the option period has been divided into two phases, Phase I, from contract award until thirty days after award, and Phase II, from thirty-one days after award until the end of the option period as specified in paragraph a. Separate columns are provided below for the offeror to insert prices for the two phases. For each phase varying prices may be offered depending on the quantities actually ordered and the dates when ordered. The offeror agrees not to include in the prices for the option quantities any costs of a startup or nonrecurring nature, which costs have been fully provided for in the unit prices set forth in Section B for the items specified in paragraph a, and further agrees that the prices offered for option quantities will reflect only those costs, and a reasonable profit thereon, which are necessary to furnish the additional supplies.

NUMBER                      SUBJECT OR TITLE                      WHEN USED

H.101 (Cont)

<u>ITEM NO.</u>	<u>RANGE (APPLICABLE ONLY FOR RANGED QUANTITY CONTRACTS)</u>	<u>OPTION UNIT PRICE</u>	
		<u>PHASE I</u>	<u>PHASE II</u>
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

c. The contractor shall not be required to furnish additional preproduction samples for additional items furnished under exercise of the option.

d.  Data SLIN's are not required for the option.

Data SLIN's \_\_\_\_\_ are required for the option at no additional cost to the Government.

e.  The Government will not exercise the option to fulfill Foreign Military Sales commitments.

The Government may exercise the option to fulfill Foreign Military Sales commitments. See clause

I.44, 'Exercise of Option to Fulfill Foreign Military Sales Commitments,' and H.108, 'Foreign Military Sales Option Requirement'.

I.44.2, 'Exercise of Option to Fulfill Foreign Military Sales Commitments (Alt I).'

f.  Economic Price Adjustment is not applicable for the option.

Economic Price Adjustment is applicable for the option, in accordance with clause \_\_\_\_\_ of the solicitation/contract.

g. If the offeror does not desire to grant an option as part of his offer, he must put an 'x' mark in the block below.

No option is granted to the Government by the offeror.

If the offeror neither marks the block nor enters prices in the spaces for option unit prices in paragraph b, above, the unit prices stated in Section B for the basic quantities shall apply for the option quantities."

H.102 \*\* Option Requirement -  
Supplies (Alt I)

- Use in S/C for supplies when inclusion of an option is appropriate, the option will neither be exercised upon award nor evaluated for award, and prices offered



NUMBER      SUBJECT OR TITLEWHEN USED

H.102 (Cont)

for option quantities may not be higher than those offered for basic quantities. IAW FAR 17.205(a), the limitation on option prices must be justified in writing by the contracting officer. Use with I.40 when option quantity is expressed as percentage of basic quantity or additional quantity of specific line item, or with I.41 when option is identified as a separately priced line item. Also use M.5 in competitive solicitations. (Rev 3)

- On SPI:

- (1) In first blank in para a state option quantity, expressed as percentage of basic quantity or additional quantity of specific line item, or identified as separately priced line item. IAW FAR 17.203(g)(2), when option prices may not be offered in excess of basic quantity prices, option quantity may not exceed 50% of the basic quantity of the same item unless approved by the Chief of the Contracting Office.
- (2) In second blank in para a, state period during which option may be exercised, expressed as "x days after delivery of x production units (not to include first article)," or, when it is not possible to establish an option period based on delivery of a specified number of units or other actual event, "x days after award". When option period is expressed in terms of number of days after award, contracting officer is required, by DARCOMPI 1-1500, to propose a justification for the contract file.
- (3) When option prices are to be solicited on a ranged quantities basis, specify ranges in blanks under "Range" column in para b.
- (4) In para d mark block preceding statement which is appropriate for S/C. If second statement is used, insert data SLIN's in blank.
- (5) In para e mark block preceding appropriate statement and, if second statement is used, block preceding appropriate clause. (See "When Used" guidance for these clauses to determine which is appropriate.)

NUMBER                      SUBJECT OR TITLE                      WHEN USED

H.102 (Cont)

(6) In para f mark block preceding appropriate statement, and, if second statement is used, identify EPA clause applicable for option, in blank.

"OPTION REQUIREMENT - SUPPLIES (ALT I)

a. In accordance with the 'Option for Increased Quantity' or 'Option for Increased Quantity - Separately Priced Line Item' clause in Section I, the Government may increase the quantity of supplies called for in Section B by up to but not exceeding \_\_\_\_\_, at the unit prices specified below. The contracting officer may exercise this option at any time and from time to time, from date of award until \_\_\_\_\_, by giving written notice to the contractor.

b. The offeror may indicate below (or on a continuation thereof) unit prices for the option quantities. The unit price offered for the option quantity of an item shall not exceed the unit price offered for the basic quantity of the item. The Government will accept an offer containing an option price higher than the basic quantity price only if the acceptance does not prejudice any other offeror. For pricing purposes the option period has been divided into two phases, Phase I, from contract award until thirty days after award, and Phase II, from thirty-one days after award until the end of the option period as specified in paragraph a. Separate columns are provided below for the offeror to insert prices for the two phases. The offeror agrees not to include in the prices for the option quantities any costs of a startup or nonrecurring nature, which costs have been fully provided for in the unit prices set forth in Section B for the items specified in paragraph a, and further agrees that the prices offered for option quantities will reflect only those costs, and a reasonable profit thereon, which are necessary to furnish the additional supplies.

<u>ITEM NO.</u>	<u>RANGE (APPLICABLE ONLY FOR RANGED QUANTITY CONTRACTS)</u>	<u>OPTION UNIT PRICE</u>	
		<u>PHASE I</u>	<u>PHASE II</u>
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

c. The contractor shall not be required to furnish additional preproduction samples for additional items furnished under exercise of the option.

d.  Data SLIN's are not required for the option.

Data SLIN's \_\_\_\_\_ are required for the option at no additional cost to the Government.

<u>NUMBER</u>	<u>SUBJECT OR TITLE</u>	<u>WHEN USED</u>
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H.102 (Cont)

e.  The Government will not exercise the option to fulfill Foreign Military Sales commitments.

The Government may exercise the option to fulfill Foreign Military Sales commitments. See clause

I.44, 'Exercise of Option to Fulfill Foreign Military Sales Commitments,' and H.108, 'Foreign Military Sales Option Requirement'.

I.44.2, 'Exercise of Option to Fulfill Foreign Military Sales Commitments (Alt I)'.

f.  Economic Price Adjustment is not applicable for the option.

Economic Price Adjustment is applicable for the option, in accordance with clause \_\_\_\_\_ of the solicitation/contract..

g. If the offeror does not desire to grant an option as part of his offer, he must put an 'x' mark in the block below.

No option is granted to the Government by the offeror.

If the offeror neither marks the block nor enters prices in the spaces for option unit prices in paragraph b, above, the unit prices stated in Section B for the basic quantities shall apply for the option quantities."

H.103 \*\* Option Requirements -  
Supplies (Alt II)

- Use in S/C for supplies when inclusion of an option is appropriate, option prices may be offered without limitation, and option either may be exercised upon award or will be evaluated for award. Option may be evaluated for award only if contract will be FFP, FP w/EPA, FPI, or other type approved under departmental procedures, and determination required by FAR 17.206 is made by the Chief of the Contracting Office. Use with I.40 when option quantity is expressed as percentage of basic quantity or additional quantity of specific line item, or with I.41 when option is identified as a separately priced line item. Also use M.6, M.7, or M.8 in competitive solicitations; M.6 when option may be exercised upon award; M.7 when option will be evaluated for award and contract will be FFP, FP w/EPA, or other type, except FPI, approved under departmental procedures; M.8 when option will be evaluated for award and contract will be FPI. (Rev 3)

NUMBER      SUBJECT OR TITLEWHEN USED

H.103 (Cont)

- On SPI:

- (1) In first blank in para a, state option quantity, expressed as percentage of basic quantity or additional quantity of specific line item, or identified as separately priced line item.
- (2) In second blank in para a, state period during which option may be exercised, expressed as "x days after delivery of x production units (not to include first article)," or when it is not possible to establish an option period based on delivery of a specified number of units or other actual event, "x days after award." When option period is expressed in terms of number of days after award, contracting officer is required, by DARCOMPI 1-1500, to prepare a justification for the contract file.
- (3) When option prices are to be solicited on a ranged quantities basis, specify ranges in blanks under "Range" column in para b.
- (4) In para d mark block preceding statement which is appropriate for S/C. If second statement is used, insert data SLIN's in blank.
- (5) In para c mark block preceding appropriate statement and, if second statement is used, block preceding appropriate clause. (See "When Used" guidance for these clauses to determine which is appropriate.)
- (6) In para f mark block preceding appropriate statement, and, if second statement is used, identify EPA clause applicable for option, in blank.

"OPTION REQUIREMENT - SUPPLIES (ALT II)

a. In accordance with the 'Option for Increased Quantity' or 'Option for Increased Quantity - Separately Priced Line Item' clause in Section I, the Government may increase the quantity of supplies called for in Section B by up to but not exceeding \_\_\_\_\_, at the unit prices specified below. The contracting officer may exercise this option at any time and from time to time, from date of award until \_\_\_\_\_, by giving written notice to the contractor.

NUMBER      SUBJECT OR TITLE      WHEN USED

H.103 (Cont)

b. The offeror may indicate below (or on a continuation thereof) unit prices for the option quantities. For pricing purposes the option period has been divided into two phases, Phase I, from contract award until thirty days after award, and Phase II, from thirty-one days after award until the end of the option period as specified in paragraph a. Separate columns are provided below for the offeror to insert prices for the two phases. For each phase varying prices may be offered depending on the quantities actually ordered and the dates when ordered. The offeror agrees not to include in the prices for the option quantities any costs of a start up or nonrecurring nature which costs have been fully provided for in the unit prices set forth in Section B for the items specified in paragraph a, and further agrees that the prices offered for option quantities will reflect only those costs, and a reasonable profit thereon, which are necessary to furnish the additional supplies.

<u>ITEM NO.</u>	<u>RANGE (APPLICABLE ONLY FOR RANGED QUANTITY CONTRACTS)</u>	<u>OPTION UNIT PRICE</u>	
		<u>PHASE I</u>	<u>PHASE II</u>
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

c. The contractor shall not be required to furnish additional preproduction samples for additional items furnished under exercise of the option.

d.  Data SLIN's are not required for the option.

Data SLIN's \_\_\_\_\_ are required for the option at no additional cost to the Government.

e.  The Government will not exercise the option to fulfill Foreign Military Sales commitments.

The Government may exercise the option to fulfill Foreign Military Sales commitments. See clause

I.44, 'Exercise of Option to Fulfill Foreign Military Sales Commitments,' and H.108, 'Foreign Military Sales Option Requirement'.

I.44.2, 'Exercise of Option to Fulfill Foreign Military Sales Commitments (Alt I).'

f.  Economic Price Adjustment is not applicable for the option.

Economic Price Adjustment is applicable for the option, in accordance with clause \_\_\_\_\_ of the solicitation/contract.

<u>NUMBER</u>	<u>SUBJECT OR TITLE</u>	<u>WHEN USED</u>
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H.103 (Cont)		
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g. If the offeror does not enter prices in the spaces for option unit prices in paragraph b, above, the unit prices stated in Section 3 for the basic quantities shall apply for the option quantities."

H.104 **	Option Requirement - Services	
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- Use in S/C for services when inclusion of an option is appropriate, the option will neither be exercised upon award nor evaluated for award, and option prices may be offered without limitation. Use with I.42 and, in competitive solicitations, M.5. (Rev 3)

- On SPI:

- (1) In first blank in para a, state option quantity, expressed as percentage of basic quantity or additional quantity of specific line item, or identified as separately priced line item.
- (2) In second blank in para a, state period during which option may be exercised.
- (3) In para c mark block preceding appropriate statement and, if second statement is used, block preceding appropriate clause. (See "When Used" guidance for these clauses to determine which is appropriate.)
- (4) In para d mark block preceding appropriate statement, and, if second statement is used, identify EPA clause applicable for option, in blank.

"OPTION REQUIREMENT - SERVICES

a. In accordance with the 'Option to Extend Services' clause in Section I, the Government may require the contractor to continue to perform any and all of the items of services stated in Section B, within the following limits:

The contracting officer may exercise this option at any time and from time to time, within \_\_\_\_\_, by giving written notice to the contractor.

b. The offeror may indicate below (or on a continuation thereof) rates for option services. Varying rates may be offered depending on the option quantities actually ordered and the dates when ordered.

NUMBER      SUBJECT OR TITLE      WHEN USED

H.104 (Cont)

<u>SERVICE</u>	<u>OPTION RATE</u>
_____	_____
_____	_____
_____	_____
_____	_____

c.  The Government will not exercise the option to fulfill Foreign Military Sales commitments.

The Government may exercise the option to fulfill Foreign Military Sales commitments. See clause

I.44, 'Exercise of Option to Fulfill Foreign Military Sales Commitments,' and H.108, 'Foreign Military Sales Option Requirement'.

I.44.2, 'Exercise of Option to Fulfill Foreign Military Sales Commitments (Alt I).'

d.  Economic Price Adjustment is not applicable for the option.

Economic Price Adjustment is applicable for the option, in accordance with clause \_\_\_\_\_ of the solicitation/contract.

e. If the offeror does not desire to grant an option as part of his offer, he must put an 'x' mark in the block below.

No option is granted to the Government by the offeror.

If the offeror neither marks the block nor enters rates in the spaces for option rates in paragraph b, above, the rates stated in Section B for the basic quantities of services shall apply for the option."

H.105 \*\* Option Requirement - Services (Alt I)

- Use in S/C for services when inclusion of an option is appropriate, the option will neither be exercised upon award nor evaluated for award, and prices offered for option quantities may not be higher than those offered for basic quantities. IAW FAR 17.205(a), the limitation on option prices must be justified in writing by the contracting officer. Use with I.42 and, in competitive solicitations, M.5. (Rev 3)

- On SPI:

- (1) In first blank in para a, state option quantity expressed as percentage of basic quantity or additional quantity

NUMBER      SUBJECT OR TITLE      WHEN USED

H.105 (Cont)

- of specific line item, or identified as separately priced line item. IAW FAR 17.203(g)(2), when option prices may not be offered in excess of basic quantity prices, option quantity may not exceed 50% of the basic quantity of the same service unless approved by the Chief of the Contracting Office.
- (2) In second blank in para a, state period during which option may be exercised.
  - (3) In para c mark block preceding appropriate statement and, if second statement is used, block preceding appropriate clause. (See "When Used" guidance for these clauses to determine which is appropriate.)
  - (4) In para d mark block preceding appropriate statement, and, if second statement is used, identify EPA clause applicable for option in blank.

"OPTION REQUIREMENT - SERVICES (ALT I)

a. In accordance with the 'Option to Extend Services' clause in Section I, the Government may require the contractor to continue to perform any and all of the items of services stated in Section B, within the following limits:

The contracting officer may exercise this option at any time and from time to time, within \_\_\_\_\_, by giving written notice to the contractor.

b. The offeror may indicate below (or on a continuation thereof) rates for option services. The rate offered for the option quantity of a service shall not exceed the rate offered for the basic quantity of the service. The Government will accept an offer containing an option rate higher than the basic quantity rate only if the acceptance does not prejudice any other offeror.

<u>SERVICE</u>	<u>OPTION RATE</u>
_____	_____
_____	_____
_____	_____

c.  The Government will not exercise the option to fulfill Foreign Military Sales commitments.

The Government may exercise the option to fulfill Foreign Military Sales commitments. See clause



<u>NUMBER</u>	<u>SUBJECT OR TITLE</u>	<u>WHEN USED</u>
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H.105 (Cont)

I.44, 'Exercise of Option to Fulfill Foreign Military Sales Commitments,' and H.108, 'Foreign Military Sales Option Requirement'.

I.44.2, 'Exercise of Option to Fulfill Foreign Military Sales Commitments (Alt I).'

d.  Economic Price Adjustment is not applicable for the option.

Economic Price Adjustment is applicable for the option, in accordance with clause \_\_\_\_\_ of the solicitation/contract.

e. If the offeror does not desire to grant an option as part of his offer, he must put an 'x' mark in the block below.

No option is granted to the Government by the offeror.

If the offeror neither marks the block nor enters rates in the spaces for option rates in paragraph b, above, the rates stated in Section B for the basic quantities of services shall apply for the option."

H.106 \*\* Option Requirement -  
Services (Alt II)

- Use in S/C for services when inclusion of an option is appropriate, option prices may be offered without limitation, and option either may be exercised upon award or will be evaluated for award. Option may be evaluated for award only if contract will be FFP, FP w/EPA, FPI, or other type approved under departmental procedures, and determination required by FAR 17.206 is made by the Chief of the Contracting Office. Use with I.42 and, in competitive solicitations, M.6, M.7, or M.8; M.6 when option may be exercised upon award; M.7 when option will be evaluated for award and contract will be FFP, FP w/EPA, or other type, except FPI, approved under departmental procedures; M.8 when option will be evaluated for award and contract will be FPI. (Rev 3)

- On SPI:

(1) In first blank in para a, state option quantity, expressed as percentage of basic quantity or additional quantity of specific line item, or identified as separately priced line item.

<u>NUMBER</u>	<u>SUBJECT OR TITLE</u>	<u>WHEN USED</u>
H.106 (Cont)		<p>(2) In second blank in para a, state period during which option may be exercised.</p> <p>(3) In para c mark block preceding appropriate statement and, if second statement is used, block preceding appropriate clause. (See "When Used" guidance for these clauses to determine which is appropriate.)</p> <p>(4) In para d mark block preceding appropriate statement, and, if second statement is used, identify EPA clause applicable for option, in blank.</p>

"OPTION REQUIREMENT - SERVICES (ALT II)

a. In accordance with the 'Option to Extend Services' clause in Section I, the Government may require the contractor to continue to perform any and all of the items of services stated in Section B, within the following limits:

The contracting officer may exercise this option at any time and from time to time, within \_\_\_\_\_ by giving written notice to the contractor.

b. The offeror may indicate below (or on a continuation thereof) rates for option services. Varying rates may be offered depending on the option quantities actually ordered and the dates when ordered.

<u>SERVICE</u>	<u>OPTION RATE</u>
_____	_____
_____	_____
_____	_____
_____	_____

c.  The Government will not exercise the option to fulfill Foreign Military Sales commitments.

The Government may exercise the option to fulfill Foreign Military Sales commitments. See clause

I.44, 'Exercise of Option to Fulfill Foreign Military Sales Commitments,' and H.108, 'Foreign Military Sales Option Requirement'.

I.44.2, 'Exercise of Option to Fulfill Foreign Military Sales Commitments (Alt I).'

d.  Economic Price Adjustment is not applicable for the option.

Economic Price Adjustment is applicable for the option, in accordance with clause \_\_\_\_\_ of the solicitation/contract.

NUMBER      SUBJECT OR TITLE      WHEN USED

H.106 (Cont)

e. If the offeror does not enter rates in the spaces for option rates in paragraph b, above, the rates stated in Section B for the basic quantities of services shall apply for the option."

H.107 \*\* Period for Exercise of Option to Extend the Term of the Contract - Use in S/C which include I.43, "Option to Extend the Term of the Contract - Services". On SPI, in blanks, specify period during which Government may exercise option to extend term of contract. (Rev 3)

"PERIOD FOR EXERCISE OF OPTION TO EXTEND THE TERM OF THE CONTRACT - SERVICES

In accordance with paragraph (a) of the 'Option to Extend the Term of the Contract - Services' clause in Section I, the Government may extend the term of this contract by notifying the contractor in writing, within \_\_\_\_\_."

H.108 \*\* Foreign Military Sales Option Requirement - Use in S/C which contain an option, when it is known or anticipated that option may be exercised to fulfill FMS commitments, and Government and prospective contractor can negotiate price for FMS requirements prior to award of contract. Use with H.101, H.102, H.103, H.104, H.105, or H.106 and with I.44. On SPI identify country or countries for FMS requirements in blank. (Rev 3)

"FOREIGN MILITARY SALES OPTION REQUIREMENT

a. The Government may exercise the option under the option provision of this contract to fulfill Foreign Military Sales (FMS) commitments undertaken by the Government on behalf of the following country or countries: \_\_\_\_\_

b. The offeror may indicate below (or on a continuation thereof) option unit prices which will be applicable to quantities ordered to satisfy FMS requirements. If the offeror does not furnish prices below, the option unit prices specified in the option requirement provision in Section H shall apply for FMS requirements.

<u>ITEM/SERVICE</u>	<u>OPTION UNIT PRICE (FMS)</u>
_____	_____
_____	_____
_____	_____

<u>NUMBER</u>	<u>SUBJECT OR TITLE</u>	<u>WHEN USED</u>
H.109 **	EPA Computation Date for Option Exercised Prior to First Article Approval	- Use in S/C which contain an option, when first article approval is required and EPA is applicable for both basic and option quantities. (Rev 3)

**"EPA COMPUTATION DATE FOR OPTION EXERCISED PRIOR TO FIRST ARTICLE APPROVAL**

If the option is exercised prior to the original first article approval date, the date for computation of EPA adjustment for option quantity shall be the original first article approval date."

H.110 **	Option to Extend the Term of the Contract - Requirements Contract with Economic Price Adjustment	- Use in requirements S/C when inclusion of an option to extend the term of the contract is appropriate and EPA will be applicable for the option. On SPI, insert number of month in blank in para c. (This should be same as number in blank in para b of provision H.6.) (Rev 3)
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**"OPTION TO EXTEND THE TERM OF THE CONTRACT - REQUIREMENTS CONTRACT WITH ECONOMIC PRICE ADJUSTMENT**

a. This contract is renewable for an additional year at the option of the Government, by written notice of renewal by the contracting officer to the contractor within twelve months after the date of award, provided that if such notice is given within the eleventh or twelfth month after award, the contracting officer shall have given the contractor preliminary notice of the Government's intention to renew within ten months after award. (Such preliminary notice shall not commit the Government to renewal.) The total duration of this contract, including exercise of the option under this clause, shall not exceed two years. The extension of the term applies to the period during which the Government may issue delivery orders.

b. Upon exercise of this option the Government may issue delivery orders for additional supplies called for in Section B at the unit prices for the original contract term; however, prices for such additional supplies will be subject to the Economic Price Adjustment and Delivery - Order Limitations provisions of the contract.

c. Delivery of items ordered by delivery orders issued during the extended term of the contract shall be at the same peak rate as delivery of like items called for under the basic contract, except that production deliveries may not be scheduled to extend beyond the last day of the \_\_\_\_\_ calendar month after the expiration date of the extended term of this contract. The contractor shall not be required to furnish additional preproduction samples for additional items furnished under exercise of this option."

<u>NUMBER</u>	<u>SUBJECT OR TITLE</u>	<u>WHEN USED</u>
H.111 **	Continuation of Services	- Use in S/C for services when performance must be maintained without disruption (i.e. continuing services which are necessary for normal operations and for which funds are consistently appropriated). The total extension shall not exceed ninety days. Within this limitation the number of extensions and the length of each extension are to be determined by the contracting officer based upon the nature of the services and the difficulty anticipated in awarding a successor contract. Insert required information in blanks on SPI accordingly. In competitive solicitations use evaluation of options provision M.5 with this clause. (Rev 3)

**"CONTINUATION OF SERVICES**

The contractor recognizes that the services provided by this contract are vital to the Government's overall efforts and that continuation thereof must be maintained at a consistently high level, without interruption, until a successor contract is awarded. Therefore, the Government may require the contractor to continue any and all items of services under this contract within the following limits over and above those stated in Section B:

a. The term of the contract may be extended a total of \_\_\_\_\_ times for \_\_\_\_\_ day periods each, with the total extension not to exceed \_\_\_\_\_ days.

b. The contracting officer may require, subject to the FAR 52.322-18, 'Availability of Funds,' provision in Section I, the contractor's continued performance for each \_\_\_\_\_ day period by giving written notice to the contractor at least \_\_\_\_\_ days prior to (1) the expiration date of the basic contract, or (2) the expiration date of each \_\_\_\_\_ day extension period.

c. The offeror shall indicate in the space provided below the total price for each additional \_\_\_\_\_ day period for which continuation of services may be required.

<u>ITEM NO.</u>	<u>CONTINUATION PERIOD</u>	<u>TOTAL PRICE</u>
_____	1st _____ day period	_____
_____	2nd _____ day period	_____
_____	3rd _____ day period	_____

<u>NUMBER</u>	<u>SUBJECT OR TITLE</u>	<u>WHEN USED</u>
I.35	** Contract Definitization (52.216-25)	- FAR 16.603-4(b)(3), in S/C when a letter contract is contemplated. (See FAR 15.804-3 for criteria to delete cost or pricing data). - Complete SPI.
I.36	** Contract Definitization - Alternate I (52.216-25, ALT I)	- FAR 16.603-4(b)(3), in letter contracts awarded on the basis of price competition. - Complete SPI.
I.37	* Limitation of Price and Contractor Obligations (52.217-01)	- FAR 17.105(a)(1), in S/C when multiyear contract is contemplated. (Also see FAR 17.1 & 17.102-3(d)).
I.38	* Cancellation of Items (52.217-02)	- FAR 17.105(a)(2), in S/C when multiyear contract is contemplated. (Also see FAR 17.1 & 17.102-3(d)).
I.39	* Cancellation of Items - Alternate I (52.217-02, ALT I)	- FAR 17.105(a)(2), if a multiyear modified requirements contract is awarded for more than 1 program year.

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**Options - Introduction**

a. I.40 through I.43 are FAR option clauses which may be included in S/C when in the Government's best interest, subject to the limitations in FAR 17.202(b) and (c). When one of these clauses is to be used, the contracting officer must, in accordance with FAR 17.205(a), justify in writing the quantities or term under option, the period during which the option may be exercised, and any limitation on option price.

b. An appropriate Section H option clause shall be used with I.40, I.41, I.42, and I.43, in S/C, to provide the information which the Section I clause states is specified in the Schedule. An appropriate Section M evaluation of options provision shall also be used in competitive solicitations to state whether option prices will

<u>NUMBER</u>	<u>SUBJECT OR TITLE</u>	<u>WHEN USED</u>
Options - Introduction (Cont)	be considered in evaluation for award and, if they will, the basis upon which they will be evaluated.	
	c. I.44 and I.44.2 are for supplemental use with I.40, I.41, I.42, and I.43 when the option may be exercised to fulfill FMS commitments; I.44 when price for FMS requirements can be established prior to contract award, I.44.2 when it cannot.	
	d. It is P&P Directorate policy that:	
	(1) Prior to issue of a solicitation that contains an option, the contracting officer shall ascertain from the requiring activity, and document in the file, whether or not exercise of the option can reasonably be expected.	
	(2) LAW FAR 17.203(f), solicitations shall require that option quantities be offered at prices no higher than those for the initial quantities, only in unusual cases.	
	(3) Option prices shall normally be considered in the evaluation for award for competitive procurements, subject to the requirements of FAR 17.206. See the "When Used" guidance for provision M.7, "Evaluation of Options".	
	(4) An option may be included in a contract only if the contracting officer has determined, on the basis of the existence of adequate price competition, price analysis, and/or cost analysis, as appropriate, that option prices are fair and reasonable. When price or cost analysis is performed for a procurement, it shall include any option prices. (Rev 3)	
I.40 * Option for Increased Quantity (52.217-06)	- FAR 17.208(d): Use in S/C, other than those for services, when inclusion of an option is appropriate and option quantity is expressed as percentage of basic contract quantity or as additional quantity of specific line item. With this clause use H.101, H.102, or H.103 in S/C, and M.5, M.6, M.7 or M.8 in competitive solicitations. (Rev 3)	

<u>NUMBER</u>	<u>SUBJECT OR TITLE</u>	<u>WHERE USED</u>
I.41 *	Option for Increased Quantity - Separately Priced Line Item (52.217-07)	- FAR 17.208(e): Use in S/C, other than those for services, when inclusion of an option is appropriate and option is identified as separately priced line item having same nomenclature as corresponding basic contract line item. With this clause use H.101, H.102, or H.103 in S/C, and M.5, M.6, M.7 or M.8 in competitive solicitations. (Rev 3)
I.42 *	Option to Extend Services (52.217-08)	- FAR 17.208(f): Use in S/C for services when inclusion of an option is appropriate, except when the conditions for use of I.43 exist. With this clause use H.104, H.105, or H.106 in S/C, and M.5, M.6, M.7, or M.8 in competitive solicitations. (Rev 3)
I.43 **	Option to Extend the Term of the Contract - Services (52.217-09)	- FAR 17.208(g): Use in S/C for services when inclusion of an option is appropriate and it is necessary to include in the contract a requirement that the Government shall give the contractor preliminary written notice of its intent to extend the contract, a stipulation that extension of the contract includes extension of the option, and/or a specified limitation on total duration of the contract. With this clause use H.107 in S/C. On SPI specify limit for duration of contract, in blank. (Rev 3)
I.44 *	Exercise of Option to Fulfill Foreign Military Sales Commitments (252.217-7000)	- DOD FARs 17.208(70)(1): Use in S/C which contain an option when it is known or anticipated that option may be exercised to fulfill FMS commitments, and the Government and prospective contractor are able to negotiate price for FMS requirements prior to award of contract. Use with H.101, H.102, H.103, H.104, H.105, or H.106, and with H.108. (Rev 3)



<u>NUMBER</u>	<u>SUBJECT OR TITLE</u>	<u>WHEN USED</u>
I.44.1	** Bell System Practices (BSP) and Information Pertaining to Standard Commercial Items (AFARS 52.217-9000)	- AFARS 17.9404-2, in all contracts for purchase of BSP.
I.44.2	* Exercise of Option to Fulfill Foreign Military Sales Commitments (Alt I) (52.217-7001)	- DOD FARS 17.208(70)(2): Use in S/C which contain an option when it is known or anticipated that option may be exercised to fulfill FMS commitments, but country or countries cannot be identified prior to award of contract, and the Government and prospective contractor cannot negotiate price for FMS requirements until country or countries are identified. Use with H.101, H.102, H.103, H.104, H.105, or H.106. (Rev 3)
I.45	* Notice of Total Small Business Set-Aside (52.219-06)	- FAR 19.508(c), in S/C involving total small business set-asides.
I.46	* Notice of Partial Small Business Set-Aside (52.219-07)	- FAR 19.508(d), in S/C involving partial small business set-asides. - DOD FARS 19.508, insert I.52, "Determining the Set-Aside Award Price."

## SOLICITATION PREPARATION MANUAL - FAR

PART IV - SECTION M - EVALUATION FACTORS FOR AWARD  
(To be used for competitive solicitations only.)

<u>NUMBER</u>	<u>SUBJECT OR TITLE</u>	<u>WHEN USED</u>
M.1 **	Qualified Products - End Items (52.209-01)	- FAR 9.206-2(a), in solicitations when acquiring qualified products as end items. - Identify QPL and specification preparing activity on SPI.
M.2 *	Evaluation of Bids for Multiple Awards (52.214-22)	- FAR 14.201-6(q), in IFB's when multiple awards might be made if doing so is economically advantageous to the Govt.
M.3 *	Multiple Technical Proposals (52.214-24)	- FAR 14.201-6(s), in solicitations for technical proposals in step one of two-step formal ad, and KO permits submission of multiple proposals.
M.4 *	Discounts (252.214-7000)	- DOD FARs 14.407-3, solicitations where bidders may offer prompt payment discounts.
M.5 *	Evaluation Exclusive of Options (52.217-03)	- FAR 17.208(a): Use in competitive solicitations which include an option when option will neither be exercised upon award nor evaluated for award Use with I.40, I.41, or I.42 and H.101, H.102, H.104, or H.105. (Rev 3)
M.6 **	Evaluation of Options Exercised at Time of Contract Award (52.217-04)	- FAR 17.203(e) and 17.208(b): Use in competitive solicitations which include an option when option may be exercised upon award of contract. Use with I.40, I.41, or I.42 and H.103 or H.106. On SPI in blank state evaluation price for option, expressed as "highest option price offered," price for a specified number of units ordered by a specified date, or price for other specified requirements. (Rev 3)

<u>NUMBER</u>	<u>SUBJECT OR TITLE</u>	<u>WHEN USED</u>
M.7 *	Evaluation of Options (FAR 52.217-05)	<p>- FAR 17.208(c)(1): Use in competitive solicitations which include an option when option will not be exercised upon award but will be evaluated for award, and contract will be FFP, FP w/EPA, or other type, except FPI, approved IAW AFARS 17.206(90). FAR 17.206 stipulates that option may be evaluated for award only if contract will be FFP, FP w/EPA, FPI, or other type approved under departmental procedures, and the Chief of the Contracting Office determines, before issue of solicitation that:</p> <p>(1) There is a known requirement which exceeds the basic quantity to be awarded but</p> <p>(a) the basic quantity is a learning or testing requirement or</p> <p>(b) due to unavailability of funds, the agency cannot exercise the option at time of award; provided, that in this latter case there is reasonable certainty that funds will be available thereafter to permit exercise of the option; and</p> <p>(2) Competition for the option quantity is impracticable once the initial contract is awarded.</p> <p>- "A known requirement which exceeds the basic quantity to be awarded" should be interpreted as unrestrictively as possible. This condition shall be deemed to exist when DMM requests inclusion of an option, or the contracting officer determines that use of an option is appropriate, for items procured on a recurring basis for stock replenishment. In these cases the option shall be evaluated for award, provided that the other criteria in FAR 17.206 are met. The contracting officer shall document the file when an option is to be evaluated on this basis.</p> <p>- Use this provision with I.40, I.41, or I.42 and H.103 or H.106. (Rev 3)</p>

<u>NUMBER</u>	<u>SUBJECT OR TITLE</u>	<u>WHEN USED</u>
M.8 *	Evaluation of Options, Alt I (52.217-05)	- FAR 17.208(c)(2): Use in competitive solicitations under same conditions described in "When Used" guidance for M.7, except FPI contract will be used. (Rev 3)
M.9 *	Progress Payments Not Included (52.232-15)	- FAR 32.502-3(c), in IFBs that will not include L.54, "Notice of Progress Payments" or L.55, "Notice of Availability of Progress Payments Exclusively for Small Business Concerns."
M.10 *	Evaluation - F.O.B. Origin (52.247-47)	- FAR 47.305-3(f)(2), in solicitations that require prices f.o.b. origin for the purpose of establishing the basis on which offers will be evaluated. Transportation methods other than land may be substituted when evaluating offers.
M.11 **	Destination Unknown (52.247-49)	- FAR 47.305-5(b)(2), in solicitations when destinations are tentative and only for the purpose of evaluating offers. - Complete SPI.
M.12 *	No Evaluation of Transportation Costs (52.247-50)	- FAR 47.305-5(c)(1), in solicitations when exact destinations are not known and it is impractical to establish tentative or general delivery places for the purpose of evaluating transportation costs.
M.13 **	Evaluation of Export Offers (52.247-51)	- FAR 47.305-6(c), in solicitations when supplies are to be exported through CONUS ports and offers are solicited on an f.o.b. origin or f.o.b. destination basis. - Complete SPI.
M.14 **	Evaluation of Export Offers (52.247-51, ALT I)	- FAR 47.305-6(e)(1), as in basic clause, and the CONUS ports of export are DOD water terminals. - Complete SPI.

APPENDIX J  
DF, OPTIONS

# DISPOSITION FORM

For use of this form, see AR 340-15; the proponent agency is TAGO.

REFERENCE OR OFFICE SYMBOL DRSMC-DP (R)	SUBJECT Options
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DRSMC-PC (R)	FROM	DRSMC-DP (R)	DATE	20 April 1984	CMT 1
Mrs. Hansen/gl/5817					

Confirming telephone guidance imparted to DRSMC-PC and DRSMC-PD on 18 Apr 84, it is requested that the use of options be expanded in order to enhance our ability to make early obligations. In those cases where the procurement requirement represents a consolidation of requirements for several customers, for which program and funds have not all been received, request that in addition to the prices requested on the total quantity, prices also be obtained on various quantity increments with options. This will permit us to make early awards for the funded requirements with options to add on later any customer requirement that is not needed to AMCCOM on a timely basis. It is also requested that provision be made for adjustment of the option price and basic quantity price down to the price bid on the total consolidated quantity if the option is exercised soon after award of the basic contract.

Request that the Procurement Directorate work with Policy and Legal to make sure that solicitation options are structured in accordance with the law and the regulations.

  
ISABELLE HANSEN

Deputy for Procurement and Production

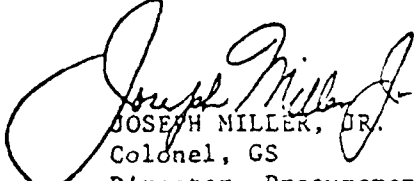
- C :  
DRSMC-GC (R)  
DRSMC-PD (R)  
DRSMC-PP (R)

DRSMC-PC (R)

DRSMC-DP (R)	FROM	DRSMC-PC (R)	DATE	25 Apr 84	CMT 2
COL Miller/jl/6895					

A meeting was held in my office on 18 Apr 84 to impart the guidance set forth in the preceding comment. Representatives from all DRSMC-PC (R) buying divisions were present as well as representatives from DRSMC-PP (R) and DRSMC-GC (R). The latter two elements were tasked to search the law and regulations and either:

- a. Develop an erudite statement of command policy, implementing the guidance, or
- b. Prepare a position paper to explain to the CG reason why the guidance was illegal or inadvisable under existing regulations.

  
JOSEPH MILLER, JR.  
Colonel, GS  
Director, Procurement Directorate

- DRSMC-GC (R)    DRSMC-PD (R)    DRSMC-PP (R) ✓    DRSMC-PCA (R)  
DRSMC-PCW (R)    DRSMC-PCS (R)    DRSMC-PCG (R)

APPENDIX K  
DF, PROCESSING SUSPENSE FOR PROGRAM DOCUMENTS  
IN DRSMC-PD (R)

# DISPOSITION FORM

For use of this form, see AR 340-15; the proponent agency is TAGO.

REFERENCE OR OFFICE SYMBOL DRSMC-PDP-P (R)	SUBJECT Processing Suspense for Program Documents in DRSMC-PD (R)
---	--

TO ALL DRSMC-PD (R) EMPLOYEES FROM DRSMC-PD (R) DATE 4 MAY 1984 CMT 1  
Mrs. Accola/mt/6195

1. Reference DF, DRSMC-PD (R), 6 Jan 84, SAB (encl 1).
2. This DF establishes additional directorate policy to referenced DF on procedures to follow when only a portion of anticipated customer program documents (DRSAR Form 1300) have been received.
3. Upon receipt of the DoD Customer form 1300, provide a DF to DRSMC-DS (R) requesting they send a message to the remaining customers with a copy furnished to the liaison office in AMCCOM, Rock Island, advising that we are awaiting their program. State we are releasing Procurement Work Directives (PWDs) for procurement and if they wish to have their order included, their program must be received at AMCCOM, Rock Island, ASAP and requesting forecasted date of receipt of programs.
4. The forms 825-1 will be released and the forms 1095 for available funds generated within 30 days of receipt of the form 1300, even if remaining customer funds are not received.

*E. M. Craighead*

E. M. CRAIGHEAD  
Deputy Director Production Directorate

1 Encl  
as



*Approved DF*

DRSMC-PD (R)

Processing Suspense for Program Documents in DRSMC-PD (R)

ALL DRSMC-PD (R) EMPLOYEES

DRSMC-PD (R)

6 JAN 1984

Mr. Craighead/gms/376

1. This DF establishes a directorate policy on the method of which management will be informed on the disposition of funds issued to this directorate. It also informs management about the timeliness of actions taken.
2. It is expected that funds are subdivided in accordance with the proper work breakdown structure into DARCOM Forms 1095 to be issued within 12 months and those to be deferred because they cannot be issued within 12 months.
3. When the program document (DRSAR Form 1300) is received by DRSMC-PDP, a Correspondence Control Record (DA Form 2445) will be generated and the tracking copy provided to the deputy director's secretary. The remaining copies will be forwarded with the DRSAR Form 1300 to production manager.
4. Production managers will generate DARCOM Forms 825-1 for each component and send them PDP. DA Forms 2445 will be retained by production managers. On receipt of DARCOM Forms 1 production managers will attach copies of all applicable Forms 1095 to the final copy of Form 2445 and forward them to the deputy director's secretary.
5. If funds cannot be issued because programs from another customer have been planned but not received, then the snowflake (Form 2445) is due in the deputy director's office within 30 days with copies of correspondence from this command to the customer pointing out the delay in orderly operations.

Original Signed By

E. M. CRAIGHEAD  
Deputy Director Production Directorate

APPENDIX L  
EXTRACT, PROCUREMENT AUTOMATED DATA  
AND DOCUMENT SYSTEM (PADDS) INSTRUCTIONS

PROCUREMENT AUTOMATED DATA AND DOCUMENT SYSTEM (PADDS)

EXTRACTS

1. PAGE A1: INSTRUMENT LEVEL I INSTRUCTIONS FOR SOLICITATIONS

7. OPT PCT REQMS IND      Enter the percent of the option only if applicable to all CLINs. Otherwise leave blank.
8. OPT RQMS EXPRI DATE      Enter the date on which the option expires only if applicable to all CLINs. Otherwise leave blank. (If 7 above is entered 8 must be filled.)

2. PAGE A9: PRON/CLIN LEVEL I INSTRUCTIONS FOR SOLICITATIONS

9. OPT 2 RQMS IND      If a percentage option is included in the Clin, enter that percentage.
10. CONT OPT QTY      If Block 9 filled enter quantity.
11. OPT RQMT EXP DATE      If item 9 or 10 is filled, enter the last date Option may be exercised. (If entered at Instrument Level I leave blank, will pull to PRON/CLIN LEVEL I)

3. PAGE B3: INSTRUMENT LEVEL I INSTRUCTIONS FOR CONTRACTS

NOTE: IF PADDS GENERATED SOLICITATION, THE FOLLOWING INSTRUCTIONS APPLY TO ONLY THOSE ITEMS THAT REQUIRE CHANGES; HOWEVER, IF NOT PADDS GENERATED SOLICITATION THE FOLLOWING INSTRUCTIONS DO APPLY.

7. OPT PCT RQMT IND      Enter option percentage if an option is required for all items in the contract.
8. OPT RQMS EXPIR DATE      Enter last date option may be exercised if there is an entry in item 7. (If 7 above is entered 8 must be filled)

4. PAGE D5: INSTRUMENT LEVEL I INSTRUCTIONS FOR MODIFICATIONS AND AMENDMENTS

NOTE: THE FOLLOWING INSTRUCTIONS APPLY TO ONLY THOSE ITEMS THAT REQUIRE CHANGES.

7. OPT PCT RQMS IND      Enter the percent of the option only if applicable to all CLINs. Otherwise leave blank. (If 7 above is entered 8 must be filled)
8. OPT RQMS EXPIR DATE      Enter the date on which the option expires only if applicable to all CLINs. Otherwise leave blank. (If 7 above is entered 8 must be filled)

APPENDIX M  
EXTRACT, OPTION EXPIRATION NOTICE

MAR 30 1984

PMN

53 OF P06CM14034M

OPTION EXPIRATION DATE NOTICE  
ALL OPEN OPTIONS

PCN P06CXX4034M  
REPORT MONTH MARCH  
PAGE 53

SEQUENCE ANAL-CD/NSN/PIIN/SPIIN

ANAL	PROC- CODE	EL	NSN	ADD-DATA -NSN	PIIN	CALL-OR -NO	CLIN	TOT-CLIN-QTY	OPT-PCT REQ-IND	OPT-PCT -EXER	CONT-OPT -QTY	OPT-QTY -EXER	OPT-REQ -EXP-DT	FIA CODE
*K20H	PCSSN		1005000179537		DAAA0983C4906		0001AA	26,301	100		0	0	JAN 01 1999	M22HF
*K20H	PCSSJ		1005000179539		DAAA0983C4713		0001AA	28,489	100		0	0	JAN 01 1999	M22HF
*K20H	PCSSN		1005000179543		DAAA0984C0140		0001AA	103,839	100		0	0	JAN 31 1999	M22HF
*K20H	PCSLH		1005000179546		DAAA0983C4794		0001AB	27,466	100		0	0	JAN 01 1999	M21HF
*K20H	PCSLH		1005000179546		DAAA0983C4794		0001AF	13,518	100		0	0	JAN 01 1999	M21HF
*K20H	PCSLH		1005000179546		DAAA0983C4794		0001AH	26,378	100		0	0	JAN 01 1999	M21HF
*K20H	PCSSN		1005000179548		DAAA0983C4669		0001AB	49,428	100		0	0	JAN 01 1999	M22HF
*K20H	PCSSJ		1005000179551		DAAA0983C0336		0001AB	21,753	100		0	0	JAN 01 1999	M22HF
*K20H	PCSSJ		1005000562251		DAAA0983C4726		0001AB	58,592	100		0	0	FEB 04 1985	M22HF
*K20H	PCSSJ		1005000562251		DAAA0983C4726		0001AD	208,777	100		0	0	JAN 01 1999	M22HF
*K20H	PCSSJ		1005000562252		DAAA0983C4726		0002AB	35,340	100		0	0	JAN 01 1999	M22HF
*K20H	PCSSJ		1005000562252		DAAA0983C4726		0002AD	162,260	100		0	0	JAN 01 1999	M22HF
*K20H	PCSSJ		1005001523441		DAAA0983C4588		0001AB	110,935	100		0	0	JAN 01 1999	M21HF
*K20H	PCSSJ		1005001523441		DAAA0983C4588		0001AD	23,917	100		0	0	JAN 01 1999	M21HF
*K20H	PCSSJ		1005004890369		DAAA0983C4823		0001AE	37,080	100		0	0	JAN 01 1999	M21HF
*K20H	PCSSJ		1005004890369		DAAA0983C4823		0001AD	35,984	100		0	0	JAN 01 1999	M21HF
*K20H	PCSSJ		1005004890369		DAAA0983C4823		0001AF	23,420	100		0	0	JAN 01 1999	M21HF
*K20H	PCSSN		1005009781022		DAAA0983C4823		0001AG	24,169	100		0	0	JAN 01 1999	M21HF
*K20H	PCSLH		1005009781022		DAAA0983C4987		0001AB	35,667	100		0	0	JAN 01 1999	M21HF
*K20H	PCSSJ		1005009927283		DAAA0983C4800		0001AC	45,740	100		0	0	JAN 01 1999	M22HF
*K20H	PCSSN		1005009927285		DAAA0983C4778		0001AC	20,680	100		0	0	JAN 01 1999	M22HF
*K20H	PCSSN		1005009927285		DAAA0983C4778		0001AE	40,411	100		0	0	JAN 01 1999	M22HF
*K20H	PCSSJ		1005009927287		DAAA0983C4832		0001AA	8,927	100		0	0	JAN 01 1999	M21HF
*K20H	PCSLC		1005009927307		DAAA0983C4786		0001AB	14,245	100		0	0	JAN 01 1999	M22HF
*K20H	PCSLC		1005009927307		DAAA0983C4786		0001AC	475,778	100		0	0	JAN 01 1999	M22HF
*K20H	PCSSL		1095004070674		DAAA0983C4608		0001AC	15,501	100		0	0	JAN 01 1999	M22HF
*K20H	PCSSL		1095004070674		DAAA0983C4608		0002AC	13,007	100		0	0	JAN 01 1999	M22HF
*K20H	PCSSL		1095004070674		DAAA0983C4608		0002AC	1,768	100		0	0	JAN 01 1999	M22HF
*K20H	PCSSL		1095004070674		DAAA0983C4608		0002AC	5,557	100		0	0	JAN 01 1999	M22HF

APPENDIX N  
EXTRACT, ARRCOM ACQUISITION BULLETIN

"Rule foresees for the years ahead 'more sloppy procurement practices, waste non-accountability, P.L. 85-804 and claims, and failure to obtain the three objectives of Government procurement' -- a quality product, on time delivery and reasonable cost.

"Rule called upon Congress, in its 'zeal to authorize and appropriate additional billions for defense...to give serious consideration and attention now as to how these billions will be spent.' He said Congress should at least set some contracting constraints, guidelines or policies. 'It appears to me ironical how the Congress is so painstaking in its authorization/appropriation functions and then walks away from what happens to the taxpayers' money thereafter.'

"If Congress does not face up to its procurement oversight responsibilities, Rule predicts, procurement/acquisition in the 1980's will be so wasteful and unacceptable to the taxpayers that they will force a system in our country far different from the free enterprise system we know today.'"

\* \* \* \* \*

OPTION EXPIRATION DATE ENTRIES YJB CARD

DAR 1-1503(a) requires that when an option clause is included in a contract, the option exercise period will be stated.

A review of the Commodity Command Standard System (CCSS) YJB input transactions indicates that in many instances the date of expiration field, cc 42-43, is blank while an option percentage is indicated in cc 39-41. The omission of the required date is causing problems in the Option Expiration Report which is keyed to the option expiration date. Many contracts with open options are not appearing on the Open Option Report which is utilized by Item Managers in DRSAR-MM, PD and LE.

When a contract contains an option provision, ARRCOM contract specialists must record the Option Expiration Date in the field provided on the YJB transaction (cc 42-48). If the data is omitted, the input transactions will be returned for correction.

\* \* \* \* \*

DEPUTY PRINCIPAL ASSISTANT RESPONSIBLE FOR CONTRACTING (PARC) AUTHORITIES

1. DA Circular 715-2-60, 1 December 1979, revised a substantial number of ADARS paragraphs. Among the changes was the deletion from definition of terms of paragraph 1-201.51, Deputy Principal Assistant Responsible for Contracting. Paragraph 1-401(c) which formerly specified criteria for Principal and Deputy Principal Assistant Responsible for Contracting appointments was also revised to omit all references to the "Deputy PARC." The following related ADARS paragraphs were also revised:

a. 1-109.2(b) was revised to omit the authority of the Deputy HCA and Deputy PARC to approve deviations from ADARS affecting one contract. Now only the HCA and the PARC, without power of redelegation may approve.

APPENDIX O  
DRSMC-GC (R) COMMENTS ON DRAFT REPORT



DRSMC-GCP (R) (14 Jun 84)

SUBJECT: Management Study of Contract Option Quantities

TO DRSMC-PTF (R)  
ATTN: Mr. Lyons

FROM DRSMC-GCP (R)

DATE 25 Jun 84 CMT 2  
Mr. Seock/mm/4051/x28

1. In accordance with your request, the following comments are provided regarding the "AMCCOM Management Study of Contract Option Quantities." These comments are keyed to the applicable paragraphs of the study.

a. Paragraph III.B.2. The reference should be to the Office of Counsel for Procurement and Readiness, not to the Chief Counsel.

b. Paragraph V.E.1. In this paragraph it is stated that option clauses were not included in 3 contracts that were negotiated under public exigency. There is, however, no explanation as to why this was appropriate. It is our recommendation that such an explanation be provided.

c. Paragraph V.E.2.c. Regarding the requirement for a guarantee and the exercising of an option, the 16 Mar 84 guidance issued by DRSMC-DP (R) states that if the option is exercised without negotiation, then no guarantee is required. If negotiations are held, a guarantee provision will have to be included. This does not preclude the exercise of an option provision since once the option price is negotiated, that price could be increased as a consequence of the guarantee requirement.

d. Paragraph V.E.2.c. DAR 1-1003.1(a) states, in part, the following:

"Except for procurements described in (b) and (c), every proposed procurement action including modifications to existing contracts when new funds are obligated for additional supplies and sources made in the United States, its possessions, and Puerto Rico which may result in an award of \$10,000 or more shall be publicized promptly in the Commerce Business Daily..."

This is not, however, a revised DAR provision as this same language appears in the 1974 edition of the DAR. It has been the position of this office that if the original synopsis of the procurement stated that an option provision would be included in any resulting contract, then further synopsis at the time of exercise was not necessary. If, however, no option was discussed in the original synopsis, then the aforementioned provision would require a synopsis at the time of exercise. To the best of our knowledge, DRSMC-PP (R), has not disagreed with this position.

e. Paragraph V.F.g. Regarding the option clause data located at Appendix H, the following comments are provided:

(i.) Paragraph A.1. It is inappropriate to state that an option clause will be included in every solicitation and contract. Clearly, there are some solicitations (e.g. a sole source acquisition negotiated under DAR 3-202.2(vi)) where an option provision would be improper.

(ii.) Paragraph A.2. In our opinion, "off-the-shelf" items refers to commercial items. DAR 1-1502(b)(i) states that option provisions shall not be included in solicitations if the supplies being purchased are readily available on the open market.

DRSMC-GCP (R)

SUBJECT: Management Study of Contract Option Quantities

(iii.) Paragraph A.3. The term "specialty item" needs to be defined. Further, a 200 percent option should only be utilized if there is sufficient justification for such a percentage.

(iv.) Paragraphs A.4 and 5. It is our opinion that an arbitrary time limit should not be set on exercising options but that each option should be tailored to fit the specific circumstances of each procurement.

(v.) Paragraph B.1.a. An expired option can be reviewed by the contractor if there is no change in the terms of the option provision.

(vi.) Paragraph B.1.b. Even if the option price is higher than the base price of the second low bidder, if a test of the market indicates that the option price is now the best price available, then there is no reason why the option should not be exercised.

(vii.) Paragraph B.1.c. The cause of the delinquency would need to be determined. If the Government caused the delinquency, then the delinquency itself should not preclude the option exercise. If the contractor is responsible for the delinquency, then it would appear to be a sound business judgment not to exercise the option until the delinquency is eliminated.

(viii.) Paragraph B.1.d. If the requirement is greater than the quantity remaining under the option, it may well be desirable to compete the new requirement. However, depending upon the specific facts, the option could be exercised for a portion of the requirement and the balance negotiated on a sole source basis.

(iv.) Paragraph B.2. While an option will probably be exercised if all of these conditions are present, this paragraph should allow the contract specialist some flexibility.

f. Paragraph V.G.3. There was never any "holding up" on the concurrence in the MFR in question. Rather, the MFR had to be revised several times to adequately express the concerns that our offices had in this matter. In any event, that MFR was concurred in some time ago.

g. Paragraph V.H.1.f. This paragraph leaves the impression that if the option clause was rewritten to allow for the downward negotiation of the option price, then there would be no problem. The GAO, in the Varian decision, however, stated the following:

"Basically, an option is an unaccepted offer to sell upon agreed terms which may be unilaterally accepted by the Government. 1 Comp Gen 752 (1922) and DAR 1-1501 (1976). An option should be clear and definite and should not require further negotiations to work out important and essential terms [citation omitted]. Therefore, the essential terms of an option and the corresponding commitment on the part of the contractor have to be established at the time the underlying contract is awarded. If they are not, there is no option for exercise by the Government." (emphasis added)

DRSMC-GCP (R)

SUBJECT: Management Study of Contract Option Quantities

This language of the Comptroller General would appear to allow little flexibility in this area.

h. Paragraph V.H.1.h. It is our opinion that the statement made in this paragraph is overly broad. The GAO was of the opinion that because of all of the facts of the case, the market should have been tested. Of more importance, however, in the area of option exercises, was the GAO's conclusion that the negotiation of a lower option price with ITT constituted unauthorized sole source negotiations and an improper sole source award.

i. Paragraph V.H.2. In our opinion, "testing the market" is an informal method of determining that an option price is the best price available. The problem, however, is that if that informal testing would show that the option price is not the best price available, then under the Varian decision, there is not authority to negotiate the option price downward. The problem of authority, however, can be overcome with a Determination and Findings to negotiate and the conduct of oral negotiations.

j. Paragraph V.H.3. While Varian does provide that the option price is not negotiable, that problem can be overcome as outlined immediately above.

k. Paragraph VI.D.2. We do not agree with paragraph for the reason discussed in paragraph 1d above.

l. Not used.

m. Paragraph VI.D.6. It is recommended that this paragraph be expanded upon to clearly indicate examples of "aggressive" or "creative" option clauses. Keep in mind that there is a DAR/FAR restriction on limiting the option price to the same price as the basic quantity.

n. Paragraph VI.B. (It would appear that this paragraph should be VI.E). This paragraph discusses the Varian decision and basically concludes that a local acquisition SOP should be developed on this subject. The problem with taking such action is that such an SOP may impose further restrictions on option exercises than are currently being practiced. You are requested to contact this office for further details in this area.

2. It is trusted that the above comments will be of assistance to you. Please contact this office if we can be of further help.



MIKE G. PATRAMANIS  
Chief, Procurement Law Division

1 Encl  
nc

APPENDIX P  
DRSMC-DP (R) COMMENTS ON DRAFT REPORT

# DISPOSITION FORM

For use of this form, see AR 340-15; the proponent agency is TAGO.

REFERENCE OR OFFICE SYMBOL DRSMC-DP (R)	SUBJECT Management Study of Contract Option Quantities
--	---

TO DRSMC-PTF (R)	FROM DRSMC-DP (R)	DATE 29 JUN 1984 CMT1 Mrs. Eichorn/da/3671
---------------------	----------------------	--

1. Reference DF, DRSMC-PTF (R), 14 Jun 84, SAB.
2. In response to your request the following comments are provided:

a. Part IV, para A.4: This office is in disagreement with the statement that an option is construed to be similar to that of a noncompetitive, sole source procurement, even though the contract itself may have been awarded on a competitive basis. The DOD FAR Supplement 15-804.3 states that the exercise of an option in a contract for which there was adequate price competition; if the option price has been determined to be reasonable in accordance with FAR 17-207(d), is construed to be adequate price competition; therefore, an option exercised under these conditions is not at all similar to noncompetitive sole source acquisition.

b. Part IV, para B.3: The Comptroller General in a 1974 decision, 54 Comp Gen 390, 393, stipulated that options should not be included when a contract is negotiated utilizing 10 USC 2304(a)(2), Public Exigency.

c. Part V, para E.2.d: DAR 1-1003.1(a) provides "every proposed procurement action, including modifications to existing contracts when new funds are obligated for additional supplies and services which result in an award of \$10,000 or more, shall be publicized promptly in the Commerce Business Daily." Based upon the placement of this requirement in DAR para 1-1003.1, Synopsis of Proposed Procurements, it is evident we are not talking about synopsisizing the award rather than the proposed award. Since options obligate new funds and the DAR states "shall be publicized promptly," options would be required to be synopsisized. DAR 1-1003.1(a) does list modifications that do not need to be published in the Commerce Business Daily, but options are not included in the exception. If the original synopsis of the procurement stated that an option provision would be included in any resulting contract, then further synopsis at the time of exercise was not necessary. The only other time an option would not need to be synopsisized would be one of the nine exceptions listed in DAR 1-1003.1(c).

d. Part V, para F.2.g:

(1) Few items purchased by AMCCOM are truly off-the-shelf items. They tend to be modified commercial or ordnance type hardware. Generally, all these items are stock fund or PEMA secondary items.

(2) The handbook in question should contain the circumstances under which an award will be made to a delinquent contractor. DARCOMPI Draft 1-904.1 lists when an award may be made to a delinquent contractor.

(3) With regard to the Varian Decision: The PCO has always been required to determine if a better price could be obtained.

(4) There is a division of opinion on the extension of option expiration date. DAR 1-1503(a) states that expiration dates will be fixed as to when an option can be exercised. A strict holding would conclude that this cannot be changed to a later date. Another opinion more commonly used at AMCCOM, provides that a fixed date can be extended if the parties agree prior to the expiration of the option then in effect.

DRSMC-DP (R)

29 JUN 1984

SUBJECT: Management Study of Contract Option Quantities

e. Part V, para G: Response to the question should be addressed by DRSMC-GC (R).

f. Part V, para H.2: Testing the market requirement is set forth in DAR 1-1505(d), which contains concise procedures for determining if an option should be exercised or not. If testing the market results in prices lower than the option price in the contract the requirement would then need to be resolicited and the option not exercised.

g. Part V, para H.3: If the contracting officer, after thoroughly scrutinizing the procedures in DAR 1-1505, determines the option price is the most advantageous method available for fulfilling the government's need, price and factors in DAR 1-1505(e) and DAR 1-1505(f) considered, he could accept a lower price from the contractor if it was offered because lowering the price of the already lowest price would have no effect or bearing on the option price in connection with displacing an otherwise lower offeror.



ISABELLE HANSEN

Deputy for Procurement and Production

APPENDIX Q  
EXTRACT, ARRADCOM PROCUREMENT INSTRUCTION

## GENERAL PROVISIONS

## Part 15--Options

1-1500.90 Options.

(a) Options shall generally be placed in fixed price contracts only when a written communication from the procuring initiating organization indicates that an option is desirable. However, the decision of whether to include an option requested by the customer is that of the contracting officer after complying with ASPR Section I, Part 15.

(b) If the economic situation at the time warrants, an economic price adjustment clause should be used in all fixed price contracts containing an option provision unless the length of the delivery schedule for the option quantity added to the basic contract delivery time is so short as to make the use of an economic price adjustment clause unnecessary.

(c) The Comptroller General has held that it is incongruous for contracts negotiated under 10 U.S.C. 2304(a)(2) to contain an option provision (B-179212-(1), 6 March 1974). The use of options in public exigency actions shall be limited to instances where the maximum option quantity is documented as an uneconomical order quantity or where it is documented that competitive procurement of the maximum option quantity is not otherwise feasible.

(d) It is the general policy of the Materiel Development and Readiness Command that the time during which an option is to be exercised shall be contingent upon the happening of an actual event in lieu of a date or scheduled event. For example, the Option clause may provide that the option is to be exercised within a period of 90 days after delivery of an "x" number of units, "x" number of days after first article approval, etc. Normally, the "event" should not be stated in terms of a specified number of days after award. However, when there is no event available upon which to hinge an option exercise, the event may be stated in terms of a specified number of days after award. The award of a follow-on contract or the exercise of an option normally shall not be made to a contractor who is delinquent on scheduled deliveries provided a known alternate source of supply has the capability of producing and delivering the contract quantities within an acceptable time period. Exceptions must be justified and the approval of the Director or Deputy Director of Procurement shall be obtained.



APPENDIX R  
ARRADCOM POLICY LETTER ON OPTIONS

PROCUREMENT DIRECTORATE  
US ARMY ARMAMENT RESEARCH & DEVELOPMENT COMMAND  
DOVER, NJ 07801

APR 4 1983

DRDAR-PR Letter No.: 83- 13

SUBJECT: Options

1. The following guidelines have been issued by our Legal Counsel in connection with options:

a. Adding an option clause to an existing contract.

(1) Prepare Determination and Findings setting forth the negotiating authority pursuant to 10 USC 2304a (1-17) which will be applicable to the new option requirement.

(2) Prepare and staff a sole source justification through the ARRADCOM Legal Office and the Policy and Compliance Division for its concurrence prior to adding the option clause by supplemental agreement to the existing contract.

b. Use of cost type options

(1) It is noted that the Comptroller General in reviewing a cost type contract with option has held that they did not question the procedural validity of the option technique. Raytheon Corp. B-180414, September 3, 1974, 74-2 CPD 137, Cerberonics Inc., B-199924, B-199925, May 6, 1981, 81-1 C.P.O. 551.

(2) It is the opinion of Legal Counsel that while fixed price options are the most advantageous to the Government, cost type options can be used when determined by the contracting officer to be less costly than other methods of contracting.

c. Considerations prior to exercising an option:

(1) Once an option has been included in a contract but prior to exercising of said option the contracting officer must as far as price is concerned, comply with DAR 1-1505(d) (1-4). In addition, in those instances where the option price was not evaluated in making the initial award, but was only added by a subsequent modification to the contract, the procedure followed in exercising the option should conform with the above DAR regulations. See Ket Incorporated 58 Comp. Gen. 38 (1978) 78-2 C.P.D. 305.

(2) The General Accounting Office will not object to the Agency's determination to exercise the option unless it finds that the provisions of DAR were not followed or that the determination itself was unreasonable. Oscar Holmes & Sons, Inc. et al. B-183897 November 21, 1975, 75-2 CPD 339.

d. Notwithstanding the above, an option clause normally should not be included in contracts if it can reasonably be foreseen that minimum economic production quantities will be required at some future date and start up costs, production lead time and probable delivery requirements would not preclude adequate price competition. See DAR 1-1502(a) and (b).

DRDAR-PR Letter No.: 83-13  
SUBJECT: Options

2. Further guidance on procurement of options are set forth in ARRADCOMPI  
1-1500.90 and DAR 1-1500.



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Director, Procurement Directorate

DISTRIBUTION:

Director  
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All Contracting Personnel  
All Procurement Analysts  
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APPENDIX S  
EXTRACT, FAR 17.206

quantity is a learning or testing quantity and (ii) competition for the option is impracticable once the initial contract is awarded.

(d) In recognition of (1) the Government's need in certain service contracts for continuity of operations and (2) the potential cost of disrupted support, options may be included in service contracts if there is an anticipated need for a similar service beyond the first contract period.

#### 17.203 Solicitations.

(a) Solicitations shall include appropriate option provisions and clauses when resulting contracts will provide for the exercise of options (see 17.208).

(b) Solicitations containing option provisions shall state the basis of evaluation, either exclusive or inclusive of the option and, when appropriate, shall inform offerors that it is anticipated that the Government may exercise the option at time of award.

(c) Solicitations normally should allow option quantities to be offered without limitation as to price, and there shall be no limitation as to price if the option quantity is to be considered in the evaluation for award (see 17.206).

(d) Solicitations that allow the offer of options at unit prices which differ from the unit prices for the basic requirement shall state that offerors may offer varying prices for options, depending on the quantities actually ordered and the dates when ordered.

(e) If it is anticipated that the Government may exercise an option at the time of award and if the condition specified in paragraph (d) above applies, solicitations shall specify the price at which the Government will evaluate the option (highest option price offered or option price for specified requirements).

(f) Solicitations may, in unusual circumstances, require that options be offered at prices no higher than those for the initial requirement; e.g., when (1) the option cannot be evaluated under 17.206, or (2) future competition for the option is impracticable.

(g) Solicitations that require the offering of an option at prices no higher than those for the initial requirement shall—

(1) Specify that the Government will accept an offer containing an option price higher than the base price only if the acceptance does not prejudice any other offeror; and

(2) Limit option quantities for additional supplies to not more than 50 percent of the initial quantity of the same contract line item. In unusual circumstances, an authorized person at a level above the contracting officer may approve a greater percentage of quantity.

#### 17.204 Contracts.

(a) The contract shall specify limits on the purchase of additional supplies or services, or the overall duration of the term of the contract, including any extension.

(b) The contract shall state the period within which the option may be exercised.

(c) The period shall be set so as to provide the contractor adequate lead time to ensure continuous production.

(d) The period may extend beyond the contract completion date for service contracts. This is necessary for situations when exercise of the option would result in the obligation of funds that are not available in the fiscal year in which the contract would otherwise be completed.

(e) The total of the basic and option periods shall not exceed 5 years in the case of services, and the total of the basic and option quantities shall not exceed the requirement for 5 years in the case of supplies, unless otherwise authorized by statute.

(f) Contracts may express options for increased quantities of supplies or services in terms of (1) percentage of specific line items, (2) increase in specific line items, or (3) additional numbered line items identified as the option.

(g) Contracts may express extensions of the term of the contract as an amended completion date or as additional time for performance; e.g., days, weeks, or months.

#### 17.205 Documentation.

(a) The contracting officer shall justify in writing the quantities or the term under option, the notification period for exercising the option, and any limitation on option price under 17.203(g); and shall include the justification document in the contract file.

(b) Written determinations and findings that are required for negotiated contracts shall specify both the basic requirement and the increase permitted by the option.

#### 17.206 Evaluation.

(a) The contracting officer may consider the option quantity in the award evaluation for a firm-fixed-price contract or a fixed-price contract with economic price adjustment (see 17.208(c)(1)); *provided*, that an authorized person at a level above the contracting officer determines, before the solicitation is issued, that—

(1) There is a known requirement that exceeds the basic quantity to be awarded but (i) the basic quantity is a learning or testing requirement, or (ii) due to the unavailability of funds, the agency cannot exercise the option at the time of award; *provided*, that in this latter case there is reasonable certainty that funds will be available thereafter to permit exercise of the option; and

(2) Competition for the option quantity is impracticable once the initial contract is awarded. This determination shall reflect factors such as substantial startup or phase-in costs, superior technical ability resulting from performance of the initial contract, and long preproduction leadtime for a new producer.

(b) The contracting officer may consider the option quantity in the award evaluation for fixed-price incentive contracts (see 17.208(c)(2)) if—

(1) The determination in paragraph (a) above was made before issuance of the solicitation; and

(2) The solicitation (i) specifies an incentive arrangement and (ii) specifies that the agency will base the ceiling price and target profit for the basic and option quantities on stated percentages of the offeror's target cost. These percentages shall be specified in the solicitation and shall apply to all proposals.

#### 17.207 Exercise of options.

(a) When exercising an option, the contracting officer shall provide written notice to the contractor within the time period specified in the contract.

(b) When the contract provides for economic price adjustment and the contractor requests a revision of the price, the contracting officer shall determine the effect of the adjustment on prices under the option before the option is exercised.

(c) The contracting officer may exercise options only after determining that—

(1) Funds are available;

(2) The requirement covered by the option fulfills an existing Government need; and

(3) The exercise of the option is the most advantageous method of fulfilling the Government's need, price and other factors (see paragraphs (d) and (e) below) considered.

(d) The contracting officer, after considering price and other factors, shall make the determination on the basis of one of the following:

(1) A new solicitation fails to produce a better price or a more advantageous offer than that offered by the option. If it is anticipated that the best price available is the option price or that this is the more advantageous offer, the contracting officer should not use this method of testing the market.

(2) An informal analysis of prices or an examination of the market indicates that the option price is better than prices available in the market or that the option is the more advantageous offer.

(3) The time between the award of the contract containing the option and the exercise of the option is so short that it indicates the option price is the lowest price obtainable or the more advantageous offer. The contracting officer shall take into consideration such factors as market stability and comparison of the time since award with the usual duration of contracts for such supplies or services.

(e) The determination of other factors under (c)(3) of this section should take into account the Government's need for continuity of operations and potential costs of disrupting operations.

(f) Before exercising an option, the contracting officer shall determine that such action is in accordance with the terms of the option and the requirements of

this section. The written determination shall be included in the contract file.

(g) The contract modification or other written document which notifies the contractor of the exercise of the option shall cite the option clause as authority. The negotiation authorities under 41 U.S.C. 252(c) or 10 U.S.C. 2304(a) are not applicable and shall not be cited.

#### 17.208 Solicitation provisions and contract clauses.

(a) The contracting officer shall insert a provision substantially the same as the provision at 52.217-3, Evaluation Exclusive of Options, in solicitations when the solicitation includes an option clause and does not include one of the provisions prescribed in paragraph (b) or (c) below.

(b) The contracting officer shall insert a provision substantially the same as the provision at 52.217-4, Evaluation of Options Exercised at Time of Contract Award, in solicitations when the solicitation includes an option clause and an option may be exercised at the time of contract award.

(c) (1) The contracting officer shall insert a provision substantially the same as the provision at 52.217-5, Evaluation of Options, in solicitations when (i) the solicitation contains an option clause; (ii) an option is not to be exercised at the time of contract award; (iii) a firm-fixed-price contract, a fixed-price contract with economic price adjustment, or other type of contract approved under agency procedures is contemplated; and (iv) a determination has been made as specified in 17.206(a).

(2) If all conditions in (c)(1) above apply, except that a fixed-price incentive contract is contemplated and the conditions in 17.206(b) apply, the contracting officer shall use a provision substantially the same as the provision at 52.217-5, Evaluation of Options, with its Alternate I.

(d) The contracting officer shall insert a clause substantially the same as the clause at 52.217-6, Option for Increased Quantity, in solicitations and contracts, other than those for services, when the inclusion of an option is appropriate (see 17.200 and 17.202) and the option quantity is expressed as a percentage of the basic contract quantity or as an additional quantity of a specific line item.

(e) The contracting officer shall insert a clause substantially the same as the clause at 52.217-7, Option for Increased Quantity—Separately Priced Line Item, in solicitations and contracts, other than those for services, when the inclusion of an option is appropriate (see 17.200 and 17.202) and the option quantity is identified as a separately priced line item having the same nomenclature as a corresponding basic contract line item.

(f) The contracting officer shall insert a clause substantially the same as the clause at 52.217-8, Option to Extend Services, in solicitations and contracts for services when the inclusion of an option is appropriate (see

APPENDIX T  
EXTRACT, AAA AUDIT REPORT

US ARMY AUDIT AGENCY

AUDIT REPORT: MW 84-203

31 January 1984

REPORT OF AUDIT

Procurement Evaluation and Selection Practices  
US Army Armament, Munitions and Chemical Command

Recommendations and Command Comments

EXTRACT

C-2 Restrict acquisitions negotiated under the public exigency exception to only the urgently needed portions of the total quantities required. Make sure options are properly justified.

Command agreed and stated that instructions will be issued to all procurement personnel emphasizing that only urgently needed quantities should be procured under the public exigency exception. Additionally, the instructions will emphasize the proper use of options in public exigency determinations and findings and stress the need for supporting documentation.

T