



102 at 48.001, 48.102, 48.104 and 52.248-1  
DEPARTMENT OF THE AIR FORCE  
HQ WARNER ROBINS AIR LOGISTICS CENTER (AFMC)  
ROBINS AIR FORCE BASE GEORGIA

09 SEP 1997

MEMORANDUM FOR SEE DISTRIBUTION

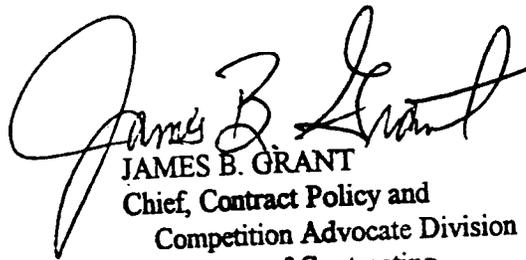
FROM: WR-ALC/PKP

SUBJECT: Class Deviation--Value Engineering Change Proposals, HQ AFMC Memo 19 Aug 97

1. HQ AFMC/PK has advised this center that the Office of the Secretary of Defense has taken important steps to invigorate value engineering (VE) programs throughout the Department of Defense (DoD). These steps include a 2-year class deviation that authorized Contracting Officers to increase the sharing period from the current 3 years to a range of 3-5 years. This 2-year class deviation also increased the incentive sharing arrangement from the current fixed rate for the contractor of 50 percent to a range of 50 to 75 percent; and it increased the current fixed contractor shared collateral saving rate of 20 percent to a range of 20 to 100 percent (Atch 3).

2. In addition to the class deviation, Ms Spector, Director Defense Procurement, also signed a letter for action to facilitate the implementation of Value Engineering Change Proposals (VECPs). This letter states that "Neither the FAR nor DFARS restrict the implementation of a VECP before an equitable adjustment is negotiated" and that "DFARS 217.7401(a)(2) excludes (emphasis added) VECPs from the restriction on the use of undefinitized contract actions" (UCAs) thereby allowing VECPs to be put on contract and negotiated later (Atch 2).

3. My VE focal point is Terry Rutherford, WR-ALC/PKPB, 69001. He is available to work with your Buyers/Contracting Officers to facilitate value engineering concepts/techniques. Please ensure that the importance of VE is conveyed to your contracting personnel and stress the fact that they are responsible for promoting the importance of the VECP program to DoD contractors and integrating VE into their acquisitions whenever applicable.

  
JAMES B. GRANT  
Chief, Contract Policy and  
Competition Advocate Division  
Directorate of Contracting

Attachments:

1. HQ AFMC/PK Memo 19 Aug 97
2. Under Secretary of Defense Memo 10 Jun 97
3. Under Secretary of Defense Memo 10 Apr 97, w/Atch

70-41 Atch 98-2Q (FAR 48.001, 48.102, 48.104 and 52.248-1)  
Post to FAR 48.001, 48.102, 48.104 and 52.248-1 by circling the references and noting in the margin: "See 70-41, Atch 98-2Q filed at FAR 48 and FAR 52." Then file the atch behind the sups to FAR 48 and FAR 52.



19 AUG 1997

## MEMORANDUM FOR SEE DISTRIBUTION

FROM: HQ AFMC/PK  
4375 Chidlaw Road, Suite 6  
Wright-Patterson AFB OH 45433-5006

SUBJECT: Class Deviation – Value Engineering Change Proposals

1. The Office of the Under Secretary of Defense has authorized a class deviation to all military departments to invigorate value engineering (VE) programs throughout the Department of Defense (DoD). The VE initiative of lowering the costs of acquiring weapons systems is critical in light of shrinking budgets. VE programs should be an integral part of acquisition reform at every level of DoD; from value engineering change proposals (VECPs), to reducing operating costs by reengineering office procedures to ensure that DoD maximizes each dollar spent. Headquarters AFMC has formed an IPT to reestablish the VECP program. To demonstrate the importance of VE throughout DoD, the two-year class deviation signed by Ms. Spector incentivizes VECPs by authorizing contracting officers to increase the sharing period from the current three years to a range of three-five years; the incentive sharing arrangement from the current fixed rate for the contractor of 50 percent to a range of 50 to 75 percent; and the current fixed contractor shared collateral savings rate of 20 percent to a range of 20 to 100 percent (see Attachment 1).
2. In addition to the class deviation letter, Ms. Spector also signed a letter for action to facilitate the implementation of VECPs (see Attachment 2). This letter states that "Neither the FAR nor DFARS restrict the implementation of a value engineering change proposal VECP before an equitable adjustment is negotiated" and that "DFARS 217.7401(a)(2) excludes (emphasis added) VECPs from the restriction on the use of undefinitized contract actions" (UCA) thereby allowing VECPs to be put on contract and negotiated later.
3. Based on this call to action, the VE IPT requested that each center VE focal point (a) disseminate this and any new information forthcoming on VE, (b) act as a liaison to facilitate value engineering concepts/techniques, and (c) be a representative on the VE program enhancement IPT. To ensure that the importance of VE is spread throughout the command, we request that you forward the attached DoD letters informing each

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buying organization and contracting officer of the importance of integrating VE into their acquisitions. Information on VE will be placed on our home page at: [www.afmc.wpafb.af.mil/organizations/HQ-AFMC/PK/pkp/pkpc/valueng.htm](http://www.afmc.wpafb.af.mil/organizations/HQ-AFMC/PK/pkp/pkpc/valueng.htm) for your use.

4. My staff and I are available to answer any questions or assist you as necessary. Our action officer for this effort is Mr. Mike Quinlin, HQ AFMC/PKPC, DSN 986-0449 or e-mail [quinlim@wpgate1.wpafb.af.mil](mailto:quinlim@wpgate1.wpafb.af.mil).

*Linda G. Williams*  
LINDA G. WILLIAMS, SES  
Deputy Director of Contracting

Attachments:

1. Class Deviation Ltr, 10 Apr 97
2. Action to Facilitate Implementation Ltr  
10 Jun 97

June 10, 1997



ACQUISITION AND  
TECHNOLOGY

DP/DSPS

MEMORANDUM FOR DIRECTOR OF DEFENSE AGENCIES  
DEPUTY FOR ACQUISITION AND BUSINESS MANAGEMENT,  
ASN(RDLA)/ABM  
DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE  
(CONTRACTING), SAF/AOC  
ASSISTANT DEPUTY ASSISTANT SECRETARY OF THE ARMY  
(PROCUREMENT)/DIRECTOR FOR CONTRACTING  
DEPUTY DIRECTOR (ACQUISITION), DEFENSE LOGISTICS  
AGENCY

SUBJECT: Value Engineering Change Proposals - Action to  
Facilitate Implementation

My memorandum of April 10, 1997, authorized a two year deviation from Federal Acquisition Regulation (FAR) requirements to encourage value engineering through increased incentives. The purpose of this memorandum is to clarify the policy on pricing value engineering changes.

The Value Engineering Process Action Team (VEPAT) reported to the Defense Manufacturing Council (DMC) in March, 1997 that a barrier to value engineering implementation is the time required for pricing changes. A second reported barrier is that procurement policies prevent implementation of a value engineering change proposal before pricing is complete.

Neither the FAR nor the DFARS restrict the implementation of a value engineering change proposal VECF before an equitable adjustment is negotiated. FAR 43.204 requires contracting officers to negotiate equitable adjustments resulting from change orders in the shortest practicable time. Defense Federal Acquisition Regulation Supplement (DFARS) 217.7401(a)(2) excludes VECPS from the restriction on the use of undefinitized contract actions.

FAR already permits the VEPAT's recommendation that VECPS be implemented with a not-to-exceed price when the savings exceed government costs by an amount predetermined by the Program Manager. The intent is to realize significant unit cost reductions as early as possible when contractor development and implementation costs can be capped.

*Eleanor R. Spector*

Eleanor R. Spector  
Director, Defense Procurement

*Atch*



ACQUISITION AND  
TECHNOLOGY  
DP (DAR)

OFFICE OF THE  
3000 DEFENSE PENTAGON  
WASHINGTON DC 20301-3000

April 10, 1997

In reply refer to  
DAR Tracking Number 97-00001

MEMORANDUM FOR DIRECTOR OF DEFENSE AGENCIES  
DEPUTY FOR ACQUISITION AND BUSINESS MANAGEMENT,  
ASN(RDEA)/ABM  
DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE  
(CONTRACTING), SAF/AQC  
ASSISTANT DEPUTY ASSISTANT SECRETARY OF THE ARMY  
(PROCUREMENT)/DIRECTOR FOR CONTRACTING  
DEPUTY DIRECTOR (ACQUISITION), DEFENSE LOGISTICS AGENCY

SUBJECT: Class Deviation—Value Engineering Change Proposals

I authorize all military departments and defense agencies to deviate from the requirements of Federal Acquisition Regulation (FAR) 48.001, 48.102, 48.104, 48.201, and the clause at 52.248-1, Value Engineering, when providing value engineering incentives to contractors.

FAR 48.001, 48.102, 48.104, and the clause at 52.248-1 provide for a fixed sharing period and fixed sharing and collateral savings rates when using value engineering techniques in contracts. FAR 48.201 requires the use of the clause at 52.248-1 when providing a value engineering incentive.

This class deviation authorizes contracting officers to use the attached revised FAR language when administering value engineering techniques. The revised FAR language changes the sharing period from the current 3 years to a range of 3 to 5 years; the incentive sharing arrangement from the current fixed rate for the contractor of 50 percent to a range of 50 to 75 percent; and the current fixed contractor shared collateral savings rate of 20 percent to a range of 20 to 100 percent. Further, the class deviation allows contracting officers to use the attached revised 52.248-1 clause.

This class deviation is approved for a 2-year period ending March 31, 1999, or until the FAR is revised, whichever occurs first.

*Eleanor R. Spector*

Eleanor R. Spector  
Director, Defense Procurement

Attachment



70-41 Atch 98-2Q (FAR 48.001, 48.102, 48.104 and 52.248-1)

*Atch 3*

Value Engineering Change Proposals  
Class Deviation

The following changes are made to the Federal Acquisition Regulation:

PART 48--VALUE ENGINEERING

\* \* \* \* \*  
48.001 Definitions

\* \* \* \* \*  
"Sharing period," as used in this part, means the period beginning with acceptance of the first unit incorporating the VECP and ending at the later of (a) ~~3 years~~ [the end of a sharing period of 3-5 years set at the discretion of the contracting officer for each VECP.] after the first unit affected by the VECP is accepted \* \* \*

SUBPART 48.1--POLICIES AND PROCEDURES

\* \* \* \* \*  
48.102 Policies.

\* \* \* \* \*  
(g) \* \* \* For engineering-development and low-rate-initial production contracts, the future sharing shall be on scheduled deliveries equal in number to the quantity required over the highest 36 [designated number of] consecutive months of planned production, based on planning or production documentation at the time the VECP is accepted. [The number of months shall be established at the discretion of the contracting officer for each VECP. The range that shall be used is 36-60 months. In determining whether to extend the period beyond 36 months, the contracting officer shall consider the following and insert supporting rationale in the contract file:

- (1) Extent of the change;
- (2) Complexity of the change;
- (3) Development risk (e.g., contractor's financial risk);
- (4) Developmental cost;
- (5) Performance and/or reliability impact;
- (6) Production period remaining at time of VECP acceptance; and
- (7) Number of units affected.]

\* \* \* \* \*  
48.104 Sharing Arrangements

48.104-1 Sharing Acquisition Savings.

(a) Supply or service contracts. \* \* \*

	Instant contract rate	Concurrent and future rate
Fixed-price (other than incentive)	50/50 +++	50/50 +++
Incentive (fixed-price or cost)	— +	50/50 +++
Cost-reimbursement (other than incentive)++	75/25 ++++	75/25 +++

+ Same sharing arrangement as the contractor's profit or fee adjustment formula.

++ Includes cost-plus-award-fee contracts.

[+++ A rate between 50 and 75 percent set by the contracting officer for each VECP. See 48.102(g) (1) - (5).

++++ A rate between 25 and 50 percent set by the contracting officer for each VECP. See 48.102(g) (1) - (5).]

\* \* \* \* \*

48.104-2 Sharing collateral savings.

\* \* \* \* \*

(b) The contractor's share of collateral savings is ~~15 to 20 percent~~ [may range from 20 to 100 percent] of the estimated savings to be realized for each VECP during an average year of use but shall not exceed (1) the contract's firm-fixed-price, target price, target cost, or estimated cost, at the time the VECP is accepted, or (2) \$100,000, whichever is greater. [The contractor's share percentage is determined by the contracting officer for each VECP.] \* \* \*

\* \* \* \* \*

PART 52 SOLICITATION PROVISIONS AND CONTRACT CLAUSES

\* \* \* \* \*

52.248-1 Value Engineering.

\* \* \* For engineering-development and low-rate-initial-production solicitations and contracts, the contracting officer shall modify subdivision (1)(3)(i) and the first sentence under subparagraph (3) of the definition of acquisition savings by substituting for "the number of future contract units scheduled for delivery during the sharing period," "a number equal to the quantity required over the highest ~~36~~ [designated number of] consecutive months of planned production, based on planning or production documentation at the time the VECP is accepted. [The number of months shall be established at the discretion of the contracting officer for each VECP. A range of 36-60 months shall be used.]

(b) Definitions.

\* \* \* \* \*

"Sharing period," as used in this clause, means the period beginning with the acceptance of the first unit incorporating the VECP and ending at the later of (1) ~~3~~ years [the end of a sharing period of 3-5 years, set at the discretion of the Contracting Officer,] after the first unit affected by the VECP is accepted or (2) the last scheduled delivery date of an item affected by the VECP under this contract's delivery schedule in effect at the time the VECP is accepted. [The contracting officer's determination of the sharing period is final and shall not be subject to the disputes clause or otherwise subject to litigation under 41 U.S.C. 601-613.]

(f) Sharing rates.

	Instant contract rate	Concurrent and future rate
Fixed-price (other than incentive)	50 +++	50 +++
Incentive (fixed-price or cost)	+	50 +++
Cost-reimbursement (other than incentive)++	25 ++++	25 +++

+ Same sharing arrangement as the contractor's profit or fee adjustment formula.

++ Includes cost-plus-award-fee contracts.

+++ A rate between 50 and 75 percent set by the Contracting Officer for each VECP. This decision is final and shall not be subject to the Disputes clause or otherwise subject to litigation under 41 U.S.C. 601-613.

++++ A rate between 25 and 50 percent set by the Contracting Officer for each VECP. This decision is final and shall not be subject to the Disputes clause or otherwise subject to litigation under 41 U.S.C. 601-613.]

\* \* \* \* \*

(j) Collateral savings. If a VECP is accepted, the instant contract amount shall be increased, as specified in subparagraph (h) (5) above.

by ~~20~~ percent (between 20 and 100 percent, as determined by the Contracting Officer,) of any collateral savings determined to be realized in an typical year of use \* \* \*

\* \* \* \* \*