



GSA Federal Acquisition Service

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FAS INSTRUCTIONAL LETTER 2011-23

FROM:

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ASSISTANT COMMISSIONER
OFFICE OF ACQUISITION MANAGEMENT (QV)


SUBJECT:

Using the Price Evaluation Tool for the Evaluation
of Pricing on Federal Supply Schedule Contracts
and Modifications for Services

1. **Purpose:** The purpose of this Instructional Letter (IL) is to provide guidance on the proper use of the Enterprise Acquisition Solution (EAS) Price Evaluation Tool (PET) for price analysis by Contracting Officers and Specialists (herein referred to as CO) awarding and administering Federal Supply Schedule (FSS) contracts for services only. This IL is not meant to provide comprehensive policy on price analysis but instead is intended to provide guidance on the automated price comparison techniques enabled by the PET.
2. **Background:** The PET is an internal tool for conducting price analysis that uses the data submitted by the contractor in the Formatted Pricelist (FPL) template to present a price comparison to the CO to assist in developing negotiation objectives and determining fair and reasonable pricing.

As stated above, the initial PET is for service Schedules only. The tool will display a comparison of the contractor's Most Favored Customer (MFC) price to the price being offered to GSA (including discount). There is no comparison made to the same or similar labor categories or fixed price services on other awarded Schedule contracts; however, the tool provides the flexibility for the Contracting Officer (CO) to manually include prices obtained from other sources in the comparison. Once the EAS is introduced to product Schedules, a supplement will be issued to this IL to provide additional guidance on the PET as it pertains to price analysis for products.

Please see "Instructions" below for a full description of the PET and for guidance on its proper use.

3. **Effective Date:** Date of signature.
4. **Termination Date:** This IL remains effective until it is cancelled.
5. **Applicability:** This IL applies to all GSA/FAS acquisition activities awarding Federal Supply Schedule contracts who are utilizing the EAS. The IL does not apply to Department of Veterans Affairs (VA) acquisition activities awarding and administering Federal Supply Schedule

contracts.

6. Reference Regulations. Federal Acquisition Regulations (FAR) Subpart 15.4—Contract Pricing and General Services Administration Acquisition Manual (GSAM) Part 538; [IL 2011-02](#), Mandating the Use of Pre-Negotiation, Price Negotiation and Final Proposal Revision Templates for the Federal Supply Schedules Program and associated Supplements; [IL 2011-20](#), The Enterprise Acquisition Solution (EAS); [IL 2011-21](#), Mandating Contractor Instruction on the Formatted Pricelist for the Federal Supply Schedule Program; and [IL 2011-22](#), Implementation of the Formatted Pricelist for the Federal Supply Schedule Program.
7. Instructions/Procedures.

A. Price Analysis

Price analysis is the means of determining fair and reasonable pricing for commercial items (FAR 15.404(1)(a)). For award of commercial items on FSS contracts, prices must be determined to be fair and reasonable. Beyond the fair and reasonable determination, the pricing objective for FSS contracts is to obtain the offeror's best price (the best price given to the most favored customer). In the FPL, the offeror or contractor, in the case of modifications, is required to insert a MFC price for each item offered.

Distinction Between the MFC and BOA: The MFC price is the absolute best price that the offeror gives to any commercial customer or government entity, independent of terms and conditions, discounts, and/or concessions. However, when the Contracting Officer is establishing negotiation objectives, the MFC price as disclosed by the offeror or contractor may not be a fair objective due to the variables listed in GSAM 538.270(a). See Section C, "[Negotiation Objectives](#)" for additional information.

The Basis of Award (BOA) is the customer or class of customer on which GSAR clause 552.238-75, Price Reductions is predicated. The BOA and associated discount relationship to the identified customer(s) must be agreed to by both the Contracting Officer and the contractor. The identified BOA and discount relationship may be different than the MFC price or other pricing support that was used as a basis for negotiations. There may be one BOA for the entire contract, or there may be multiple BOAs established at the Special Item Number (SIN) or line item level. The Contracting Officer must incorporate the BOA into the contract or modification award.

Determination of Price Reasonableness: Because certified cost or pricing data is prohibited when acquiring commercial items (FAR 15.403(1)(b)(3)), other than certified cost or pricing data should be obtained to establish price reasonableness (FAR 15.402). FAR 15.402 states that there is generally an order of preference in determining the type of data needed to determine fair and reasonable pricing. For prices that are not based on adequate price competition, like FSS contract prices, the order of preference is as follows:

Data other than certified cost or pricing data such as—

1. *Data related to prices (e.g., established catalog or market prices, sales to non-governmental and governmental entities), relying first on data available within the Government; second, on data obtained from sources other than the offeror; and, if necessary, on data obtained from the offeror. When obtaining data from the offeror is necessary, unless an exception under 15.403-1(b)(1) or (2) applies,*

such data submitted by the offeror shall include, at a minimum, appropriate data on the prices at which the same or similar items have been sold previously, adequate for evaluating the reasonableness of the price.

2. *Cost data to the extent necessary for the contracting officer to determine a fair and reasonable price.*

The FAR lists several pricing techniques in FAR 15.404-1 (b)(2), but states that after competition, the other preferred technique is "comparison of the proposed prices to historical prices paid, whether by the Government or other than the Government, for the same or similar items." The PET facilitates this type of comparison for services by comparing the contractor's MFC price, as well as any other external prices that the CO enters as a result of market research, to the price being offered to GSA (including discount). In effect, the PET automates the manual comparison that many COs are doing today.

When proposed pricing cannot be supported with documentation showing a fully burdened labor rate, then cost buildup is permitted. In the case where a contractor uses a cost buildup approach to arrive at a fully burdened labor rate, the contractor will insert the fully burdened labor rate in the "GSA Offered Price" field in the Formatted Pricelist (FPL) template and will support the rate in the price proposal in accordance with the requirements of the solicitation.

B. Functionality of the PET

The PET for services displays a comparison of the contractor's MFC price to the price being offered to GSA (including discount) and to any other prices obtained from other research that are input by the CO. The PET uses color codes to indicate where the proposed price falls in comparison to the other prices used in the price analysis. The color codes are defined as follows:

Indicator Color	Indicator Explanation
Red	<p>The GSA offered price without the IFF is greater than the MFC price.</p> <p>Example: The GSA offered price is \$75.00. The MFC price is \$72.00. Because \$75.00 > \$72.00, the PET will display a red color indicator.</p>
Yellow	<p>The GSA offered price without the IFF is less than or equal to the MFC price but the GSA offered price with the IFF is greater than or equal to the open market price.</p> <p>Note: If there are two open market prices, then an average price is calculated and used for comparison. If there are three or more open market values, then the median price calculated and used for comparison.</p> <p>Example: The GSA offered price is \$75.00. The MFC price is \$79.00. The CO adds two open market prices that were discovered on other government contracts into the PET - \$71.00 and \$75.00, for an average price of \$73.00 $((\\$71.00 + \\$75.00)/2)$. Because \$75.00 < \$79.00, but \$75.00 > \$73.00, the PET will display a yellow color indicator.</p>

Green	<p>The GSA offered price without the IFF is less than or equal to the MFC price and the GSA offered price with the IFF is less than or equal to the open market price.</p> <p>Note: If there are two open market prices, then an average price is calculated and used for comparison. If there are three or more open market values, then the median price calculated and used for comparison.</p> <p>Example: The GSA offered price is \$75.00. The MFC price is \$79.00. The CO adds three open market prices that were discovered on other government contracts and a commercial invoice into the PET - \$71.00 and \$75.00, and \$98.00, for a median price of \$75.00. Because \$75.00 < \$79.00, and \$75.00 = \$75.00, the PET will display a green color indicator.</p>
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C. Negotiation Objectives

Most Favored Customer Negotiation Objective: The MFC field in the FPL template is required ¹, meaning that contractors are required to provide a MFC price for each item being proposed. The MFC price is one element of comparison in the PET; however, the Government recognizes that the terms and conditions of commercial sales vary and there may be legitimate reasons why the best price is not achieved (GSAM 538-270(a)). When determining whether or not the MFC price is a fair negotiation objective, the CO should consider the following: aggregate volume of anticipated purchases; the purchase of a minimum quantity or a pattern of historic purchases; prices taking into consideration any combination of discounts and concessions offered to commercial customers, length of the contract period; warranties, training, and/or maintenance included in the purchase price or provided at additional cost to the product price; ordering and delivery practices; and any other relevant information, including differences between the MAS solicitation and commercial terms and conditions that may warrant differentials between the offer and the discounts offered to the most favored commercial customer(s)(GSAM 538-270(b)).

The PET assigns color indicators to each item based on where the proposed price falls in comparison to the MFC price. Please be aware that the assignment of color based on the MFC price may be immaterial if there is a legitimate reason why the MFC price cannot or should not be achieved, as described above. Accordingly, the PET must not be used exclusively to develop absolute, numerical negotiation objectives. The color indicators are only meant to “flag” the CO that a possible pricing discrepancy exists. The CO must consider all of the information disclosed by the contractor in regard to its commercial pricing policies in determining whether or not the MFC price is attainable.

In short, the PET is only one means of conducting price analysis. The CO is strongly encouraged to use additional methods and available information to determine price reasonableness and to set realistic negotiation objectives.

Automation of Templates: The results from the PET populate the negotiation objectives screen in the EAS. Although the PET automatically populates the negotiation objectives screen in EAS, the CO is able to change the negotiation objectives based on other information used to conduct price analysis. The final negotiation objectives input by the CO will ultimately populate the Pre-Negotiation Memorandum. Please note that external charts created in Excel or another

format cannot be cut and pasted into the memorandums. However, there are a number of text boxes available for the CO to insert narrative, and attachments are permitted.

1 The MFC field is not mandatory for existing contractors who are “baselining” their currently awarded pricing using the FPL template; however, the MFC field is mandatory for all subsequent price-related modifications. The MFC field is also mandatory for all new offers.

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