



ACQUISITION AND
TECHNOLOGY

DP /CPF

OFFICE OF THE UNDER SECRETARY OF DEFENSE

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WASHINGTON DC 20301-3000

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MEMORANDUM FOR DIRECTORS OF DEFENSE AGENCIES
DEPUTY FOR ACQUISITION AND BUSINESS
MANAGEMENT, ASN(RD&A)ABM
DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE
(CONTRACTING)
DEPUTY , PROCUREMENT POLICY, ASA(RD&A)/SARD-PP
DEPUTY DIRECTOR (ACQUISITION), DEFENSE
LOGISTICS AGENCY

SUBJECT: Length Of Contracts

Complex contracts containing basic and option periods of up to five years of requirements, especially when modified dozens of times during the course of performance, have proven difficult to administer and often generate confusion in the payment process. They have led to some of the many problem disbursements we experience each year. As we continue to streamline and reform our procurement process, the Department of Defense must find new and innovative ways to improve the administration, payment, and close out of our contracts. One way is to shorten the length of our contracts when feasible.

One approach to shortening contracts is to exercise future contract options as separate contracts. For example, the first option period in a contract for a basic period and two option periods could be unilaterally exercised by the contracting officer as a separate contract with a different contract number than the base period's contract. The same terms, conditions, and contract clauses which applied to the basic period would also be used to form the successive contract for the option period.

Since the assignment of a new contract number in lieu of a modification number is solely for administrative convenience, separate contracts for options do not constitute new procurements. The contract for the option so exercised would also contain the unexercised option for the second option period, which could subsequently be exercised in the same manner as the first option. This approach has the additional benefit of enabling the initial contract whose performance has been completed to be closed out at an earlier date, since subsequent options will have been awarded as separate contracts.

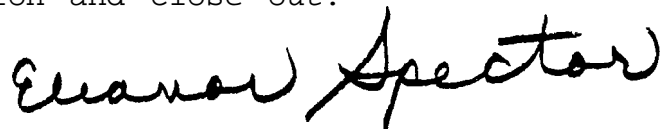


When a priced option is unilaterally exercised as a new contract in this manner, it must contain the terms and conditions included in the contract at the time of initial award, because the option prices are based in part on those original terms and conditions. Unfortunately, at this time some automatic contract writing systems are only able to write new contracts using general provisions in effect on the date a new contract is awarded. Consequently, options awarded as new contracts may require issuance by means other than the agency's automatic contract writing system.

While conceivably useful for a variety of requirements and contract types, this approach should not be applied to procurements where its benefits are marginal. For example, it need not be applied to contracts that are solely for services, nor to options that add quantities that do not extend the term of the contract. One possible alternative for these and similar situations may be greater use of delivery order contracts.

Options exercised as new contracts may be best suited to major weapons systems contracts that are not approved for multiyear contracting, but nevertheless contain options for discrete outyear buys, funded from a variety of appropriations. A draft provision designed for that purpose is attached. It should be viewed as a starting point for considering ways to write contracts that are less massive and more easily administered.

I strongly urge you to structure solicitations for fixed price contracts for major weapons systems, particularly those with an estimated value of \$25 million or greater (including options), so that their option periods can be exercised as separate contracts. This should be done solely as an administrative measure, to help prevent problem disbursements and improve contract administration and close out.

A handwritten signature in black ink, reading "Eleanor Spector". The signature is fluid and cursive, with the first name "Eleanor" and the last name "Spector" clearly distinguishable.

Eleanor R. Spector
Director of Defense Procurement

Attachment

cc: DSMC, Ft. Belvoir

SEPARATE CONTRACT BREAK-OUT

(a) For administrative convenience, at the time the first option is exercised, the Government reserves the right to break-out the first option and all remaining unexercised options as a separate contract that is completely detached from this contract _____. The goods or services acquired under the terms of this base contract _____ will remain solely under this contract for purposes of government payment.

(b) This separate contract break-out shall occur as part of and pursuant to the option exercise provisions established in _____ and shall incorporate the same terms and conditions set forth in this contract _____, except for any necessary administrative tailoring.

(c) This separate contract break-out award process is also applicable to the exercise of all subsequent options and a similar clause will be included in each separate contract as appropriate.