

(b) *Construction contracts.* Sharing on construction contracts applies only to savings on the instant contract and to collateral savings. The Government's share of savings is determined by subtracting Government costs from instant contract savings and multiplying the result by (1) 45 percent for fixed-price contracts; or (2) 75 percent for cost-reimbursement contracts. Value engineering sharing does not apply to incentive construction contracts.

[48 FR 42443, Sept. 19, 1983, as amended at 54 FR 5057, Jan. 31, 1989; 55 FR 3887, Feb. 5, 1990; 59 FR 11387, Mar. 10, 1994. Redesignated and amended at 64 FR 51847, 51848, Sept. 24, 1999]

48.104-3 Sharing collateral savings.

(a) The Government shares collateral savings with the contractor, unless the head of the contracting activity has determined that the cost of calculating and tracking collateral savings will exceed the benefits to be derived (see 48.201(e)).

(b) The contractor's share of collateral savings may range from 20 to 100 percent of the estimated savings to be realized during a typical year of use but must not exceed the greater of—

(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.

(c) The contracting officer must determine the sharing rate for each VECP.

(d) In determining collateral savings, the contracting officer must consider any degradation of performance, service life, or capability.

[64 FR 51848, Sept. 24, 1999]

48.104-4 Sharing alternative—no-cost settlement method.

In selecting an appropriate mechanism for incorporating a VECP into a contract, the contracting officer shall analyze the different approaches available to determine which one would be in the Government's best interest. Contracting officers should balance the administrative costs of negotiating a settlement against the anticipated savings. A no-cost settlement may be used if, in the contracting officer's judgment, reliance on other VECP approaches likely would not be more

cost-effective, and the no-cost settlement would provide adequate consideration to the Government. Under this method of settlement, the contractor would keep all of the savings on the instant contract, and all savings on its concurrent contracts only. The Government would keep all savings resulting from concurrent contracts placed with other sources, savings from all future contracts, and all collateral savings. Use of this method must be by mutual agreement of both parties for individual VECPs.

[63 FR 34079, June 22, 1998. Redesignated at 64 FR 51847, Sept. 24, 1999]

48.105 Relationship to other incentives.

Contractors should be offered the fullest possible range of motivation, yet the benefits of an accepted VECP should not be rewarded both as value engineering shares and under performance, design-to-cost, or similar incentives of the contract. To that end, when performance, design-to-cost, or similar targets are set and incentivized, the targets of such incentives affected by the VECP are not to be adjusted because of the acceptance of the VECP. Only those benefits of an accepted VECP not rewardable under other incentives are rewarded under a value engineering clause.

[48 FR 42443, Sept. 19, 1983, as amended at 54 FR 5057, Jan. 31, 1989]

Subpart 48.2—Contract Clauses

48.201 Clauses for supply or service contracts.

(a) *General.* The contracting officer shall insert a value engineering clause in solicitations and contracts when the contract amount is expected to be \$100,000 or more, except as specified in subparagraphs (1) through (5) and in paragraph (f) below. A value engineering clause may be included in contracts of lesser value if the contracting officer sees a potential for significant savings. Unless the chief of the contracting office authorizes its inclusion, the contracting officer shall *not* include a value engineering clause in solicitations and contracts—

48.201

(1) For research and development other than full-scale development;

(2) For engineering services from not-for-profit or nonprofit organizations;

(3) For personal services (see subpart 37.1);

(4) Providing for product or component improvement, unless the value engineering incentive application is restricted to areas not covered by provisions for product or component improvement;

(5) For commercial products (see part 11) that do not involve packaging specifications or other special requirements or specifications; or

(6) When the agency head has exempted the contract (or a class of contracts) from the requirements of part 48.

(b) *Value engineering incentive.* To provide a value engineering incentive, the contracting officer shall insert the clause at 52.248-1, Value Engineering, in solicitations and contracts except as provided in paragraph (a) above (but see subparagraph (e)(1) below).

(c) *Value engineering program requirement.* (1) If a mandatory value engineering effort is appropriate (i.e., if the contracting officer considers that substantial savings to the Government may result from a sustained value engineering effort of a specified level), the contracting officer shall use the clause with its Alternate I (but see subparagraph (e)(2) below).

(2) The value engineering program requirement may be specified by the Government in the solicitation or, in the case of negotiated contracting, proposed by the contractor as part of its offer and included as a subject for negotiation. The program requirement shall be shown as a separately priced line item in the contract Schedule.

(d) *Value engineering incentive and program requirement.* (1) If both a value engineering incentive and a mandatory program requirement are appropriate, the contracting officer shall use the clause with its Alternate II (but see subparagraph (e)(3) below).

(2) The contract shall restrict the value engineering program requirement to well-defined areas of performance designated by line item in the contract Schedule. Alternate II applies a value engineering program to the

48 CFR Ch. 1 (10-1-03 Edition)

specified areas and a value engineering incentive to the remaining areas of the contract.

(e) *Collateral savings computation not cost-effective.* If the head of the contracting activity determines for a contract or class of contracts that the cost of computing and tracking collateral savings will exceed the benefits to be derived, the contracting officer shall use the clause with its—

(1) Alternate III if a value engineering incentive is involved;

(2) Alternate III and Alternate I if a value engineering program requirement is involved; or

(3) Alternate III and Alternate II if both an incentive and a program requirement are involved.

(f) *Architect-engineering contracts.* The contracting officer shall insert the clause at 52.248-2, Value Engineering—Architect-Engineer, in solicitations and contracts whenever the Government requires and pays for a specific value engineering effort in architect-engineer contracts. The clause at 52.248-1, Value Engineering, shall not be used in solicitations and contracts for architect-engineer services.

(g) *Engineering-development solicitations and contracts.* For engineering-development solicitations and contracts, and solicitations and contracts containing low-rate-initial-production or early production units, the contracting officer must modify the clause at 52.248-1, Value Engineering, by—

(1) Revising paragraph (i)(3)(i) of the clause by substituting “a number equal to the quantity required to be delivered over a period of between 36 and 60 consecutive months (set at the discretion of the Contracting Officer for each VECP) that spans the highest planned production, based on planning and programming or production documentation at the time the VECP is accepted;” for “the number of future contract units scheduled for delivery during the sharing period;” and

(2) Revising the first sentence under paragraph (3) of the definition of “acquisition savings” by substituting “a number equal to the quantity to be delivered over a period of between 36 and 60 consecutive months (set at the discretion of the Contracting Officer for each VECP) that spans the highest

planned production, based on planning and programming or production documentation at the time the VECP is accepted." for "the number of future contract units in the sharing base."

(h) *Extended production period solicitations and contracts.* In solicitations and contracts for items requiring an extended period for production (e.g., ship construction, major system acquisition), if agency procedures prescribe sharing of future contract savings on all units to be delivered under contracts awarded during the sharing period (see 48.104-1(c)), the contracting officer must modify the clause at 52.248-1, Value Engineering, by revising paragraph (i)(3)(i) of the clause and the first sentence under paragraph (3) of the definition of "acquisition savings" by substituting "under contracts awarded during the sharing period" for "during the sharing period."

[48 FR 42443, Sept. 19, 1983, as amended at 54 FR 5057, Jan. 31, 1989; 55 FR 3887, Feb. 5, 1990; 64 FR 51848, Sept. 24, 1999]

48.202 Clause for construction contracts.

The contracting officer shall insert the clause at 52.248-3, Value Engineering—Construction, in construction solicitations and contracts when the contract amount is estimated to be \$100,000 or more, unless an incentive contract is contemplated. The contracting officer may include the clause in contracts of lesser value if the contracting officer sees a potential for significant savings. The contracting officer shall not include the clause in incentive-type construction contracts. If the head of the contracting activity determines that the cost of computing and tracking collateral savings for a contract will exceed the benefits to be derived, the contracting officer shall use the clause with its Alternate I.

PART 49—TERMINATION OF CONTRACTS

Sec.

- 49.000 Scope of part.
- 49.001 Definitions.
- 49.002 Applicability.

Subpart 49.1—General Principles

- 49.100 Scope of subpart.

- 49.101 Authorities and responsibilities.
- 49.102 Notice of termination.
- 49.103 Methods of settlement.
- 49.104 Duties of prime contractor after receipt of notice of termination.
- 49.105 Duties of termination contracting officer after issuance of notice of termination.
- 49.105-1 Termination status reports.
- 49.105-2 Release of excess funds.
- 49.105-3 Termination case file.
- 49.105-4 Cleanup of construction site.
- 49.106 Fraud or other criminal conduct.
- 49.107 Audit of prime contract settlement proposals and subcontract settlements.
- 49.108 Settlement of subcontract settlement proposals.
- 49.108-1 Subcontractor's rights.
- 49.108-2 Prime contractor's rights and obligations.
- 49.108-3 Settlement procedure.
- 49.108-4 Authorization for subcontract settlements without approval or ratification.
- 49.108-5 Recognition of judgments and arbitration awards.
- 49.108-6 Delay in settling subcontractor settlement proposals.
- 49.108-7 Government assistance in settling subcontracts.
- 49.108-8 Assignment of rights under subcontracts.
- 49.109 Settlement agreements.
- 49.109-1 General.
- 49.109-2 Reservations.
- 49.109-3 Government property.
- 49.109-4 No-cost settlement.
- 49.109-5 Partial settlements.
- 49.109-6 Joint settlement of two or more settlement proposals.
- 49.109-7 Settlement by determination.
- 49.110 Settlement negotiation memorandum.
- 49.111 Review of proposed settlements.
- 49.112 Payment.
- 49.112-1 Partial payments.
- 49.112-2 Final payment.
- 49.113 Cost principles.
- 49.114 Unsettled contract changes.
- 49.115 Settlement of terminated incentive contracts.

Subpart 49.2—Additional Principles for Fixed-Price Contracts Terminated for Convenience

- 49.201 General.
- 49.202 Profit.
- 49.203 Adjustment for loss.
- 49.204 Deductions.
- 49.205 Completed end items.
- 49.206 Settlement proposals.
- 49.206-1 Submission of settlement proposals.
- 49.206-2 Bases for settlement proposals.
- 49.206-3 Submission of inventory schedules.
- 49.207 Limitation on settlements.