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CONTROL SYSTEM**(S) NATIONAL RECONNAISSANCE OFFICE**

WASHINGTON, D.C.



November 21, 1969

THE NRO STAFF

MEMORANDUM FOR DR. McLUCAS

SUBJECT: Possible ASPR Conflict

General King has forwarded the letter at the right which describes a possible conflict between Armed Services Procurement Regulations and our current satellite project incentive structure.

A potential conflict centers on the method of determining fee in the event of contract termination.

We are currently working on the problem with the General Counsel's office and OSAF (I&L). We do not believe that any action on the issue is necessary on your part at present, and General King's letter is forwarded for information only. We will keep General King's staff informed of our progress and we will, of course, inform you of the final determination or readdress the issue with you should action on your part become necessary.

JOHN R. MECEDA
Captain, USAF

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DEPARTMENT OF THE AIR FORCE
OFFICE OF SPECIAL PROJECTS (OSAF)
AF UNIT POST OFFICE, LOS ANGELES, CALIFORNIA 90045



REPLY TO
ATTN OF: SP-1

10 NOV 1969

SUBJECT: Specialized Incentive Contract Structure for Satellite Projects

TO: SAFUS (Dr. McLucas)

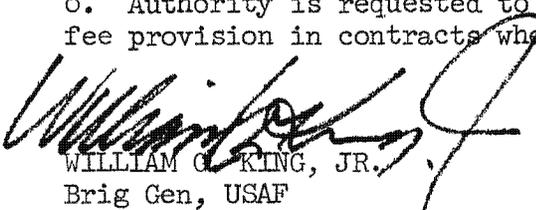
1. Recent changes to the Armed Services Procurement Regulation (ASPR) have created a need for determination of their applicability to contracts where the subject incentive structure will be used.
2. This incentive formula was initiated in September 1966 when the Director of Special Projects adopted a somewhat unique performance incentive referred to as "A Specialized Incentive Contract Structure for Satellite Projects" which has since been applied to all of our major contracts. The plan for this incentive arrangement was originally submitted to Dr. Flax asking for authority to deviate from a number of the provisions of the Armed Services Procurement Regulation which appeared to conflict with the concept. The request was reviewed by the staff in the Office of the Secretary of the Air Force and in the Department of Defense with the conclusion that the plan, as presented, posed no deviation from applicable regulations; and indeed it has been used on systems contracts with remarkably little friction since its inception.
3. Some changes of fairly recent date have been made to the ASPR affecting the basis for fee negotiation in the event of contract termination, which is an important feature of the subject incentive plan. The pertinent portions of these changes are quoted below:
 - a. ASPR Sect VIII, Part 2, Paragraph 217(b)(2). "The fee shall be adjusted on the basis of the target fee, and the incentive provisions shall not be applied or considered."
 - b. ASPR Sect VII, Part 2, Paragraph 203.4(b). Clause entitled Allowable Cost, Fixed Fee, and Payment, subparagraph (i): "If this contract is terminated in its entirety the portion of the target fee payable shall not be subject to an increase or decrease as provided in this paragraph."
4. Most of the contracts where the subject incentive is used provide a method of calculating performance fee in the event of a termination for convenience which essentially agrees to a fee for accepted but unlaunched vehicles based on the average performance fee per vehicle earned prior to the termination.

5. The ASPR Revisions described above offer only a potential problem in the event these contracts are terminated, which could be solved by granting a single-contract waiver, which is within my procurement authority.

6. Now, however, we have proposals for follow-on contracts, all based upon the above described incentive formula, including the procedure for defining the contractor's fee in case of a termination. This introduces a need for a waiver of a "class" of contracts, and such waivers have heretofore been processed at the Headquarters level.

7. It is clear that the ASPR procedures referred to in paragraph 3 above did not consider the subject incentive arrangement, and that a conflict exists. It is also apparent that the provisions for calculating termination fee in the existing contracts, as well as the proposals for follow-on contracts, are consistent with the concept upon which the Specialized Incentive formula was devised, and upon which our programs are contracted. It is therefore necessary to establish either that the termination fee provision is not actually a deviation from ASPR, as was the case with many other features of the formula; or that it is a deviation, and is authorized for use on contracts using the specialized incentive structure.

8. Authority is requested to use the above described termination fee provision in contracts where it is found appropriate to do so.



WILLIAM G. KING, JR.
Brig Gen, USAF
Director