Annex
Summary of the Alternative Pricing Methods introduced by the Amendment Regulations

Pricing Method	Rationale	When it may be used	How is the contract calculated
Commercial Pricing Method **Regulation 19A**	This method has been introduced to recognise that for certain contracts (such as those for the provision of software) while a supplier's cost of production may be relatively low, it will need to recover significant initial and ongoing development costs through the unit price. In such cases, it is often difficult to accurately apportion costs to the MoD as part of a wider cost pool. Equally, the MoD has recognised that in many of these instances it is nevertheless possible to obtain adequate assurance on value for money because both profit and costs are determined by market forces.	Where the MoD is satisfied that: • the contractor has supplied goods, works or services under a contract to the same or substantially the same specifications: i. to the Secretary of State under a contract awarded as a result of a competitive process; ii. to another party under a contract placed following a process which would have satisfied the requirements of a competitive process; or iii. to any other person in an open market where such goods, works or services are offered for sale; or • the supplier (who may be the contractor) has supplied goods, works or services under a contract to the same or substantially the same specification to other parties in a competitive environment. This method may not be used if the Secretary of State has made a 'direct payment' for the development of those goods, works or services. Paragraph 3.3 of the Alternative Pricing Guidance clarifies that "a direct payment means a consideration that relates to and which can be traced to a discrete package of	Take the price for which goods, works or services were supplied under a relevant comparison contract (or sample) and add or subtract from that price a reasonable adjustment in respect of differences in: • volume; • specification; • other terms of supply; • a change in economic conditions; • a change in technology; • a change in performance of the goods, works or services. The SSRO's Guidance on the alternative pricing of contracts[1] (the "**Alternative Pricing Guidance**") provides further detail and worked examples as to how to approach each of these adjustment factors.

[1] SSRO Guidance on the alternative pricing of contract Version 1 (Issued 24 January 2024, applicable from 1 April 2024)

		goods, works or services specified under a particular contract."	
Prices determined in accordance with law **Regulation 19B**	This method has been introduced to recognise that in some circumstances the price payable under a QDC may be subject to other relevant law (whether in the UK or elsewhere) that conflicts with the SSCR requirements.	Where existing UK or overseas laws determine the way prices are set in a way that is inconsistent with the single source regime. This could be, for example, as a result of a regulatory regime that determines the price that must be paid for certain products or services (such as utilities regulation in the UK) or where a contractor is legally obliged to sell certain goods or services for a particular price under the legal regime of another country. According to the Alternative Pricing Guidance, this pricing method only applies where there is no alternative but to determine the price payable under the contract (or component) in whole or in part in accordance with the relevant law *and* where that would result in inconsistency with the pricing provisions of the Defence Reform Act 2014 and the SSCRs.[2]	Where the relevant law specifically sets the price paid for the goods, works or services in question, the price under the QDC should the price set in accordance with the relevant law. Where the relevant law does not specifically set the price, the price must comply with the requirements of the relevant law and be as close as possible to the price which would have been agreed between the parties if the contract (or component) had not been subject to the relevant law. The Alternative Pricing Guidance makes clear that this method does not apply where the relevant law determines the price payable by customers other than the MoD - for example where the law of another country regulates the price that must be charged solely to government customers within that country. Accordingly, this method cannot be used, for example, to price a QDC using a price set under the US Federal Acquisition Regulations (FAR) or Defense Federal Acquisitions Regulations Supplement (DFARS)[3].
Previously agreed price **Regulation 19C**	This method has been introduced to recognise that it may not always be possible to apply the SSCR default pricing formula approach to a contract that is being amended to become a QDC and to deal more clearly with the situation where the provision of goods, works or services is moved from one QDC to another.	Where: 1) a contract was not at its award, but has subsequently become a QDC on amendment (scenario 1); or 2) the supply of goods, works or services which were to be provided under one	In scenario 1 (where a non-QDC has become a QDC on amendment): • for goods, works or services provided under the contract prior to the date on which it became a QDC (date of conversion), the price is that which was agreed prior to the date of conversion; and

[2] See paragraph 4 of the Alternative Pricing Guidance.
[3] See Alternative Pricing Guidance paragraph 4.8.

		QDC and are now to be provided under another QDC (scenario 2).	- for goods, works or services not yet provided at date of conversion (but for which the price had been agreed) the parties may elect for the price to be either: - the pre agreed price; or - re determined at the date of conversion in accordance with another pricing method. In scenario 2, where the parties to a contract (Contract A) agree that an obligation to provide goods, works or services (the transferred element) under that contract is instead to be performed under another contract (Contract B), the price for the transferred element under Contract B, is the price for that element under Contract A immediately before it became a transferred element (and that part of the contract is a component, the price of which is determined in accordance with the contract pricing method under which the price of the transferred element was determined immediately before became a transferred element).
Novated contract price **Regulation 19D**	This method removes the need to recalculate the contract price when a QSC is novated from one contractor to another and no other changes are being made. Previously, because a novation technically creates a new contract, there was a requirement to re-calculate the contract price at the point of novation.	Where a QDC is novated (in circumstances where no other material changes are made to the contract upon its novation).	Rather than treating the new contract (post the novation taking effect) as a new QDC and determining the price in accordance with the Regulations at that point, the parties may simply treat the price determined for the original contract as continuing to apply to the novated contract as well.
Competed rates applied to un-competed volumes (“CRUV”)	This method is intended to address the situation where the unit price or rate has	Where: (i) a framework agreement is entered into and awarded in accordance with Regulation	The price is calculated by applying the agreed rates or prices to an estimated volume of goods, works or services provided that the estimate is made in a way that

Regulation 19E	been agreed through a competitive process, but the volume has not.	9(1) or 60(1) (i.e. as a result of what the SSCR define as a ‘competitive process’); and (ii) in relation to the goods, works or services to be provided under the contract: • the price will be agreed using the applicable unit prices or rates contained in the framework agreement (“the competed rates or prices”); and • the volume of the goods, works or services to be provided will not have been subject to a competitive process.	ensures the estimated volume is appropriate, attributable and reasonable in the circumstances. The rates used in the calculation must not deviate from the terms of the framework agreement.
Agreed changes to the Contract Profit Rate **Regulation 19F**	This method is intended to address the situation where there has been an error in the calculation of the contract profit rate using the Default Pricing Formula, or where the parties agree that a change should be made to the incentive adjustment element of the contract profit rate.	Where the contract price was originally determined or re-determined using the Default Pricing Formula under one of the Default Pricing Methods, and either: i. an error has been identified when determining the contract profit rate in accordance with Regulation 11 (steps in determining contract profit rate); or ii. the parties agree that an adjustment should be made to the contract profit rate in accordance with Regulation 11(6) (the incentive adjustment (step 3)).	The price is calculated by adjusting the original price: - where an error has been identified, by an amount which ensures the price is as it would have been if the error had not been made; or where the parties have agreed an incentive adjustment to the contract profit rate, by an amount equal to the amount of the agreed incentive adjustment.
Aggregation of components **Regulation 19G**	This method is intended to allow a greater degree of flexibility in the way the contract price is calculated in circumstances where a contract is split into different components. This is achieved by allowing the price of a multi-component QDC to be adjusted in certain circumstances and within certain specified limits at a contract level to reflect the contractor’s financial risk or to provide an incentive for the contractor.	**Total Cost Risk Adjustment** This adjustment may be made only where: • the contract requires the contractor to integrate outputs from different components of the contract; and • the parties are satisfied that the cost risk adjustments made in respect of the	The price is calculated by adding the price of each of the components of the QDC (as determined using one of the permitted Default or Alternative Pricing Methods) to the value of any Total Cost Risk Adjustment and/or Total Incentive Adjustment that may be made. **Total Cost Risk Adjustment**

	These contract-level adjustments are referred to as a "**Total Cost Risk Adjustment**" and a "**Total Incentive Adjustment**" and are applied in addition to any adjustments that have been made at an individual component level.	components of the contract (pursuant to step 2 of the method for calculating the contract profit rate) are insufficient to reflect the financial risks to the contractor of entering into the contract, taking account of the requirement to integrate outputs from different components of the contract. **Total Incentive Adjustments** The application of a Total Incentive Adjustment is entirely at the MoD's discretion; the contractor has no right to receive such an amount.	The value of the Total Cost Risk Adjustment is an amount that (i) should reflect the financial risks to the contractor under the contract (taking into account the particular types of activities it is to carry out, including the integration of outputs from different components of the contract) and (ii) is not already captured in any adjustment made in the step 2 cost risk adjustment when calculating the profit rate of each component. The Alternative Pricing Guidance states that the component outputs and the integration activity in respect of those outputs must be tangible and clearly defined in order to apply this method.[4] The Total Cost Risk Adjustment made at contract level must, when added to the cost risk adjustments agreed in respect of all components of the contract, not exceed an amount that is equal to the sum of all cost risk adjustments under the contract had the parties agreed an adjustment of plus 25% of the baseline profit rate when pricing each of those components (i.e. the maximum permitted cost risk adjustment under a QDC pursuant to the SSCR). **Total Incentive Adjustments** Where the MoD determines that the contractor should be given a particular financial incentive as regards to the performance of provisions of the contract, the contract price may be increased by that amount, subject to that amount not exceeding the maximum permitted amount of the total incentive adjustment.

[4] See Alternative Pricing Guidance, paragraph 9.

			That “maximum permitted amount of the total incentive adjustment” is calculated by taking: • the total of any incentive adjustments (see step 3 of Regulation 11) that might be made in respect of the individual components of the contract that have been priced in accordance with the default pricing method; and subtracting from that amount: • the amount of all of the incentive adjustments that have actually been determined in accordance with step 3 of Regulation 11 in respect of that contract. In other words, the inclusion of a Total incentive adjustment may not take the aggregate incentive adjustments to which the contractor is entitled under the contract above the total 2% limit set by Regulation 11(6)[5]. Helpful worked examples of both adjustments are provided in the Alternative Pricing Guidance.

[5] Regulation 11(6) limits the total amount of the incentive adjustment that may be made when calculating the profit rate for a particular component pursuant to step 3 to 2% of the relevant Allowable Costs. Thus, to take the example given in the Alternative Pricing Guidance “*if applying the maximum two percentage point incentive adjustment on all applicable components (i.e. those using a default pricing method) would have resulted in an amount of £10million, and the amount of profit related to the actual application of the incentive adjustment was £4million, then the maximum total incentive adjustment would be £6million*” (Alternative Pricing Guidance, paragraph 9.22)