The Comptroller General
of the United States

Washington, D.C. 20548

Decision

Matter of: Honeywell Federal Systems, Inc.

File: B-233139

Date: January 3, 1989

DIGEST

Contracting agency properly considered the cost of consumables (paper) in determining the lowest overall cost of computer printers, even though such costs were not specifically mentioned in the original solicitation as issued, since the Federal Information Resource Management Regulation requires consideration of all identifiable and quantifiable costs that are directly related to the acquisition and use of the system being acquired, and since the necessity for evaluating costs of different types of paper did not reasonably become apparent to the agency until the solicitation was amended to permit use of different types of paper.

DECISION

Honeywell Federal Systems, Inc., protests the Small Business Administration's (SBA) award of a contract to Xerox, Inc., under request for proposals (RFP) No. 88-16-JD for the purchase of a high-speed, non-impact printer. Honeywell contends that the agency improperly adjusted offered prices to account for paper costs that would be incurred during the projected 5-year system life of the printer, without having properly disclosed this as an evaluation factor that would be considered.

We deny the protest.

The RFP, issued August 26, 1988, required offerors to supply the equipment, software maintenance and other support services for a non-impact printing system in conformance with mandatory technical specifications.1/ The RFP provided

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1/ The electronic printing system is to serve as the primary source for printing of data from magnetic tapes produced by SBA's central computer system.

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that award would be made "to that responsible offeror whose proposal is determined to be the lowest overall cost to the government, price and other factors considered, for the system(s) life, and for which funds are available." The RFP did not contain technical evaluation criteria for determining the relative technical merit of proposals. "Cost to the government" was defined to include "the offeror's prices (equipment, software and support) over the systems life, assessments for evaluated optional features not satisfactorily proposed, and any predetermined in-house expenses for ADPE installation and operations." Thus, under the RFP's evaluation scheme, award would essentially be made to the lowest cost technically acceptable offeror.

Prior to the closing date, Honeywell objected to a number of the RFP's original technical provisions on the ground that they were overly restrictive of competition. The SBA's technical staff concurred with most of the changes that Honeywell requested and amended the solicitation accordingly. An amendment, dated September 15, changed the requirement that the system be capable of <u>using</u> standard government letter size (8 1/2" x 11") paper to a requirement that the system be capable of <u>producing</u> standard government letter size (8 1/2" x 11") paper. Honeywell would not have been eligible for award under the original specification, since its system uses continuous roll-feed paper that produces 8-1/2 by 11 inch sheets, rather than pre-cut sheets.

On the September 26 closing date, the SBA received two technically acceptable proposals from Xerox and one from Honeywell. Discussions were held and best and final offers (BAFOs) were requested. The SBA's technical evaluation panel found all three BAFOs technically acceptable. The contracting officer then conducted price evaluations. Honeywell's price, adjusted in accordance with the "present value (discounted) technique" set out in the RFP, was $465,002. Xerox's (successful) alternate proposal, adjusted in the same way to current value, was $504,596. Honeywell's offer was therefore low by $39,594.

However, the contracting officer identified the cost of paper as the primary operation cost associated with the printing system, and therefore calculated the cost of the paper that would be required by each of the printers over its projected 5-year life and added it to the price of the respective offers. The contracting officer based the cost comparison for cut sheets on a quarter-year order amount of 4,000,000 pages, since this was the threshold amount for a volume discount on cut sheets presently available to the agency under a Government Printing Office (GPO) open order

contract. Cost estimates for cut sheet paper were also obtained from Xerox and Parsons Paper Co. For roll paper costs, the contracting officer contacted Honeywell Federal Systems and Honeywell's supply division, Honeywell Bull. Honeywell Bull provided a price for the roll paper and referred the contracting officer to two other potential suppliers.

The contracting officer identified the GPO open order contract as the lowest-priced source for cut sheets and calculated the yearly cost to be $75,520. The yearly Honeywell paper cost was calculated to be $95,300. The difference between these, $19,780, was then multiplied by 5 to reflect the 5-year system life, to arrive at a 5-year operation cost difference of $98,900. Discounted to current value, the final operating cost associated with using Honeywell roll paper (as opposed to cut sheets for Xerox equipment) became $78,359. The contracting officer added this operating cost differential to Honeywell's price and the resulting total cost, $543,361, exceeded Xerox' price by $38,764. The agency therefore concluded that Xerox had offered the lowest overall cost to the government, price and other factors considered, and awarded the contract to Xerox. This protest followed.

Honeywell contends that it was improper for the SBA to have considered the cost of paper in its system-life cost analysis. The protester argues that by adding this cost, the agency was interjecting a new evaluation criterion not found in the solicitation. Honeywell also argues in this connection that the paper cost was not a "predetermined expense" that could be used as an evaluation factor, since it was not disclosed in the solicitation to potential offerors as an evaluation factor. Since Honeywell was the apparent low offeror before this operations cost was considered, Honeywell maintains that it was entitled to the award.

We disagree. A procurement involving automated data processing equipment (ADPE) is subject to the requirements of the Federal Information Resource Management Regulation (FIRMR). Under this regulation, procuring agencies are required to "select the method of acquisition that represents the lowest overall system/item life cost to the government, price and other factors considered." 41 C.F.R. § 201-32.102(a) (1987). The FIRMR defines "lowest overall cost" as:

> ". . . the least expenditure of funds over the system/item life, price and other factors considered. Lowest overall costs shall include

> purchase price, lease or rental prices, or service prices of the contract actions involved, other factors, and other identifiable and quantifiable costs that are directly related to the acquisition and use of the system/item. . . ." 41 C.F.R. § 201-2.001 (emphasis added).

The agency was therefore required by regulation to consider the cost of consumable items in determining the lowest overall cost of the printers, whether such costs were "predetermined" or not. In this case, paper is clearly a consumable item that will have to be supplied repeatedly over the life of the system. Moreover, the RFP here initially required a printer using cut sheet paper. Thus, there was no need to evaluate paper costs separately because all offerors would have been evaluated on use of the same cut sheet paper. Only after issuance of the amendment on September 15 did the significance of paper as an evaluation factor become apparent. We therefore fail to see how evaluation of paper costs should have been "predetermined" and included in the solicitation as originally issued. The agency in fact began making inquiries into roll paper costs as an element of system life cost after the amendment was issued and prior to the closing date for receipt of proposals. Since all offerors were subjected to the evaluation of such costs on a common basis, we see nothing improper in the agency's evaluation of such costs even though the solicitation did not specifically mention this item of cost.

Honeywell also argues that even if the paper costs could properly be considered as operating expenses, the agency based its calculations on improper quantities. The protester correctly points out that the RFP required the printing system to be capable of printing 800,000 pages per month, which equals an annual volume of 9,600,000 pages. Because cut sheet paper is available at a discount when it is purchased in lots of 4,000,000 sheets, however, the SBA orders this quantity on a quarter-year basis and based its calculations of paper costs for the printers on this quantity (i.e., 16,000,000 per year).

We agree that the agency's calculations were flawed in this regard. While the agency is correct in determining that cut sheet paper should continue to be purchased at the lowest available price, and that it should take advantage of available volume discounts (since the cut sheet paper is used for other purposes besides this printer), the cost of the full 16,000,000 pages is not attributable to the annual operating costs of the printer. Thus the lowest bulk price quoted for cut sheet paper, $.0047 per sheet, should have

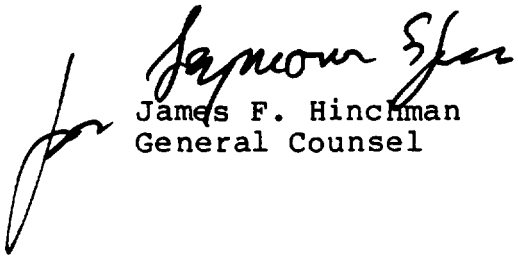
been multiplied by 9,600,000, the correct annual quantity, to arrive at a yearly cost of $45,120. Since the record indicates that no volume discounts are available for roll paper, the annual cost of roll paper should have been calculated as $4,761 (the lowest price quoted for the number of rolls required to produce 800,000 sheets) multiplied by 12 months, i.e. $57,132. When the cost of cut paper is subtracted from the cost of roll paper, the annual operating cost differential becomes $12,012. Multiplied by 5 years, this indicates a system life cost difference of $60,060. We therefore find that the agency's determination of a $98,900 paper cost differential was inaccurate. However, the accurate figure, $60,060, even when discounted, still exceeds the amount by which Honeywell's discounted offer (for equipment alone) was low ($39,594). Therefore, the use of an improper paper quantity as the basis for comparing this operating cost resulted in no prejudice to the protester in this instance.

Honeywell next argues that the paper costs should have been compared on a manufacturer-to-manufacturer basis, contending that it is unfair to consider the GPO open order contract price in comparison to a commercial supplier's price for roll paper. We disagree. The procuring agency should seek the lowest available cost for supplies, and it is not required to forego a discount or price advantage that is offered for one item simply because none is available for another item. Because cut sheet paper is used for many other purposes than the printer at issue here, the government here was properly able to take advantage of a volume discount for cut sheets that would not apply to rolls. We find no basis to object to the agency's use of the price for cut sheet based on the volume discount under the GPO open order contract.

Finally, Honeywell argues that the SBA used a large volume contract for pricing cut sheet paper but used "a paper price for Honeywell's operating cost obtained from the equipment manufacturer by telephone without any reference to the quantities involved." SBA in fact contacted Honeywell and a Honeywell supplier to obtain quotes. SBA was specifically informed by these firms that no quantity discounts for roll paper were available because "roll paper is in the natural form" and is labor intensive to manufacture. Further, we

merely note that Honeywell does not allege and has not shown that a quantity discount was in fact available anywhere to the SBA for roll paper. Accordingly, we find no merit in this contention.

The protest is denied.



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