DeCA Swell Allowance Program Q&A- NTT Dec. 9, 2022

• Does this include OCONUS?

• Yes- (we will transact the swell allowance as we transfer ownership from the distributors to DeCA.)

• Will industry need separate 40-15 requirements for K Coded and One Time Buy (O coded) items? Checking Guaranteed versus Checking Swell.

• Nothing changes with the guaranteed sale program. Swell will just be for damage and expired goods. Our program release will provide clear guidance on the difference between promotion or seasonal-based guaranteed sale quantities and normal turn expired product.

• Will DSD ROA's and items be part of the Swell Program?

• No, the Swell Program only applies to FDS delivered items. DSD and DSDS will not be included within the Agencies Swell Program

• What about manufacturers with zero salvage and no national salvage rate (ex. canned meat, non-foods, etc.) Is a zero-salvage rate acceptable?

• If there are damage / expired costs the swell allowance would be zero. So – in the very rare event where an item has no damage / expired product across the enterprise (DeCA and commercial retail) zero swell

• How often are rates negotiated and what is the process to reach an agreed rate between DeCA and manufacturer/broker?

- TPA publications suggest that industry should re-evaluate their rates once every two years. We would like to be a part of each company's normal Swell / Adjustable Rate program. The handful of companies who do not have a national program should look to the FMI / Trading Partner Alliance Best Practice publications for guidance.
- Where a company does not have a national program, we plan to evaluate every 2-years

• When does DeCA take ownership of the product?

• For CONUS, when it hits our dock. For OCONUS, when the overseas container arrives at the dock

• Will there be an option for companies to receive an invoice rather than deductions or vice versa?

• We need one process to manage swell and our plan is to utilize the process that has been working for DeCA and for the 23 existing companies who have asked us to use a swell instead of VCM's going back years. If that creates a unique pain point, we will listen but are inclined to scale a single approach that works for the overwhelming majority of companies.

Will the swell money flow to the stores or be captured at DeCA HQ?

- Money will flow to the stores and inventory adjusted. It will show as an 82E adjustment on the VRGC
- Currently, Swell money for OCONUS will flow to the CDC. We are working on a store allocation process to be in place by April 2023.

Example from one of the existing Swell contracts

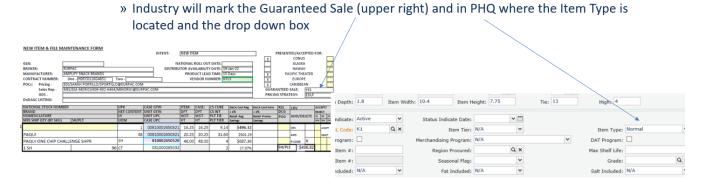
• What communication will be sent to stores explaining the swell allowance versus guaranteed sales?

- Store Ops will deploy the program. We will establish Apr. 1, 2023 as the execution date so stores will not need to guess if an item is on swell or not.
- Guaranteed Sales items are currently managed by VCM Type-4. These will not be impacted by the Swell Allowance program.
- Store communication will go out in early March, sufficiently ahead of the start date of Apr 1. In the SO alert we will still utilize the 40-05.01 reference, purpose of the program, and the use of SharePoint to where all the contracts will be posted along with the NTT, references, and any further guidance.

How are Guaranteed Sale items differentiated?

- Guaranteed Sale items are captured on the supplier submitted 40-15
- When these items are shipped to DeCA they will also be subject to the swell rates to cover any hidden damage

These are captured on the supplier submitted 40-15



• Will we need an amendment to existing ROAs or to modify current guarantees sales clauses in the ROA?

• Modifications will be required on impacted contracts to establish the applicable swell % off invoice with DFAS when payment is made. This is an internal agency process that will be conducted with contracting starting 90 days out of execution date of April 1. Guaranteed sale items are captured on the 40-15 submission and will still be covered under the Type 4 VCM process.