

16.603-2 Application.

(a) A letter contract *may* be used when (1) the Government's interests demand that the contractor be given a binding commitment so that work can start immediately and (2) negotiating a definitive contract is not possible in sufficient time to meet the requirement. However, a letter contract *should* be as complete and definite as feasible under the circumstances.

(b) When a letter contract award is based on price competition, the *contracting officer shall* include an overall price ceiling in the letter contract.

(c) Each letter contract *shall*, as required by the clause at [52.216-25](#), Contract Definitization, contain a negotiated definitization schedule including (1) dates for submission of the contractor's price proposal, required *certified cost or pricing data* and *data other than certified cost or pricing data*; and, if required, make-or-buy and subcontracting plans, (2) a date for the start of negotiations, and (3) a target date for definitization, which *shall* be the earliest practicable date for definitization. The schedule will provide for definitization of the contract within 180 days after the date of the letter contract or before completion of 40 percent of the work to be performed, whichever occurs first. However, the *contracting officer may*, in extreme cases and according to agency procedures, authorize an additional period. If, after exhausting all reasonable efforts, the *contracting officer* and the contractor cannot negotiate a definitive contract because of failure to reach agreement as to price or fee, the clause at [52.216-25](#) requires the contractor to proceed with the work and provides that the *contracting officer may*, with the approval of the *head of the contracting activity*, determine a reasonable price or fee in accordance with [subpart 15.4](#) and [part 31](#), subject to appeal as provided in the Disputes clause.

(d) The maximum liability of the Government inserted in the clause at [52.216-24](#), Limitation of Government Liability, *shall* be the estimated amount necessary to cover the contractor's requirements for funds before definitization. However, it *shall* not exceed 50 percent of the estimated cost of the definitive contract unless approved in advance by the official that authorized the letter contract.

(e) The *contracting officer shall* assign a priority rating to the letter contract if it is appropriate under [11.604](#).

Parent topic: [16.603 Letter contracts](#).