

Subpart 516.2 - Fixed Price Contracts

Parent topic: [Part 516 - Types of Contracts](#)

516.203 Fixed-price contracts with economic price adjustment (EPA).

516.203-2 Application.

(a) Changes to a Government contract price that result from a change in the actual cost of labor based on Department of Labor wage determinations are addressed in FAR Subparts 22.4 and 22.10.

(b) Changes to a Government contract price that result from a change in designated indicators should be processed as follows:

(1) The contracting officer shall evaluate the reasonableness of the proposed market indicator. The indicator should:

(i) Be used only when general economic factors make the estimating of future costs unpredictable within a fixed-price contract;

(ii) Be considered before using an EPA including volatile labor and/or material cost and contractual length;

(iii) Be relevant to the service or product solicited;

(iv) Have an established history;

(v) Be published regularly;

(vi) Be reasonably available in the future; and

(vii) Should not provide for an adjustment beyond the original contract period of performance, including options. The start date for the adjustment may be the beginning of the contract or a later time, as appropriate, based on the projected rate of expenditures.

(2) Selection of the indicators to be used and determination of how they will be applied are negotiable and must be determined prior to award. For example, a broad-based market indicator, such as that issued by the Bureau of Labor Statistics, can be applied uniformly to all categories if the contractor routinely applies across the board wage increases. If a contractor's wage changes vary by skills, the economic price adjustment should be based on specific matched categories.

(3) The contracting officer and the contractor shall agree on the economic price adjustment prior to the completion of negotiations. The contracting officer shall document the file.

(c) If, during the course of the contract, the contractor proposes a change in price adjustment methods, the contracting officer should require appropriate consideration from the contractor for any lowering of the contractor's risk.

516.203-3 Limitations.

- (a) When including an economic price adjustment clause, the contracting officer shall document, in the contract file, the determination required by FAR 16.203-3.
- (b) The contracting director must approve any of the following actions:
- (1) If an economic price adjustment clause provides for price increases during the first 12 months of a multiyear contract, a determination to include an economic price adjustment clause in a solicitation or contract of one year or less is needed.
 - (2) The use in a contract of any economic price adjustment clause that was not included in the initial solicitation. This includes any clause that provides for price adjustment during the first 12 months of a multiyear contract.
- (c) The contracting director may raise the price ceiling (the aggregate of permitted price increases during a 12-month period) during the contract period when both of the following conditions are met:
- (1) A supplier requests that the ceiling be raised.
 - (2) Analysis of current market conditions reveals that most suppliers of similar supplies or services are affected. If the price ceiling is raised, the contracting officer must modify the contract to reflect the revised ceiling.

516.203-4 Contract clauses.

- (a) *Special Order Program Contracts.* In multiyear solicitations and contracts, after making the determination required by FAR 16.203-3, use [552.216-71](#), Economic Price Adjustment—Special Order Program Contracts, or a clause prepared as authorized in paragraph (a)(3) of this subsection.
- (1) If the contract includes one or more options to extend the term of the contract, use the clause with its Alternate I or a clause substantially the same as [552.216-71](#) with its Alternate I suitably modified.
 - (2) In a contract requiring a minimum adjustment before the price adjustment mechanism is effectuated, use the basic clause with Alternate II or with Alternate I and Alternate II.
 - (3) If the Producer Price Index is not an appropriate indicator for price adjustment, modify the clause to use an alternate indicator for adjusting prices. Similarly, if other aspects of [552.216-71](#) are not appropriate, use an alternate clause following established procedures.
- (b) *Adjustments based on cost indexes of labor or material.*
- (1) If the contracting officer decides to provide for adjustments based on cost indexes of labor or material, prepare a clause that defines each of the following elements:
 - (i) The type of labor and/or material subject to adjustment;
 - (ii) The labor rates, including any fringe benefits and/or unit prices of materials that may be increased or decreased;

- (iii) The index(es) that will be used to measure changes in price levels and the base period or reference point from which changes will be measured; and
 - (iv) The period during which the price(s) will be subject to adjustment.
- (2) The contracting director must approve use of this clause.