

## 16.206-2 Application.

A fixed-ceiling-price contract with retroactive price redetermination is appropriate for research and development contracts estimated at the *simplified acquisition threshold* or less when it is established at the outset that a fair and reasonable firm fixed price cannot be negotiated and that the amount involved and short performance period make the use of any other fixed-price contract type impracticable.

(a) A ceiling price *shall* be negotiated for the contract at a level that reflects a reasonable sharing of risk by the contractor. The established ceiling price *may* be adjusted only if required by the operation of *contract clauses* providing for equitable adjustment or other revision of the contract price under stated circumstances.

(b) The contract *should* be awarded only after negotiation of a billing price that is as fair and reasonable as the circumstances permit.

(c) Since this contract type provides the contractor no cost control incentive except the ceiling price, the *contracting officer should* make clear to the contractor during discussion before award that the contractor's management effectiveness and ingenuity will be considered in retroactively redetermining the price.

**Parent topic:** [16.206 Fixed-ceiling-price contracts with retroactive price redetermination.](#)