

# 1516.401-70 Award term incentives.

(a) Award term incentives enable a contractor to become eligible for additional periods of performance under a current contract by achieving prescribed performance measures under that contract.

(b) Award term incentives are designed to motivate contractors to provide superior performance. Superior performance must be defined in the Award Term Incentive Plan. Accordingly, the prescribed performance measures, *i.e.*, acceptable quality levels (AQL), which must be achieved by a contractor to become eligible for an award term will be in excess of the AQLs necessary for Government acceptance of contract deliverables, unless rationale is documented that such service is beyond the contractor's capability or control.

(c) The Award Term Incentive Plan sets forth the evaluation process, including the evaluation criteria and performance measures, and serves as the basis for award term decisions. The Award Term Incentive Plan may be unilaterally revised by the Government.

(d) Award term incentives may be used in conjunction with options. The Federal Acquisition Regulation does not prescribe a level of performance for the exercise of options, as contrasted with award term incentives, which should require superior performance as discussed in paragraph (b) of this subsection. Award term incentive periods will follow any option periods.

(e)

(1) The Government has the unilateral right not to grant or to cancel award term incentive periods and the associated award term incentive plans if—

(i) The Contracting Officer has failed to initiate an award term incentive period, regardless of whether the contractor's performance permitted the Contracting Officer to consider initiating the award term incentive period; or

(ii) The contractor has failed to achieve the performance measures for the corresponding evaluation period; or

(iii) The Government notifies the contractor in writing it does not have funds available for the award term; or

(iv) The Government no longer has a need for the award term incentive period at or before the time an award term incentive period is to commence.

(2) When an award term incentive period is not granted or cancelled, any—

(i) Prior award term incentive periods for which the contractor remains otherwise eligible are unaffected.

(ii) Subsequent award term incentive periods are thereby also cancelled.

(f) Award term incentives may be appropriate for any type of service contract.

**Parent topic:** [Subpart 1516.4—Incentive Contracts](#)