

Pricing Contract Modifications



Guiding Principles

Contracting Officers should ensure that all the considerations the FAR requires are present before concluding that cost analysis is not necessary to price a contract modification.

References: FAR 15.404-1 and 15.404-4

Guidance

The general rule for pricing a contract modification is to price it exactly like any other contract action. If cost or pricing data is required, the contracting officer: must obtain it; must use cost analysis to evaluate the reasonableness of individual cost elements; and should use price analysis to verify the overall price is reasonable. If cost or pricing data is not required, the contracting officer must use price analysis to determine the price is fair and reasonable.

One interesting scenario that arises occasionally is the requirement to price a modification to a contract where the contract was awarded under adequate price competition. Since no cost or pricing data was obtained under the original award and no cost analysis was performed, the contracting officer faces the possible need to obtain cost and pricing data and perform cost analysis for the first time under the contract. As with all pricing actions, however, the FAR encourages the contracting officer to determine if he or she can forego obtaining cost or pricing data and performing cost analysis by using price analysis to determine a fair and reasonable price.

To justify using only price analysis, the contracting officer must establish the validity of the comparison between the original contract prices and the proposed modification prices. So, if the contracting officer is pricing a modification for a small addition for identical items shortly after a competitive award, for example, he or she could quite possibly use the original award prices for the prices in the modification. On the other hand, if the modification's addition is not small, its items not identical, or the time elapsed since contract award not insignificant, the contacting officer is much more likely to be required by FAR to obtain cost and pricing data and perform cost analysis.

Thus, a modification for identical items to be priced shortly after award does not necessarily qualify as a situation where a simple price analysis alone is sufficient. The reason is the quantity of items to be acquired might be large enough to merit a dramatic price decrease from the award prices.

Finally, with regard to profit or fee for a contract modification, if price analysis alone suffices, profit analysis is not appropriate. If cost analysis is required, the FAR language is particularly clear—if the modification calls for essentially the same type and mix of work as the basic contract and is of relatively small dollar value compared to the total contract value, the contacting officer may use the basic contract's profit or fee rate as the prenegotiation objective for the modification. Otherwise, the contacting officer must adhere to all profit negotiation requirements for sole source pricing actions.