

National Park Service



Director's Order #35 B: Sale of National Park Service Produced Utilities

Concessions Management Advisory Board Meeting

Tim Hudson

*Associate Regional Director - Operations and Resources,
Alaska Region*

March, 2008

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Existing Policy

- Used for the sale of NPS produced utilities
- Set in 1983 as Special Directive 83-2 (*amended in 1985*)
- Recovery of capital costs is specifically excluded in 83-2



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Capital Cost Recovery

- 1990 Memo from the Associate Director of Administration and Budget to the Field Directorate directing recovery of capital costs – never implemented
- January 1991 – OIG Audit made recommendations to charge for capital cost recovery
- 1998 OIG report follow-up on the 1991 report concluded the NPS had not implemented the recommendations and made the same recommendations
- The NPS agreed to implement 5 of the 6 findings by October 1999



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Topics

- Existing policy
- Recommendations of 1998 IG Report
- Development timeline of Special Directives, Director's Order, and Reference Manual
- Nuts and bolts of implementation
- Cost recovery examples



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1998 Recommendations *(Audit Report OIG-98-406)*

1. Revise Special Directive 83-2 to include identification and recovery of capital costs through utility rates
2. Establish oversight process to ensure full recovery of operational and capital costs and document any exceptions
3. Issue guidance of recovering operational costs
4. Ensure that training is provided for personnel formulating utility rates
5. Ensure internal controls on separation of billing and collection functions

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Special Directive 83-2 to Director's Order 35B

- 1999 – Working group convened by WASO Concessions Program to rewrite SD 83-2 and collect capital costs
- Group made up of concession and facility personnel
- Main topics were facility costs and operations
- A December 31, 2001 target date for implementation given to the OIG
- After the initial start and input, the lead of revising SD 83-2 was transferred to Facilities Program



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Implementation Status

- The lack of implementation of the OIG recommendations is at the top of deficiency reports; removing those deficiencies is a DOI priority
- NPS Comptroller has been extremely interested in getting these implemented since 2005
- Benchmark reviews, discussions & schedule - 2008
 - Concession Program Chat – January
 - Concession Conference – February
 - Concessions Management Advisory Board – March
 - Maintenance Advisory Group – April
 - Internal comments – May
 - Federal Register publication – Late spring
 - Anticipated approval – Late Fall

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What's a Utility?

Yes

- Water
- Sewage
- Solid waste
- Fuel system
- Electrical
- Communications systems

No

- Plowing snow
- Street cleaning
- Miscellaneous maintenance or construction





Reference Manual

- Describes
 - Options on different types of rate setting
 - What can be included in the rates
 - An implementation period
 - No-year accounts for other than operational activities
 - 100% cost recovery





Capital Costs

- Cost burden is a commensurate share of use so that NPS and non-NPS users are treated equally
- Replacement cost is pro-rated over the life of the asset so there is no lump-sum payment
- A consumer price index (CPI) factor is utilized in the rate structure
- The proposal is that facilities well into their life-cycle are not included in the capital rate until they are replaced



Issues/Concerns

- Concessioners are the largest user of NPS produced utilities
- Impacts to some concessions operations may have to be evaluated
- Accountable tracking of the replacement funds
- Clearly defining what is in the capital rate structure needs to be consistent among all parks



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DO-35B Costs to be Recovered

- Operations and maintenance
 - Losses will be distributed among all users
- Component renewal/repair and rehabilitation
 - Listing of major equipment life cycles
- Capital costs
 - Each asset to be tracked separately, but will still have component renewal components to get to the anticipated life cycle
 - Costs based on actual construction costs (including standard design and overhead costs) and not CRV
- A utility will often have multiple capital acquisitions and expected life
- Clearly defines what assets and equipment is and is not in the rate base



Annual Operating Costs

- Operations
 - Labor
 - Fuel
 - Electrical
 - Chemicals
 - Equipment
- Non-Capitalized Equipment
 - Predicted replacement of components
 - Pumps
 - Meters
 - Controls



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Factors Affecting Operating & Maintenance Costs

- Labor rates
- Fuel and energy rates
- Emergency repairs
- Equipment replacement





Adding Amortized Capital Costs

- Initial installation costs
 - Straight line depreciation over life of system
- Capital improvements
 - Straight line depreciation over life of addition
- Annual inflation adjustment based on accepted index (such as CPI)





Capital Costs and Component Renewal

- Only assets or stand-alone pieces of equipment will be part of the capital costs
- All capital costs for assets and major components will be identified and listed as a part of the first implementation rate and will be updated at the yearly rate computation if they are replaced or changed
- All component renewal items will be identified and listed like the capital costs at the implementation date and updated annually
- If a component renewal or capital cost is not done when scheduled, the cost will go to zero for that item





Three Types of Accounts

- Maintenance and operation
 - Used for normal operations in a year
- Component renewal/repair rehab
 - Collected on a yearly basis and used when the component renewal is accomplished
- Capital expenditures
 - Collected on a yearly basis and used when the asset is replaced
- *Design overhead costs will be part of the rate structure for capital expenditures only (equal to the line item construction guidelines)*



Annual Price Index

- The annual index (such as CPI) will be applied to the rates each year for the component renewal and capital acquisition costs rather than researching the replacement costs each year
- The operations cost adjustments each year will be based on actual known rate increases such as wages, tipping fees, or electrical rates



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Actual Implementation

- Implementation must be started at the first utility rate setting after the Director's Order is signed; the 90-day notification period must be included in this time
- Implementation can be phased in for up to five years unless the next contract issuance for non-NPS users comes before the five year period ends.
- The implementation period and phase-in proposal must be approved by the respective NPS Headquarters Associate Director at the first implementation and there must be some adjustment in each year of the plan



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Exceptions

- A waiver of the full implementation requirements may be granted by the Director upon completion of a feasibility analysis
- Where compliance with this Director's Order would jeopardize the economic viability or result in unreasonable rates for visitor services, the non-NPS user must request the waiver utilizing a financial analysis as the basis for the waiver; the waiver, in most cases, will be for those costs identified, not a total waiver
- This Director's Order only changes the capital cost as a rate item; i.e. it is the change from existing that should be analyzed



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Measurement, Accountability and Billing

- All utilities are to be measured or metered for all users
- The rate base, per unit cost, is applied to all users and the billing is only for the units of measurement that are used for each
- As currently proposed at the time of initial implementation, only capital assets with a remaining life expectancy of 50% or more will be part of the capital rate base
- Utility capital assets constructed after implementation will be added to the rate base at 100% of the construction cost (including design) until they are replaced or their life expectancy is reached



Facility Management Software System

- A module in FMSS is under development to use for capturing the capital, component renewal and operating costs of utilities
- The assets and equipment associated with each utility system will be recorded and tracked in FMSS to promote consistency among the parks
- The modules for water and sewage systems are scheduled to be the first one to be used as these are the most common and generally the most complex

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Example Park Water Rates *(Real Data)*

- Park produces 2,832,000 gallons per year
 - O&M Costs by 83-2 = \$29.21 per 1000 Gallons
 - O&M Costs by DO-35B = \$29.85 per 1000 Gallons
 - Capital Costs by 83-2 = \$0.00
 - Full Capital Costs by DO-35B = \$33.89 per 1000 Gallons
 - 50%+ Capital by DO-35B = \$6.24 per 1000 Gallons

Increase of 118% under Full Capital Costs

- If 1 million gallons were used, the cost difference is \$34,500 per year

Increase of 23% under 50%+ Capital Costs

- If 1 million gallons were used, the cost difference is \$6,850 per year

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What is in a 100% Capital Rate Structure *(Real Data)*

Water Plant	50 years	\$35,212/yr	until 2032
2 Wells	30 years	\$6,131/yr	until 2013
6" Ductile Pipe	50 years	\$32,699/yr	until 2030
4" PVC	50 years	\$861/yr	until 2045
Intake Structure	40 years	\$2,767/yr	until 2010
2 Steel Tanks	25 years	\$14,463/yr	until 2023
6" PVC	50 years	\$2,352/yr	until 2044
12" Ductile	50 years	\$2,874/yr	until 2030
3 Access Roads	30 years	\$0/yr	done in 1990
Secondary Buildings	50 years	\$1,514/yr	until 2030

Total unit cost = \$33.89 per 1000 gallons

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What is in a 50%+ Capital Rate Structure *(Real Data)*

Water Plant	50 years	\$0/yr	done in 2007
2 Wells	30 years	\$0/yr	done in 1998
6" Ductile Pipe	50 years	\$0/yr	done in 2005
4" PVC	50 years	\$861/yr	until 2045
Intake Structure	40 years	\$0/yr	done in 1990
2 Steel Tanks	25 years	\$14,463/yr	until 2023
6" PVC	50 years	\$2,352/yr	until 2044
12" Ductile	50 years	\$0/yr	done 2005
3 Access Roads	30 years	\$0/yr	done in 1990
Secondary Buildings	50 years	\$0/yr	done in 2005

Total unit cost = \$6.24 per 1000 gallons



Leasehold Surrender Interest

- CFR 36, Part 51, Subpart G, addresses LSI
- Capital utility costs are not capital improvements constructed by the non-NPS user
- The collection of capital costs for utility systems used by non-NPS users are generally not considered as LSI



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Key Points

- The Draft RM does not put things into the rate base if they are over halfway through their life expectancy
 - This will increase rates more when assets are replaced
 - In any case, when the life expectancy is reached, the cost will drop out of the rate base until replaced
- The expectation is that this will be initially treated as a rate increase, so details of the “exception” clause may need more clarity
- The CPI is always confusing as to timing – consider using a constant historical factor (e.g. 3% or 4%)
- Consistency-what is (and what isn't) in the rate base



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QUESTIONS?