

National Park Service



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

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Existing Policy

- Existing policy for the sale of NPS produced utilities was set in 1983 as Special Directive 83-2, and then amended in 1985.
- Recovery of operational and cyclic costs were a part of 83-2.
- Recovery of capital costs were specifically excluded in 83-2.



Capital Cost Recovery

- 1990 Memo from the Associate Director of Administration and Budget to the Field Directorate directing recovery of capital costs was never implemented.
- January 1991 – OIG Audit made recommendations to charge for capital cost recovery.



Capital Cost Recovery ...continued

- 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.



Five 1998 OIG Recommendations Audit Report Number - 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



Leasehold Surrender Interest (LSI)

- CFR 36, Part 51, Subpart G, addresses Leasehold Surrender Interest.
- 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 for LSI.



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

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



Review of DO 35B

- Draft of DO 35B, but not the Reference Manual, was put on internal review in late 2003 with comments by 01/04.
- Revisions consistent with the review were made to DO 35B and the Reference Manual was completed in November 2005 and sent to the WASO Directorate but not to the field.
- The lack of implementation of the OIG recommendations is at the top of deficiency reports and removing those deficiencies is a DOI priority and is one of the oldest outstanding audits not yet resolved.



Implementation Status

- Discussions between the Deputy Director, Facilities and NPS Concessions occurred in August 2007 with regards to implementation.
- Agreement was made to go forward but that the sensitive nature required some outreach to both the concessions and facility communities.
- ✓ Concessions Chat Presentation – January 2008
- ✓ Concession Conference Workshop – February 2008
- ✓ Concession Management Advisory Board – March 2008
- ✓ Maintenance Advisory Group – April 2008
- ✓ NPS Headquarters Briefing – July 2008
- Concessions Management Advisory Board – October 2008
- To the Federal Register – Fall 2008
- Anticipated approval – March 2009
- Actual implementation – October 2009



Reference Manual

- Describes
 - Options on different types of rate setting
 - An implementation period can be phased in over five years and completely with a new contract, whichever comes first, but
 - Phasing must begin immediately even if contract expires prior to the five-year interval.
 - What can be included in the rates
 - 100% cost recovery of capital costs for assets installed year 2000 or later – none for assets installed before 2000.



Issues/Concerns

- Concessioners are the largest user of NPS produced utilities.
- Accurately evaluating economic viability of some concession contracts.
- Accountable tracking of the replacement funds.
- Clearly defining what is in the operational, component renewal, and capital rate structures needs to be consistent among all parks.



DO-35B Costs to be Recovered

- Operations and maintenance
 - No change from SD 83-2
- Cyclic (Component Renewal) and Repair and Rehabilitation
 - No change from SD 83-2
- Capital costs
 - New, expansion, or replacement (recapitalization) of assets.
 - Major change in DO 35B



DO-35B and Capital Investments

- A utility will often have multiple capital acquisitions and expected life.
- Capital type investments are tracked as a whole but may have component renewal items installed within the estimated design life of the project that are tracked separately.
- Clearly defines what assets and equipment is and is not in the rate base.



Capital Investment Structures

- Only assets or stand-alone pieces of equipment will be part of the cost recovery.
- 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 until it is completed.



Fixed Capital Equipment

- Assets and high-cost component renewal items are considered to be fixed capital equipment.
- Fixed Capital Equipment (FCE) consists of the equipment used to provide the utility service. For example, water and wastewater services to NPS and non-NPS users would include such items as collection and distribution piping, pumping systems, manholes, valves, storage tanks, and treatment plants as well as ancillary items like dedicated parking lots, roads, treatment and pump station buildings.



Adding Amortized Capital Costs

- Initial installation costs
 - Straight line depreciation over life of system
- Capital improvements
 - Straight line depreciation over life of addition
- Uses standard design costs
- No annual inflation adjustment – only the actual costs
- Becomes a part of the rate base **AFTER** completion, not before



Capital Costs

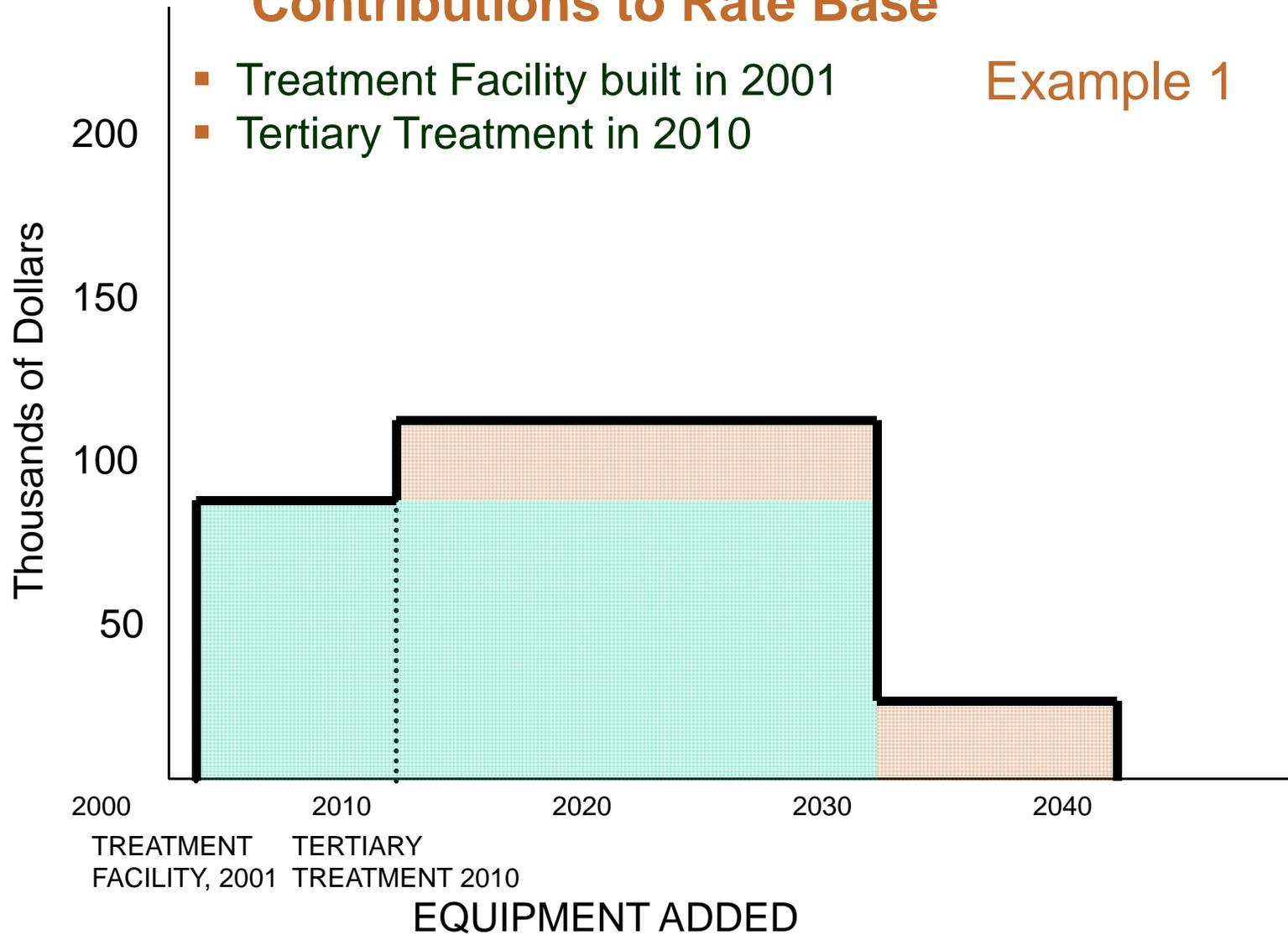
- Cost burden is a commensurate share of use so that NPS and non-NPS users are treated equally.
- Replacement cost is pro-rated over the life of the asset so there is no lump-sum payment.
- A consumer price index (CPI) factor was considered but is not cost recovery and is **NOT** currently in the rate structure. **THIS IS A CHANGE SINCE FEBRUARY 2008**
- Facilities installed prior to 2000 will not be included in the capital rate until they are replaced.



Fixed Capital Equipment Contributions to Rate Base

Example 1

- Treatment Facility built in 2001
- Tertiary Treatment in 2010

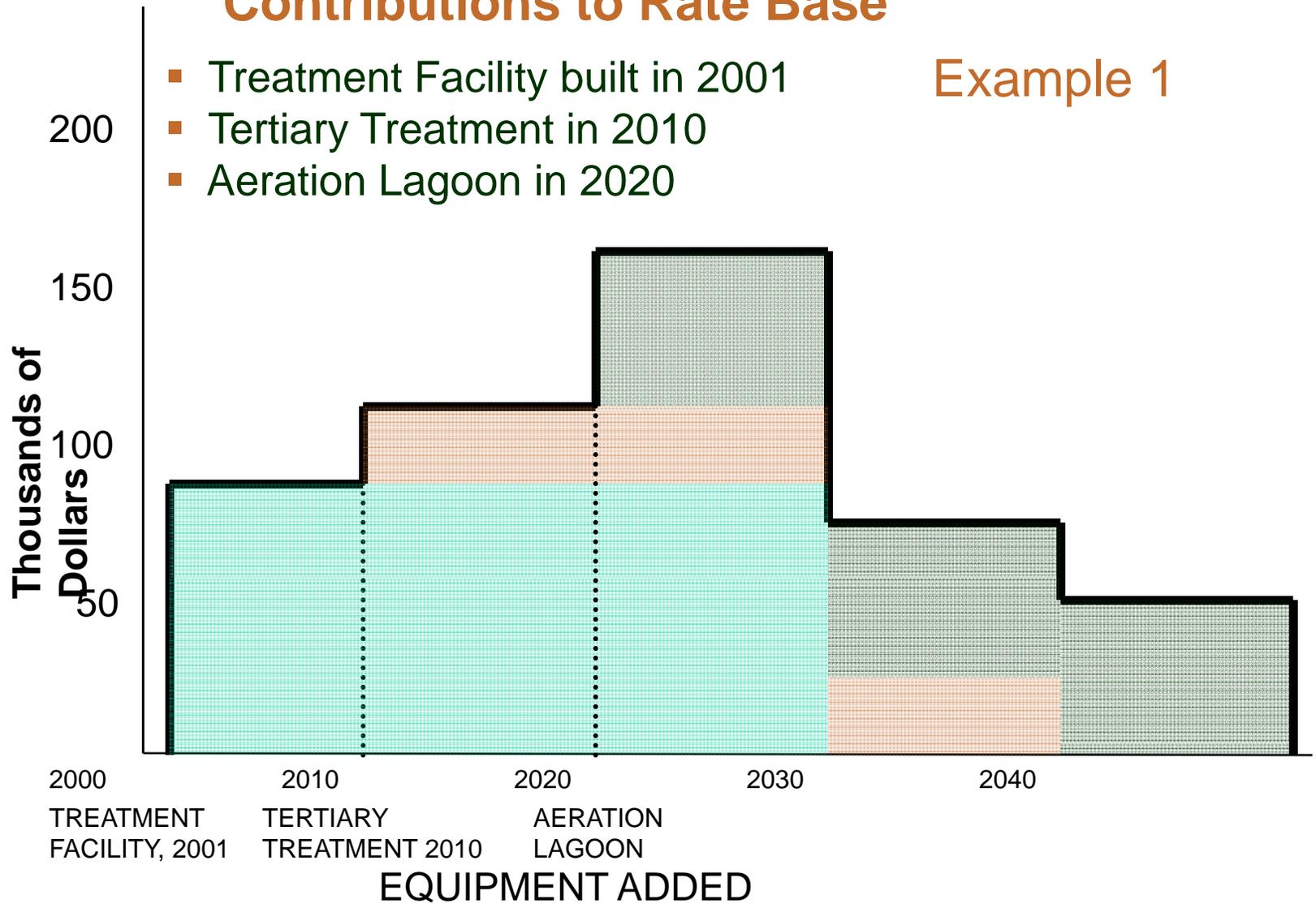




Fixed Capital Equipment Contributions to Rate Base

Example 1

- Treatment Facility built in 2001
- Tertiary Treatment in 2010
- Aeration Lagoon in 2020

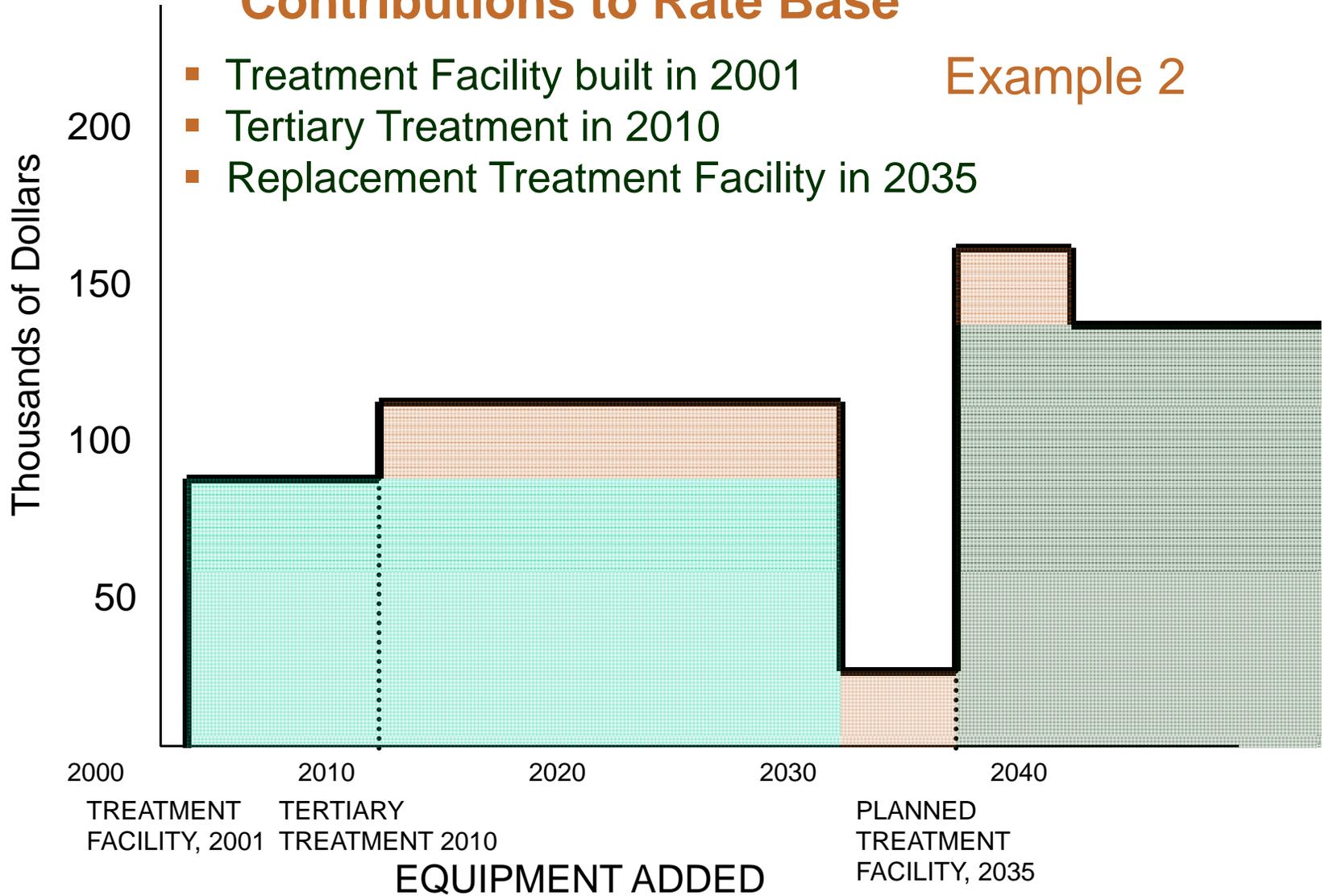




Fixed Capital Equipment Contributions to Rate Base

Example 2

- Treatment Facility built in 2001
- Tertiary Treatment in 2010
- Replacement Treatment Facility in 2035





Rate Implications of DO 35B

- The application of 83-2 is inconsistent among parks. DO 35B should give this consistency.
- Cyclic type work is allowed in 83-2 but some parks have not included it – it is hard because the cyclic work varies from year to year. Applying the cyclic (component renewal) costs uniformly may change the rates but it is not due to the changes in 35B.



Facility Management Software System (FMSS)

- A module in FMSS is under development to use for capturing the capital, component renewal and operating costs of a utility.
- 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 will be the first ones completed.



Measurement, Accountability, and Billing

- All utilities are to be measured or metered for all users (including NPS)
- 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.
- At the time of implementation, only capital assets installed after 2000 will be part of the 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.



Three Types of Accounts

- All accounts stay in the park.
- Maintenance and Operation
 - Used for normal operations in a year.
- Component Renewal/Repair Rehab
 - Collected as part of the rate base, and used for future component renewal
- Capital Expenditures
 - Collected as part of the rate base and used when the asset is replaced.
 - Design overhead costs added as per NAPA guidelines.



Actual Implementation

- Implementation must be started at the first utility rate setting after the Director's Order is signed (or by a date set in the signing, which is more likely). The 90 day notification period must be included in this time.
- Implementation can be phased in over 5 years or until the next contract issuance for non-NPS users, whichever comes first.
- Any phase-in proposal must be approved by the Associate Director for Park Planning Facilities and Lands with consultation with the Associate Director for Business Services at the first implementation and there must be some adjustment each year.



Exceptions

- A waiver of the full implementation requirements may be granted by the Associate Director (PPFL) in consultation with the Associate for Business Services after a careful feasibility analysis is conducted.
- Where complying 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 will be for those costs identified, not a total waiver (in most cases).



Parks Affected

Based on survey done by Concession Management in 1999 and supplemented by 2008 information:

- 76 Parks Affected:
 - 52 water
 - 45 waste water
 - 33 power
 - 23 solid waste
 - 5 phone
 - 4 fuel
 - 5 other
 - 8 parks did not specify

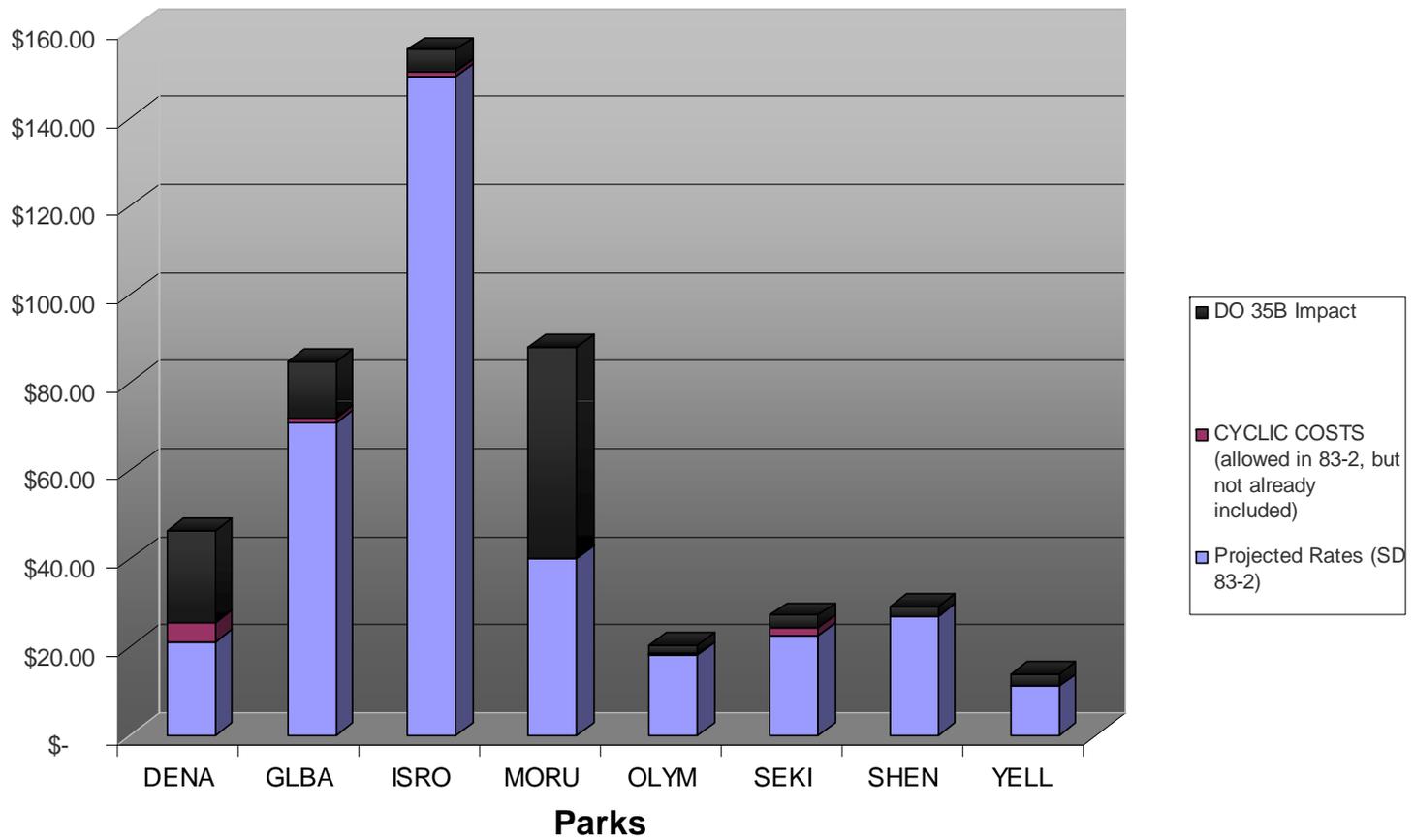


In-Depth Studies of 8 Parks

- DENALI
- GLACIER BAY
- ISLE ROYALE
- MOUNT RUSHMORE
- OLYMPIC
- SEQUOIA-KINGS CANYON
- SHENENDOAH
- YELLOWSTONE

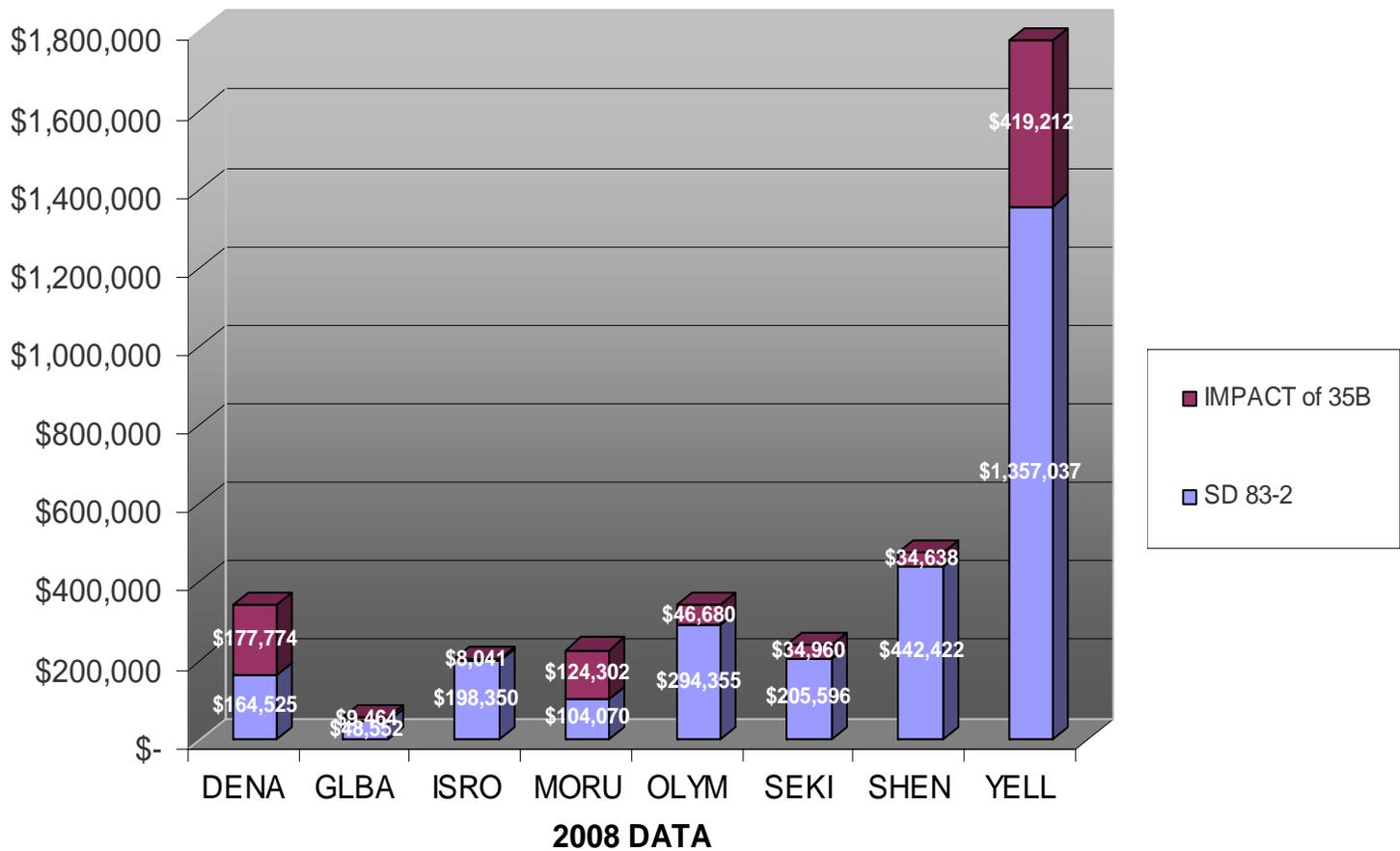


2008 Rates w/ DO 35B



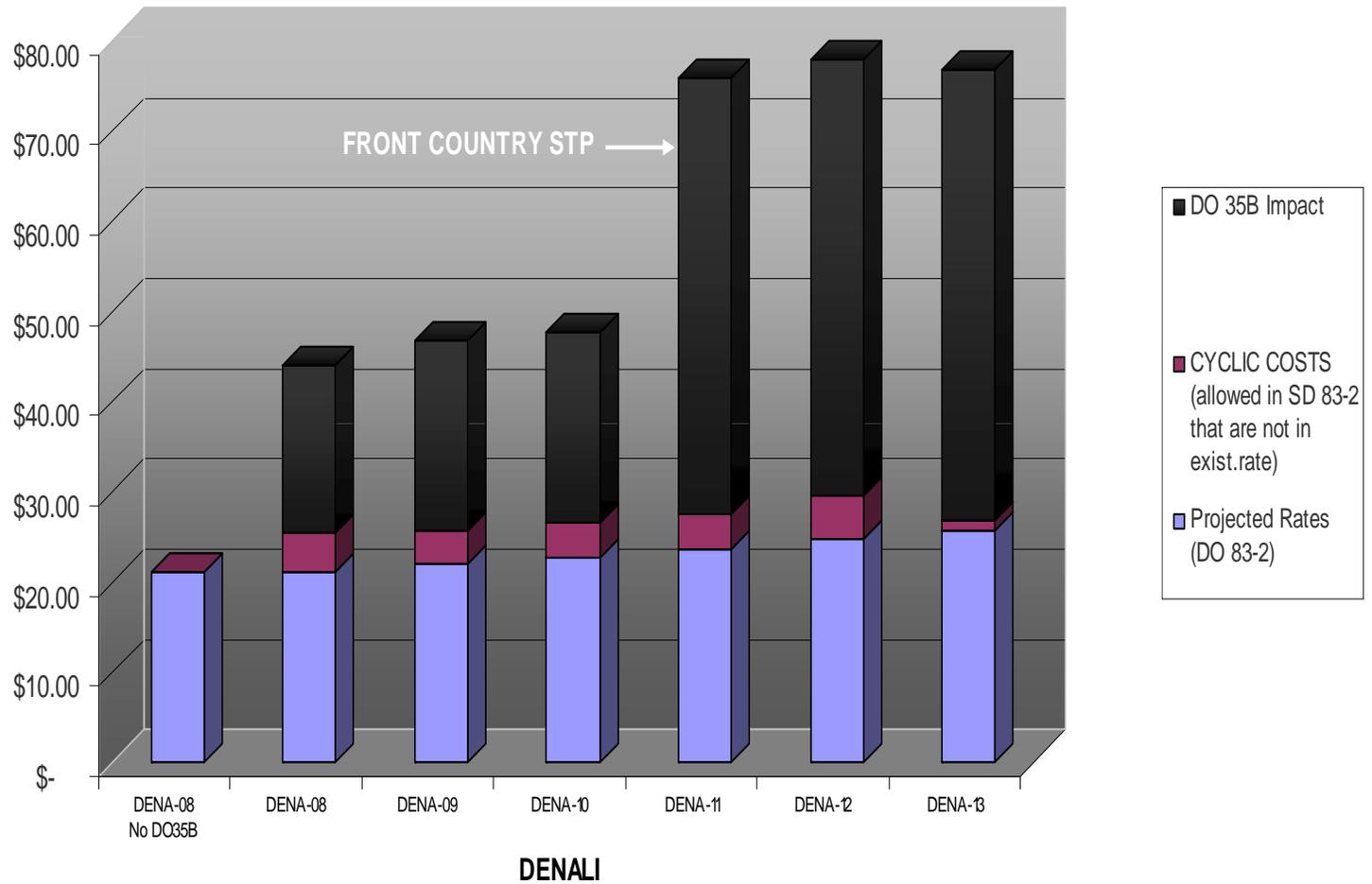


Total Water and WasteWater Costs Non-NPS Users



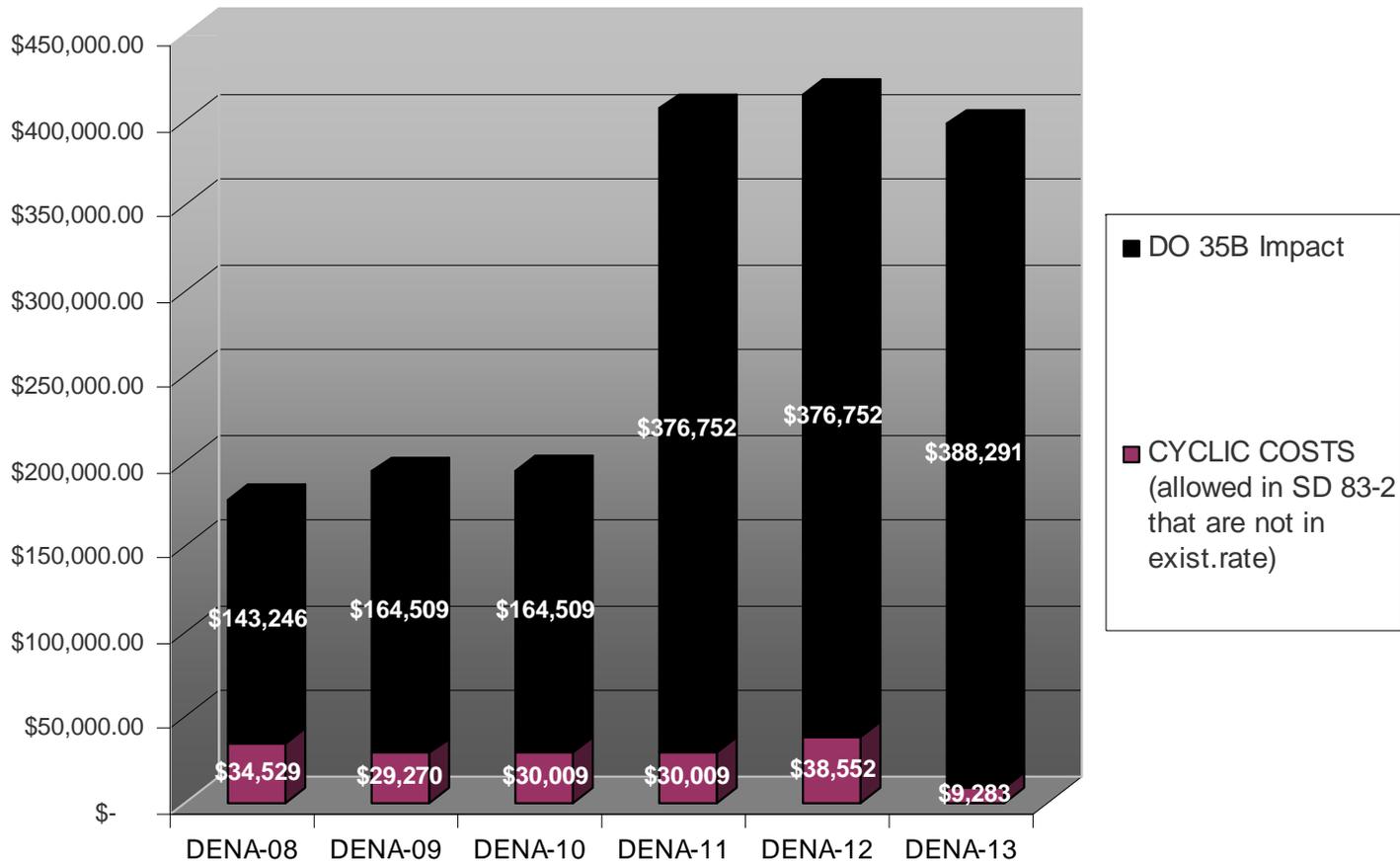


5 YEAR PROJECTED RATE AND IMPACT OF DO 35B





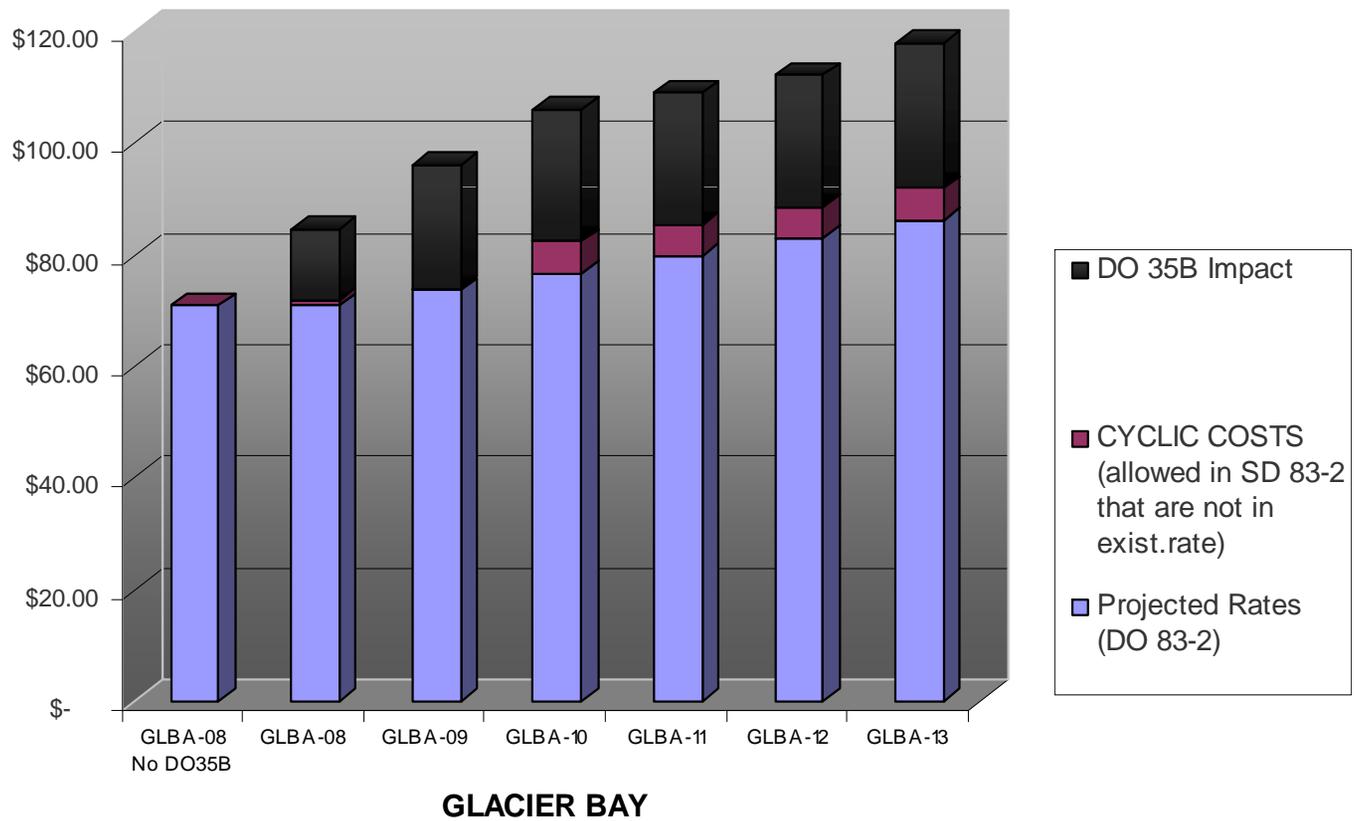
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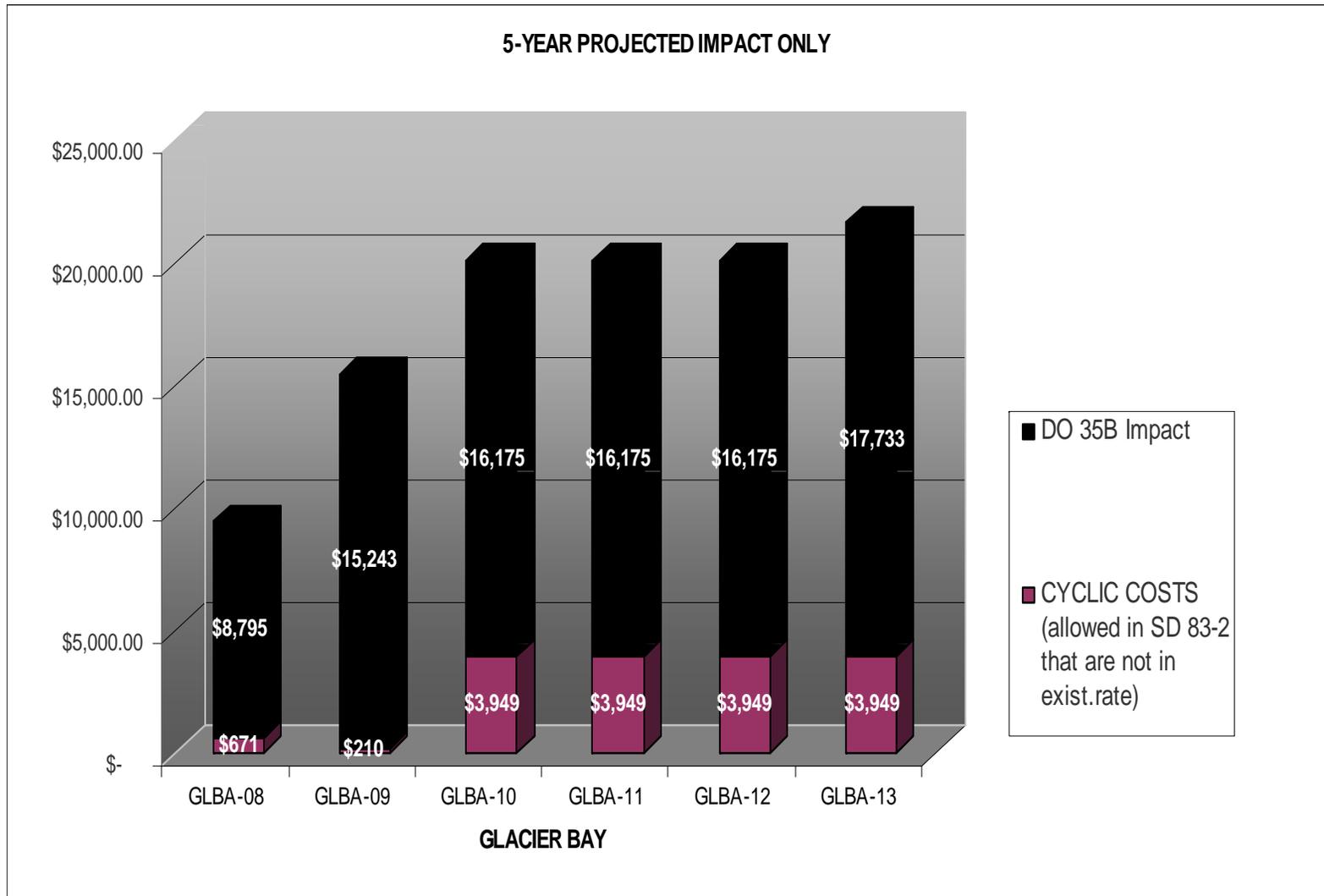


DENALI



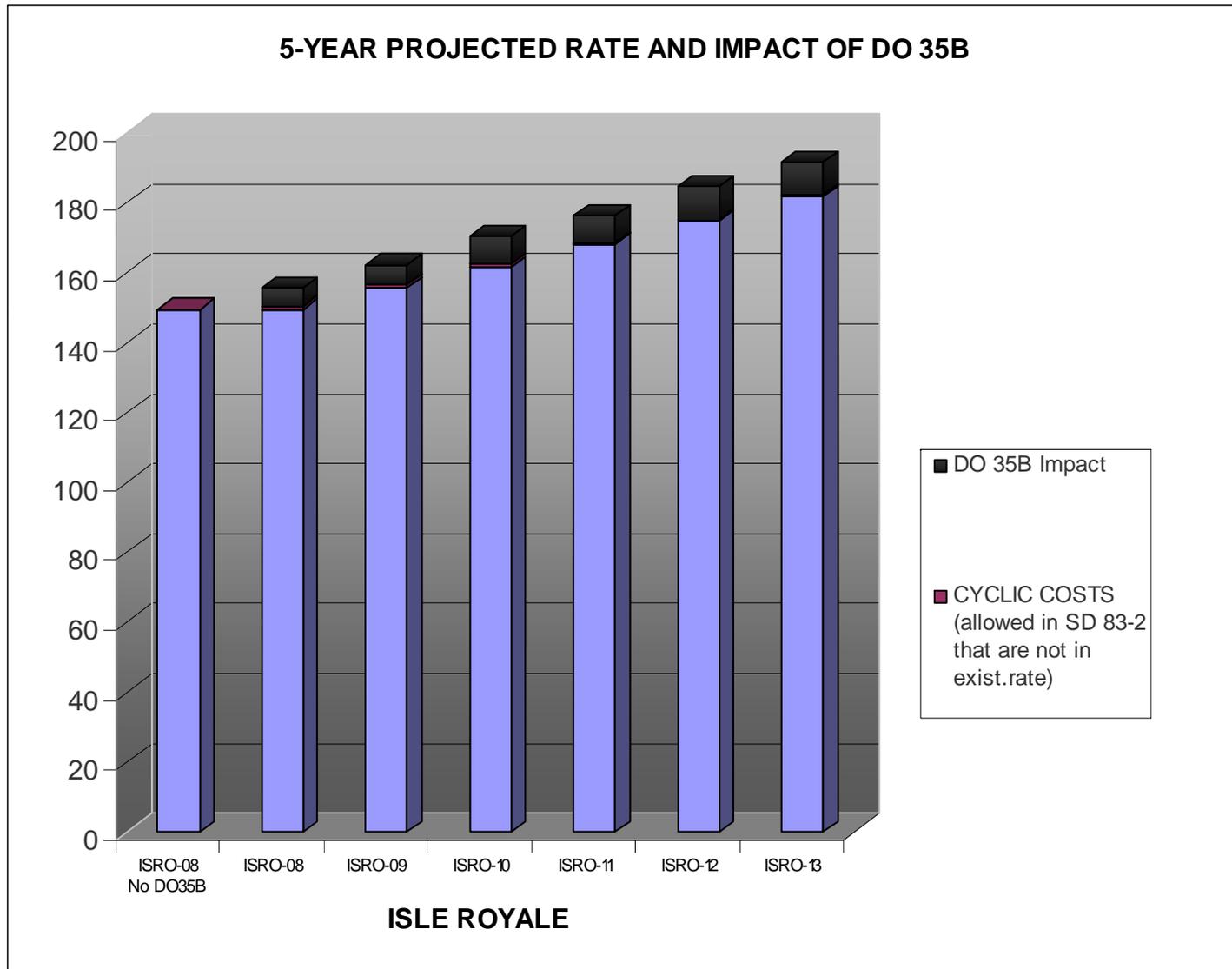
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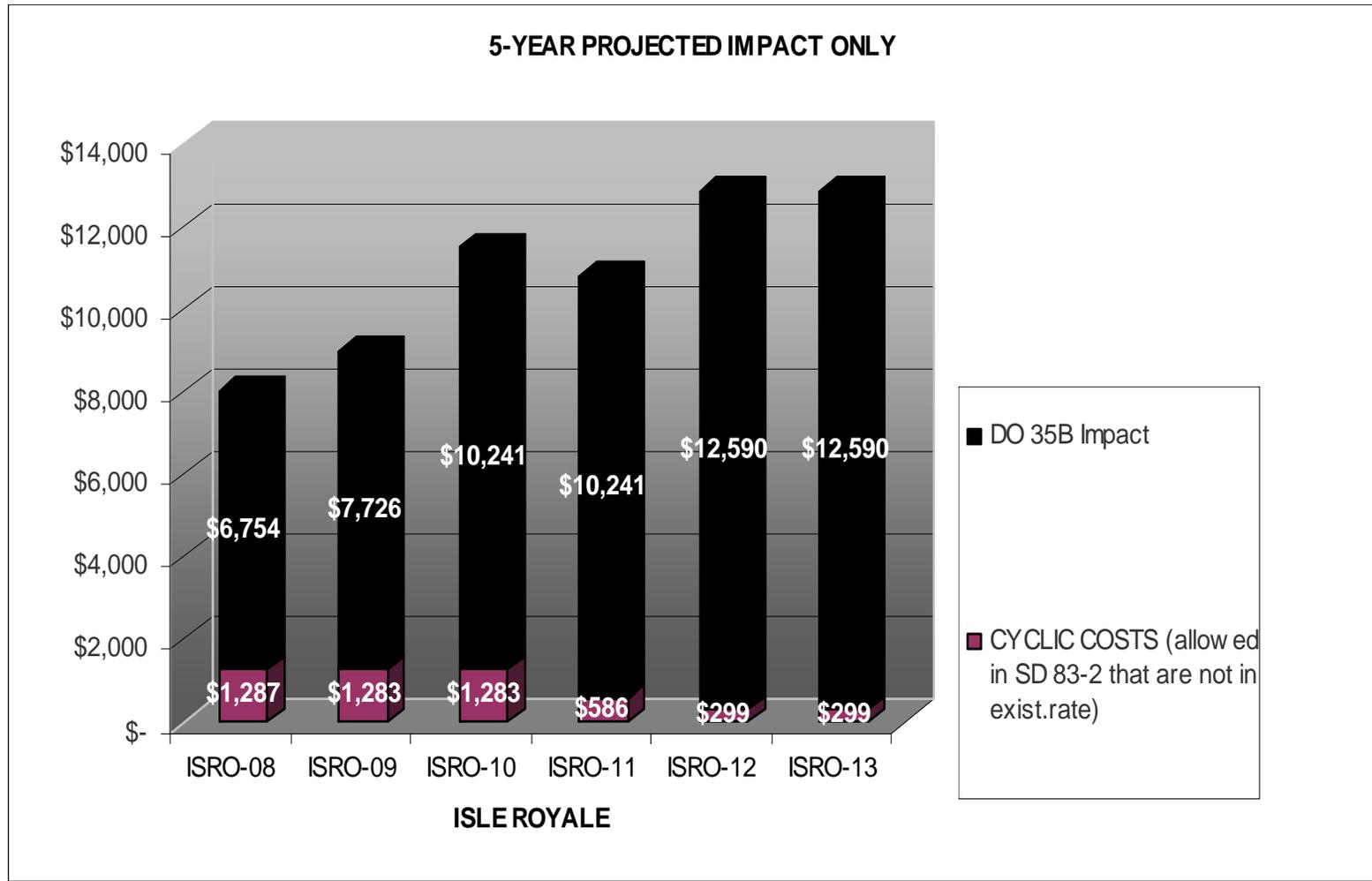






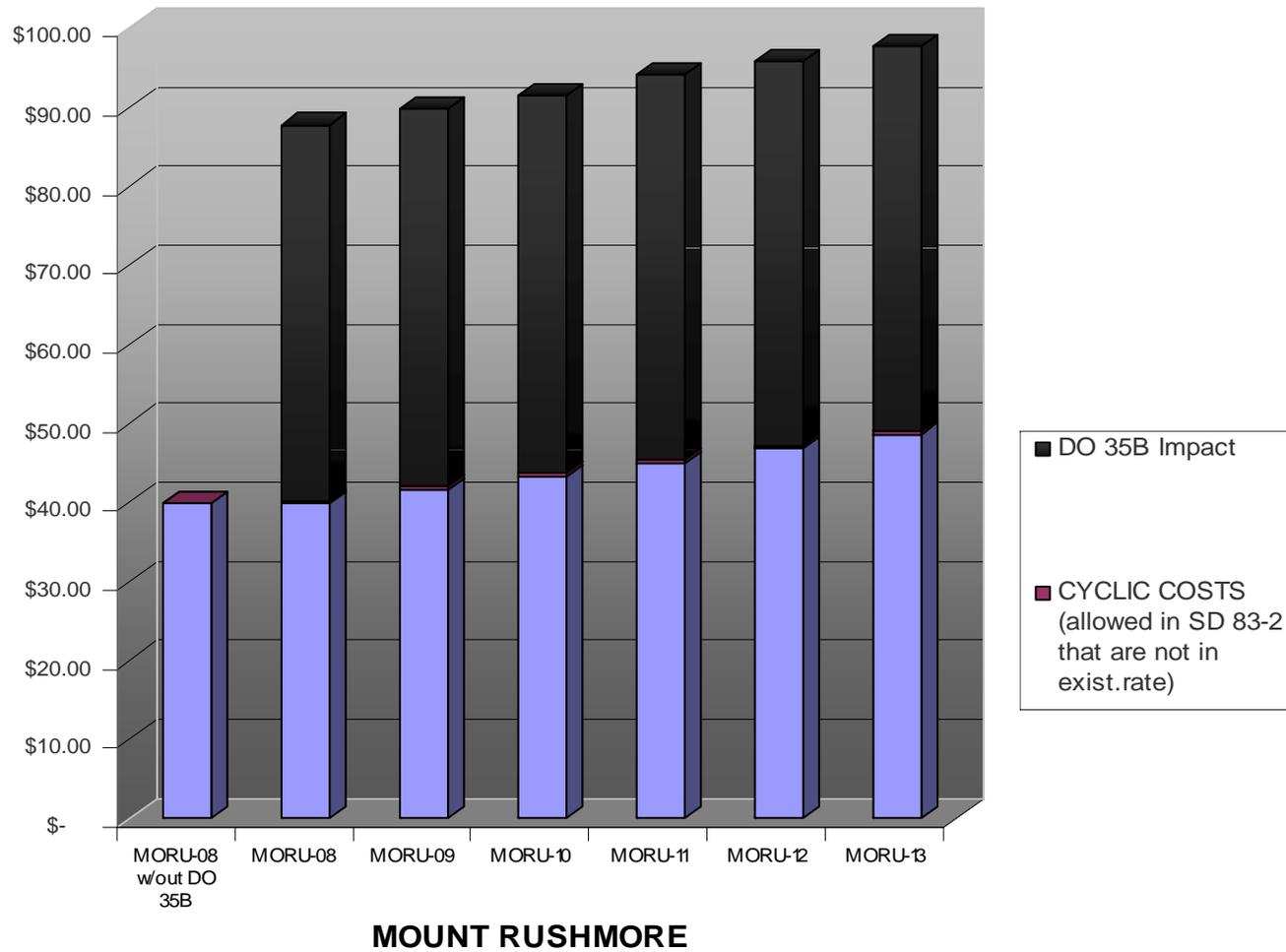
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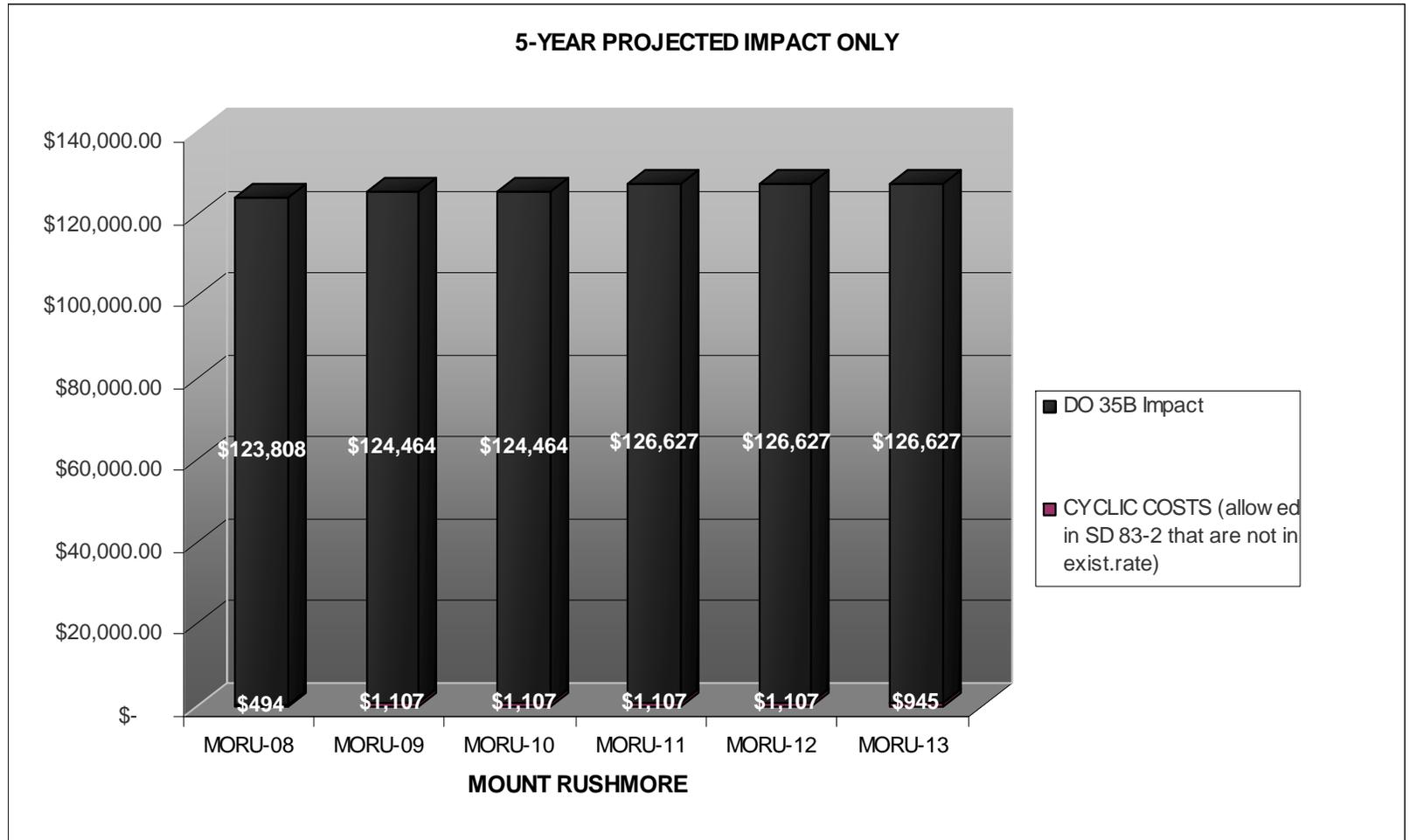






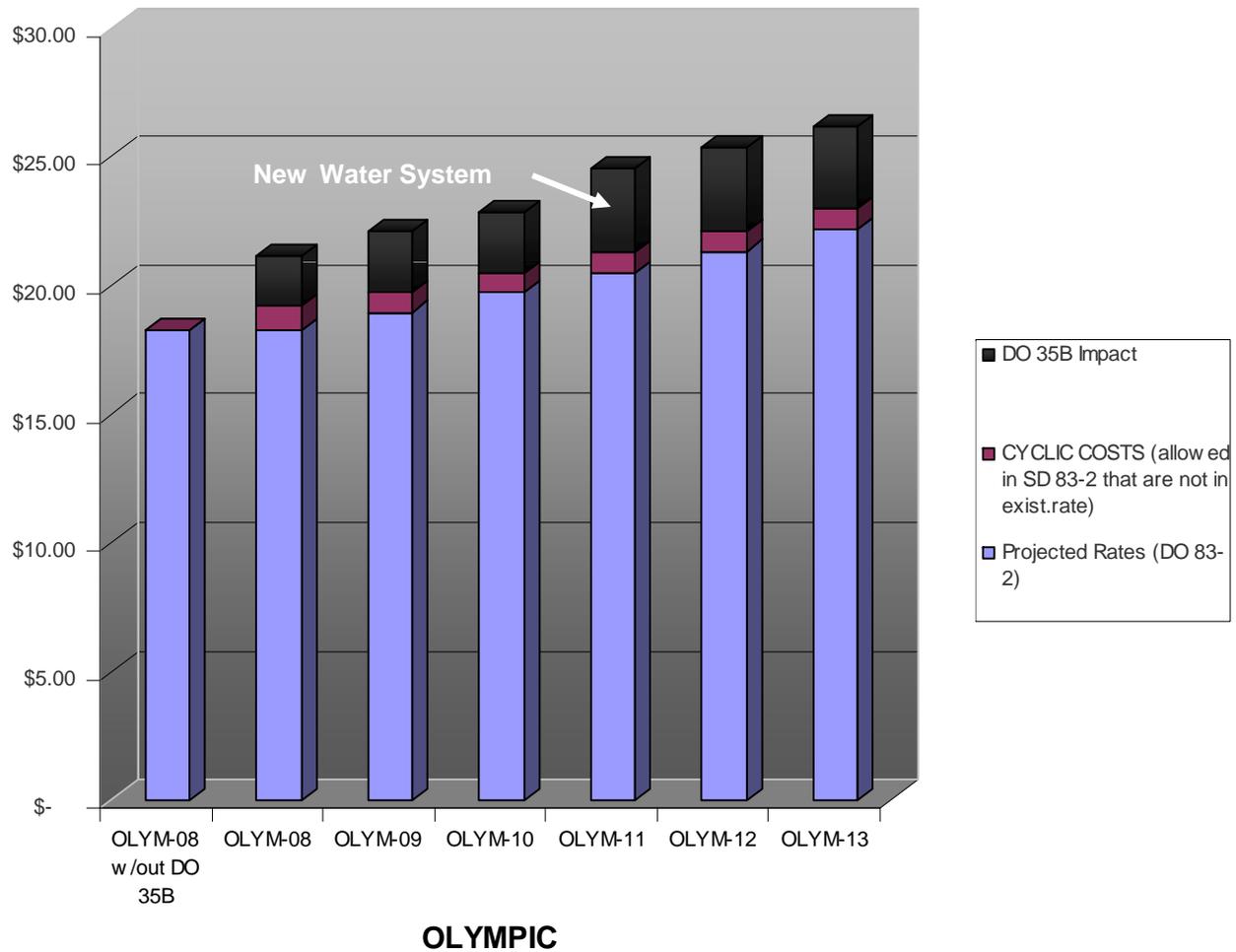
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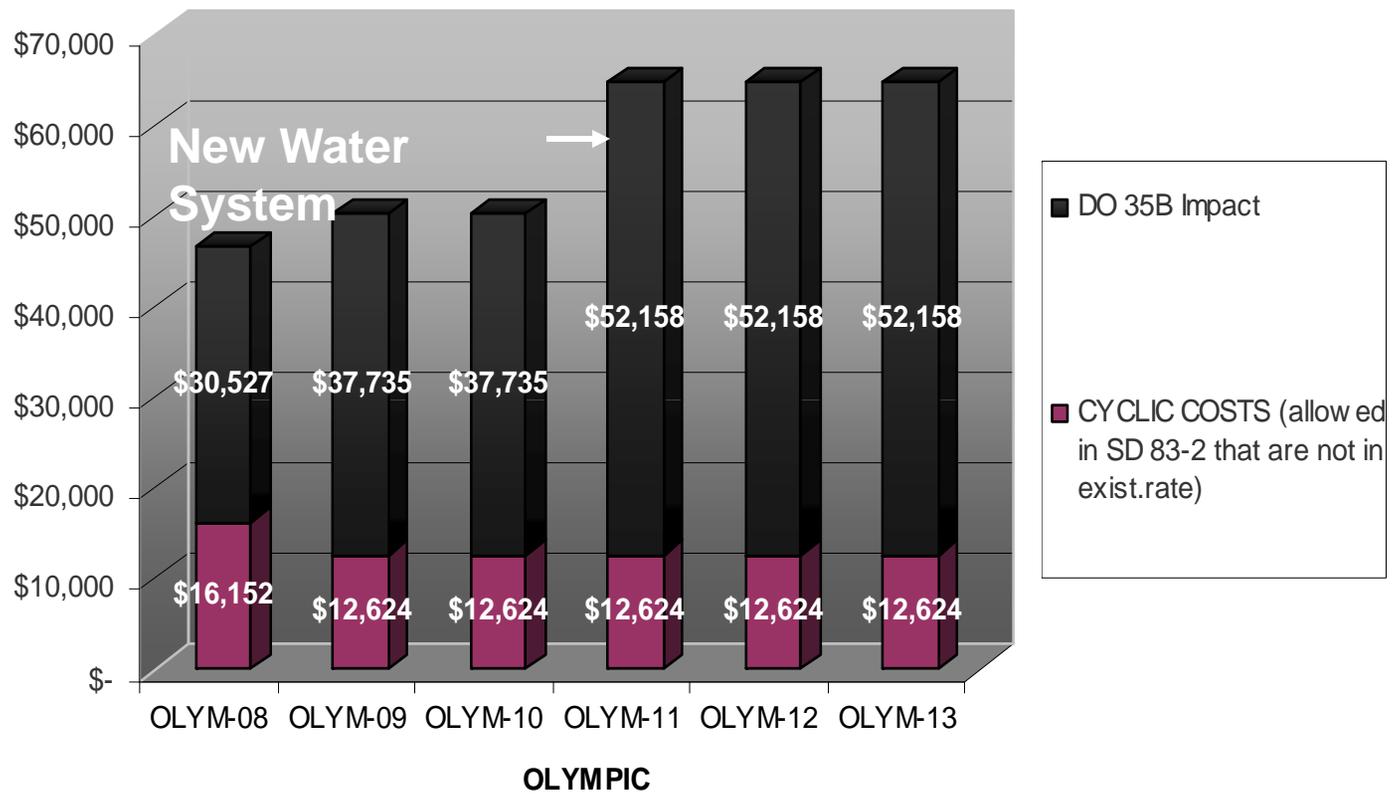


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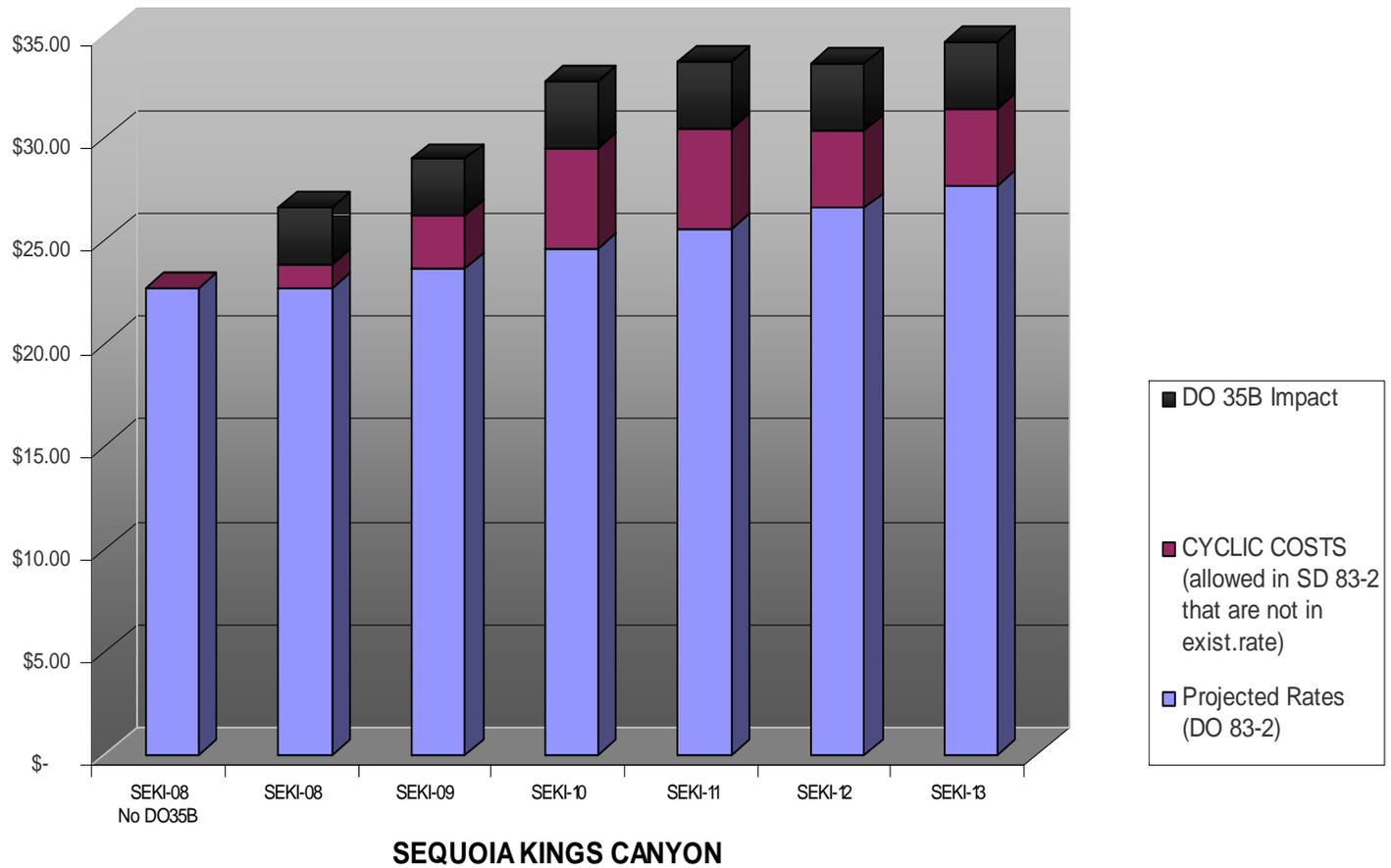


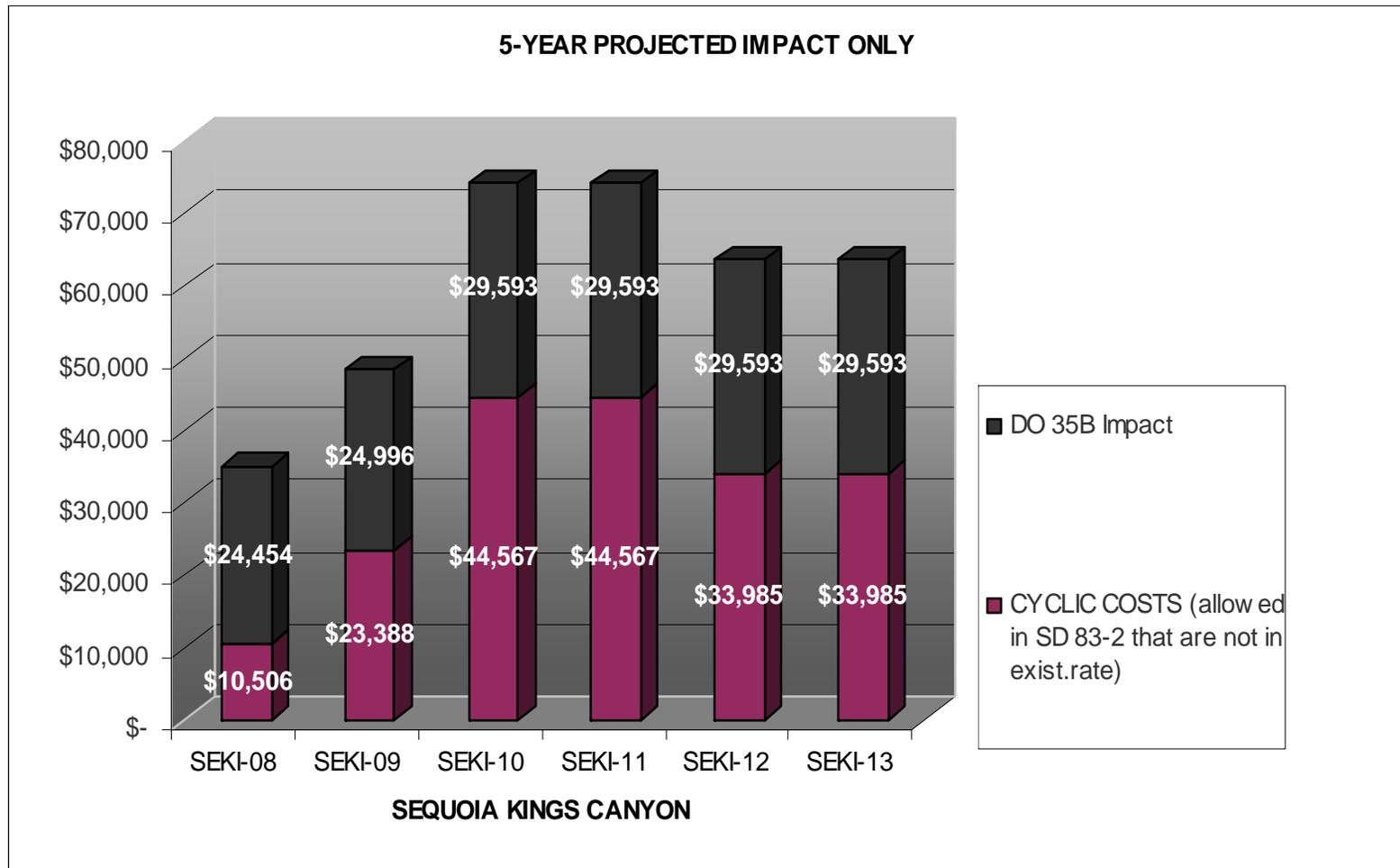
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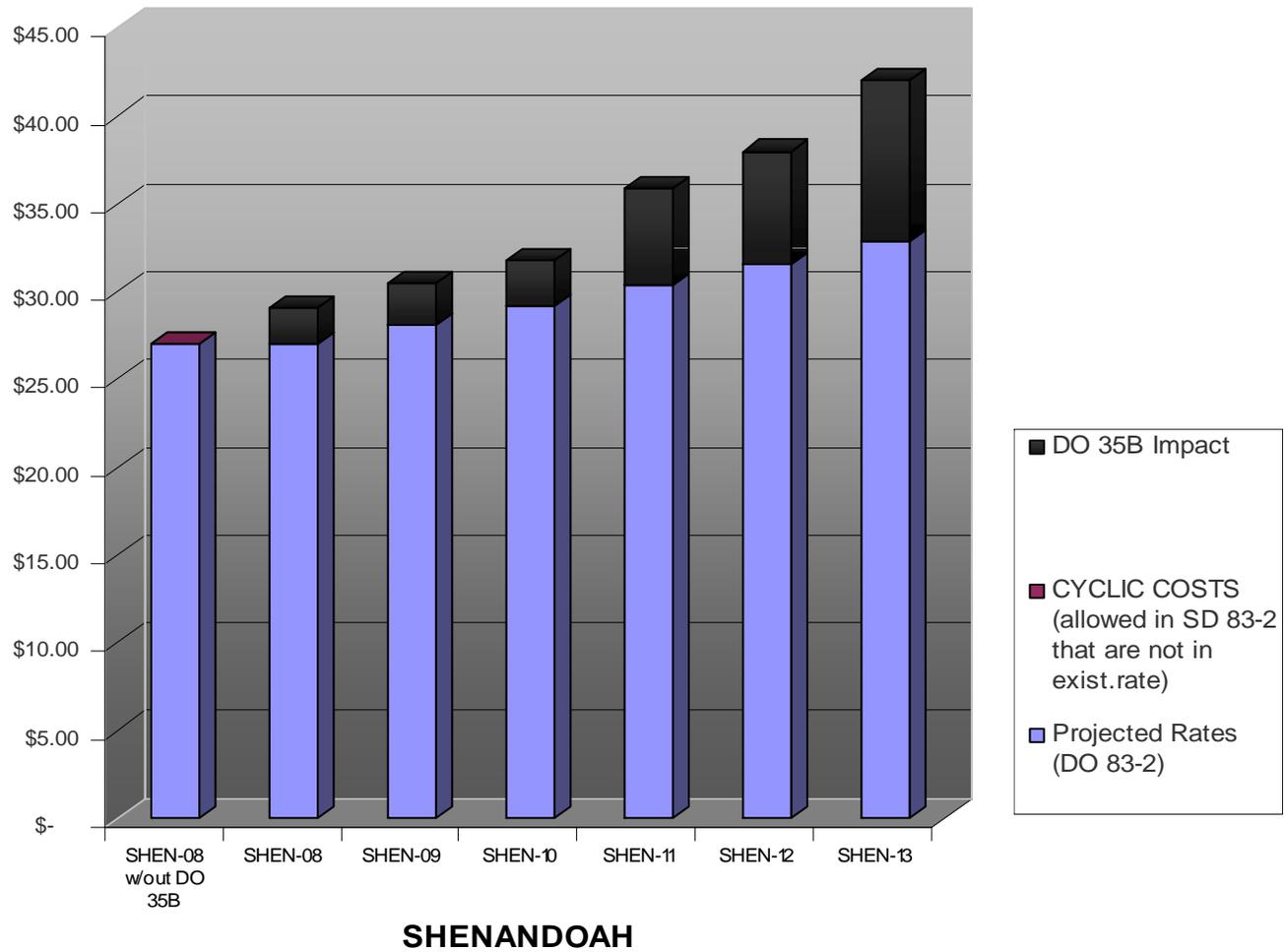
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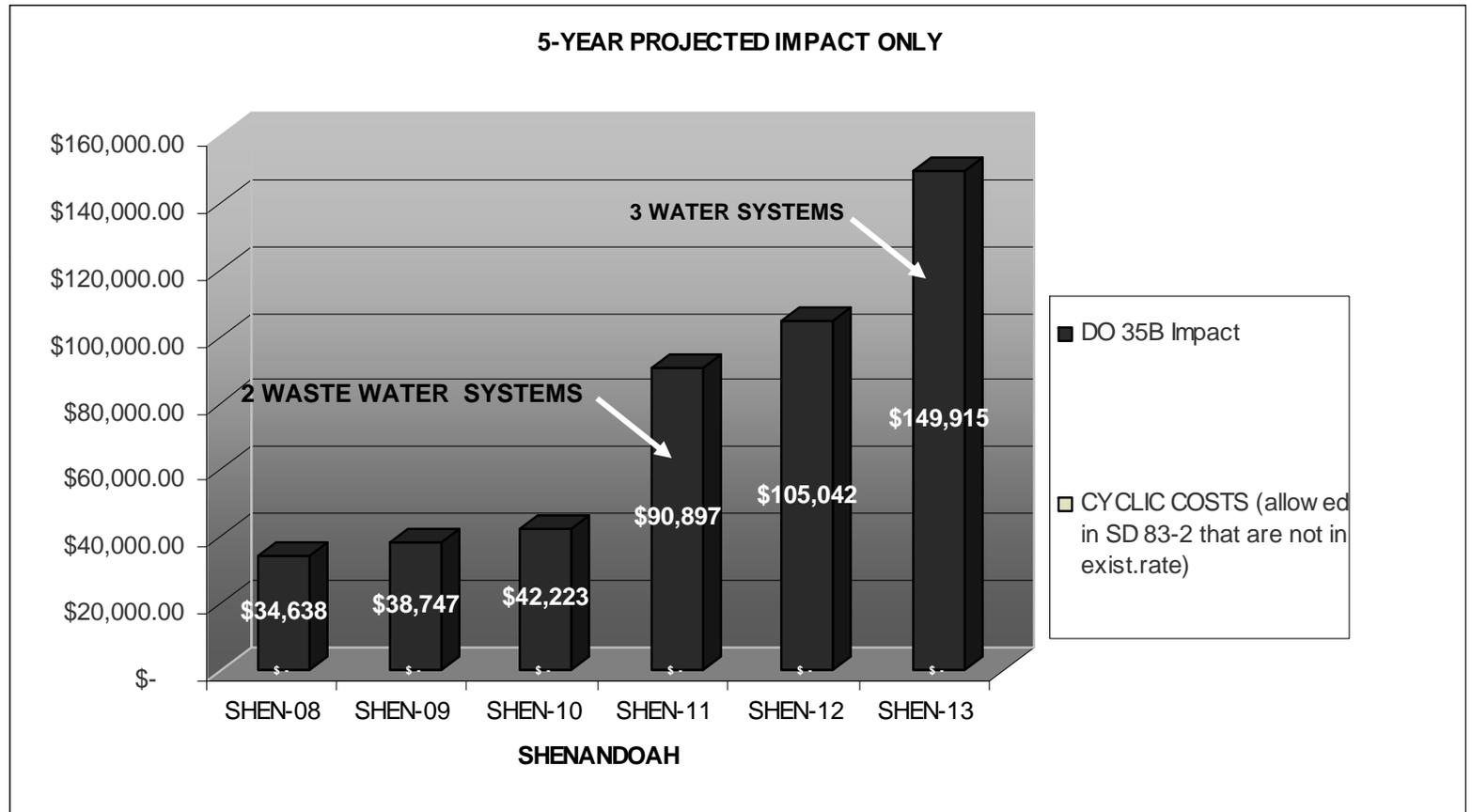






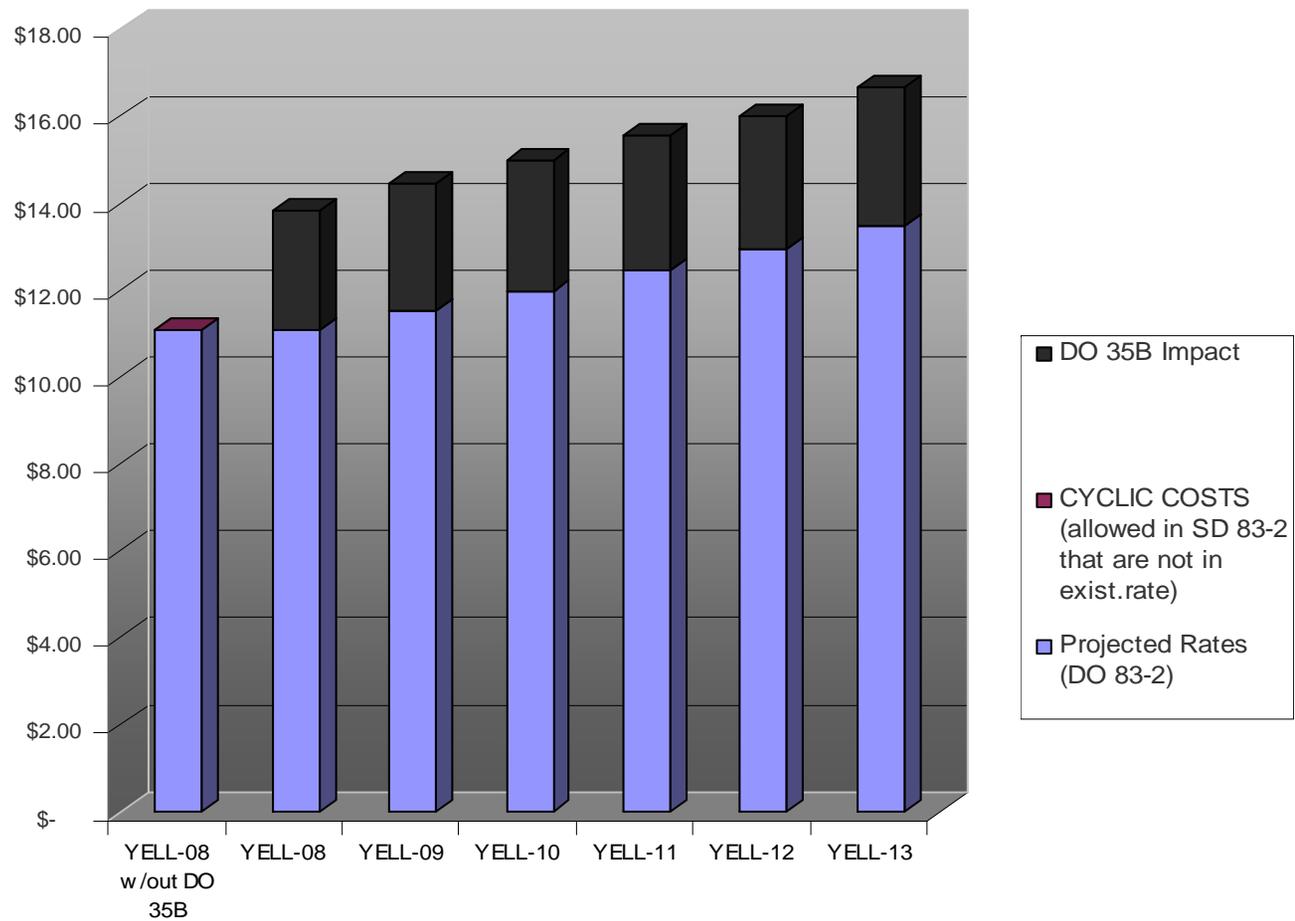
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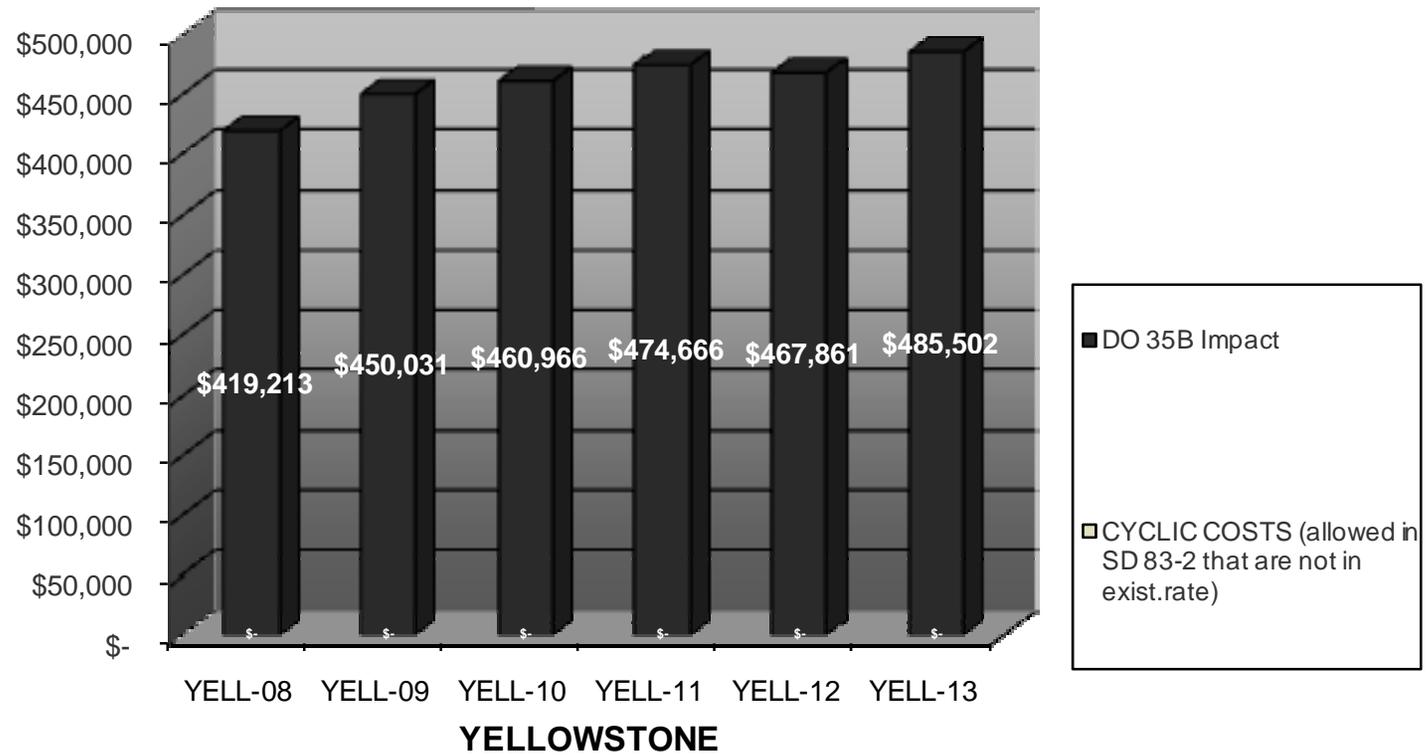
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YELLOWSTONE



5-YEAR PROJECTED IMPACT ONLY





Observations

- Each park will have to be evaluated separately to determine how the rates will be implemented – there is no one answer
- The percentage change is not always indicative of the impacts.
- Parks with a lot of non-NPS use will not see a large rise in rates with a large project
- Small to medium parks are much more susceptible to the impact of large projects
- The ability to forecast and plan the rates will be an invaluable tool to both the park and the concessioner in planning for future years



Thank You

Questions?