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Example Completion of Schedule B-1

The following example is provided as a demonstration of one method to complete Schedule B-1, Utility Service Payment by the Government. Any resemblance to conditions or costs at any U.S. Air Force base is strictly coincidental. Similarly, any resemblance of the hypothetical bidder in this example to existing entities is strictly coincidental. Offerors are advised not to place any importance on values used or assumptions made in this example.

J10.1 Background of Example

The Air Force is considering privatization of a utility system at one of its major bases. It plans to complete the privatization in year 2001. The Air Force has issued an RFP that, among other things, requires Offerors to complete the Schedule B-1 outlined in Section B of this RFP.

An interested party, Party X, reviews the RFP and decides to submit a proposal. In preparing its proposal, Party X conducts a system evaluation and determines the following:

- The monthly system operating cost needed to be recovered from the Air Force is \$55,000. This amount includes recovery of operation, maintenance, repair, administration, and general costs. These costs are fixed in that they do not vary with the load on the system.
- The value of the utility system is \$7,000,000.
- The system has excess capacity that is potentially usable for customers other than the Air Force. The value of this excess capacity is 15 percent of the existing system value.
- There are a number of physical and functional deficiencies in the system. To correct these deficiencies, two projects are required. The first (project 01) will cost \$1 million and take 12 months to complete and the second (project 02) will cost \$1.5 million and take 18 months to complete.
- In addition to the remedies to system deficiencies, there will be a need for continuing renewals and replacements as other plant and equipment wears out with time. Party X prepares a 50-year schedule for renewals and replacements beyond those needed to remedy system deficiencies in accordance with Section M.4.2.3 of the RFP. The schedule includes no costs in some years and substantial costs in other years. Party X also projects the value of the utility at the end of 50 years of ownership and operation.
- Beyond correction of physical and functional deficiencies and normal renewals and replacements, no other upgrades or improvements of the system are anticipated.
- The system is in good enough condition that purchase costs can be amortized over 15 years. The risk associated with this investment requires a return at 3.0 percentage points over the interest rate on 30-year U.S. Treasury Bonds.
- Costs associated with remedies of system deficiencies can be amortized over 25 years. The risk associated with this investment requires a return at 3.15 percentage points over the interest rate on 30-year U.S. Treasury Bonds.

In developing these factors, Party X has included all required margins and returns.

In this example, it is assumed that the interest rate on 30-year U.S. Treasury Bonds at the time of the purchase date will be 6.0 percent when the system is purchased, and 6.1 percent when each of the two initial capital upgrades and initial renewal and replacements are completed.

J10.2 Example Schedule B-1 Calculations

The following text describes calculations that Party X could make in completing Schedule B-1. Although this would be one logical way to complete the schedule, other logical approaches could be taken.

Sub-CLIN AA—Party X proposes a purchase price of \$7 million, with payment of this purchase price over 15 years (180 months) at an annual interest rate equal to the interest rate on U.S. Treasury Bonds plus 3.0 percent. With 30-year U.S. Treasury Bonds carrying an interest rate of 6.0 percent, the total interest rate used to calculate the amortization of the purchase price would be 9.0 percent. As noted in Schedule B-1, the monthly interest rate used to calculate the monthly amortization payment is the annual interest rate divided by 12. In this Sub-CLIN AA example, the monthly interest rate is 0.75 percent. Accordingly, the monthly amortization rate is 1.014267 percent and the proposed monthly credit as payment is \$70,999. Credit over a full year would be \$851,984.

Sub-CLIN AB—The proposed monthly rate to cover the cost of operating the system (operation, maintenance, repair, administration, and general costs) is \$55,000 per month or \$660,000 per year.

Sub-CLIN Capital—Initially, this will be the summation of Sub-CLINs AC and A(y). When project 01 is completed, the amortized cost for the project, calculated in Sub-CLIN AD, will be added to the total cost for Sub-CLIN Capital. Similarly, when project 02 is completed, the amortized cost for the project, calculated in Sub-CLIN AE, will be added to the total cost for Sub-CLIN Capital.

Sub-CLIN AC—This is proposed based on an allocation of 85 percent of the purchase price to the Air Force and 15 percent of the purchase price to uses other than for the Air Force. The amortization period and interest rate are proposed the same as for the payment by Party X to the Air Force for the utility system. Accordingly, the proposed charges back to the Air Force are 85 percent of the purchase payments by Party X to the Air Force.

Sub-CLIN AD—This is a charge to recover \$1.0 million in system upgrade costs amortized over 25 years (300 months) at a monthly rate of 0.77083 (annual interest rate of 9.25 percent—6.1 percent plus 3.15 percent—divided by 12). Accordingly, the proposed monthly charge to the Air Force is \$8,564.

Sub-CLIN AE—This is a charge to recover \$1.5 million in system upgrade costs amortized over 25 years (300 months) at a monthly rate of 0.77083. Accordingly, the proposed monthly charge to the Air Force is \$12,846.

Sub-CLIN A(y)—In order to calculate this annual amount, Party X considered its projected schedule of renewal and replacement expenditures (beyond those made to remedy system deficiencies) and the system's residual value at the end of 50 years. Party X calculated the present value of the projected renewal and replacement cash flow less a credit for residual

system value. In making this present value calculation, Party X used its long-term monthly cost of capital of 0.7625 percent at the time it submitted its proposal. Party X then amortized the present value amount over 600 months (50 years) at the same monthly interest rate to obtain a monthly SubCLIN charge of \$35,860. *[This approach is one of several possibilities for potential bidders to choose from.]*

Total Charges—The gross monthly charge is proposed to be the summation of Sub-CLIN AB and Sub-CLIN Capital. Initially, this would be \$151,209. Accounting for the amortized purchase price leaves a net charge of \$80,210 per month. Once both projects 01 and 02 are complete, the gross monthly charge would be \$172,619 and the net charge after credit for the purchase price would be \$101,620.

Sub-CLIN Deductions:

Sub-CLIN A(z) - The Offeror determines that managing the utility system to meet the response times of the contract is achievable and as such proposes to credit the government for exceeding the response times by \$500 per hour.

SCHEDULE B-1

Utility Service Payment by the Government

(Installation Name)

CLIN ^a	Utility System			
Sub-CLINs	Supplies/Services	Unit	Monthly Service Charge	Total Annual Amount ^b
AA	Monthly Credit as Payment for Purchase Price. (see B.5.2, <i>Service Charges</i>) ^f \$ <u>7,000,000</u> amortized over the first <u>180</u> months of service at an interest rate that is (specify either of the following) <u>3</u> percentage points above or percentage points below the annual interest rate on U.S. Treasury Bonds in effect at the time of award. ^d	LS	\$(<u>70,999</u>)	\$(<u>851,984</u>)
AB ^e	Fixed Monthly Cost to Operate and Maintain the Utility System for Electric, Natural Gas, Water, or Wastewater Utility Systems. (See B.5.2, <i>Service Charges</i>).	LS	\$ <u>55,000</u>	\$ <u>660,000</u>
Capital	Fixed Monthly Capital Charge (see B.5.2, <i>Service Charges</i>) The Contractor shall provide utility service in accordance with Section C, <i>Descriptions, Specifications, and Work Statement</i> . [AC - A(y)]			
AC	Recoverable Portion of the Purchase Price. (See B.5.2, <i>Service Charges</i>). ^c \$ <u>5,950,000</u> amortized over the first <u>180</u> months of service at an interest rate that is (specify either of the following) <u>3</u> percentage points above or percentage points below the annual interest rate on U.S. Treasury Bonds in effect at the time of award. ^d	LS	\$ <u>60,349</u>	\$ <u>724,188</u>
	Initial Capital Upgrades and Initial Renewals and Replacements. ^f (See B.5.2, <i>Service Charges</i>). [AD - A(x)] ^f			
AD	Project 01 ^f \$ <u>1,000,000</u> amortized starting in month <u>1</u> over a total of <u>300</u> months of service at an interest rate that is (specify either of the following) <u>3.15</u> percentage points above or percentage points below the annual interest rate on U.S. Treasury Bonds in effect at the time of award. ^d	LS	\$ <u>8,564</u>	\$ <u>102,766</u>
AE	Project 02 ^f \$ <u>1,500,000</u> amortized starting in month <u>1</u> over a total of <u>300</u> months of service at an interest rate that is (specify either of the following) <u>3.15</u> percentage points above or percentage points below the annual interest rate on U.S. Treasury Bonds in effect at the time of award. ^d	LS	\$ <u>12,864</u>	\$ <u>154,149</u>
A(x)	Project 0X (consecutively number each project) ^f \$ _____ amortized starting in month _____ over a total of _____ months of service at an interest rate that is (specify either of the following) _____ percentage points above or _____ percentage points below the annual interest rate on U.S. Treasury Bonds in effect at the time of award. ^d	LS	\$ _____	\$ _____
A(y) ^e	Continuing Renewals and Replacements. (See B.5.2, <i>Service Charges</i>). [This Sub-CLIN should not include the cost for initial renewals and replacements under Sub-CLINs AD-A(x)]	LS	\$ _____	\$ _____
Deductions	Monthly Deductions			

(Installation Name)

CLIN ^a	Utility System			
A(z)	Monthly Credit to the Government for Delayed Response Times. (See B.5.2, <i>Service Charges</i>). ^g \$ 500 /hour			

^a CLIN number to be filled in by the Offeror. CLIN numbers are shown in Schedule A paragraph B.3, *Systems to be Privatized*.

^b The annual amount is calculated by extending the monthly service charge by 12 months.

^c The Purchase Price (Sub-CLIN AA), Recoverable Portion of the Purchase Price (Sub-CLIN AC), interest rate and amortization period are proposed by the Offeror.

^d The interest rate on U.S. Treasury Bonds (30-years) is as established in the most recent 30-year bond issue prior to the time of award, and published in the Federal Register. (<http://www.federalreserve.gov/releases/H15/update/>)

^e Price changes for Sub-CLINs AB and A(y) will be determined IAW B.6, *Type of Contract-Fixed Price with Prospective Price Redetermination*, and G.3, *Service Charge Adjustment*.

^f Recovery of investment on individual projects will begin at the time improvements are put in used and useful service in accordance with the Offeror's transition plan, see paragraph C-13.4.3, *System Upgrades*.

^g For proposal purposes the Offeror shall propose only a dollar per hour credit to the Government. During Contract performance the hours per month will be determined for each month of service and the total monthly credit will be calculated and credited against the monthly invoice.