APPENDIX A

DEFINITIONS
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“Defense Components” refers to the Military Departments and Defense Agencies collectively.

“External obsolescence” is an impairment of the usefulness or salability of an improvement or property due to negative influences outside the property.

“Functional deficiencies” is any lack of capacity or operational capability that will keep the system from safely meeting its operational requirements. These deficiencies may be caused by inadequate design/construction, lack of maintenance and repair, etc.

“Functional obsolescence” is caused by a flaw in the structure, materials, or design of the system when compared to current standards. A system that was functionally adequate at the time of construction can become inadequate or less appealing as design standards, mechanical systems and construction materials change over time.

“Implementation costs” are those costs related to the decision to privatize a utility system and may include contracted or in-house costs for “should cost” inventories and assessments, and environmental studies.

“Industry standard” refers to established rules, regulations, and generally accepted operating procedures, practices and requirements defined by national trade associations, state laws, and local governments relevant to utility service.

“Initial upgrades costs” are those costs required to correct physical deterioration, system deficiencies, and functional and external obsolescence.

“Military Department” refers to the Department that has jurisdiction over the utility system.

“Physical deterioration” is the wear and tear from regular use and the impact of the elements and time. Physical deterioration must consider the longevity of the system’s individual components.

“Physical deficiencies” are system deficiencies resulting from outdated or damaged equipment, pipes, valves, meters, gauges, etc. and which will require repair or replacement in the near future.

“Secretary” refers to the Secretary of the Military Department that has jurisdiction over the utility system.
“Should cost" is the cost that would be incurred by the Government if a utility system were operated and maintained in accordance with accepted industry standards. “Should cost” is intended to identify all Government costs and may include costs not previously identified in program budgets. It may be higher or lower than actual cost depending on the level of maintenance traditionally performed on the system. “Should cost” is a summation of the status quo costs, the cost of system improvements (upgrades and recapitalization), and all applicable health, safety, fire and environmental compliance costs.

“Status quo costs” are the actual costs incurred by the installation to construct, operate, maintain and repair a utility system.

“System improvement costs” include those costs required to address physical and functional deficiencies and all deferred maintenance.

“Transition cost” is the total cost to transfer the utility system to the new owner (including initial monitoring and the cost of reduction and or displacement of personnel).

“Utilities privatization” is a process that (1) conveys a utility system or a part of a utility system under the jurisdiction of the Secretary concerned to a municipal, private, regional, district, or cooperative utility company or other entity and (2) obtains a utility service contract from the entity to whom the system was conveyed or their agents and assignees.

"Utilities Services" means all services associated with the conveyed utility system other than the utility commodity.

“Utility system” means any system for the generation and supply of electric power, for the treatment or supply of water, for the collection or treatment of wastewater, and for the supply of natural gas. For the purposes of this definition, supply shall include distribution. A utility system includes equipment, fixtures, structures, and other improvements utilized in connection with systems described above, as well as the real property, easements or rights-of-way associated with those systems. (Normally, the utility system conveyance will only include an easement or right-of-way to the land associated with the utility system.) A utility system does not include any projects constructed or operated by the Army Corps of Engineers under its civil works authorities.

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1 Not to be confused with “should-cost review” defined in FAR Part 15.
APPENDIX B

DoD General Counsel Memorandum
24 February 2000
APPENDIX E

DEVIAITION TO FEDERAL ACQUISITION REGULATION (FAR) 31.205-20,
INTEREST AND OTHER FINANCIAL COSTS OF 15 APR 2002