

§ 436.12

This term also means a collection of such buildings, structures, or facilities and the energy and water consuming support systems for such collection.

Investment costs means the initial costs of design, engineering, purchase, construction, and installation exclusive of sunk costs.

Life cycle cost means the total cost of owning, operating and maintaining a building over its useful life (including its fuel and water, energy, labor, and replacement components), determined on the basis of a systematic evaluation and comparison of alternative building systems, except that in the case of leased buildings, the life cycle cost shall be calculated over the effective remaining term of the lease.

Non-fuel operation and maintenance costs means material and labor cost for routine upkeep, repair and operation exclusive of energy cost.

Non-recurring costs means costs that are not uniformly incurred annually over the study period.

Non-water operation and maintenance costs mean material and labor cost for routine upkeep, repair and operation exclusive of water cost.

Recurring costs means future costs that are incurred uniformly and annually over the study period.

Replacement costs mean future cost to replace a building energy system or building water system, an energy or water conservation measure, or any component thereof.

Retrofit means installation of a building energy system or building water system alternative in an existing Federal building.

Salvage value means the value of any building energy system or building water system removed or replaced during the study period, or recovered through resale or remaining at the end of the study period.

Study period means the time period covered by a life cycle cost analysis.

Sunk costs means costs incurred prior to the time at which the life cycle cost analysis occurs.

Time-of-day rate means the charge for service during periods of the day based on the cost of supplying services during various times of the day.

Water conservation measures mean measures that are applied to an exist-

10 CFR Ch. II (1-1-07 Edition)

ing Federal building that improve the efficiency of water use, reduce the amount of water for sewage disposal and are life cycle cost effective and that involve water conservation, improvements in operation and maintenance efficiencies, or retrofit activities.

[55 FR 48220, Nov. 20, 1990, as amended at 61 FR 32649, June 25, 1996]

§ 436.12 Life cycle cost methodology.

The life cycle cost methodology for this part is a systematic analysis of relevant costs, excluding sunk costs, over a study period, relating initial costs to future costs by the technique of discounting future costs to present values.

§ 436.13 Presuming cost-effectiveness results.

(a) If the investment and other costs for an energy or water conservation measure considered for retrofit to an existing Federal building or a building energy system or building water system considered for incorporation into a new building design are insignificant, a Federal agency may presume that such a system is life cycle cost-effective without further analysis.

(b) A Federal agency may presume that an investment in an energy or water conservation measure retrofit to an existing Federal building is not life cycle cost-effective for Federal investment if the Federal building is—

(1) Occupied under a short-term lease with a remaining term of one year or less, and without a renewal option or with a renewal option which is not likely to be exercised;

(2) Occupied under a lease which includes the cost of utilities in the rent and does not provide a pass-through of energy or water savings to the government; or

(3) Scheduled to be demolished or retired from service within one year or less.

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§ 436.14 Methodological assumptions.

(a) Each Federal Agency shall discount to present values the future cash flows established in either current or

Department of Energy

§ 436.14

constant dollars consistent with the nominal or real discount rate, and related tables, published in the annual supplement to the Life Cycle Costing Manual for the Federal Energy Management Program (NIST 85-3273) and determined annually by DOE as follows—

(1) The nominal discount rate shall be a 12 month average of the composite yields of all outstanding U.S. Treasury bonds neither due nor callable in less than ten years, as most recently reported by the Federal Reserve Board; and

(2) Subject to a ceiling of 10 percent and a floor of three percent the real discount rate shall be a 12 month average of the composite yields of all outstanding U.S. Treasury bonds neither due nor callable in less than ten years, as most recently reported by the Federal Reserve Board, adjusted to exclude estimated increases in the general level of prices consistent with projections of inflation in the most recent Economic Report of the President's Council of Economic Advisors.

(b) Each Federal agency shall assume that energy prices will change at rates projected by DOE's Energy Information Administration and published by NIST annually no later than the beginning of the fiscal year in the Annual Supplement to the Life Cycle Costing Manual for the Federal Energy Management Program, in tables consistent with the discount rate determined by DOE under paragraph (a) of this section, except that—

(1) If the Federal agency is using component prices under § 436.14(c), that agency may use corresponding component escalation rates provided by the energy or water supplier.

(2) For Federal buildings in foreign countries, the Federal agency may use a "reasonable" escalation rate.

(c) Each Federal agency shall assume that the price of energy or water in the base year is the actual price charged for energy or water delivered to the Federal building and may use actual component prices as provided by the energy or water supplier.

(d) Each Federal agency shall assume that the appropriate study period is as follows:

(1) For evaluating and ranking alternative retrofits for an existing Federal building, the study period is the expected life of the retrofit, or 25 years from the beginning of beneficial use, whichever is shorter.

(2) For determining the life cycle costs or net savings of mutually exclusive alternatives for a given building energy system or building water system (e.g., alternative designs for a particular system or size of a new or retrofit building energy system or building water system), a uniform study period for all alternatives shall be assumed which is equal to—

(i) The estimated life of the mutually exclusive alternative having the longest life, not to exceed 25 years from the beginning of beneficial use with appropriate replacement and salvage values for each of the other alternatives; or

(ii) The lowest common multiple of the expected lives of the alternative, not to exceed 25 from the beginning of beneficial use with appropriate replacement and salvage values for each alternative.

(3) For evaluating alternative designs for a new Federal building, the study period extends from the base year through the expected life of the building or 25 years from the beginning of beneficial use, whichever is shorter.

(e) Each Federal agency shall assume that the expected life of any building energy system or building water system is the period of service without major renewal or overhaul, as estimated by a qualified engineer or architect, as appropriate, or any other reliable source except that the period of service of a building energy or water system shall not be deemed to exceed the expected life of the owned building, or the effective remaining term of the leased building (taking into account renewal options likely to be exercised).

(f) Each Federal agency may assume that investment costs are a lump sum occurring at the beginning of the base year, or may discount future investment costs to present value using the appropriate present worth factors under paragraph (a) of this section.

(g) Each Federal agency may assume that energy or water costs and non-fuel

§ 436.15

or non-water operation and maintenance costs begin to accrue at the beginning of the base year or when actually projected to occur.

(h) Each Federal agency may assume that costs occur in a lump sum at any time within the year in which they are incurred.

(i) This section shall not apply to calculations of estimated simple payback time under § 436.22 of this part.

[55 FR 48220, Nov. 20, 1990, as amended at 61 FR 32650, June 25, 1996]

§ 436.15 Formatting cost data.

In establishing cost data under §§ 436.16 and 436.17 and measuring cost effectiveness by the modes of analysis described by § 436.19 through § 436.22, a format for accomplishing the analysis which includes all required input data and assumptions shall be used. Subject to § 436.18(b), Federal agencies are encouraged to use worksheets or computer software referenced in the Life Cycle Cost Manual for the Federal Energy Management Program.

§ 436.16 Establishing non-fuel and non-water cost categories.

(a) The relevant non-fuel cost categories are—

- (1) Investment costs;
- (2) Non-fuel operation and maintenance cost;
- (3) Replacement cost; and
- (4) Salvage value.

(b) The relevant non-water cost categories are—

- (1) Investment costs;
- (2) Non-water operation and maintenance cost;
- (3) Replacement cost; and
- (4) Salvage value.

(c) The present value of recurring costs is the product of the base year value of recurring costs as multiplied by the appropriate uniform present worth factor under § 436.14, or as calculated by computer software indicated in § 436.18(b) and used with the official discount rate and escalation rate assumptions under § 436.14. When recurring costs begin to accrue at a later time, subtract the present value of recurring costs over the delay, calculated using the appropriate uniform present worth factor for the period of the delay, from the present value of recur-

10 CFR Ch. II (1-1-07 Edition)

ring costs over the study period or, if using computer software, indicate a delayed beneficial occupancy date.

(d) The present value of non-recurring cost under § 436.16(a) is the product of the non-recurring costs as multiplied by appropriate single present worth factors under § 436.14 for the respective years in which the costs are expected to be incurred, or as calculated by computer software provided or approved by DOE and used with the official discount rate and escalation rate assumptions under § 436.14.

[55 FR 48220, Nov. 20, 1990, as amended at 61 FR 32650, June 25, 1996]

§ 436.17 Establishing energy or water cost data.

(a) Each Federal agency shall establish energy costs in the base year by multiplying the total units of energy used in the base year by the price per unit of energy in the base year as determined in accordance with § 436.14(c).

(b) When energy costs begin to accrue in the base year, the present value of energy costs over the study period is the product of energy costs in the base year as established under § 436.17(a), multiplied by the appropriate modified uniform present worth factor adjusted for energy price escalation for the applicable region, sector, fuel type, and study period consistent with § 436.14, or as calculated by computer software provided or approved by DOE and used with the official discount rate and escalation rate assumptions under § 436.14. When energy costs begin to accrue at a later time, subtract the present value of energy costs over the delay, calculated using the adjusted, modified uniform present worth factor for the period of delay, from the present value of energy costs over the study period or, if using computer software, indicate a delayed beneficial occupancy date.

(c) Each Federal agency shall establish water costs in the base year by multiplying the total units of water used in the base year by the price per unit of water in the base year as determined in accordance with § 436.14(c).

(d) When water costs begin to accrue in the base year, the present value of water costs over the study period is the product of water costs in the base year