Utility Relocation Costs

Special thanks to Ohio DOT
Order of Events

• DOT requests Utility to relocate due to Highway project
• Utility engages PEF to provide preliminary Design and Construction Estimate
• Using this Construction estimate, DOT enters into Utility Relocation Agreement with Utility Owner
• Construction is bid (or by own forces), Construction Inspection is negotiated
• Work begins
DOT requests Utility to relocate due to Highway project

What happens next?

- Utility Owner needs an engineer
  - Use in-house staff engineer or hire PEF
  - Can DOT deny the use of an engineering firm selected by the Utility?
23 CFR 645.109(a) allows the DOT to approve any engineering firm.

Prior to the Utility entering into an agreement with the PEF to provide early design and construction bids, the DOT should review their cost proposal:

- Should not be a percentage of construction, although this seems to be the norm
- Should be broken down to show man-hours, labor, overhead, fee and direct costs
- Separate agreement for PE and Construction
645.109 Preliminary engineering. (a) As mutually agreed to by the TD and utility, and subject to the provisions of paragraph (b) of this section, preliminary engineering activities associated with utility relocation work may be done by:

1. The TD's or utility's engineering forces;
2. An engineering consultant selected by the TD, after consultation with the utility, the contract to be administered by the TD; or,
3. An engineering consultant selected by the utility, with the approval of the TD, the contract to be administered by the utility.

(b) When a utility is not adequately staffed to pursue the necessary preliminary engineering and related work for the utility relocation, Federal funds may participate in the amount paid to engineers, architects, and others for required engineering and allied services provided such amounts are not based on a percentage of the cost of relocation.
When Federal participation is requested by the STD in the cost of such services, the utility and its consultant shall agree in writing as to the services to be provided and the fees and arrangements for the services. Federal funds may participate in the cost of such services performed under existing written continuing contracts when it is demonstrated that such work is performed regularly for the utility in its own work and that the costs are reasonable.

(c) The procedures in 23 CFR part 172, Administration of Engineering and Design Related Service Contracts, may be used as a guide for reviewing proposed consultant contracts.
In recent years most Audit offices at DOTs have provided minimal oversight and support to the Utilities Section.

NCDOT Audits has begun focusing additional resources to assist NCDOT Utilities in an effort to evaluate costs claimed by utilities on relocations, including their salaries and overhead.

NCDOT Auditors recently began conducting extensive reviews of project costs claimed by utilities on relocations.
As part of this review, NCDOT met with numerous large utilities to discuss:

- Accounting systems,
- Cost structures,
- Indirect (overhead) costs, and
- Specific Project Costs.
As a result of this due diligence, NCDOT Auditors identified several major concerns, such as:

- Substantial inconsistencies in billing practices from one utility to another,
- Non-compliance with reimbursement regulations and policies established at the Federal and Agency level, and
- A general lack of awareness of reimbursement guidelines.
The Development Process

- Extensive review of numerous relocation projects to gain a feel for the reimbursement environment.
- Discussion with various major utilities to gain an understanding of accounting systems, overhead, etc.
- Review of utility audit programs from other State DOTs.
- Correspondence with experienced utility auditors at other State DOTs.
- Discussion with NCDOT Utilities Personnel including District Utility Coordinators.
- Extensive review of all applicable laws, regulations, policies, and guidelines, already in effect in other NCDOT programs.
Major Applicable Regulations

- 23 CFR 645A: *Utilities*
- 48 CFR 31 (“FAR Part 31” – incorporated by reference in 23 CFR 645.117(d))
- Federal Utility Relocation Program Guide
NCDOT Opinion

- Reimbursement of relocations are at actual cost. Use of estimates are not permitted unless agreed to in Lump Sum contracts under $100,000.
- Overhead/indirect costs must comply with the cost principles in FAR Part 31 (23 CFR 645.117(d)).
Overhead Calculation/Application

– Utilities use many different cost drivers to allocate indirect costs to overhead.

– ODOT is advocating that utilities use direct labor cost as the cost driver, which is supported by Cost Accounting Standards and DCAA CAM 8-418.2(h)(1).

– Although use of direct labor cost is not required, use of other cost drivers must be pre-approved by NCDOT.

– Generally, a total cost input base is not appropriate for Federal-Aid, because utilities subcontract work.
• Airfare costs are limited to coach class.
• Mileage is limited to the maximum allowable by the U.S. General Services Administration.
  – GSA rates and IRS rates may not be the same.
• Written company policies with explicit meal and lodging limitations is recommended.
• Costs must be reasonable and meet the intent of the regulation.
• Costs should be documented by receipts and signed and approved expense reports
• Labor should be supported by timesheets or detailed job cost reports
• We have found many Utilities and some engineering firms that do not complete timesheets
Subcontracted Costs

• Federal requirements for procuring engineering and construction contractors
  – Selection and approval of engineers
    • State approval
  – Construction
    • Low bid
    • Continuing contract
    • Minor dollar amounts
Subcontracted Costs

• Contract Terms, Rates, and Markups
  – Loaded labor rates
  – Overhead
  – Markups on non-labor/”pass-through” costs

• NCDOT Requirements for low bid and continuing contracts
Subcontract Costs

• Continuing contracts may be requested and kept on file at Audit Offices
  – Needed to verify rates, establish reasonableness, and ensure that contract terms ineligible for reimbursement are not claimed on relocations.
• Low bids must be lump sum
• Bid documents may be requested
  – Needed to verify that the lowest bidder was selected, no ineligible costs were included in the bid package, and the amount charged matches the amount of the bid.
Invoicing Procedures

- Rented/leased equipment costs should be charged to the project in a rational, systematic manner that allocates costs to multiple projects equitably.
- Company-owned equipment charges must be supported by reliable actual cost data.
  - Rental Rate Blue Book rates may be used in lieu of actual cost to the utility.
Invoicing Procedures

- Materials pulled from company stock must be at actual costs to the utility
  - Inter-company profits are prohibited
- Materials purchased under low bid or continuing contract are acceptable, provided that the costs are reasonable and at actual cost to the utility
- Material handling charges must be based on actual costs incurred during the accounting period or not to exceed 5%.
- Accrued depreciation is required on replaced facilities, such as buildings, pumping stations, filtration plants, power plants, substations, etc.
- Amounts claimed for gas loss must be adequately supported and at the cost to the utility to acquire the gas. Market rates are prohibited
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