



# Department of Defense Utilities Privatization Program

## Industry Issues

August 10, 2004

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Office of the Deputy Under Secretary of Defense  
(Installations and Environment)



## Industry Issues

- **Communication**
- **Timeliness of proposal evaluation**
- **Aggressive RFP schedule may overload industry sectors, insufficient time to respond**
- **Cost Accounting Standards**
- **Tariff rate – is it regulated?**
- **Fair Market Value**



## Privatization Basics

- **Economic deals will be successful**
- **Baseline Assessment**
  - System inventory and condition
  - Clarify the “Industry Standard” and upgrades
- **Risk Management**
  - Performance risk
  - Future income stream
- **Ensure quality service and fair price**
- **Three key documents for privatization**
  - Service Contract, Right of Way and Transfer of Title
- **Effective communications required for partnership**



3



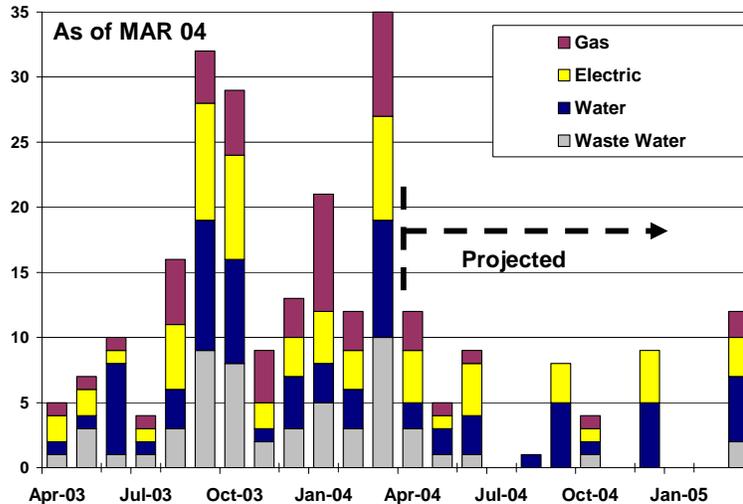
## Communication and Timeliness

- **Contracting agencies are under tight schedule**
- **Priority is to allow sufficient flexibility to achieve success through privatizing systems**
- **Contracting Officers provide overall schedule of evaluation**
  - Proposers should understand the process
- **Contracting Officers should be keeping proposers advised of the next step and when it will occur**
  - If the schedule slips over 30 days the proposers will be informed

4



## Number of Systems with RFP Closures



Between Apr 03 & Mar 04, RFPs closed on over 190 systems.

Between Apr 04 & Mar 05 RFPs will close on about 60 systems.

5



## Cost Accounting Standards (CAS)

- **Compliance required unless**
  - Rate is set by law or regulation (regulated tariff), or
  - Contract less than \$7.5 million, or
  - Firm Fixed Price award with adequate price competition & without submission of cost or pricing data.
  - Small businesses have exemption
- **OSD requested a CAS waiver from CAS Board**
  - Only for utilities that don't already comply with CAS
  - Would allow utilities to use current accounting practices
  - Initial letter sent Dec 03, follow-up provided Apr 04
- **DoD may issue waiver on individual contract actions**

6



## Prices set by Law or Regulation

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- **What constitutes a price set by law or regulation?**
  - Independent regulatory body
  - Has the regulatory body approved the tariff for the specific class of service?
- **Some Public Utility Commissions (PUCs) have “unbundled” tariff rate for distribution**
- **PUC special tariffs must be evaluated individually**

7



## Fair Market Value

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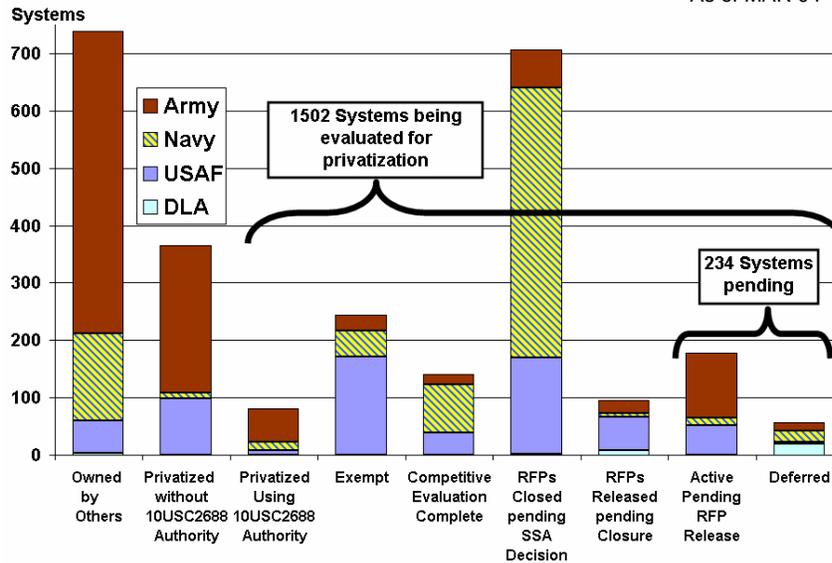
- **10 USC 2688 requires receipt of FMV**
  - FMV as defined by the Secretary of the Military Service
  - Service approach for determining FMV may be different from IRS's
- **Cost Approach used for utility conveyance**
  - **Replacement New less Depreciation (IRS approach)**
  - **Original Cost vs. Replacement Cost less Depreciation**
  - Market or Income Approach not normally applicable to utilities privatization
- **Obsolescence and other reasonable factors allowed**
- **The FMV of conveyance critical to analysis**
  - Establishes “As Is” condition value (See next slide)
  - Combined with upgrades and recapitalization establishes RCN(modified)

8



## Detailed Utilities Privatization Status

As of MAR 04



# Questions?

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[www.acq.osd.mil/ie/irm/utilities/privatization.htm](http://www.acq.osd.mil/ie/irm/utilities/privatization.htm)



## DoD Industry Forum

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### **DESC Worldwide Energy Conference**

**September 29, 2004**

**12:00 to 5:00 pm**

The Hyatt Regency Crystal City

**<http://www.desc.dla.mil/>**

**Send your issues to**

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