



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**



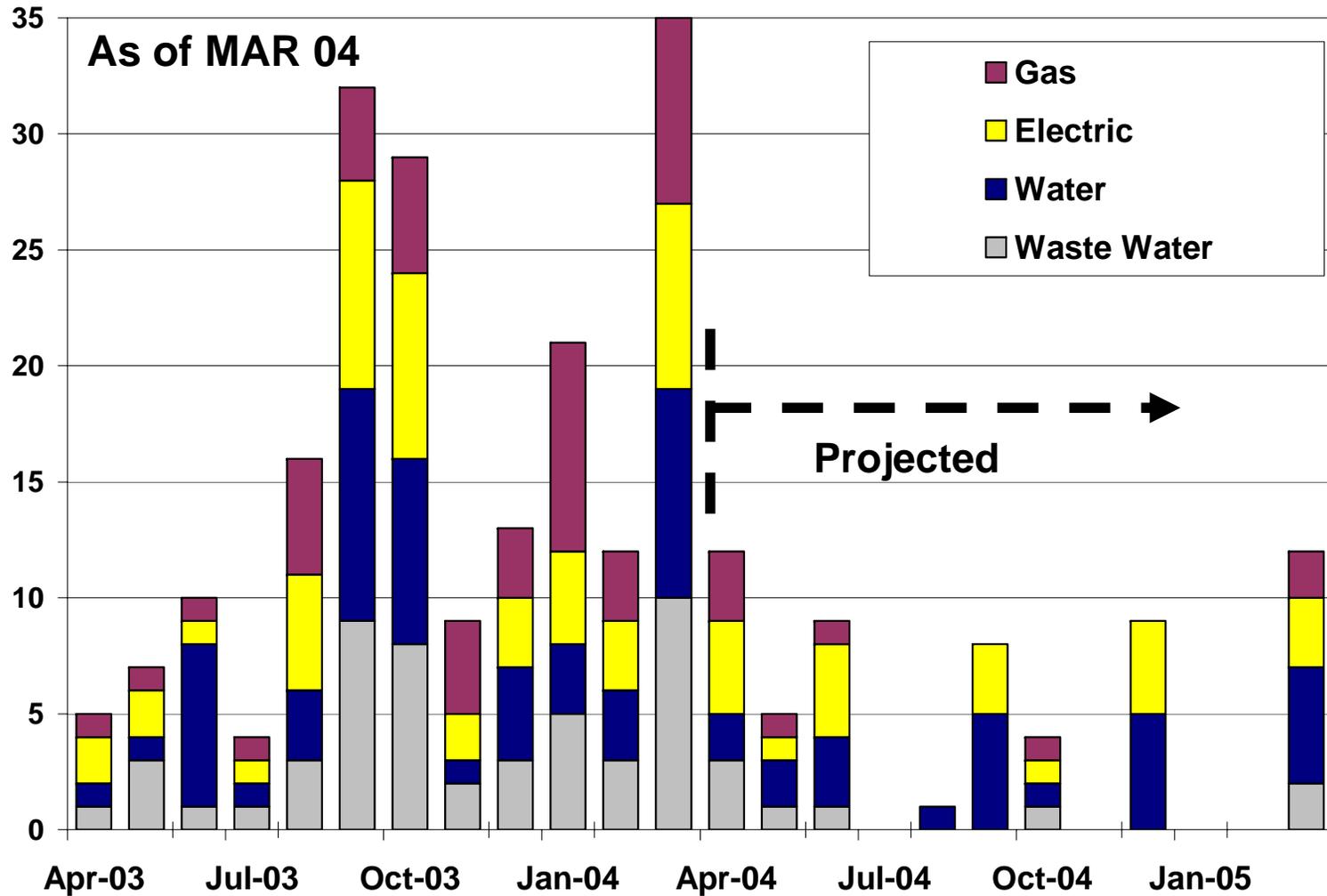


Communication and Timeliness

- **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



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.



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 send Dec 03, follow-up provided Apr 04
- **DoD may issue waiver on individual contract actions**



Prices set by Law or Regulation

- **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**



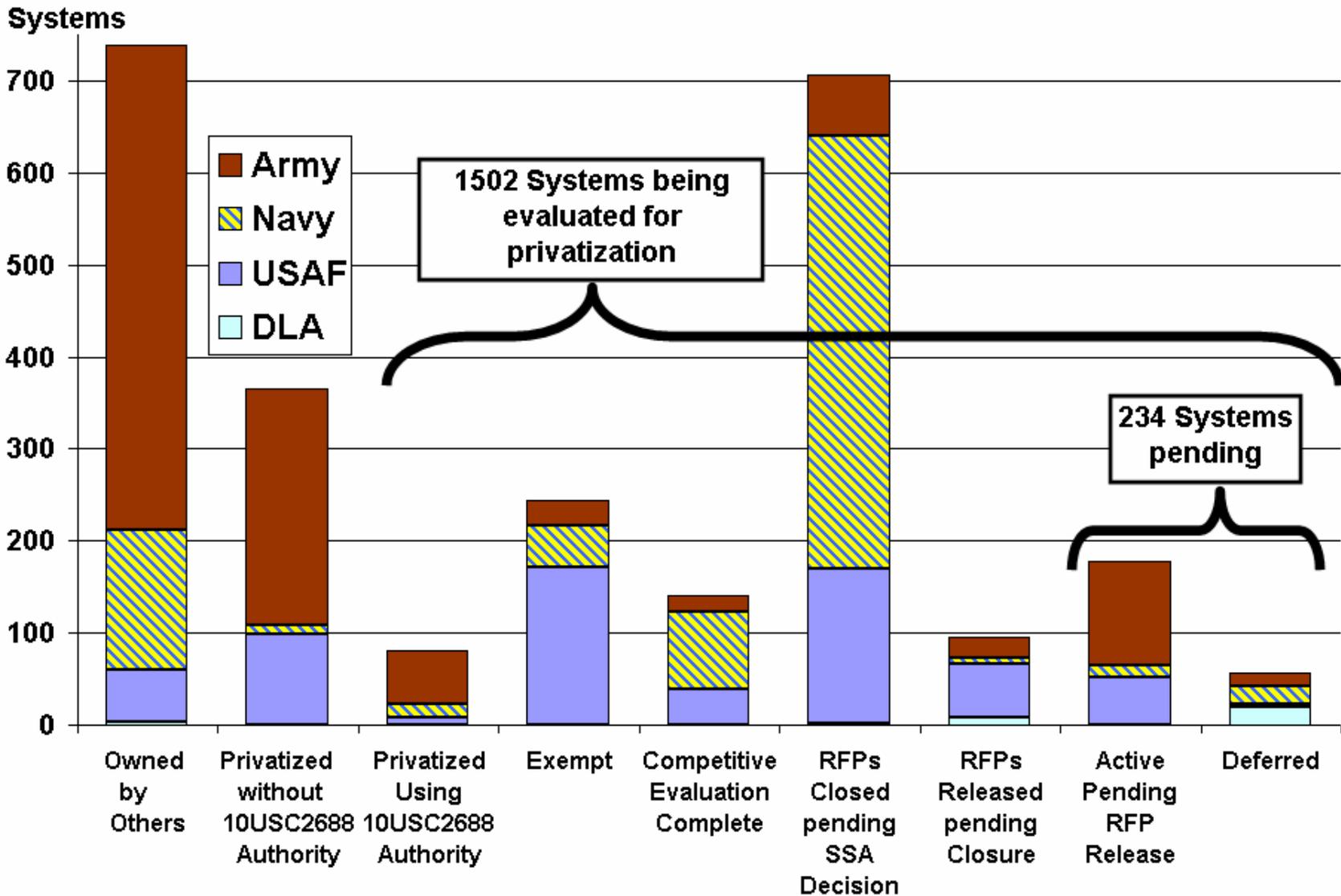
Fair Market Value

- **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)



Detailed Utilities Privatization Status

As of MAR 04





Questions?

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www.acq.osd.mil/ie/irm/utilities/privatization.htm



DoD Industry Forum

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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