



# Department of Defense Utilities Privatization Program



Acquisition Track, Session 7  
July 10, 2004

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



## Utilities and Energy Strategy

**Infrastructure  
Modernization**



**Utilities  
Privatization**

**Real energy savings  
Real cost avoidance**



**Investments**

**Flexibility**



**Alternative  
energy sources**



## Imperatives for Privatizing Utilities

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- **Utility ownership is not a core DoD function**
- **Missions must be properly supported**
- **Historically, DoD utilities are under funded**
- **DoD needs industry's best practices, innovations, financing and economies of scale**

**Privatization is the preferred tool!**

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## Defense Secretary Guidance

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- **Privatize all utility systems, unless**
  - Security concerns preclude privatization
  - Cannot achieve economic benefit
- **Promote competition**
- **Apply consistent economic analysis**
  - Support sound decisions
- **Complete decisions by SEP 2005**

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## Improvements Since 2002

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- **Air Force and Army templates improved**
  - Consistent within Military Service
  - Permits third party financing
  - Encourages other commercial business practices
- **Due diligence requirements adjusted**
- **Technical data packages are more accurate**
- **Centers of Expertise and centralized management**
  - Contracting Officers more experienced and flexible
- **Sharing information between Services**

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## Ongoing Issues

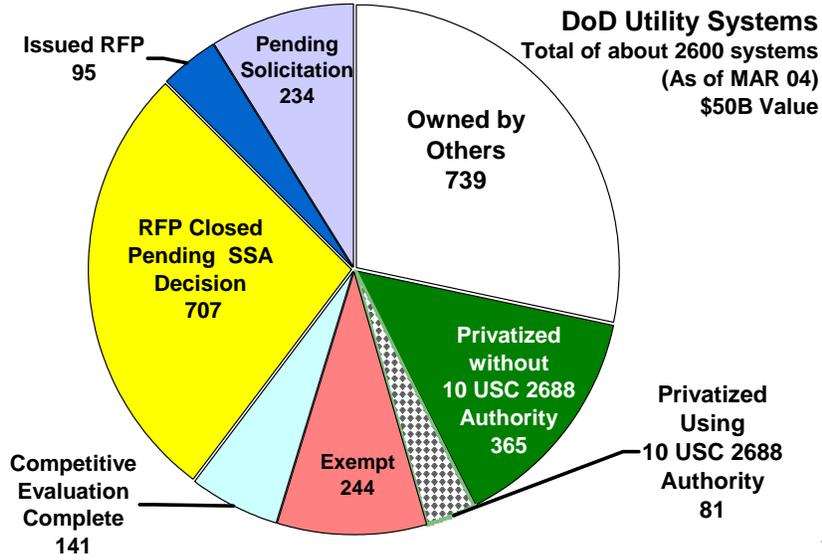
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- **Completing competitive process by Sep 05**
- **Services ensuring sound contract management**
- **Aggressively completing proposal evaluations**
- **Enable industry to use common business practices?**
- **Industry forum to obtain feedback Sept 2004**

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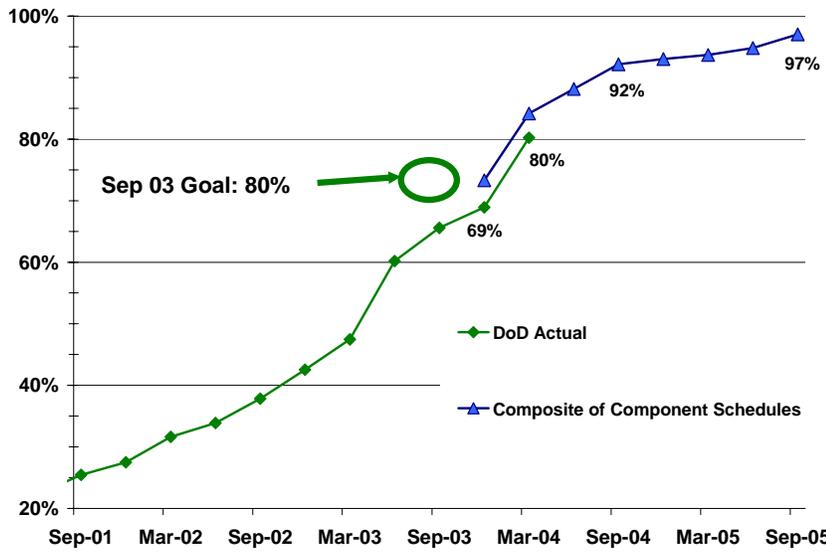
## DoD Utilities Privatization Status



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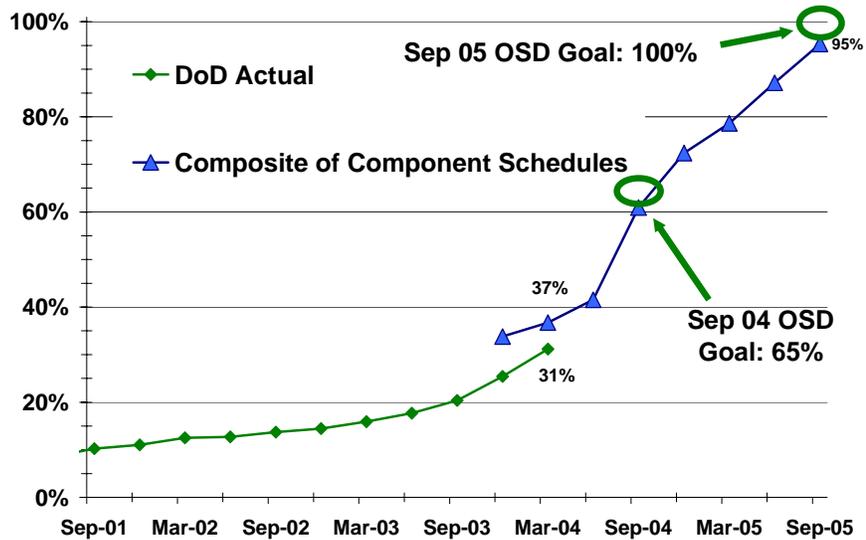
## DoD System RFPs Closed or Exempt



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## Systems Through Competitive Process



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## Key Financing Considerations

- **Long term government contract**
  - Reliable accounts receivable stream
- **Very favorable rates available**
- **100 percent financing possible**
- **Available to meet capital investment needs**
- **Government poised to take advantage of private sector**



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## Privatization Basics

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- **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



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## Industry Opportunities

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- **Business growth opportunity**
  - Rate base expansion
  - Increased economies of scale
- **Gain long term customer/partner**
  - Reasonable profit generated
  - Bills paid in a timely manner
  - Finance terms should be favorable

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## Contracting Offices

- **Army**
  - Defense Energy Support Center (DESC)
  - Corps of Engineers, Huntsville & other regions
  - Local contracting officers
- **Navy and Marine Corps**
  - Naval Facilities Engineering Command (NAVFAC)
    - o East Coast, West Coast & other regions
  - DESC
- **Air Force Civil Engineer Support Activity**
  - DESC
  - Local contracting officers
- **Defense Logistics Agency (DLA)**
  - DESC
  - Local contracting officers

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## Benefits from Privatization

- **Efficiently and effectively meet mission requirements**
- **Reduce long-term utility service costs**
- **Reduce life/safety and environmental risks**

	<b>% Cost Avoidance</b>	<b>Key Benefits</b>
Dobbins ARB	32.2%	<ul style="list-style-type: none"><li>• Accurate system mapping</li><li>• Consistent C1/C2 readiness</li></ul>
Randolph AFB	11.2%	<ul style="list-style-type: none"><li>• Environmental compliance</li><li>• Predictable funding requirements</li></ul>
Bolling AFB	N/A	<ul style="list-style-type: none"><li>• Industry standard gas distr. system</li><li>• Reduced life/safety/mission risk</li></ul>
Fort Irwin	13.3%	<ul style="list-style-type: none"><li>• Remote system control</li><li>• Replacement of over ground cable</li></ul>
Fort Campbell	2.2%	<ul style="list-style-type: none"><li>• New SCADA system</li><li>• Improved fire protection</li></ul>



# Points of Contact

Installations & Environment

- **Office of Deputy Under Secretary of Defense (Installations and Environment)**
  - <http://www.acq.osd.mil/ie/irm/utilities/privatization.htm>
  - Captain Rick Marrs, CEC, USN (703) 697-6195
- **Army Assistant Chief of Staff (Installation Management)**
  - <http://www.pts.army.mil/>
  - Bob Sperberg (703) 601-0367
- **Department of the Navy**
  - <http://energy.navy.mil/privatization/> General UP info and current RFP's
  - <http://www.esol.navfac.navy.mil/> Solicitations
  - Commander Navy Installations- LCDR Chuck Witta (703) 601-1632
  - Marine Corps- David Heinrichs (703) 695-9781
  - Naval Facilities Engineering Command William F. Tayler (202) 685-9254
- **Air Force Office of the Civil Engineer (Readiness & Installation Support)**
  - <http://www.afcesa.af.mil/Directorate/CEO/Contracts/UtilPrivatization/default.htm>
  - LTC Jeff Knippel (703) 604-4220
- **Defense Energy Support Center (DESC) Utility Privatization Branch**
  - <http://www.desc.dla.mil/DCM/DCMPPage.asp?PageID=246/>
  - Kevin McCulla (703) 767-8150
- **Federal Business Opportunities**
  - <http://www.fedbizopps.gov/>

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<http://www.acq.osd.mil/ie/irm/utilities/privatization.htm>



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## Utilities Privatization

DUSD (I&E) <a href="#">Search</a>   <a href="#">Feedback</a>   <a href="#">Contact Us</a>   <a href="#">Security Statement</a>											
<a href="#">Home</a> <a href="#">DUSD(I&amp;E) Biography</a> <a href="#">Site Map</a> <a href="#">Organizational Chart</a> <a href="#">I&amp;E Documents</a> <b>Organization</b> <a href="#">Installations Requirements and Management</a> <a href="#">Utilities &amp; Energy</a> <a href="#">Environment</a> <a href="#">Housing</a> <a href="#">Competitive Sourcing &amp; Privatization</a> <a href="#">Safety &amp; Occupational Health</a> <a href="#">Program Integration</a> <b>Field Agencies</b> <a href="#">Efficient Facilities Initiative</a> <a href="#">Office of Economic Adjustment</a> <a href="#">Explosive Safety Board</a> <a href="#">Pest Management Board</a> <b>Links</b> <input type="checkbox"/> Image for link to ACQWEB	<p><i>Utilities privatization is a method by which military installations can obtain safe, technologically current, and environmentally sound utility systems, at a relatively lower cost than they would under continued government ownership. In the privatization process, military installations shift from the role of owner-operators to that of smart utility service customers.</i></p> <table border="1"> <tr> <td><b>About</b></td> <td><b>Economic Analysis Tool</b></td> </tr> <tr> <td> <b>General information concerning the utilities privatization program</b>             Program Brief             Terminology             Current Schedule         </td> <td> <b>Tools and reference materials to assist installation with utilities privatization</b>   <b>NEW -- UPEAST 6.1 -- NEW</b>  <b>(September 2003, includes updated OMB discount/inflation rates)</b>      <a href="#">Summary of Recent UPEAST Changes</a> </td> </tr> <tr> <td><b>Military Services</b></td> <td><b>Current Utility Status</b></td> </tr> <tr> <td> <b>General information and links to information from the military services relating to utilities privatization</b>   <a href="#">Military Privatization Contacts</a>   <a href="#">RFP Templates</a> </td> <td> <b>Utilities Privatization Progress</b>   <a href="#">Status as of 4th Quarter, FY 2003</a> </td> </tr> <tr> <td><b>Bidders Interest</b></td> <td><b>Law and Policy</b></td> </tr> </table>	<b>About</b>	<b>Economic Analysis Tool</b>	<b>General information concerning the utilities privatization program</b>  Program Brief  Terminology  Current Schedule	<b>Tools and reference materials to assist installation with utilities privatization</b>  <b>NEW -- UPEAST 6.1 -- NEW</b> <b>(September 2003, includes updated OMB discount/inflation rates)</b>    <a href="#">Summary of Recent UPEAST Changes</a>	<b>Military Services</b>	<b>Current Utility Status</b>	<b>General information and links to information from the military services relating to utilities privatization</b>  <a href="#">Military Privatization Contacts</a>  <a href="#">RFP Templates</a>	<b>Utilities Privatization Progress</b>  <a href="#">Status as of 4th Quarter, FY 2003</a>	<b>Bidders Interest</b>	<b>Law and Policy</b>
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## Summary

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- **Each Service is committed to program**
- **Seeking wide participation**
- **Aggressively executing schedule, SEP 2005**
- **Effective communication will ensure  
win-win partnerships**

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## *Questions?*

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



## BACKUP SLIDES

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## Ongoing Issues

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- **Completing competitive process on 95 percent of DoD utility systems by Sep 05**
- **Services ensuring sound contract management**
- **Aggressively completing proposal evaluations**
- **Enabling industry to use common business practices**
- **Planning another industry forum to obtain feedback**

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## Ongoing Issues

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- **Cost Accounting Standards**
- **Rates set by Law or Regulation**
- **Contracts requiring cost analysis**
  - Federal Acquisition Regulations Part 31 Allowable Costs
- **Contribution in Aid of Construction**
- **Recovery rate of capital investments**

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## Future Efforts

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- **More consistent contracting approaches**
- **Enable industry to use more commercial practices**
- **Understand risks and manage**
- **Identify and equip contract administration teams**
- **Improve partnership with industry**

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## Background on CIAC



### ■ Contribution in Aid of Construction (CIAC)

- Assets provided to a utility that will be used to generate future income
- Provided without substantive compensation
- or compensation used to reduce utility's taxable income
- Substance of transaction prevails, regardless of form

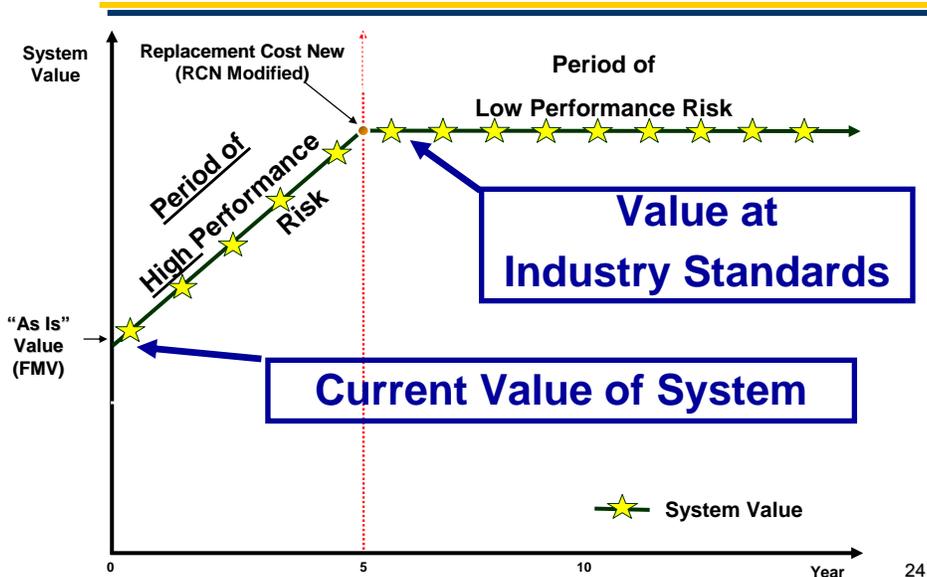
### ■ CIAC is considered income to utility

- Section 118(b): CIAC is to be included in gross income
- Regulated water and waste water firms may be exempt by 26 USC 118
- Other utilities (munis & coops) may be classified as tax-exempt entities

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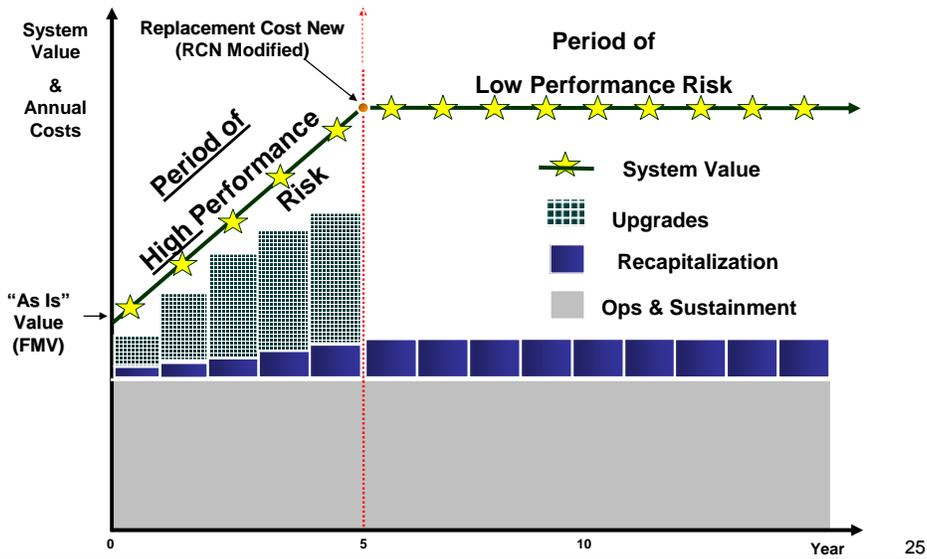


## System Value with Upgrades

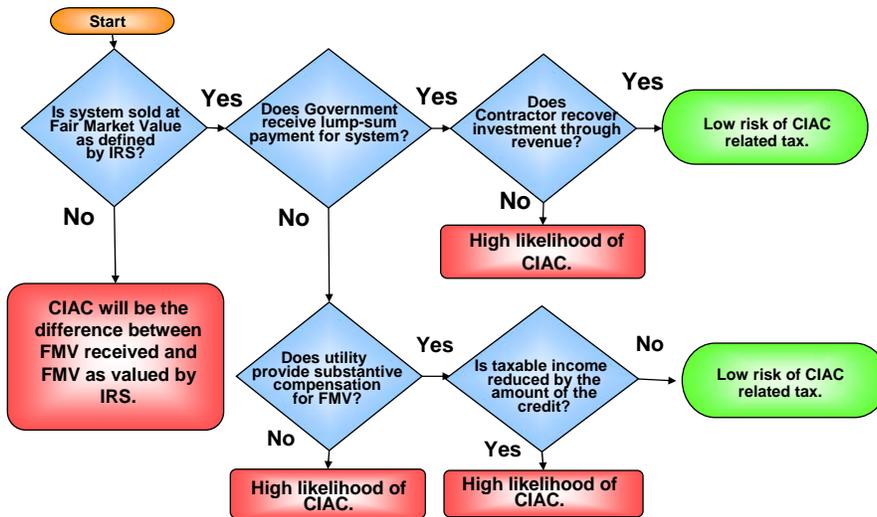




# Performance Risks During Upgrades and After



## CIAC Considerations



Disclaimer: A tax attorney should be consulted for specific contracts.

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