



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

- **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!



Defense Secretary Guidance

- **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**



Improvements Since 2002

- **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**

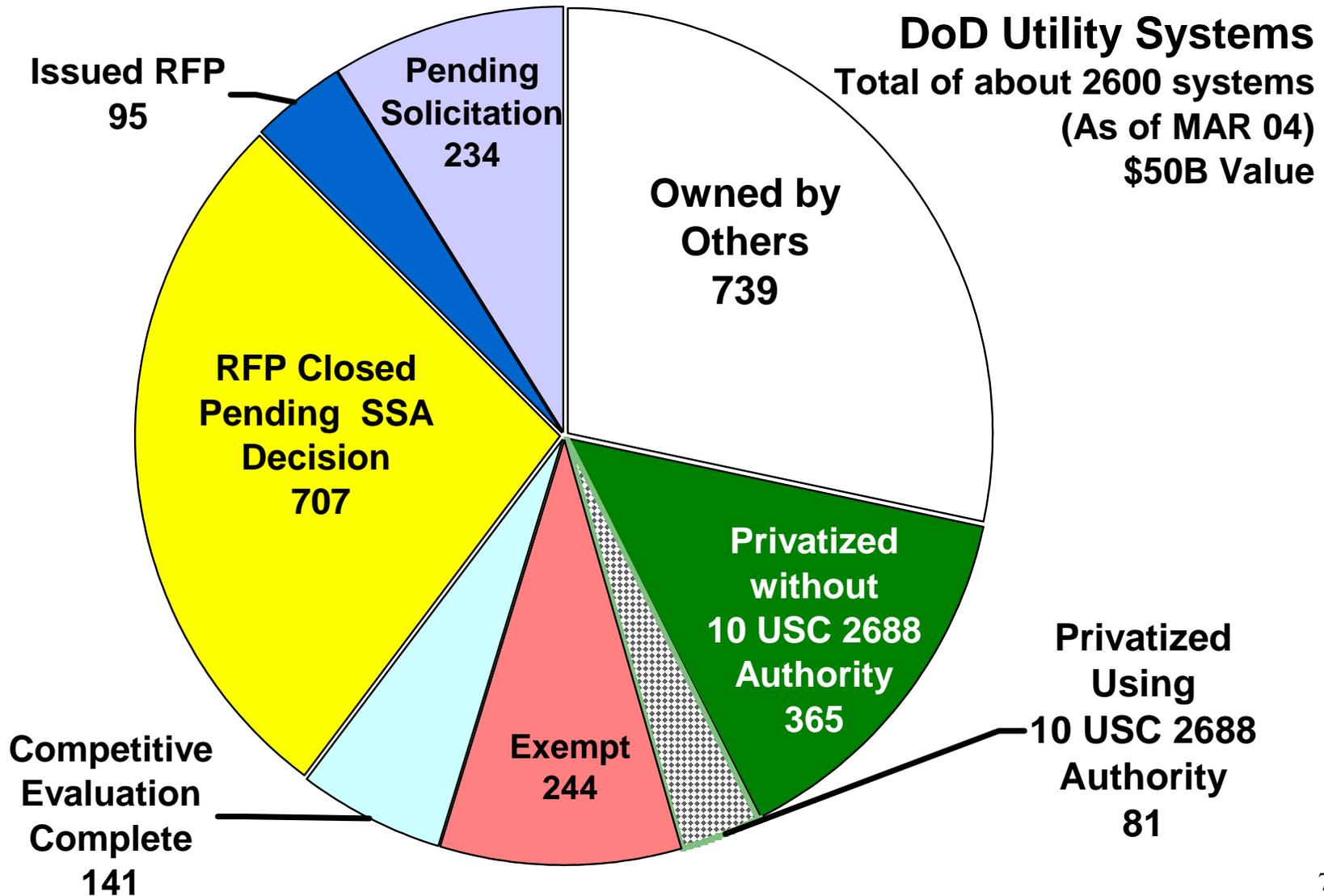


Ongoing Issues

- **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**

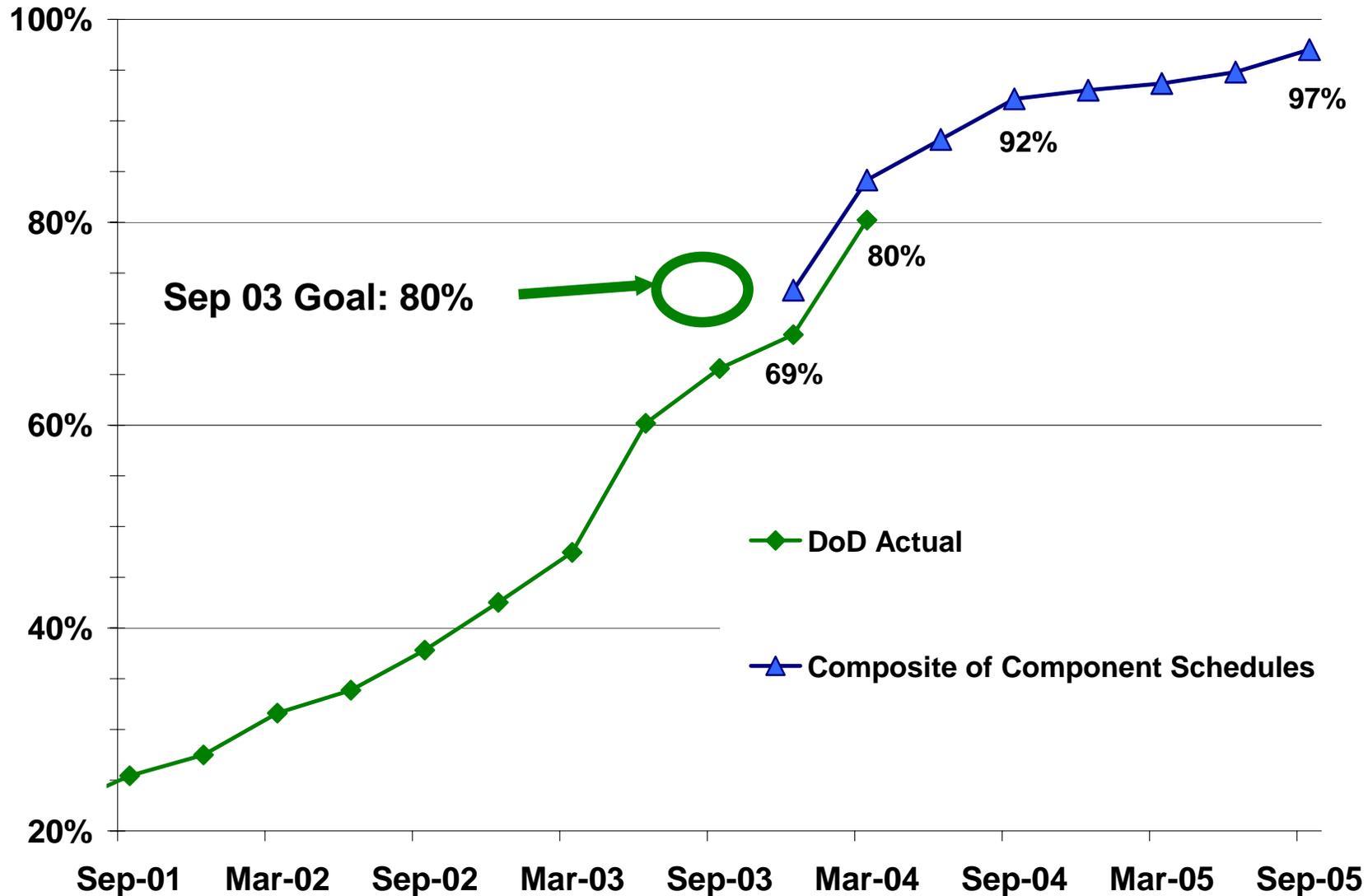


DoD Utilities Privatization Status



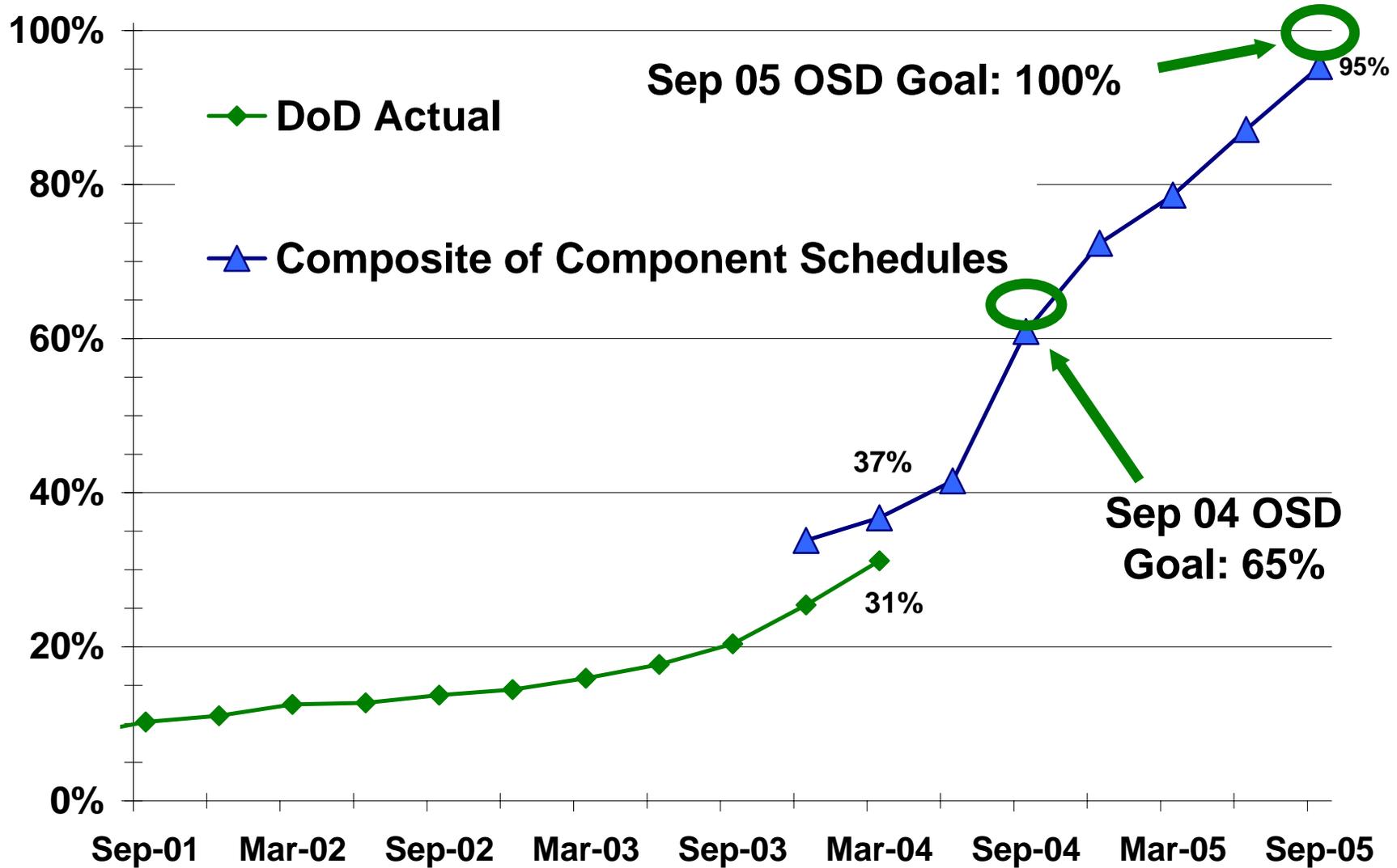


DoD System RFPs Closed or Exempt





Systems Through Competitive Process





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**





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





Industry Opportunities

- **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



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



Benefits from Privatization

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

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



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/DCMPage.asp?PageID=246 /](http://www.desc.dla.mil/DCM/DCMPage.asp?PageID=246/)
 - Kevin McCulla (703) 767-8150
- **Federal Business Opportunities**
 - <http://www.fedbizopps.gov/>



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Utilities Privatization

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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.

About

General information concerning the utilities privatization program

[Program Brief](#)

[Terminology](#)

[Current Schedule](#)

Economic Analysis Tool

Tools and reference materials to assist installations with utilities privatization

NEW -- UPEAST 6.1 -- NEW
(September 2003, includes updated OMB discount/inflation rates)



[Summary of Recent UPEAST Changes](#)

Military Services

General information and links to information from the military services relating to utilities privatization

[Military Privatization Contacts](#)

[RFP Templates](#)

Current Utility Status

Utilities Privatization Progress

[Status as of 4th Quarter, FY 2003](#)

Bidders Interest

Law and Policy



Summary

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



Questions?

Captain Rick MARRS

(703)-697-6195

Richard.MARRS@osd.mil

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



BACKUP SLIDES



Ongoing Issues

- **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**



Ongoing Issues

- **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**



Future Efforts

- **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**



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

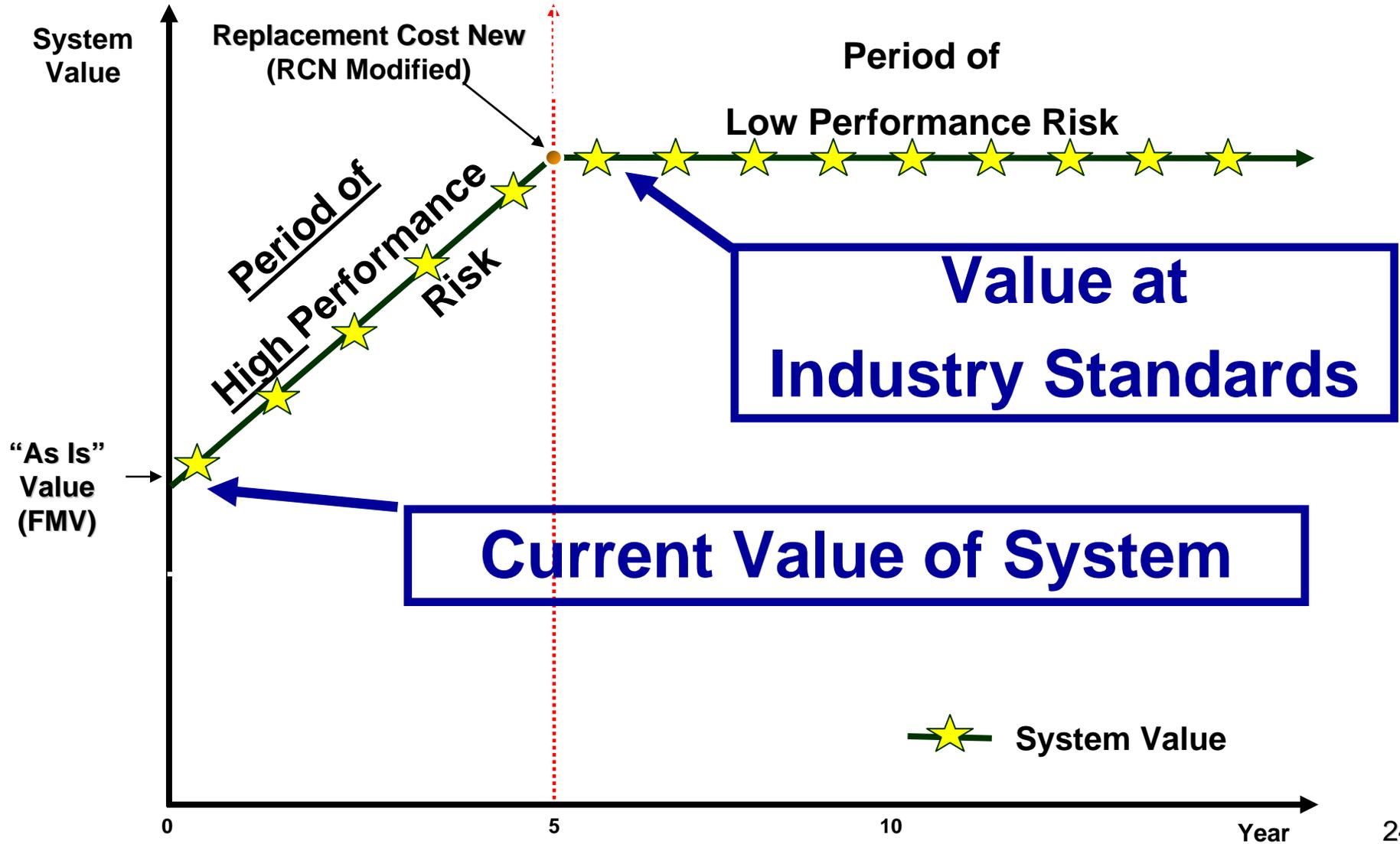
- Assets provided to a utility that will be used to generate future income
- Provided without substantive compensation
- or compensation used to reduce utility's taxable income
- Substance of transaction prevails, regardless of form

■ **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

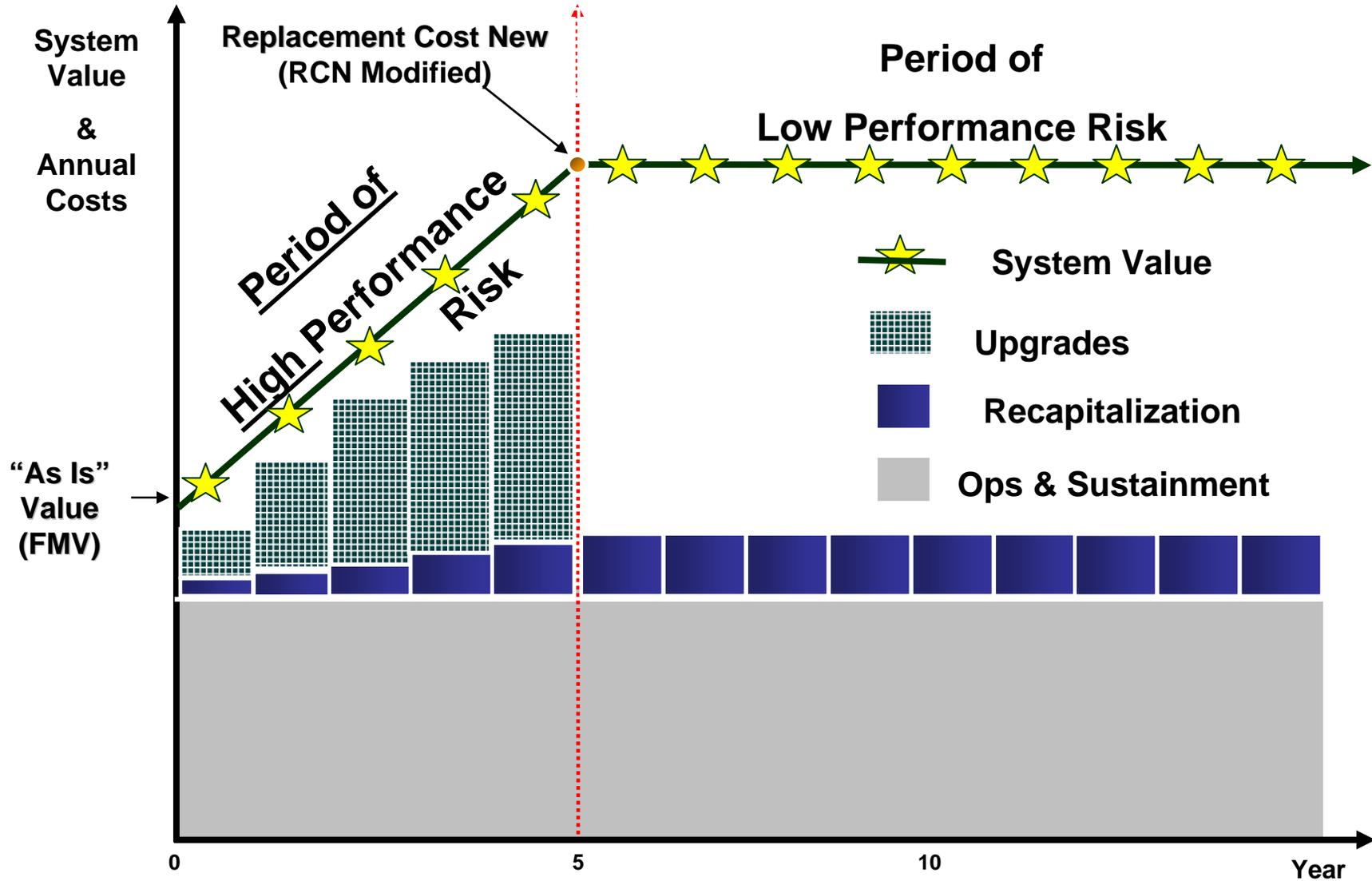


System Value with Upgrades

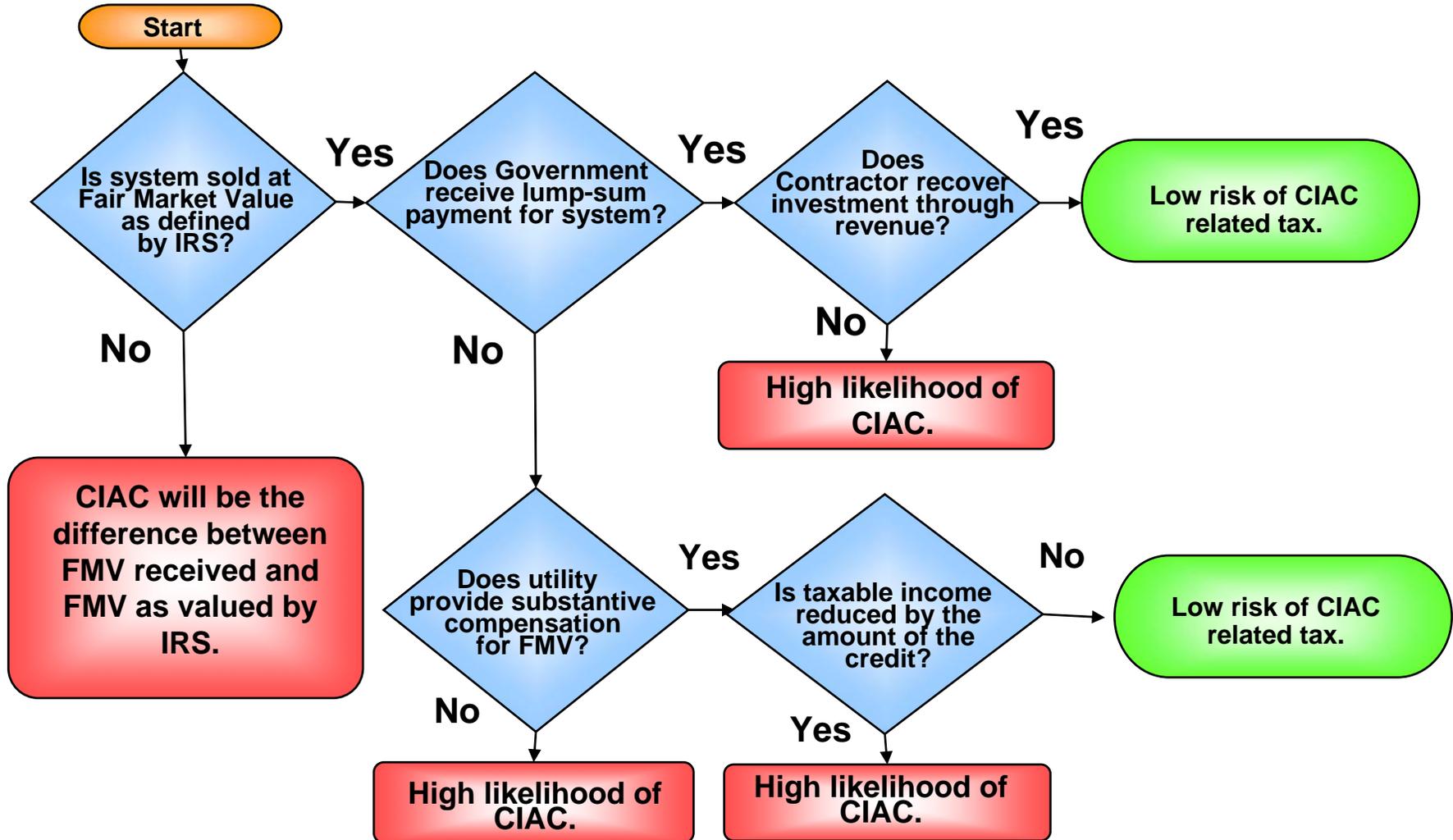




Performance Risks During Upgrades and After



CIAC Considerations



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