



## The Solutions Network

Rochester, New York

# Defense Energy Support Center

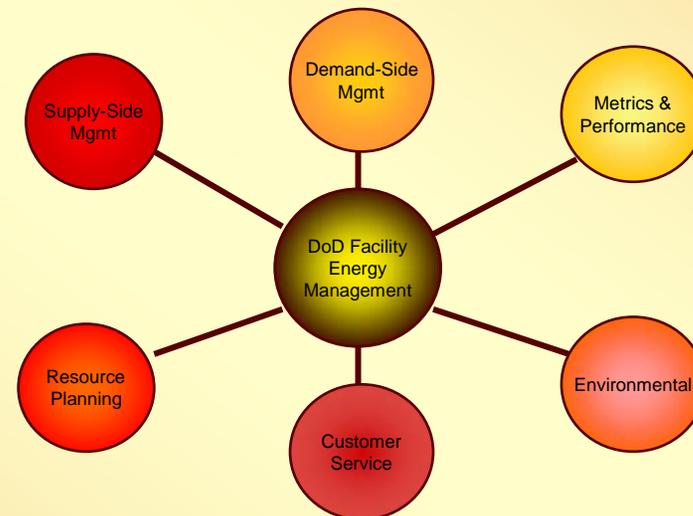
## *Energy Solutions For the Military Services*

Presented by:

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Defense Energy Support Center

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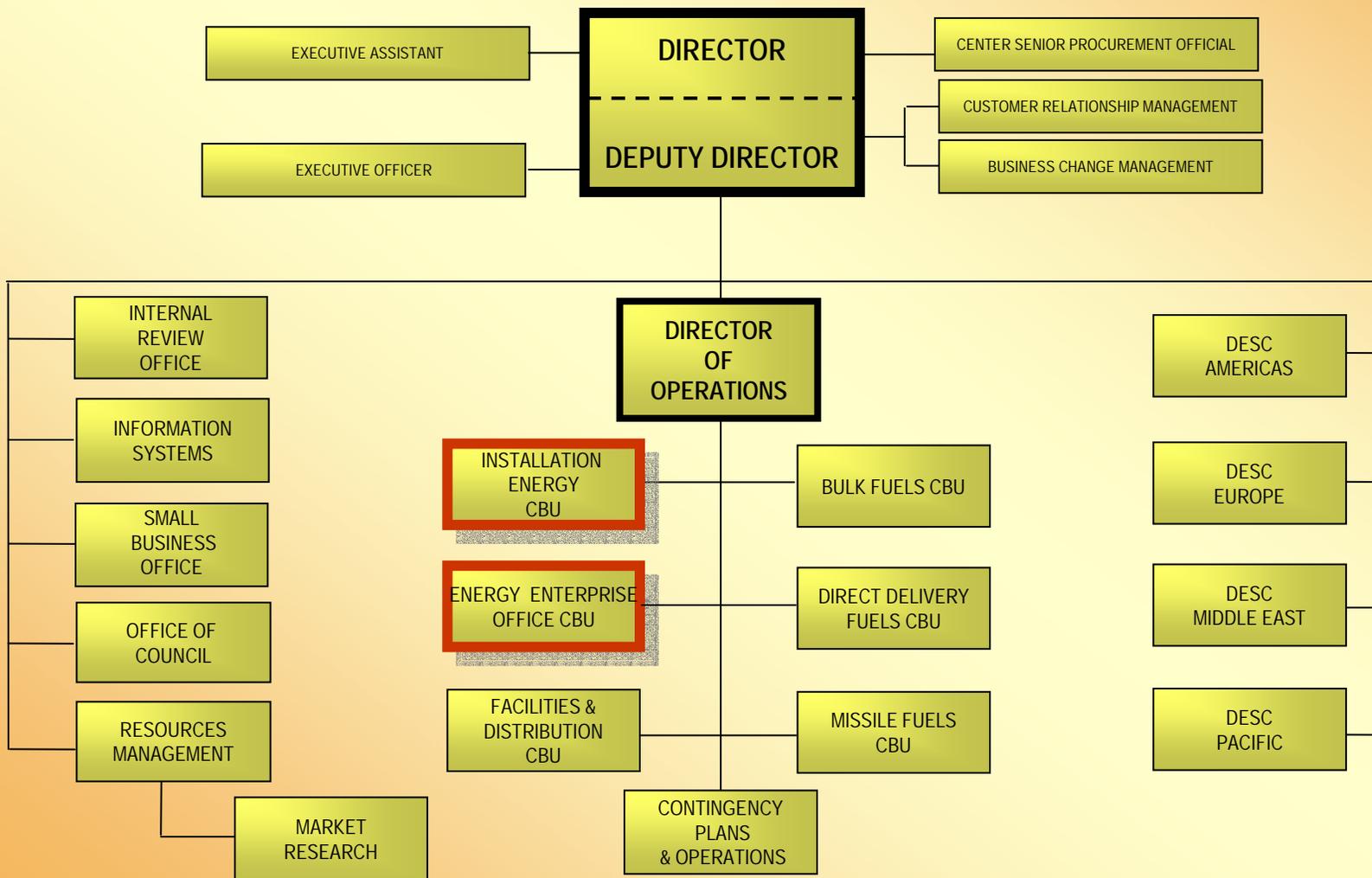
# Agenda

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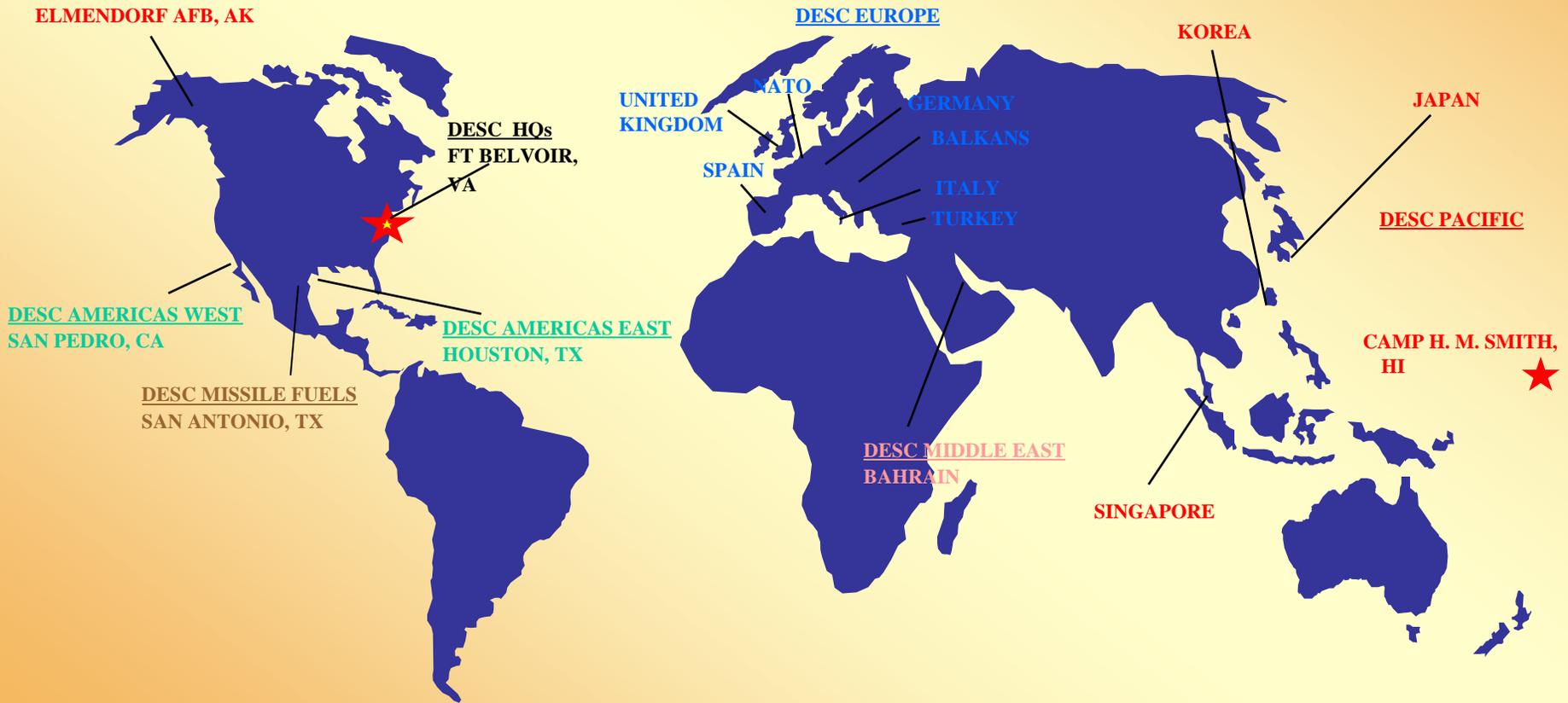


- DESC Organization
- DESC Mission / Vision
- History of DESC Installation Energy Missions
- DESC Installation Energy (DESC-A) Overview
- DESC Energy Enterprise (DESC-E) Overview
- The Way Forward
- DESC Points of Contact

# DESC ORGANIZATION



# DESC WORLDWIDE LOCATIONS



# DESC Mission



To provide the Department of Defense, and other government agencies, with comprehensive energy solutions in the most effective and economical manner possible.

# DESC Vision



Our Customer's First Choice  
for Energy Solutions



# DESC Installation Energy Missions



<b>DESC-E Energy Enterprise</b>	<b>Utility Privatization &amp; ESPC – established in 1998</b> Defense Reform Initiative Directive (DRID) 21 directed DESC to assist the Military Services with the privatization of utility-related infrastructure and make the most effective use of existing tools, such as energy savings performance-based contracts, to decrease energy demand
<b>DESC-A Installation Energy</b>	<b>Electricity – established in 1996</b> In 1998, Defense Reform Initiative Directive (DRID) 21 directed DESC to execute regional demonstrations of total energy management, to include the aggregated purchase of electricity. DESC is executing the competitive acquisition of Retail Open Access for Department of Defense and Federal Civilian agencies in states that have implemented deregulation.  <b>Natural Gas – established in 1990</b> Defense Energy Program Policy Memorandum 93-3 provided policy for the centralized acquisition of direct supply natural gas for Military Installations throughout the continental U.S under DLA, through the DESC.  <b>Coal – established in 1963</b> Procurement of coal, testing and delivery for DoD and Federal Civilian Agencies within CONUS.

# DESC Installation Energy Office

## Executing DoD Policy



- DoD Instruction 4170.11 (in final coordination):
  - Implements DoD Directive 4140.25, “DoD Management Policy for Energy Commodities and Related Services”, to provide procedures for DoD installation energy management.
  - Procurement Strategy:

*“The DoD Components are encouraged to partner w/ DESC to identify and develop risk mitigation strategies appropriate for the risk preference profile of the end-user and are encouraged to aggregate demand across facilities or agencies to maximize economic advantage.”*
  - Electricity:

*“The DoD Components are encouraged to partner w/ DESC and aggregate regional electricity requirements (including renewable energy) to competitively procure electricity and ancillary and incidental services needed to meet the identified requirements. Award determinations shall be based on best value compared to the applicable utility tariff available under a Utility Services Contract.”*
  - Natural Gas:

*The Department of Defense’s policy is to competitively acquire direct supply natural gas under the natural gas program managed by DESC, when cost effective and the program has the same degree of supply reliability as other practical alternative energy sources. DESC and the DoD Components may mutually agree to exclude an installation from the DESC program under certain stated exemptions.*

# Installation Energy

## *Customer/Stakeholder Support*

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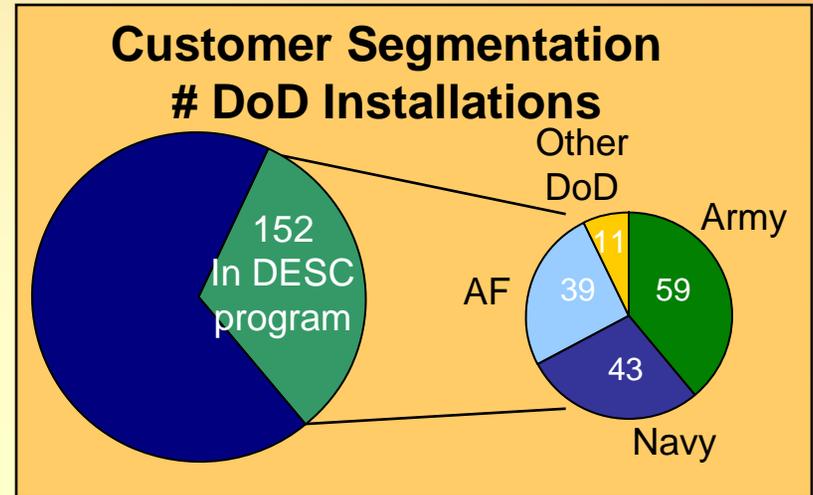
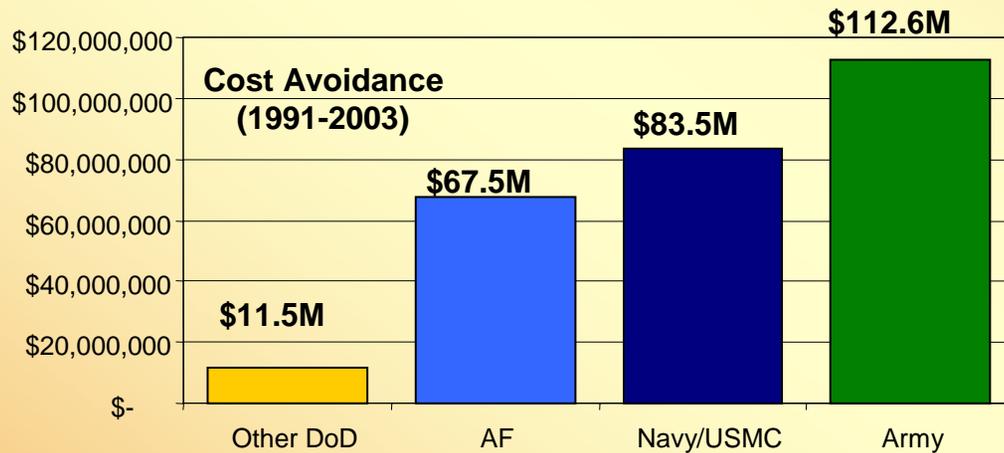


- **Procurement**
  - Offer centralized, competitive acquisition of installation-energy commodities
  - Purchase of renewable energy and “Green Tags” for DoD & Fed Civ Agencies
  - Aggregate Military Services and Federal Civilian customer requirements by local distribution company/pipeline/region to maximize the economic advantage
- **Management & Administration**
  - Represent DoD with the Federal Energy Regulatory Commission, American Gas Association, the North American Energy Standards Board, and other industry trade associations
  - Participate in the DoD Agency Energy Team Working Groups
  - Perform all contract administration of DESC awarded contracts
  - Monitor energy market and industry trends
  - Participate in negotiations with local distribution companies for rate changes and tariff provisions as requested. Execute transportation agreements with the local utility company, pipeline and/or transmission companies.
- **Contracting & Technical Assistance**
  - In partnership w/ IMA to execute risk mitigation strategy for Army
  - OSD Annual Energy Report to Congress
  - Economic Analysis (utility tariff vs DESC supplier)

# Installation Energy Natural Gas Program

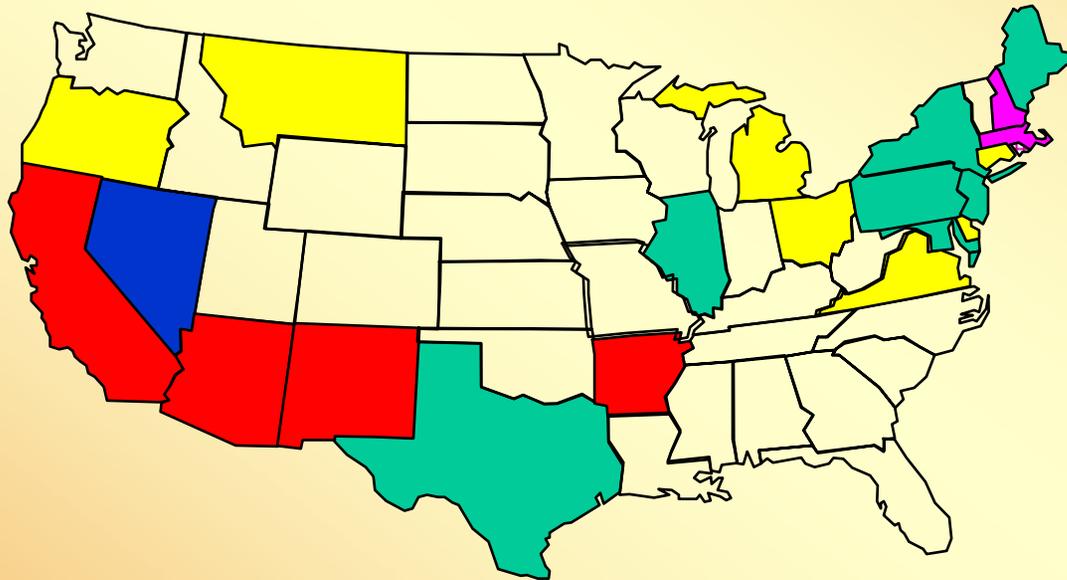


## Bringing Value to the Customer



Purchases: 40-50 Mil Dekatherms annually  
 Contracts: Monthly, Annual & Multi-yr  
 Pricing: Daily, Monthly Index, Firm Fixed or Combination  
 Best Value Contracting vs Low Price  
 Risk Management support  
 Contract Administration to include Ordering, Invoice Certification & Payment support

# Installation Energy Electricity Program



1996 - DESC began monitoring electricity deregulation in anticipation of the market being opened.

1998 - DESC, in partnership with the Military Services, began contracting for deregulated electricity

2002 - DESC, in partnership with the Military Services, began purchasing renewable energy

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|--|--|
|  States in which DESC has awarded contracts                                       |  Restructuring legislation approved, requirements pending |
|  First time solicitation ongoing  |  Deregulation/restructuring suspended/repealed/cancelled  |
|  States solicited but the utility was determined the best value to the Government |  States that have not implemented deregulation            |



# Mission Execution

## Current Contract Support to the Military Services



Service	Contract Qty (in Tril Btu's)	Total Contract \$ (in Million \$)
Army	58.6	\$385.7
Navy	42.4	\$301.6
Air Force	48.6	\$250.0
Other DoD	5.0	\$34.4
<b>TOTAL</b>	<b>154.6</b>	<b>\$971.7</b>



**Electricity:**  
 6.7 Billion kWh  
 22.9 Trillion Btu's  
 \$305.6M in Contracts  
 \$38M Est Cost Avoidance  
 (1999-2003)

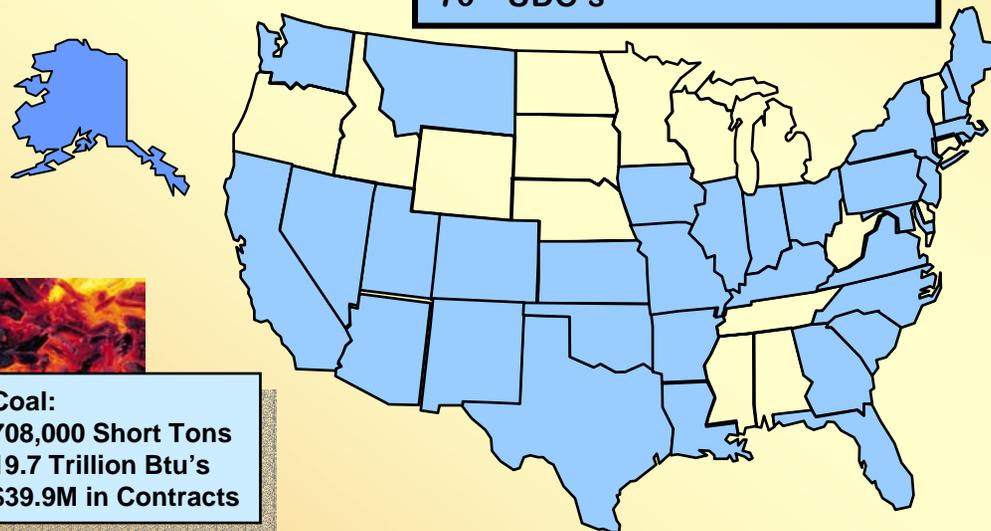
**169 DoD Customers Supported**  
**363 Accounts**  
**35 States**  
**70 UDC's**



**Natural Gas:**  
 112 Million Dths  
 112 Trillion Btu's  
 \$626.2M in Contracts  
 \$274.1M in Cost Avoidance  
 (1990-2003)



**Coal:**  
 708,000 Short Tons  
 19.7 Trillion Btu's  
 \$39.9M in Contracts



# Mission Execution

## Current Contract Support to Federal Agencies



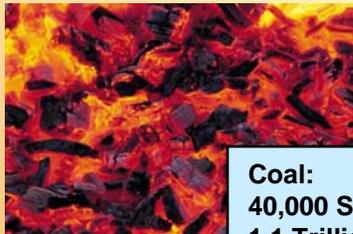
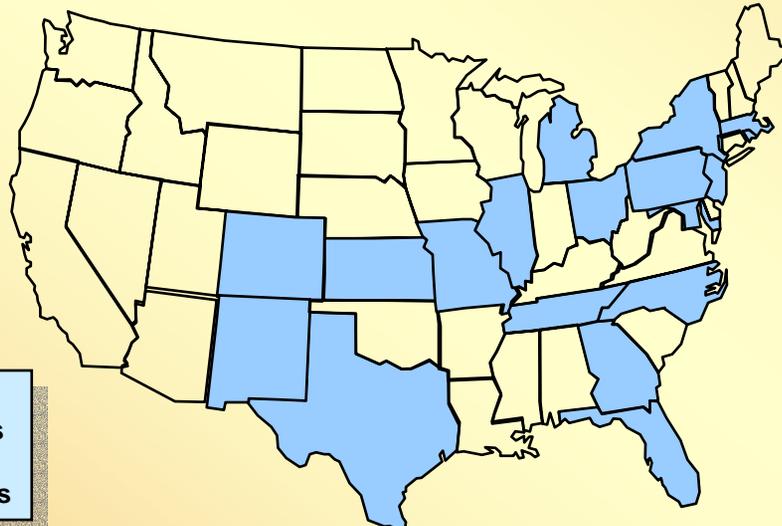
**Electricity:**  
 1.5 Billion kWh  
 5.3 Trillion Btu's  
 \$432M in Contracts

Service	Contract Qty (in Tril Btu's)	Total Contract \$ ( in Million \$)
Fed Civs	46.2	\$709

80 Federal Civilian Customers Supported  
 123 Accounts  
 18 States  
 30 UDC's



**Natural Gas:**  
 39.8 Million Dths  
 39.8 Trillion Btu's  
 \$234M in Contracts  
 \$92M in Cost Avoidance  
 (1990-2003)



**Coal:**  
 40,000 Short Tons  
 1.1 Trillion Btu's  
 \$3.1M in Contracts

# DESC Energy Enterprise Office



- Formed from DRID 21 (Jan 1998):  
*“DESC is to assist the Military Services with the **privatization of utility-related infrastructure**” and “make the most effective use of existing tools, such as **energy savings performance-based contracts**, to decrease energy demand.”*
- We provide contracting, technical, and program management support to the Military Services and Office of Secretary of Defense primarily through the implementation of:
  - **Utility System Privatization (UP) Contracts**
  - **Energy Savings Performance Contracts (ESPCs)**
- Contracting Agent of Choice: Army (100%) and Air Force (86%)
- Viewed as execution arm of DUSD(I&E) for energy initiatives

# Growth of DESC Energy Enterprise

## *Program Execution Focus*

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- Revised DEPSECDEF Guidance – Oct 2002
  - Advises Military Services to work with DESC as program, procurement and technical agent
  - Established Program Milestones and Quarterly Metric submissions to OSD
    - 30 Sep 03 – Close RFPs or Exemptions on **80% of Systems**
    - 30 Sep 04 – Make SSA Decisions or Exemptions on **65% of Systems**
    - 30 Sep 05 – Complete Privatization Evaluation on **100% all Systems**

# UP Program Definition

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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.

# UP Program Scope

## Three Components

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- The permanent conveyance of a utility system or a part of a utility system, under the jurisdiction of the Service Secretary
- Acquisition of utility service from the party whom the system was conveyed
  - Request for Proposals used are standardized by Military Service
  - Statute authorizes 50-year contracting authority
- Execution of an Easement / Right-of-Way to allow base access
- GO/NO-GO Statutory Test: 10 U.S.C. 2688
- Contractor is typically a municipal, private, regional, district, or cooperative utility company or other entity

# UP Program Scope

## *continued*



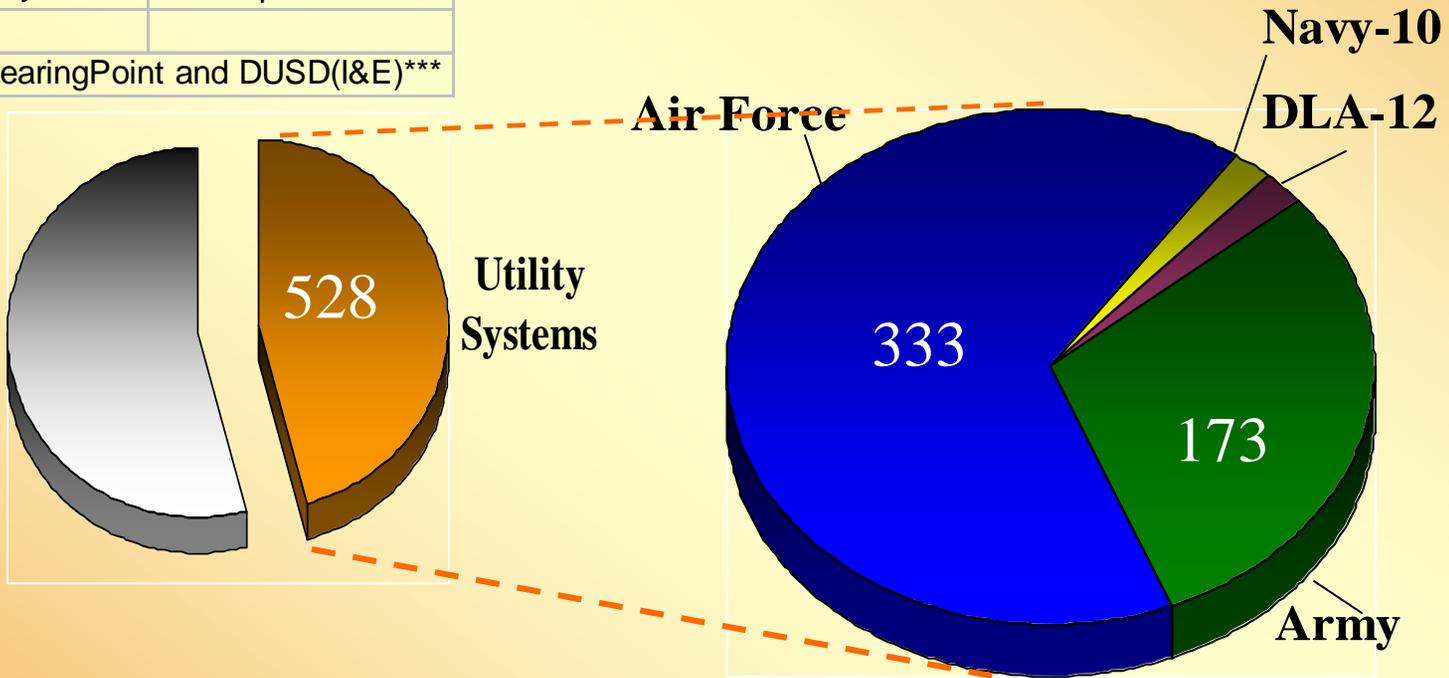
- All systems must have a certified economic analysis to conform to economic tenets of 10 USC 2688
- Award is on a “Best Value” basis
  - Mission Capability, Past Performance, Performance Risk, Socioeconomic, and Price Factors
- For Systems to be Privatized
  - Execute Congressional Notification on Quarterly Basis
    - House and Senate Armed Services Committees
  - Service Secretary coordinates and authorizes transfer via real estate documents
  - Authorization memorandum from Military Component to DESC to award contract
  - DUSD(I&E) provided courtesy copy of privatization documents

# Customer Segmentation

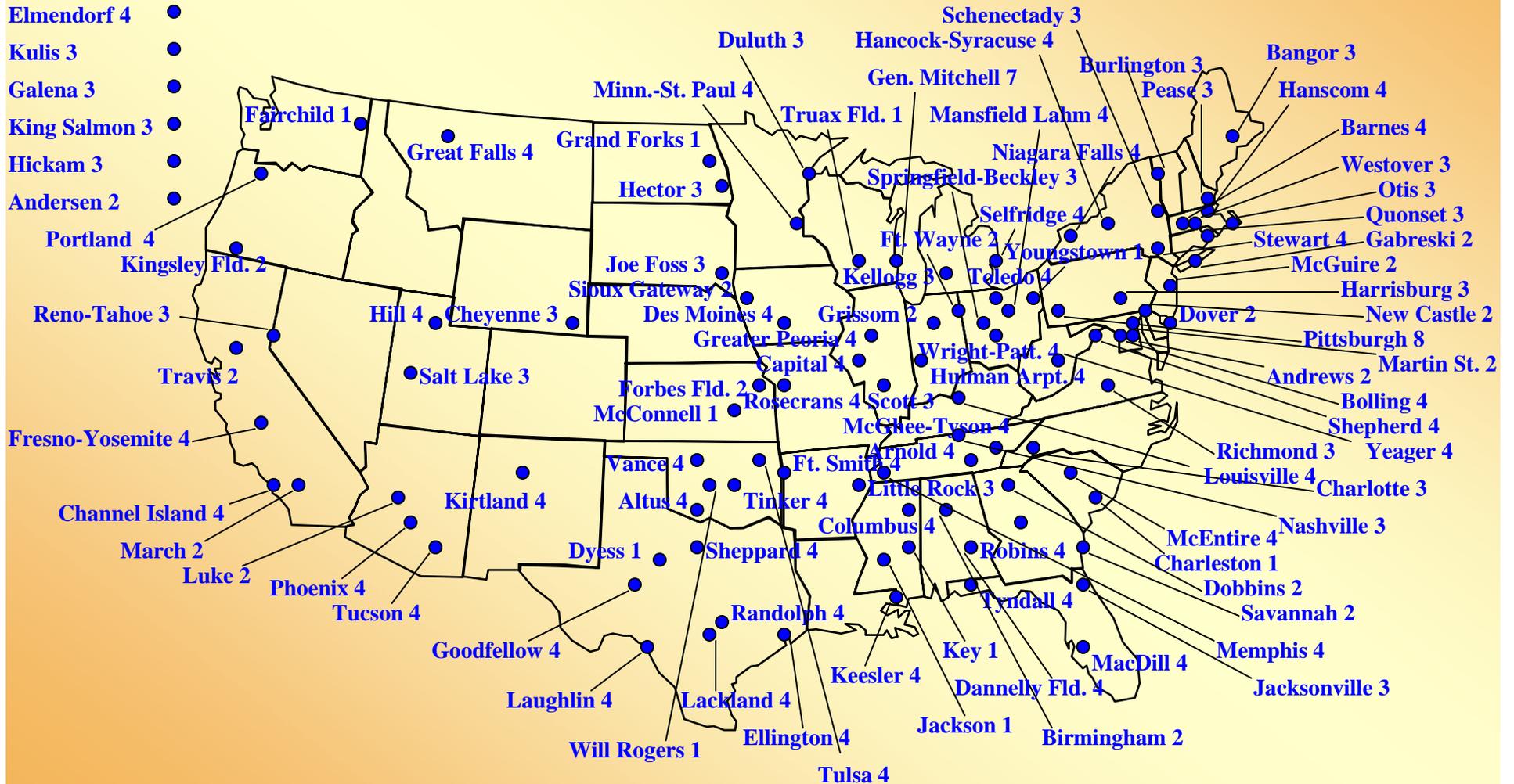
## DoD-Wide



UTILITY SYSTEM DOLLAR VALUE	
OSD Population of Systems	\$50B
DESC-E Share of Systems	\$23B
***Source Data: BearingPoint and DUSD(I&E)***	



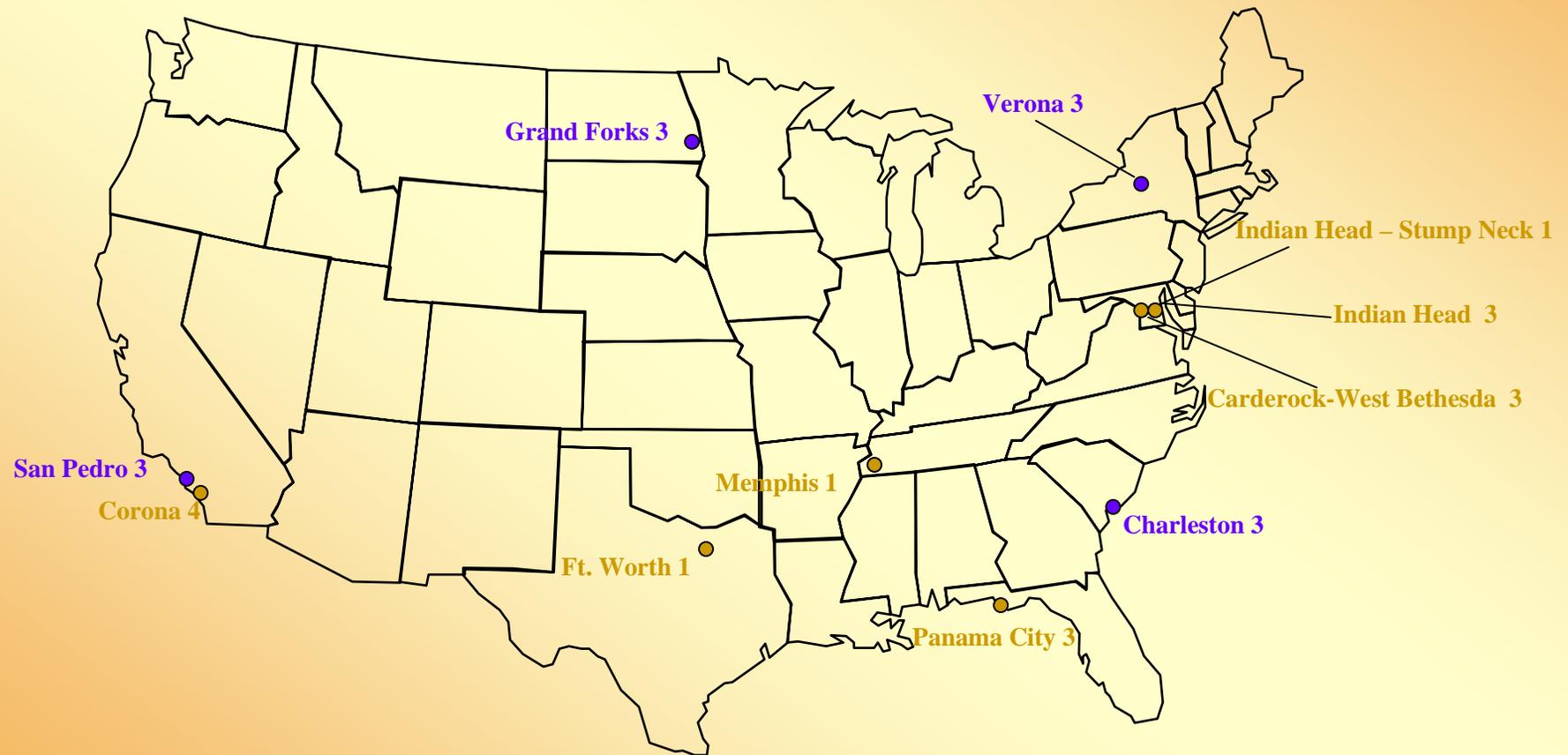
# Air Force Utility Systems DESC-E Management





# NAVSEA & DLA Utility Systems

DESC-E Management



# DESC-E Mission

## Awards and Annual Cost Avoidance



### Utility Privatization

#### Contracts Awarded (\$846.2M)

FY 2004 – (Total Value - \$442.8M to date)

Bolling AFB – Water/Wastewater

Dobbins AFB – Electric

Ft. Bliss – Water/Wastewater

Ft. Story/Monroe/Lee/Eustis - Electric

FY 2003 – (Total Value - \$359.4M)

Randolph AFB, TX - Wastewater

Sunny Point, NC - Electric

Fort Leavenworth, KS – Water/Wastewater

Fort Rucker, AL – Water/Wastewater/Electric/Gas

Fort Bliss – Gas/Electric

Fort McNair, DC – Gas (GSA)

FY 2002 – (Total Value - \$43M)

Picatinny Arsenal, NJ - Electric

FY 2001 – (Total Value - \$971K)

Fort Detrick – Gas (GSA)

Bolling AFB – Gas (GSA)

Minneapolis-St Paul – Gas (GSA)

[www.energy2004.ee.doe.gov](http://www.energy2004.ee.doe.gov)

#### Working 528 DoD Systems



Army 173



Air Force 333



Navy 10



DLA 12

**Annual Cost Avoidance: \$5.61M**

## ***The Way Forward***

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- Continue to serve as the Execution Arm for DUSD(I&E) vision on DoD Installation Energy Management
- Continue to partner w/ Services to develop concept of operations to facilitate and support integration of energy management efforts
- Provide Comprehensive Energy Solutions for DoD
- One-Stop Energy Shop
- Expand Facility Energy Support into Overseas Arena

# DESC Points of Contact



## DESC Installation Energy Office

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