Utilities Privatization

DoD’s Preferred Method for Upgrading Utility Systems

National Defense Industrial Association
29th Environmental and Energy Symposium and Exhibition
2003
Utilities Privatization

- Imperative
- Business Opportunity
- Overview of win-win deals
- Program Update
State of Utility Systems

- Utility systems have been under-funded for years
- Utility system O&M has not consistently met industry standards
DoD Vision for Utility Systems

◆ Provide adequate funding and management
  ■ Bring all systems up to standards by 2010
  ■ A management review is inherent in the privatization evaluation process

◆ Incorporate private sector innovation and efficiencies
  ■ Utilities Privatization is preferred method to modernize and sustain
  ■ Utilities Services is not a core function
  ■ Complex process, success requires partnership with utilities
    - Thorough communication
    - Clear understanding of assumed risks and baseline of costs
UP Status Summary

DoD Utility Systems
Total of about 2600 systems (As of DEC 2002)

$50B Value

- Pending Solicitation, 408
- Owned by Others, 750
- Privitized without 10 USC 2688 authority, 350
- Privatized Using 10USC2688 Authority, 43
- Security or Mission Exempt, 89
- Active Solicitations, 929
- Economic Exemption, 41

Over 1300 Evaluations Remaining
Owned by Others, 408
Privitized without 10 USC 2688 authority, 750
Privatized Using 10USC2688 Authority, 350
Security or Mission Exempt, 43
Active Solicitations, 929
Economic Exemption, 41

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Performance Risks During Upgrades and After

System Value & Annual Costs

Period of High Performance Risk

Replacement Cost New (RCN Modified)

Period of Low Performance Risk

“As Is” Value (FMV)

Year

10

Ops & Sustainment

Recapitalization

Upgrades

System Value

0 5
Should Utility Industry be interested?

- The **1300 DoD systems remaining to be evaluated** represent a potential rate base expansion of **$Billions**
  - Increased economies of scale

- **Utility gains a solid customer for the long term**
  - Reasonable profit is generated
  - Government pays its bills
  - Investment should have high rating from financial market
Industry Concerns

- Inadequate or untimely communication
- Contract Accounting System requirement
- Data provided in RFP is not understood
  - Risk of performance shortfalls resulting from unforeseen conditions
    - Major inventory discrepancies
- RFP technical requirements overly prescriptive
- Service standards required by RFP
- Utilities wary of investing resources to develop packages and wait years for a determination
Utilities Privatization Guidance

◆ New Utilities Privatization Guidance
◆ Complete evaluations of all systems by Sep 05
  ■ Interim goals in Sep 03 and Sep 04
◆ Requires consistent economic analysis
◆ Requires competition
◆ Utilities Privatization is preferred tool
◆ Approved by Deputy Secretary 9 Oct 02
◆ Requires permanent title transfer
Status by Component

- Owned by Others
- Privatized
- Exempt
- SSA Decisions Made Pending Notification
- RFPs Closed pending SSA Decision
- RFPs Released pending Closure
- Active Pending RFP Release
- Deferred or On Hold

USAFA
Army
Navy
DLA
Summary

- OSD is committed
- Guidance is issued
- Services revised RFPs
- Services are aggressively executing
- Industry interest seems h
Questions?

Captain Rick Marrs
(703)-697-6195
Richard.Marrs@osd.mil

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