



# **Department of Defense Utilities Privatization Program Update**

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# 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 programmed and under funded**
- **DoD needs industry's best practices, innovations, financing and economies of scale**



# Defense Secretary Guidance

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- **Privatize all utility systems, unless**
  - Security concerns preclude privatization
  - Cannot achieve economic benefit
    - o Understand lack of response
    - o Understand barriers to economic deals
- **Promote competition**
- **Apply consistent economic analysis**
  - Support sound decisions
- **Updated Guidance reflects lessons learned**



# OSD Program Objectives Remain

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- **Upgrade utility infrastructure to industry standards**
- **Capitalize upon industry economies of scale, efficiencies and best business practices**
- **Privatization is the preferred tool for providing utility service at industry standards!**



# Recent/Current Issues

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- **GAO Report and Recommendations**
- **FY 2006 National Defense Authorization Act provisions**
- **Budget**
- **Rule 2**



# GAO Report

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- **Several Findings and Recommendations**
  - Implemented through supplemental guidance issued on November 2, 2005
- **Follow-up audit initiated March 29, 2006**
  - Focus remains on “should costs” versus “actual costs” and “post-award” contract administration



# FY 2006 NDAA

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- **Several new provisions**
  - Margin of Error
  - 10 year versus 50 year consideration
  - 25% award cap for FY 2006 and FY 2007
  - Fair Market Value consideration
- **Incorporated through supplemental guidance issued on March 20, 2006**



# Budget

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- **Anticipated completion in FY 2005**
- **Delays due to**
  - Early obstacles and inexperience
  - Lack of Industry interest
  - CIAC issues
  - Rule 2
  - New legislation
  - GAO audits
- **Each Service drafting a revised completion plan/schedule which will require out year budget alignment**



## Rule 2

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- **Conflict between Public Utility**

### **Commissions and Federal contract terms?**

- OGC has drafted an opinion
- Staffing and final review in progress
- Anticipate final opinion by end of May



# Improvements in Guidance Updates

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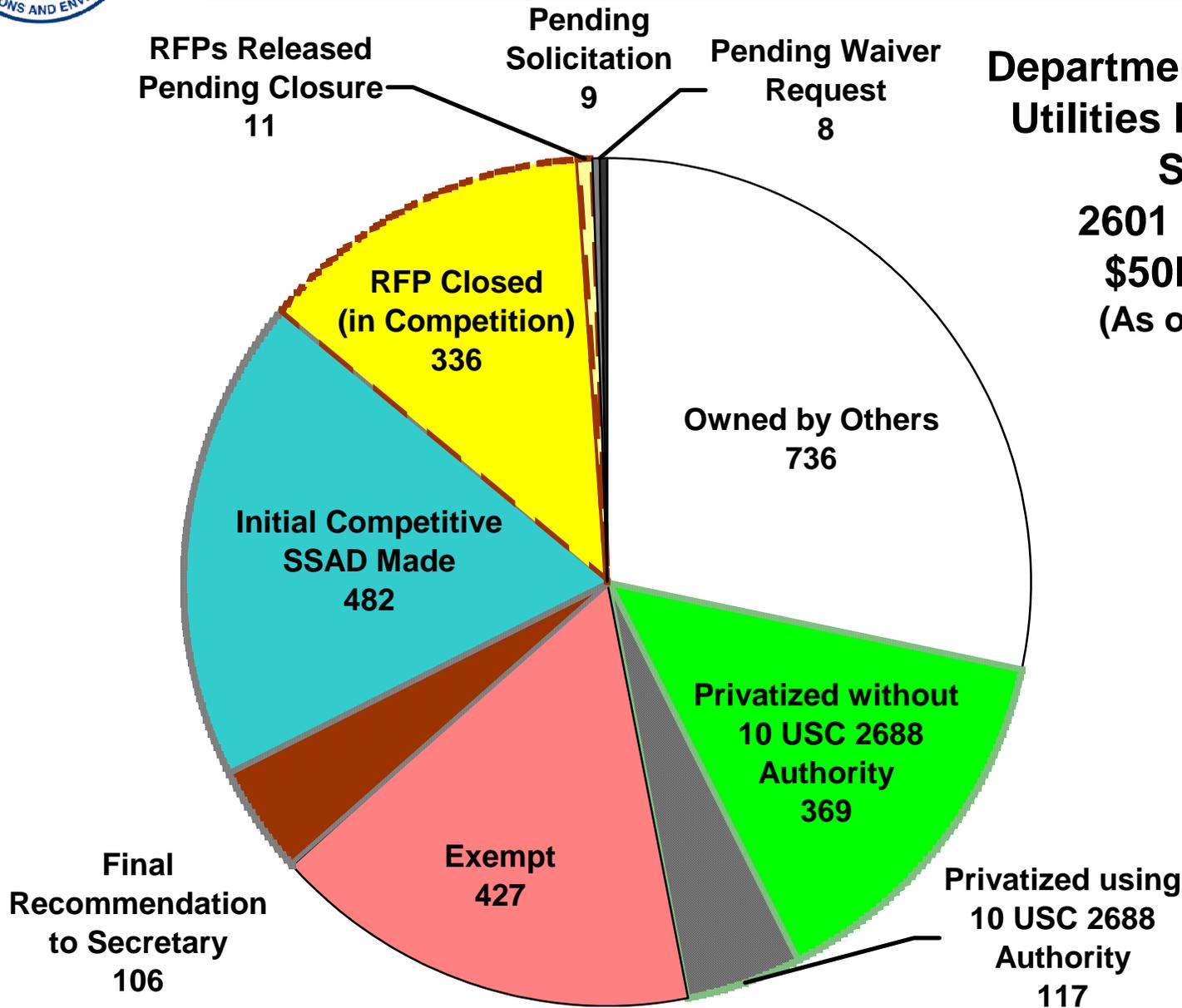
- **Requires an independent review of the economic analysis supporting any utility conveyance under 10 U.S.C. § 2688**
- **Directs DoD Components to consider increased contract costs resulting from a conveyance of a utility system**
- **Modifies the requirement to address fair market value in proposed utilities services contracts resulting from a utility conveyance**
- **Emphasizes the importance of contract oversight**
- **Emphasizes the importance of expediting the award process and ensuring accuracy of economic analysis**
- **Requires an analysis of a 10 year term**
- **Limits contract awards to 25% of eligible systems**



# DoD Utilities Privatization Status

## Department of Defense Utilities Privatization Status

2601 Systems  
\$50B Value  
(As of Dec 05)





# Summary

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- **OSD Program Objectives remain unchanged**
- **Completion schedule will be stretched out to at least 2010 – Budget alignment required**
- **Effective communication will ensure win-win partnerships**



# *Questions?*

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