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# Utilities Privatization (UP)

*The Good, The Bad, & The Ugly*

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# The Good, The Bad, & The Ugly

- **Good** - *Utilities Privatization (UP) Program*

IF Utilities Privatization can more cost-effectively upgrade to industry standards and operate at that level, then sell the pipes & wires in favor of a long-term Utility Service Contract.

- **Bad** - *Figure out what you don't do well ...  
and stop doing it !*

- *How to avoid Ugly*

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# *The Good* – Why Privatize?

- **Focus on core competencies:**

“ ... Privatization allows installations to focus on core defense missions and functions by relieving them of activities that can be done more efficiently and effectively by others. The Defense Components shall complete a privatization evaluation of each utility system ...” 2005 OSD guidance.
- **Life-cycle cost avoidance & cost stability**
- **Leverage private capital & technical capabilities**
- **Reduce risk & liability** [energy, safety, environmental]
- **More efficient, reliable, sustainable services**



# Utility Risks & Liabilities

*Unlike costs, risks cannot be deferred*

## Electric – energy risks

- Energy Security [it's not secure if it's broken or obsolete]
- Energy Conservation Goals

## Water / Wastewater – environmental & health risks

- Maintain environmental compliance as good stewards
- Tightened discharge standards (e.g. Chesapeake, Puget Sound)

## Natural Gas – safety risks

- Increasing risk from aging infrastructure
- Potential for gas explosions

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# UP Program Overview

- FY97:** 10 USC 2688 authorizes UP 50-yr Service Contracts for DoD, where cost-effective
- FY97:** OSD directs UP evaluations [E, G, W, WW]
- FY04:** Army partners with Defense Logistics Agency (DLA-Energy) for all UP contracting
- FY06:** GAO directs Certified Economic Analysis
- FY10:** NDAA§2821 sets min. 10% cost-avoidance

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# Army UP Program Results

- **86% of Army evaluations complete**  
305 out of 355 U.S. systems
- **147 Utility Systems Privatized:**  
40 Electric, 38 Gas, 32 Water, 34 Wastewater, 3 Heat/Power
- **28% average cost-avoidance since FY99**  
**\$1.9B Net Present Value**
- **Program Successes:**
  - New, reliable, efficient, sustainable utility infrastructure
  - 12 Alaska systems in Aug '08 (\$3.9B contract)

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# Army UP Status

## 147 Privatized Systems

Aberdeen PG - G, W, WW	Meade - E, G, W, WW
Aberdeen (Edgewood) - G	McCoy - E, G
Adelphi Lab - G	McNair - E, G
A.P. Hill - E, W, WW	Monmouth - G
Belvoir - E, G, W, WW	Monroe - E, W, WW
Benning - E, G, W, WW	Myer - E, G
Bliss - E, G, W, WW	Natick Lab - E, G
Blue Grass AD - G	Oahu/ Schofield Brks – WW
Bragg - E, W, WW	Ord Com - E, G, W, WW
Campbell - G, W, WW	Parks RFTA - E, G, W, WW
Detrick - G	Picatinny Arsenal - E, G
Detroit Arsenal - G	Pickett - E, W
Devens - E, G, W, WW	Polk – W, WW, E
Dix - E, G	Pres Monterey - E, G, W, WW
Eustis - E, G, W, WW	Red River AD - E, W, WW
Gordon - E, G, W, WW	Redstone Arsenal – WW
Greely - E, W, WW, P	Richardson - E, G, W, WW, P
Hamilton - E, G, W, WW	Rucker - E, G, W, WW
Hawaii - E, W	Sam Houston - E, G
Hood – W, WW	Sill - G, W, WW
Huachuca – E	Stewart - E
Hunter AAF - E	Story - E, G, W, WW
Irwin - E, W, WW	Sierra AD - E, G
Jackson - W, WW	Stewart Sub-Post - G
Knox - E, WW	Sunny Point MOT - E
Leavenworth - E, W, WW	Tooele AD - G
Lee - E, W, WW	Vancouver Brks - G
Leonard Wood - E, G	Wainwright - E, W, WW, P
Letterkenny AD - W, WW	Walter Reed AMC - G
Lewis - G	Yakima Trng Ctr - G

## Tentative Evaluation Schedule

FY11 Fort Bragg\* - G  
 Fort Knox - W  
 Sierra AD - W  
 Aberdeen Proving Ground - E  
 Henderson Hall - E

FY12 Picatinny Arsenal - W/WW  
 Anniston AD - E/W/WW  
 Fort Hood - E/G  
 Gillem Enclave - E/G/W/WW

FY13 Fort Polk - G  
 Fort Lewis - E/W/WW  
 Blue Grass AD - E  
 Fort Campbell\* - E\*  
 Fort Jackson - E/G\*  
 Tobyhanna AD - W/WW  
 White Sands - E/G/W/WW

FY14 Pine Bluff ARS - E/G/W/WW  
 Fort Leonard Wood - W/WW  
 Hunter AAF - G/W/WW  
 Rivanna Station - E/G/W/WW

FY15 Fort Buchanan - E/W/WW  
 Redstone ARS\* - E/G/W  
 Fort McNair\* - W/WW  
 Fort Myer\* - W/WW

FY16 USMA West Point - W/WW  
 Fort Hunter-Liggett - E/W/WW  
 Yuma PG - E/W/WW  
 Fort Drum\* - W/WW

\* RE-evaluations noted in RED



# UP Process

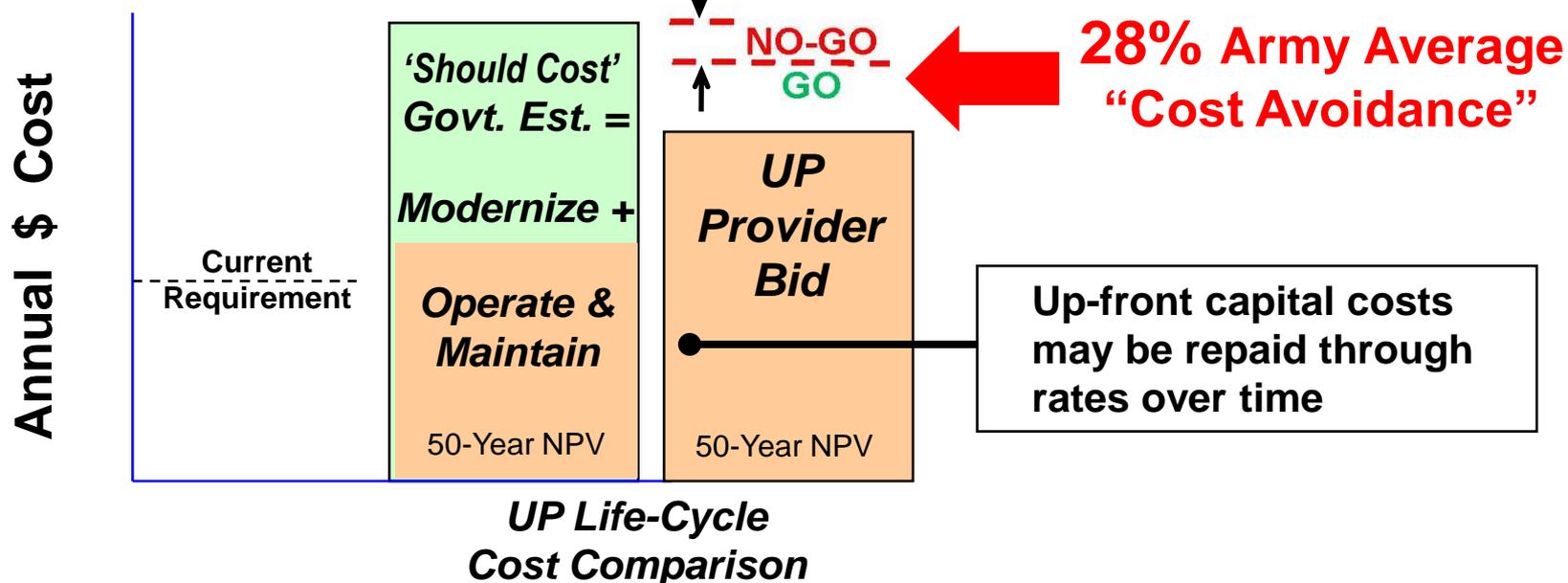
- We seek a win-win partnership with a technically capable, experienced, and financially secure company
- Open competitive bidding process
- Privatization decided by long-term, life-cycle costs to:
  1. Operate & Maintain
  2. Complete Initial Project Investments/Upgrades
  3. Execute Scheduled Periodic Replacements
- Leverage private financing (up to life of the asset)



# UP Evaluation Decision

Privatize only where cost-effective.

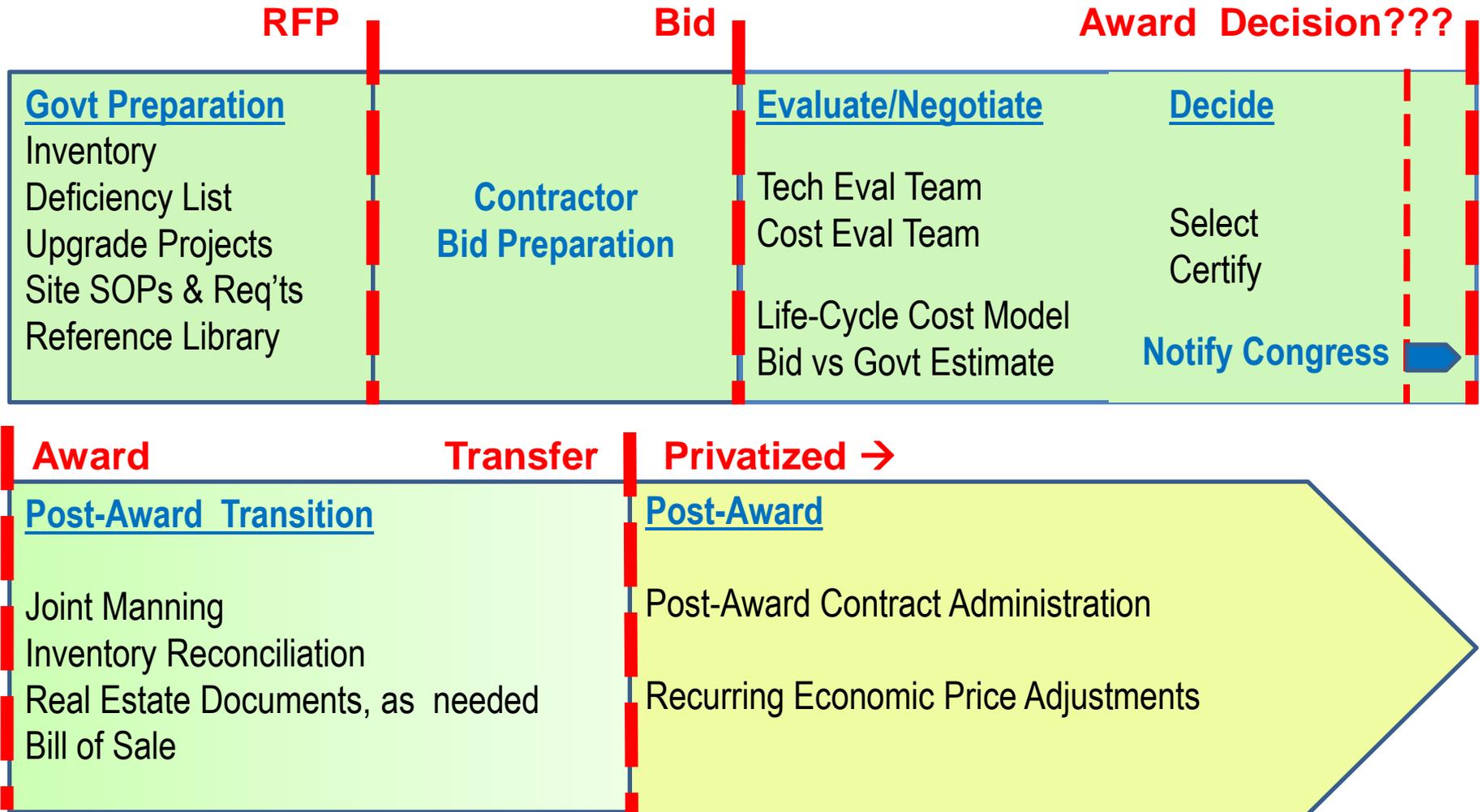
Compare Net Present Value (NPV) for min. 10% margin



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# Nominal 2 Year Acquisition Process

## UP Processes & Contract Milestone Actions





# Unique Aspects of UP

- “UP Cost Avoidance”  $\neq$  Savings
  - Long-term “cost avoidance” as compared to “should cost”
  - Recapitalization normally requires up-front investment

## Army UP = Conveyance + *Utility Services Contract*

- Infrastructure (but not land) conveyed by Bill of Sale
- *Utility Services Contract* [FAR Part 41]
  - **NOT** a Construction Contract [FAR Part 36]
  - **NOT** a Services Contract [FAR Part 37]

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# *The Bad* – Limits & Misperceptions

- **When the UP Provider OWNS the system**
  - Government cannot operate or make connections
  - Government has a very minimal role for inspections
  - UP Provider does most new tie-ins as connection charges
- **Commodity is normally *separate* from UP contract**
  - DoD retains water rights & procures commodity
- **UP is compatible w/ energy/environment initiatives**
  - Net Zero, load mgmt (UESCs, ESPCs), PPAs, solar arrays

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# *The Bad* – UP Concerns

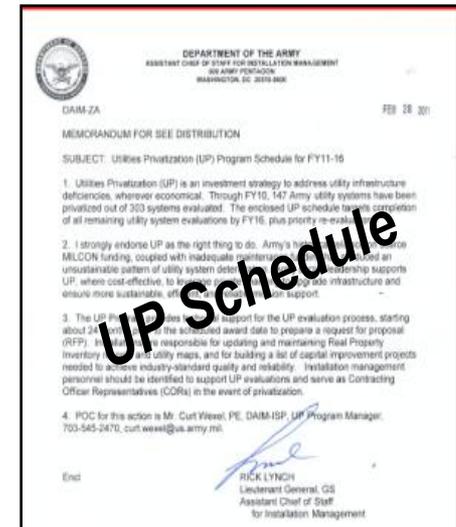
- **Some loss of direct Command & Control:**
  - We don't own/control off-site infrastructure either
  - We can no longer defer required maintenance
  - Parochial interests & fear of change
- **Address legitimate employment concerns:**
  1. UP Provider needs experienced workers
  2. Govt also needs staff for contract technical oversight
  3. And attrition further minimizes workforce impacts

**BINGO!**



# Keys to Success (*Avoiding Ugly*)

- **Senior management support**
  - *Army Secretariat & 3-Star Board*
- **Long-term contract**
- **Planning & Process**
  - Adopt DoD process, safeguards, templates
  - Inventories, requirements, tech.library, projects, budget
- **Communications**





# Keys to Success

- **Pre-Award Team** includes: *Management, Contract, Legal, Tech. Support, Environmental, Stakeholders*
- **Work for Win-Win with UP Providers**
  - Limit contractor uncertainty (and cost)
  - Negotiate in good faith
- **UP Post-Award Management**
  - Stakeholder [Installation, employees] training & support
  - Post-award Management team / guidelines

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# Questions?

U. S. Army Headquarters, Office of the Assistant Chief of Staff  
for Installation Management, Public / Private Initiatives Division