



Utilities Privatization

DoD's Preferred Method for Upgrading Utility Systems

**National Defense Industrial Association
29th Environmental and Energy
Symposium and Exhibition
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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**

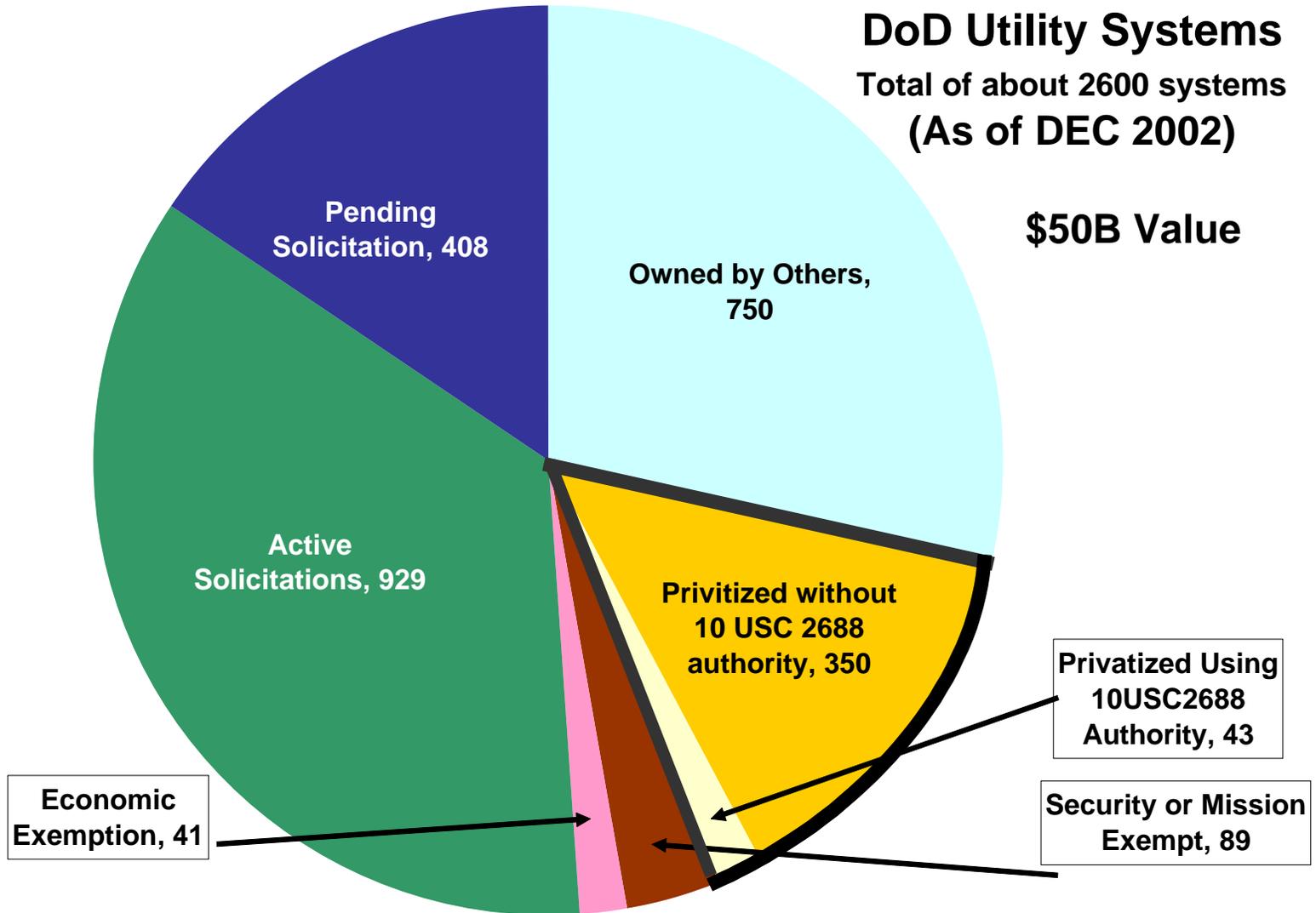


DoD Vision for Utility Systems

- ◆ **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**

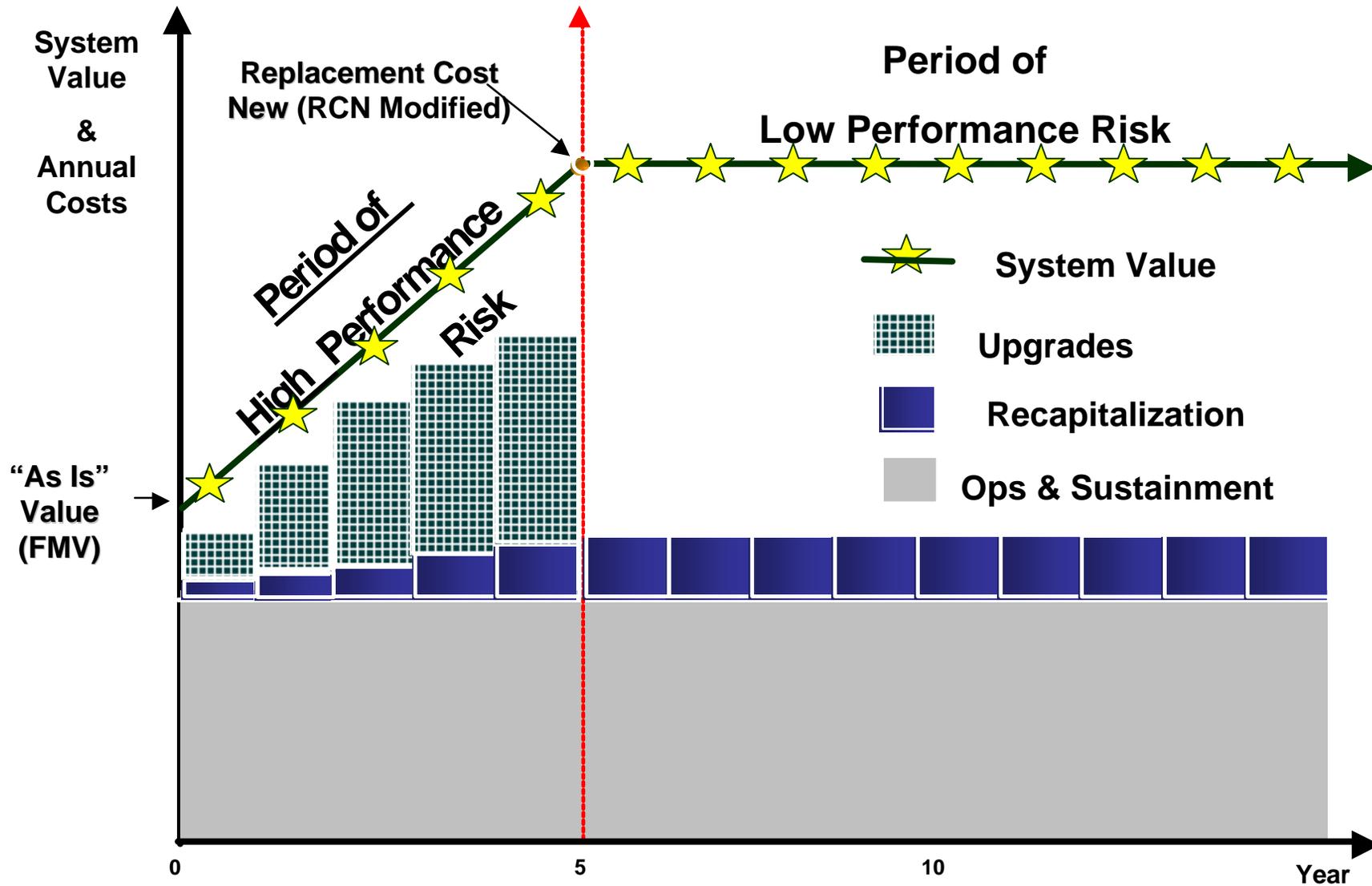


UP Status Summary





Performance Risks During Upgrades and After





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**

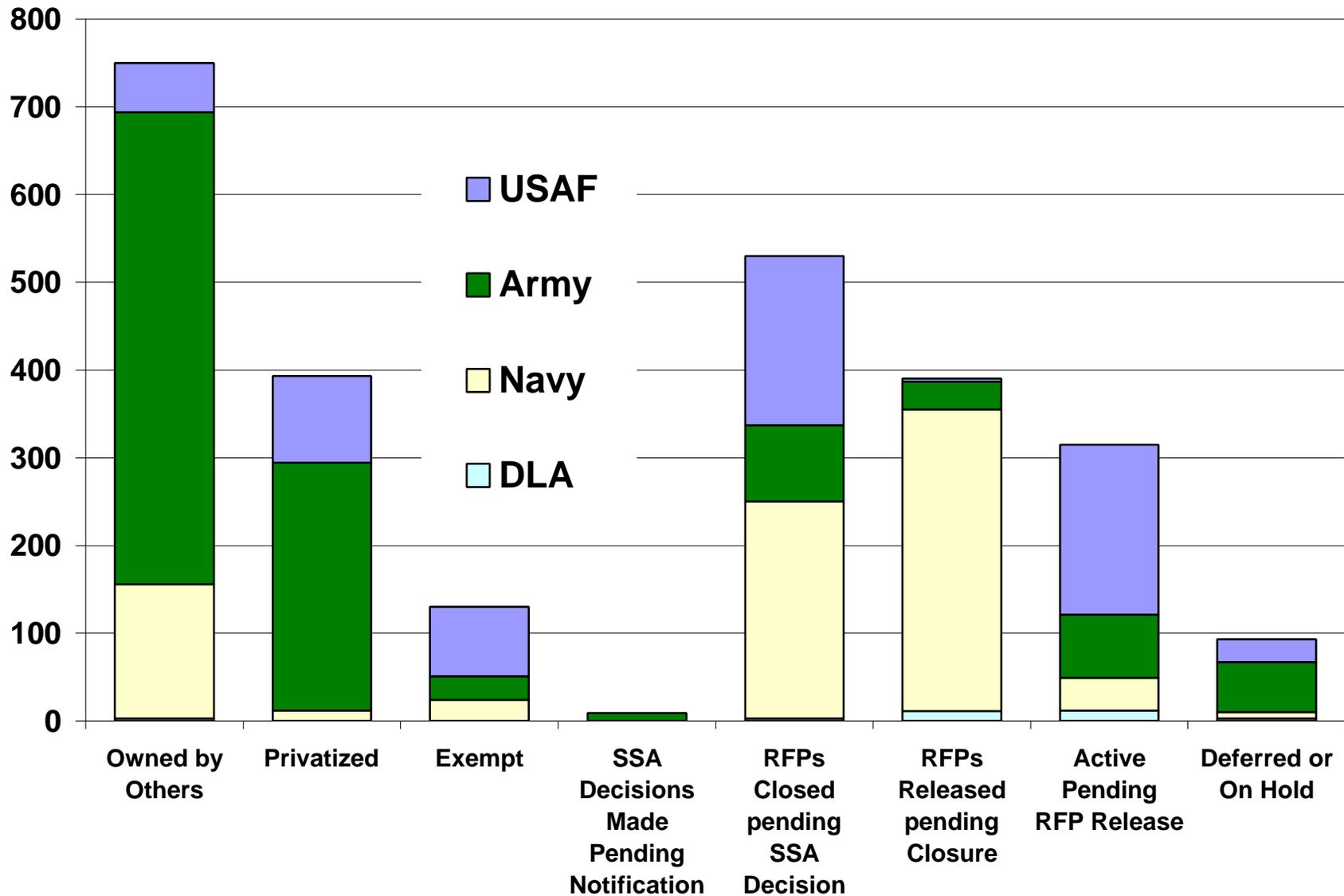


Utilities Privatization Guidance

- ◆ **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





Summary

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



Questions?

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