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UTILITIES PRIVATIZATION POLICY AND GUIDANCE PLAYBOOK

The Utilities Privatization Policy and Guidance Playbook provides implementing policy and guidance to comply with DRID #49 and the Deputy Secretary of Defense UP policy memo dated October 9, 2002 and supplemented March 20, 2006 to privatize electric, water, sanitary, wastewater, and natural gas utility systems owned and operated by the Department of the Air Force. It is available on the CE Portal at https://cs.eis.af.mil/a7cportal/CEPlaybooks/AM/AO/Energy/UP/Pages/UPOver.aspx. (To access the playbook you must be on a DOD.mil computer.)

The UP Program Execution Office is located at the Air Force Civil Engineer Center at Tyndall AFB, Fla.

FEEDBACK

"UP is an effective way to fund repair, upgrade and maintenance of our critical utility infrastructure systems while providing better dependability and higher energy efficiency in the process."

Ms. Nancy Coleal
Acting Chief Utilities Privatization Division, AFCEC

"In the last few months our UP contractors have replaced a five-mile stretch of a 16" water main that supplies water to the base. That old piping was in deplorable shape which created a huge drain on resources and manpower whenever a leak developed. Now a multimillion dollar project is underway to replace nearly 13 miles of base water mains. I wonder if we ever would have obtained funding on such a large scale without Utility Privatization."

Mr. William Smith, Chief of Infrastructure at Scott AFB, Ill.

After 13 UP post-award reviews, AFCEC believes the key to UP contract success is communication between the UP System Owner (UP SO) and the BCE Staff. Including the UP SO in activities such as planning meetings, project design reviews and emergency response exercises pays dividends.

Mr. Dick Woodworth,
UP Project Manager, AFCEC/CNU

"It's been a good move and they didn't lose manning positions. Although the privatization effort is contractual it feels more like a partnership."

Mr. Jeff Morgan,
Energy Manager at Joint Base Charleston, S.C.

"UP gets an A+ across the board."

Mr. James Edwards,
Electrical Engineer at F.E. Warren AFB, Wyo.

INTERESTED IN DOING BUSINESS WITH THE AIR FORCE?

Go to www.FedBizOps.gov. This is the single government-wide point-of-entry for federal government procurement opportunities of more than $25,000. Through one portal, commercial vendors seeking federal markets for their supplies (products) and services can search, monitor, and retrieve opportunities solicited by the federal contracting community.

AFCEC Energy Directorate

The Air Force Civil Engineer Center Energy Directorate at Tyndall AFB, Fla., is made up of engineers and energy experts with more than 500 years of combined experience who identify, evaluate, and help implement technologies and funding strategies to enable the Air Force to meet and surpass federal energy goals.

UTILITIES PRIVATIZATION

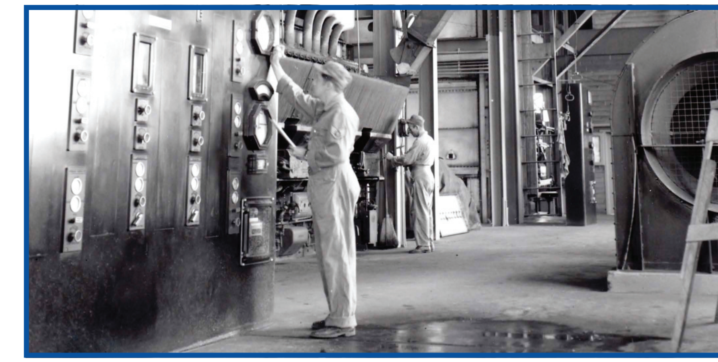
Building sustainable Air Force installations requires an investment in dependable energy efficient utility systems. The Air Force is transforming base infrastructure around the country by privatizing the right utility systems at the right time.

Utilities Privatization establishes a partnership and direct investment for both the Air Force and utility system providers because systems are privatized where fiscally attractive and operationally sound. Privatization of utility systems involves a "bill of sale" conveyance of the real property to a third party, such as a municipal, private, regional, district, or cooperative utility company. The Air Force conveys the entire system within points of demarcation on the installation, and no longer owns, operates, maintains, or repairs these systems. The agreement also includes a utility service contract for operations, maintenance, and recapitalization for a specified period of time, not to exceed 50 years. System ownership is transferred to the successful offerror under terms and conditions that protect Air Forces interests. The terms of the contract are solely for the service of the system and rarely include electrical power, natural gas, water, and wastewater treatment.

Since 1997 the Air Force has

- **Privatized 59 utility systems**
- **Created $296M in estimated cost avoidance savings**
- **Identified approximately 293 systems as UP candidates**

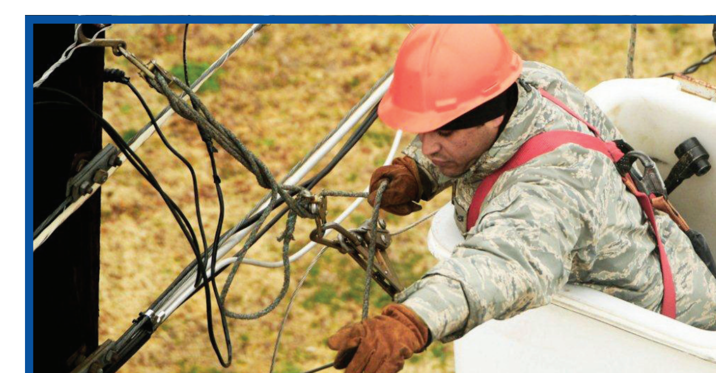
By divesting the Air Force of these utilities, active, Guard, and Reserve installation commanders can focus on operations and core defense missions and functions, rather than repairs and upgrades to utility systems. Currently, all the anticipated UP award decisions could be completed by 2017.



Air Force civil engineers check the gauges at a utility plant in the 1960s.

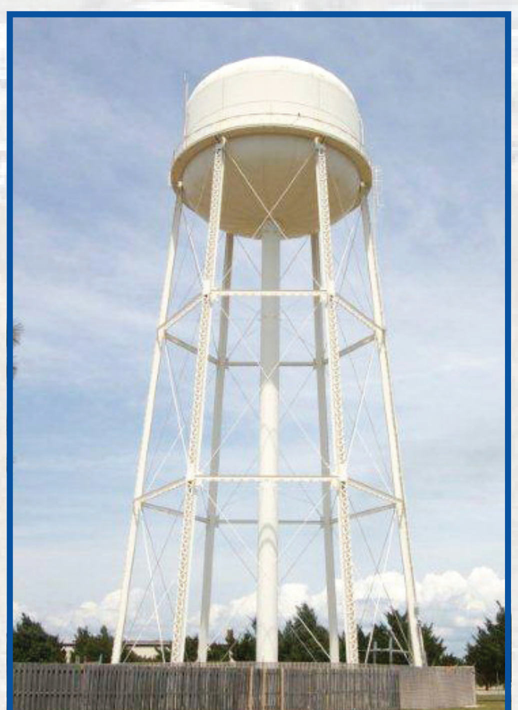
Historically, Air Force civil engineers were meeting mission requirements operating and maintaining utility systems at significantly less cost than industry standard for many years. But, by the end of the 20th century energy consumption had increased and the amount of technicians available on a daily basis began decreasing; as a result of the system degradation the Air Force began looking for a solution.

In December 1998, Defense Reform Initiative Directive #49 mandated all military departments to develop plans to privatize utilities on military bases. The UP program would bring sweeping changes to installations and joint bases.



UP Benefits

- An awarded, 50-year utility services contract becomes a "must pay bill," which means funds will always be used for utility system maintenance, operation, renewals, and replacements.
- The Air Force funds industry standard upgrades to installation utility systems, in coordination with the contractor's accepted schedule.
- The Air Force can focus resources on the core mission
- Base mission not impacted during utility system transfer
- Air Force miltary civil engineers still receive training on privatized systems
- Readiness is not negatively impacted. Work will still remain on parts of utilities not privatized, including those inside buildings and on the airfield. The Air Force maintains a bottom line number of personnel to fill wartime requirements in each specialty.
- The long-term benefits of UP outweigh the cost of continuing in-house utilities operations. Many installation utility systems badly need major upgrades. By turning them over to a third party, the Air Force has long-term operational stability.



What utility systems can be privatized?

All installation exterior utility systems will be considered privatization candidates.

- ✓ Electrical
- ✓ Natural gas
- ✓ Water
- ✓ Sanitary wastewater
- ✓ Back-up generators associated with the above utility systems

What cannot be privatized?

- ✗ The utility commodity
- ✗ Facility emergency, standby, or back-up power generators associated with facilities
- ✗ Fire suppression deluge systems
- ✗ Airfield lighting and airfield lighting vaults

High-level UP Program Roles and Responsibilities

Once utility systems eligible for privatization are identified, AFCEC and the Asset Management and Operations Branch (AF/A7CEN) will provide the centralized management for executing appropriate privatization projects.

- AF/A7CEN is the UP Program Manager and AFCEC/CNU Utilities Privatization Branch is the Air Force UP Program Execution Office.
- The major command and installation will assist and facilitate the privatization process and interact with AF/A7CEN on policy issues.
- The Deputy General Counsel for Installations and Environment will assist and facilitate on legal issues.
- AFCEC will assist and facilitate execution management.
- The Defense Logistics Agency Energy (DLA Energy) will continue to provide contracting officer support for UP projects currently assigned and will become the centralized contracting office for most UP projects. Exceptions to this policy are approved by The Deputy Air Force Civil Engineer as recommended by AFCEC. AFCEC, may provide contract support, if needed, for preparing UP requests for proposal.

Air Force
Civil Engineer Center

Utilities Privatization Three-phase Process

The Air Force Privatization Process

It's imperative that a utility provider demonstrates its solvency because the contract spans 50 years. The agreement is not entered into in haste. The complex, three-phase process can take up to five years and involves legal, contracting, financial, and engineering teams at all levels of the Air Force. AFCEC's UP team visits a base and compiles data for electric, water, wastewater, and gas systems. The UP team works with base leadership and the major command to decide which systems will be privatized. They also determine how to best integrate UP infrastructure improvements to make the utility system more reliable and sustainable through a three-phase process: utility system data collection, contracting, and post-award management.

Data Collection is performed for all utility systems unless they are exempt or deferred for security or economic reasons. AFCEC and support contractors visit installations, with support from MAJCOM and base personnel to

- Collect the utility system inventory and workload data for each system
- Prepare the UP request for proposal (RFP) and the government should cost estimate
- Assist the installation in completing the Environmental Impact Analysis process, if required
- Identify any risks to privatization that must be addressed in the RFP

Contracting is conducted by the procurement contracting officer (PCO) and includes all steps required for the RFP release such as

- Source selection evaluation if there is competition for the system
- Negotiations if contracting is in post-competitive sourcing
- Preparation of a UP award decision package for the Air Force Privatization Executive Steering Group. (AFCEC prepares the privatization approval package or the privatization non-approval package.)

Post-award Management

Beginning in FY13 post-award contract management moves from AFCEC/CNU over to the AFCEC Installation Center of Excellence Portfolio Management Branch. Post-award management provides the day-to-day operation of the UP contract through an administrative contracting officer (ACO) and the contracting officer representative (COR). The installation normally provides the COR; usually identified before the PCO releases the RFP.

Per memorandum of agreement (MOA) with DLA Energy, DLA Energy provides PCO and ACO activities.