USA

DEPUTY SECRETARY OF DEFENSE

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MEMORANDUM FOR SECRETARY OF THE ARMY
SECRETARY OF THE NAVY
SECRETARY OF THE AIR FORCE
DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Revised Guidance for the Utilities Privatization Program

Historically, military installations have been unable to upgrade and maintain reliable utility systems due to inadequate funding and competing installation management priorities. Utilities privatization is the preferred method for improving utility systems and services by allowing military installations to benefit from private sector financing and efficiencies.

In December 1998, DRID 49 directed Defense Components to privatize every government-owned electric, water, wastewater and natural gas utility system unless security concerns required federal ownership or privatization was uneconomical.

In September 2001, more than 1,300 utility systems were either in the solicitation phase or pending the release of a request for proposal (RFP). Feedback from the utility industry indicated that this volume of solicitations would saturate the market, resulting in decreased competition. Based on industry input and the Military Departments' recommendations, this document with the attached guidance replaces DRID 49. It provides improved guidance for conducting the economic analysis, protecting the government's interests, making a determination to privatize and conforming with state laws and regulations.

Using this guidance, by September 30, 2005 the Defense Components shall complete a privatization evaluation of each utility system at every Active, Reserve, and National Guard installation, within the United States and overseas, that is not designated for closure under a base closure law.

To achieve innovative results, privatization must proceed in a deliberate manner that promotes industry interest and competition to the maximum extent practical. To this end, Components shall submit a detailed schedule of their revised plan to the Under Secretary of Defense (Acquisition, Technology and Logistics) within two weeks after receipt of this memorandum. The schedule will be updated annually on September 30 through the completion of the program. Quarterly status reports comparing the planned schedule to actual progress shall be provided to the Deputy Under Secretary of Defense (Installations and Environment) (DUSD(I&E)).

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Based on the initial Component Master Plans, this guidance establishes the following draft interim milestones:

- By October 15, 2002 the DUSD(I&E) will issue final interim milestones for each Component.
- By September 30, 2003 close RFPs or submit certificates of exemption on at least 80 percent of a Component's utility systems available for privatization.
- By September 30, 2004 reach Source Selection Authority decisions or submit certificates of exemption on at least 65 percent of a Component's utility systems available for privatization.

Components shall quantify the requirements for utility privatization and any shortfalls in meeting these requirements in their annual program and budget submissions to OSD.