



DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
INSTALLATIONS AND ENVIRONMENT
110 ARMY PENTAGON
WASHINGTON DC 20310-0110

March 13, 2003

The Honorable Duncan Hunter
Chairman
House Armed Services Committee
United States House of Representatives
Washington, D.C. 20515-6026

Dear Mr. Chairman:

Under Title 10 USC, Section 2688, Army is required to notify the appropriate committees of the Congress before conveying a utility system to a municipal, private, regional, district, cooperative utility company or other entity.

The economic analysis summary supporting privatization of the Fort Rucker, Alabama, Natural Gas Distribution System is enclosed. Privatization is expected to result in an estimated equivalent uniform annual cost avoidance of \$329,000 when compared to the cost of continued Government ownership and operation.

This is to inform you that the Army intends to transfer the Natural Gas Distribution System and award a fifty-year contract for utility services at Fort Rucker, Alabama, to the Southeast Alabama Gas District 21 days after the receipt of this letter.

Sincerely,

A handwritten signature in black ink, appearing to read "William A. Armbruster".

William A. Armbruster
Deputy Assistant Secretary of the Army
Privatization & Partnerships

Enclosure

cc: The Honorable Ike Skelton
Ranking Member



**Department of the Army
Fort Rucker, Alabama
Privatization of the
Natural Gas Distribution System**

Economic Analysis

February 2003

Executive Summary: Economic analysis demonstrates that transfer of the Fort Rucker Natural Gas Distribution System to the Southeast Alabama Gas District (SEAGD) will reduce the Government's cost over the 50-year contract term by an estimated \$5.491 million (Net Present Value). The estimated Equivalent Uniform Annual Cost Avoidance is \$.329M or 52.8 percent.

Overview of the Utility System: The Natural Gas Distribution System at Fort Rucker, which consists of the Main Post area as well as Knox and Shell Army Heliports, contains approximately 192,620 feet of gas piping varying from less than 2 inches to 18 inches in diameter. The distribution system includes 946 service connections, and four main meters and regulators. Fort Rucker currently purchases its natural gas supply from the Southeast Alabama Gas District.

Description of the government's "Should Cost" estimate (SCE): The government's "should cost" is the total cost of service to own, operate, maintain and re-capitalize the natural gas distribution system. It is based on the number of employees, direct and indirect labor costs, contracting support, and the equipment and materials used to perform work on the system.

Recommended Fair Market Value: 10 U.S.C. Section 2688 requires the Army to receive fair market value (FMV) for the utility system in return for conveying the system to the contractor. The Government determined FMV is \$ 4.2M.

Procurement History: The Defense Energy Support Center (DESC) issued Solicitation for the Fort Rucker Natural Gas Distribution System in September 2001. Duke Engineering and Services (DE&S) and SEAGD submitted initial proposals in April 2002. After initial proposals were received, DE&S removed itself from consideration. SEAGD submitted their first revised proposal on 12 September 2002, the second revision on 5 November 2002, and a third revision in November 2002. The Source Selection Board selected SEAGD as the best value proposer, February 2003.

Life Cycle Cost Analysis (LCCA): Based on the information provided by SEAGD, the privatization alternative was evaluated in comparison with the Status Quo.

Alternatives	Period (Years)	Net Present Value (\$)	Equivalent Uniform Annual Cost Avoidance	Equivalent Uniform Annual Cost Avoidance	
				\$	%
Government Owned	50	\$10.399M	\$.623 M	-	-
Contractor Ownership	50	\$ 4.908 M	\$.294 M	\$ 0.329 M	52.8 %

As summarized above, the privatization of the Fort Rucker Natural Gas Distribution System under the SEAGD proposal will reduce the Government's cost of natural gas distribution service over the 50-year contract term by an estimated \$5.491 million on a net present value basis, or approximately 52.8 percent, as compared to the Government's Status Quo (Should Cost) alternative. Privatization is expected to result in an estimated annual cost avoidance of \$ 329,000 per year.

Conclusions and Recommendations: The privatization of Fort Rucker Natural Gas Distribution System under the SEAGD proposal is economically viable. Additionally, the following findings are provided:

1. The privatization of Natural Gas Distribution System assures future upgrades and additions to this system.
2. The utility privatization action will be a cost-effective means to provide safe and reliable natural gas distribution service to the Installation.
3. Based upon the economic analysis, the privatization of the Fort Rucker Natural Gas Distribution System will result in an overall lower cost of utility service than continued government ownership.