



DEPARTMENT OF THE AIR FORCE
WASHINGTON DC

07 APR 2003

Office of the Assistant Secretary

SAF/IEI
1665 Air Force Pentagon
Washington DC 20330-1665

The Honorable Duncan Hunter
Chairman, Committee on Armed Services
United States House of Representatives
Washington DC 20515-6035

Dear Mr. Chairman

In accordance with section 2688 of Title 10, United States Code, please find attached the Economic Analysis for the proposed privatization of the electrical distribution system at Dobbins Air Reserve Base, Georgia. The analysis demonstrates that the long-term economic benefit of the conveyance exceeds the long-term economic cost, and that the conveyance will reduce the long-term costs to the Air Force for utility services provided by the subject utility system.

A similar letter has been sent to the Ranking Minority Member of your Committee.

Sincerely

A handwritten signature in cursive script, appearing to read "Fred W. Kuhn".

FRED W. KUHN

Deputy Assistant Secretary of the Air Force
(Installations)

Attachment:
Dobbins ARB Electrical System
Project Summary Report and Economic Analysis

Project Summary Report

Privatization of the Dobbins ARB, GA

Electrical Distribution System

Executive Summary: The privatization of the Dobbins Air Reserve Base (ARB) electrical distribution system under the Georgia Power Company (GPC) proposal will reduce the Government's cost of electrical service over the 50-year contract term by an estimated \$1,794,000 (Net Present Value), as compared with the Government's Status Quo (Should Cost) alternative.

Overview of the Utility System:

Description of Existing Utility System: The electrical distribution system at Dobbins ARB consists of all appurtenances physically connected to the distribution system from the point where the distribution system enters the Installation (where Government ownership currently starts) to the point of demarcation, defined by the Right of Way document. The system may include, but is not limited to, transformers, circuits, protective devices, utility poles, duct banks, switches, street lighting fixtures and other ancillary fixed equipment. The actual inventory of items sold will be in the Bill of Sale at the time the system is transferred. Specifically excluded from this privatization package are the airfield lighting (to include lighting vault, runway and taxiway edge markers, approach indicator lights, etc.), generators and traffic lights.

Description of the government's "Should Cost" estimate: The government's "should cost" is the total cost of service to own, operate, maintain and recapitalize the electrical system. It is based on the number of employees, direct and indirect labor costs, prevailing wage rates, and the equipment and materials used to perform work on the electrical system.

Procurement History: The proposed contract type is a utility service type firm fixed-price with price redetermination-prospective contract with a 50-year term. The solicitation provided for proposal evaluation was conducted using best value/source selection procedures. Offerors were evaluated against the following factors: mission capability, past performance, proposal risk, socioeconomic commitment (Plan) and price as delineated in the Source Selection Plan.

The government requested formal proposals, which were evaluated in accordance with Section M of the solicitation and the Source Selection Plan. After initial technical, past performance, socioeconomic commitment, price evaluations and negotiations were completed, the DESC Contracting Officer determined that the offer was economical and recommended them for award.

Life Cycle Cost Analysis (LCCA):

Overview: The purpose of the Economic Analysis (EA) is to assess the economic feasibility of privatizing the electrical distribution system at Dobbins ARB. Title 10 USC 2688 allows the transfer of ownership of existing Air Force utility systems to private, municipal, regional, district or cooperative utility companies or other entities.

Methodology: This EA was prepared using the USAF Utilities Privatization (UP) Certified Economic Analysis (CEA) Model Version 2.0.1 that was approved for use by SAF/FMC. The model performs a 50-year economic LCCA, comparing the LCCA of the adjusted status quo and privatization alternatives.

Assumptions:

- Federal income taxes are credited to the privatization cash flow if the privatization bidder is required to pay them. The amount of taxes credited is calculated by multiplying the annual privatized cost times the applicable utility rate from the Office of Management and Budget (OMB) Circular No. A-76, Revised Supplemental Handbook, Performance of Commercial Activities, Appendix 4, or AFI 38-203, Commercial Activities program, Attachment 9.
- It is assumed that the contract start will be in fiscal year (FY) 2003.
- The study period chosen is equivalent to the contract period of performance. In accordance with legislative authority, a 50-year contract is being used. Thus the study period of the economic analysis is 50 years.
- Discount rates are published in OMB Circular A-94, Guidelines and Discount Rates for Benefit Cost Analysis of Federal Programs, Appendix

C dated February 2002. Cash flow projections are in current year dollars; therefore, a nominal discount rate was used in the analysis.

- Contract oversight is defined as 5 percent of the privatized Operations and Maintenance (O&M) cost, up to a maximum of \$100,000, including all General and Administrative (G&A) and insurance costs.
- One-time transition cost is defined as 10 percent of the annual privatized O&M cost, up to a maximum of \$50,000.

Government Status Quo/Contractor Proposed Life Cycle Cost Analysis:

Date Generated 4/3/02 11:43

Version: 2.0.1.1-D

Table 1

Dobbins ARB: Electric Utility System ECONOMIC ANALYSIS REPORT

EXECUTIVE SUMMARY REPORT

PROJECT TITLE	Dobbins ARB: Electric Utility System
NAME OF BIDDER	Georgia Power
NOMINAL DISCOUNT RATE	5.8%
TYPE OF DISCOUNTING	Middle of Year
PERIOD OF ANALYSIS	50
START YEAR	2002
BASE YEAR	2002
END YEAR	2051
REPORT OUTPUT	Thousands of Current Dollars
PROJECT OBJECTIVE	Evaluate Utility Privatization

SUMMARY OF ANALYSIS

Net Cost Analysis	Present Value (thousands of dollars)
Status Quo	5,578
Privatized	3,784
Savings from Privatization	1,794
Ratio SQ/ Privatized Cost	1.47

System Value Benchmarks	Estimated Value (thousands of dollars)
Replacement Cost New Less Depreciation (RCNLD)	932
Original Cost Less Depreciation (OCLD)	381

Conclusions and Recommendations: The privatization of the Dobbins ARB electrical distribution system under the Georgia Power Company proposal appears to be economically viable. Presented below are the study's detailed conclusions and recommendations.

1. The privatization of the Dobbins ARB electrical distribution system pursuant to the GPC proposal will reduce the Installation's cost of electrical distribution service by an estimated 32 percent, as compared to the Status Quo (Should Cost) alternative.
2. The potential privatization of Dobbins ARB electrical distribution system will provide for future upgrades and additions, on a timely basis.
3. The potential privatization action will provide a cost-effective means to provide continued safe and reliable electrical distribution service to the installation.
4. Privatization of the Dobbins ARB electrical distribution system will result in overall lower cost of utility service than continued Government ownership and operation.
5. The Air Force should follow through with the privatization of the Dobbins ARB electrical distribution system, under the GPC proposal.

Certified Economic Analysis

Utilities Privatization

Dobbins ARB, Georgia

April 2002

1.0 Executive Summary

INSTALLATION: **Dobbins ARB, Georgia**

PROJECT TITLE: **Privatization of Utility Systems**

SCOPE OF PROJECT: **Electric Utility System**

**ALTERNATIVES
CONSIDERED:**

Adjusted Status Quo. This alternative defines the electric utility distribution system, as government owned, with utility support services coordinated by the Government.

Privatization. This alternative defines the electric utility distribution system as privately owned with utility support services coordinated by the owner. Georgia Power Company (GPC) is the alternative selected for the privatization alternative.

**DISCOUNTED LIFE CYCLE
COSTS OF ALTERNATIVES:**

A 50-year economic life cycle cost analysis (LCCA) was performed using procedures and models developed by HQ AFCESA and approved by SAF/FM. Privatization of the electric system through an award to GPC would result in a 50-year savings to the government of \$1,794,000. See Table 1 on the following page for the model summary.

A sensitivity analysis also supports privatization. Significant changes in major components of the Status Quo costs do not change the economic decision. See Section 9.0.

**COST-BENEFIT ANALYSIS &
DISCUSSION OF BENEFITS:**

The benefits of privatization are lower maintenance costs for Dobbins ARB. The annual payments for service under privatization will result in standard maintenance and repair of the system on a timely basis. Privatization will also free resources for other mission requirements. Additional benefits are discussed in Section 8.

RECOMMENDATION:

The offer by GPC is lower than the Adjusted Status Quo costs and satisfies the conditions specified in 10 USC 2688, Utility Systems Conveyance Authority. Therefore, GPC is eligible for award of the electric distribution system under the terms offered.

2.0 Certificate of Satisfactory Economic Analysis

Installation/MAJCOM: Dobbins ARB/AFRC
Project Title: Privatization of the Electric Utility Distribution System

An economic analysis was prepared for this project using the procedures approved by SAF/FMC (See Appendix I). The following alternatives were considered:

- a. Adjusted Status Quo
- b. Privatized

Summary of analysis results: The costs of privatization are lower than the Status Quo; therefore, privatization is economical. (See Table 1).

Certification: This economic analysis follows the instructions in AFI 65-501, *Economic Analysis*, and the procedures in AFMAN 65-506. Significant changes to project scope, major assumptions, or estimated costs will invalidate this certificate and require revision of this analysis.

Coordination at base/installation level:

Not Applicable. AFRC retained economic analysis management at the MAJCOM level.

Coordination at MAJCOM Level:

for MAJCOM Financial Analysis Office:
(Mr. John J. Coleman/HQ AFRC/FMAPS/DSN497-1419)

Signature Kimberly J. Dickerson
Date 11 Apr 02 Kimberly J. Dickerson

MAJCOM Civil Engineering Office:
(Col Jon D. Verlinde/HQ AFRC/CE/DSN497-1100)

Signature Jon D. Verlinde
Date 12 Apr 02

Certification by MAJCOM FM:
(Col Fred W. Freeman/HQ AFRC/FM/DSN497-1376)

Signature Fred W. Freeman
Date 15 Apr 02

Coordination at HQ AFCESA:

HQ AFCESA:
(Thomas J. Burns/HQ AFCESA/CESC/DSN523-6263)

Signature Thomas J. Burns
Date 15 APR 02