



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



June 11, 2003

REPLY TO
ATTENTION OF

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

Dear Mr. Chairman:

Under Title 10 United States Code, 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.

A summary of the economic analyses supporting privatization of the Fort Leonard Wood, Missouri, electrical distribution system is enclosed. Privatization is expected to result in an estimated annual cost avoidance of \$2.694 M when compared to the cost of continued Government ownership and operation.

This is to inform you that the Army intends to transfer the electrical distribution system and award a fifty-year contract for utility services at Fort Leonard Wood, Missouri, to the Laclede Electrical Cooperative, Inc. 21 days after the receipt of this letter.

Sincerely,

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

Enclosure

cc: The Honorable Ike Skelton
Ranking Member



**Department of the Army
Fort Leonard Wood, Missouri
Privatization of the Electrical
Distribution System**

Economic Analysis

May 2003

Executive Summary: The economic analysis conducted for the electrical distribution system at Fort Leonard Wood demonstrates that privatization will reduce the Government's cost over the 50-year contract term. The economic analysis for the electrical distribution system resulted in an estimated annual cost avoidance of \$2,694,000 when compared with the cost of continued Government ownership and operation.

Overview of the Electrical Distribution System:

Fort Leonard Wood currently purchases wholesale power supply at several delivery points. The main installation area is supplied at 12.5kV from Sho-Me Power Electric Cooperative at four separate primary delivery points. The electrical distribution system consists of the following:

- Distribution Stations – 4 (@ 12.5 kV)
- Distribution Line (overhead) - 95 circuit-miles of primary line.
- Distribution Line (underground) – 5 circuit-miles of primary line.

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 recapitalize the electrical 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 electrical distribution system.

Recommended Fair Market Value: 10 U.S.C. Section 2688 requires the Army to receive fair market value for the utility systems in return for conveying the systems to the contractor. The Government determined fair market value is \$6,010,000 for the electrical distribution system.

Procurement History: Initial proposals were submitted by Intercounty Electric Cooperative Association, Utilicorp United, Inc., and Laclede Electric Cooperative, Inc. (LEC) in January 2002. After all three proposals were evaluated, the competitive range was narrowed to one, and Intercounty and Utilicorp were removed from consideration. This analysis is based on the latest revised proposal submitted by LEC dated October 18, 2002.

Life Cycle Cost Analysis (LCCA): The privatization alternative was evaluated in comparison with the Status Quo (Should Cost) alternative. The LCCA was developed utilizing UPEAST 5.1. The results of the LCCA are summarized in the following tables:

Electrical Distribution System:

Alternatives	Period (Years)	Net Present Value (\$)	Equivalent Uniform Annual Cost	Annual Cost Avoidance	
				\$	%
Government Owned	50	\$ 79.86M	\$ 4.79 M	-	-
Contractor Ownership	50	\$ 34.95M	\$ 2.10 M	\$ 2.69 M	56.1 %

Privatization of the Fort Leonard Wood electrical distribution system under LEC's' proposal is expected to result in an estimated annual cost avoidance of \$2,694,000 when compared to the cost of continued Government ownership and operation.

Conclusions and Recommendations: Privatization of Fort Leonard Wood's electrical distribution system is economical. Additionally, the following findings are provided:

1. The privatization of Fort Leonard Wood's electrical distribution system will eliminate the need for the Installation to perform these functions and will allow a firm whose competence is electrical distribution system operation and maintenance to operate and maintain the systems.
2. The privatization of Fort Leonard Wood's electrical distribution system assures future upgrades and additions to these systems.
3. The utility privatization action will be a cost-effective means to provide safe and reliable electrical distribution service to the Installation.