



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

August 1, 2003

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

Dear Mr. Chairman:

Under Title 10 United States Code, Section 2688, the 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 Military Ocean Terminal Sunny Point electrical distribution utility system is enclosed. Privatization is expected to result in an estimated annual cost avoidance of \$27,810 compared to the cost of continued Government ownership and operation.

This is to inform you that the Army intends to transfer the electrical distribution utility system and award a fifty-year contract for utility services at the Military Ocean Terminal Sunny Point, North Carolina, to the Brunswick Electric Membership Corporation 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
Military Ocean Terminal Sunny Point,
North Carolina
Privatization of the Electrical
Distribution Utility System
Economic Analysis Summary**

July 2003

Executive Summary: The economic analysis conducted for the electrical distribution utility system at Military Ocean Terminal Sunny Point (MOTSU) 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 \$27,810 when compared with respective costs of continued Government ownership and operation.

Overview of the Utility System:

The (MOTSU) Electrical Distribution System consists of overhead electric distribution (approximately 135,276 Circuit Feet); underground electrical distribution lines (approximately 15,700 circuit feet); disconnect & transfer switches (1-3 pole, gang-operated, 27kV, air brake switch); supporting utility poles (approximately 1,200); transformers (approximately 200); electric meters (approximately 32); street and lighting fixtures (approximately 1,614); street and site lighting poles/towers (approximately 779); emergency generator sets (97); and train approach signals (4). The system has reached half of its life expectancy and has some maintenance challenges due to the corrosive nature of salt-water in the area.

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 utility 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 utility system.

Recommended Fair Market Value: 10 U.S.C. Section 2688 requires the Army to receive fair market value for the utility system in return for conveying the system to the contractor. The Government determined fair market value is \$1,770,000.

Procurement History:

1. The solicitation was issued 27 September 2001 with a closing date of 26 March 2002.
2. Proposals were received from Brunswick Electric Membership Corporation (BEMC) and Duke Power (Duke). The BEMC proposal included three alternatives, each representing a different pricing structure and schedule.
3. Technical evaluations were conducted between March 2002 and August 2002.
4. Duke withdrew its proposal on 6 August 2002 and left BEMC as the only interested party.
5. Negotiations commenced in September 2002 and BEMC submitted revisions to its Alternate proposals in October and December 2002 and again in February and April 2003.

6. Negotiations concluded 2 April 2003. The three BEMC alternate proposals were evaluated and Alternate 1 was subsequently determined to be the only economical alternative as Alternatives 2 and 3 exceeded the Government estimate.

7. The Source Selection Authority Briefing was held on 26 June 2003 to recommend the award of a contract prescribed in Alternate 1 to BEMC.

Life Cycle Cost Analysis (LCCA): The privatization alternatives were evaluated in comparison with the Status Quo (Should Cost) alternative. The LCCAs of each alternative was developed utilizing EconPack version 2.1.2. The results of the LCCA for Government Ownership and the Contractor Ownership Best Value Alternative are summarized in the following tables:

Alternatives	Period (Years)	Net Present Value (\$)	Equivalent Uniform Annual Cost	Annual Cost Avoidance	
				\$	%
Government Owned	50	\$ 12.024 M	\$ 0.652 M		
Contractor Ownership	50	\$ 11.511 M	\$ 0.625M	\$ 0.027 M	4.3%

Conclusions and Recommendations: Privatization of the MOTSU Electrical Distribution Utility System IAW the BEMC Best Value Alternative is economical. Additionally, the following findings are provided:

1. The privatization of the MOTSU Electrical Distribution Utility System will eliminate the need for the installation to perform these functions and will allow a firm whose competence is electrical distribution utility system operation and maintenance to operate and maintain the system.

2. The privatization of the MOTSU Electrical Distribution Utility System assures future upgrades and additions to these systems.

3. This privatization action will be a cost-effective means to provide safe and reliable electrical distribution utility services to the Installation.