



Competitive Acquisition of Natural Gas and Electricity

Defense Energy Support Center

Jacob R. Moser
Acting Director, Installation Energy

June 4, 2002



Briefing Outline



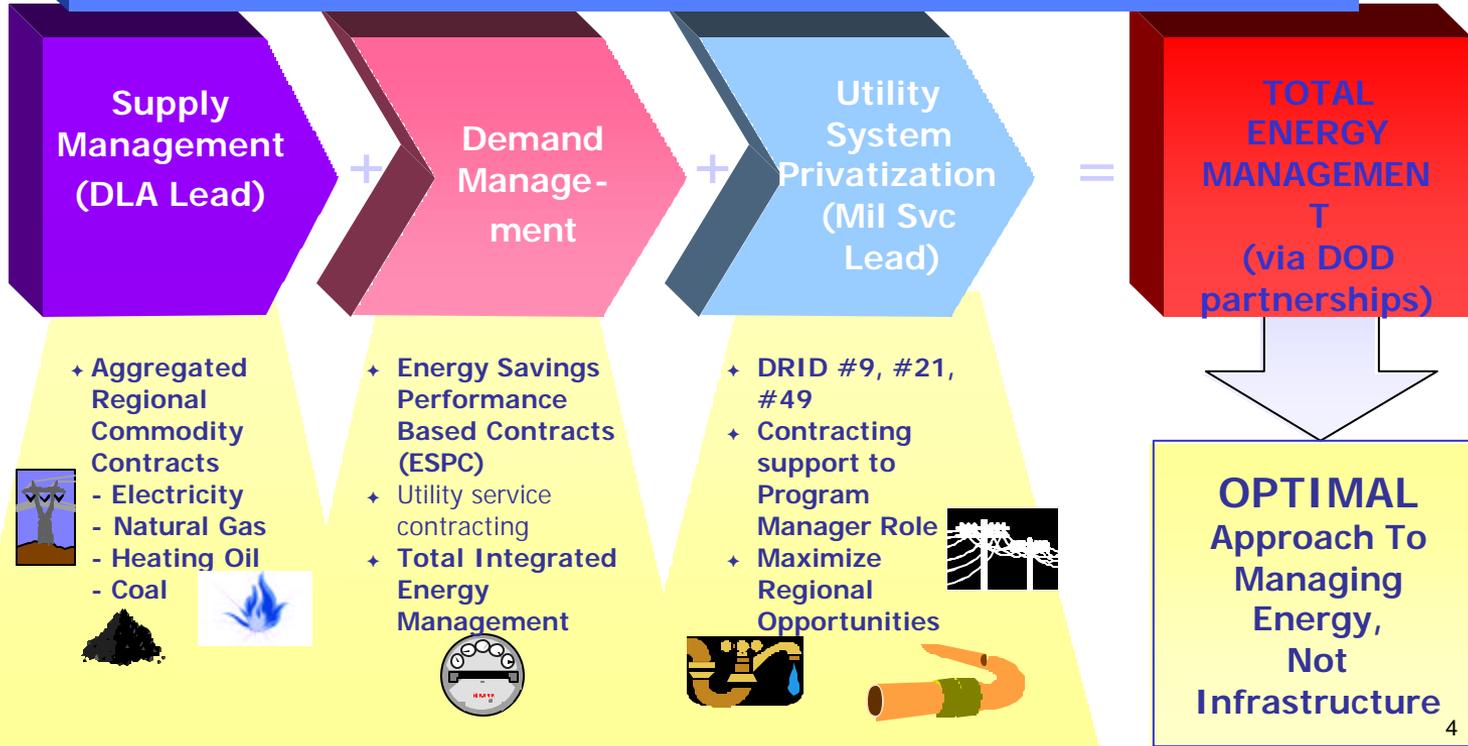
- Managing DoD's Energy Bill
- DoD Natural Gas Program
- DESC's Electricity Program



Energy Mission Strategic Plan Recap

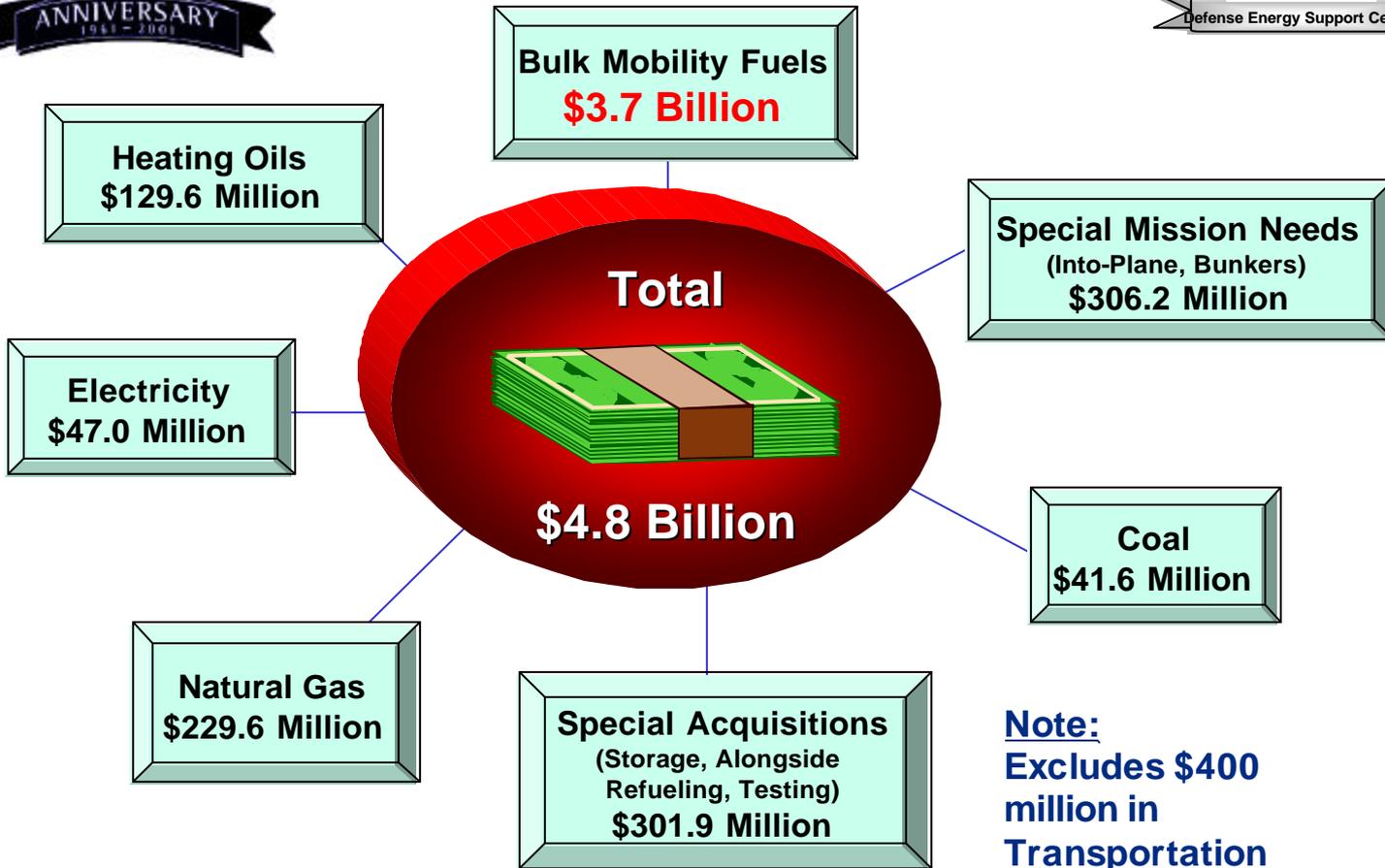


**Program Manager Perspective:
"Satisfy DOD's Energy Needs at Best Value"**





DESC FY 2001 Estimated Contract Purchases of Product





DESC Natural Gas Mission



- DoD program established - 1990
- Provide quality service and support
- Lower installation's energy costs
 - Save money while maintaining supply reliability
 - Provide competitive procurement –CICA
- Aggregate geographic demand, manage supply, procurement, and transportation for natural gas customers



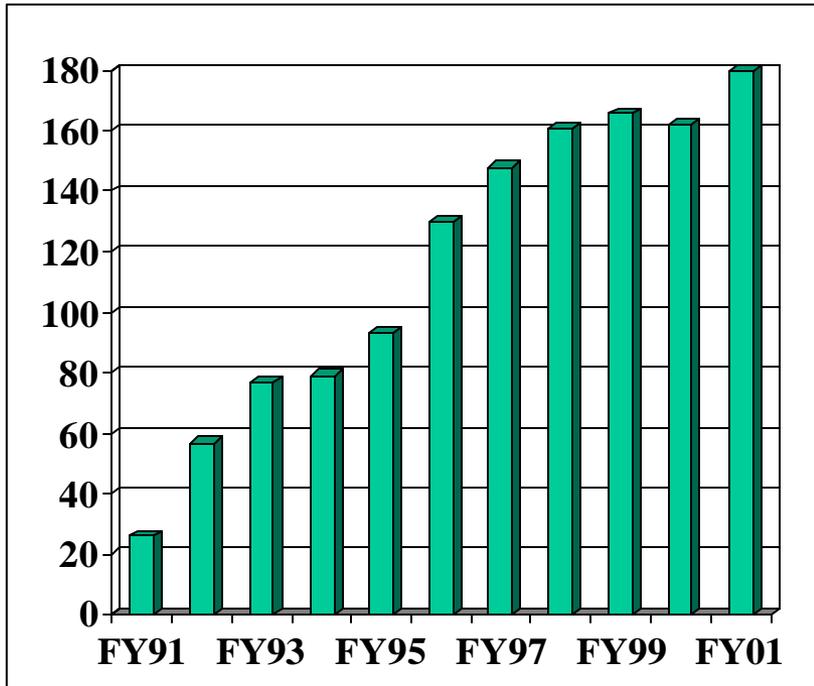


Department of Defense

NATURAL GAS PARTICIPATION & COST AVOIDANCE



DoD Participation
121% growth FY94-FY01



FY 01 DOD Participants		
Army	68	
Navy	21	
Air Force	44	
DOD	14	
Total	180	

DOD Natural Gas Cost Avoidance		
Total	\$93.5	\$13.9
Other DOD	\$76.7	\$10.7
Air Force	\$58.5	\$2.7
Navy	\$7.9	(\$3.3)
Army	\$236.3	\$.8
Total	222.4	\$22.4

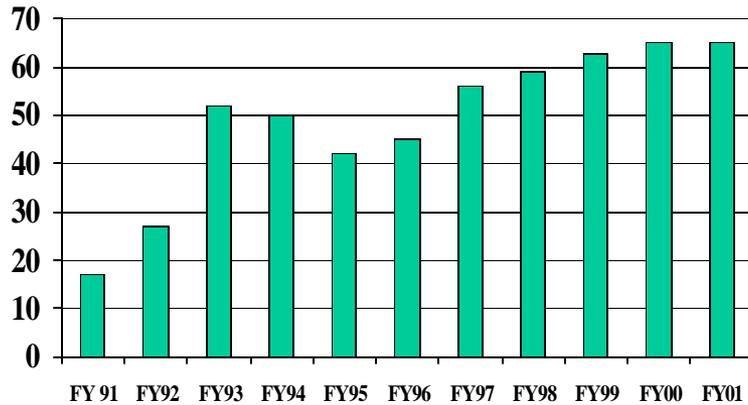
(Dollars are in Millions)



Federal Civilian Agencies



HISTORICAL PARTICIPATION



SOURCE: INSTALLATION ENERGY COMMODITY BUSINESS UNIT

FY01 Federal Civilian Agency Participants	
DOE	16
Veterans Administration	20
Department of Justice	9
NASA	5
Others	15
Total	65

By partnering with DESC to procure direct supply natural gas, civilian agencies saved over \$6.5 million in FY01.





Natural Gas Contracts



- 100% Competitive - Maximize Cost Avoidance
 - 100% Commercial Item
 - 100% Focused on the Customer
- Tailored Logistics Support
- Direct Vendor Delivery - Close to the Meter as Practicable
 - Burner Tip
 - City Gate
 - Into Pipeline
 - Built in Readiness and Flexibility
 - Firm Delivery
 - Interruptible Delivery
 - Limited Interruptible Delivery



Natural Gas Contracts (cont'd)



- Market Driven
 - Aggregate by Market Area (Interstate Pipeline)
 - Contract Terms
 - Monthly
 - Annual
 - Multi-year
 - Pricing – Primarily Fixed Price With EPA
 - Supply “Indexed” to Market Indicators
 - Escalated Monthly
 - Firm Fixed Price Conversions
- Requirements-type Contracts



Natural Gas Challenges



- Updating process as market evolves
- Determining customer's risk profile
 - tolerance for market price risk and price volatility
- Managing price volatility
 - Finding optimal balance between monthly index pricing and firm fixed prices
 - Implementing risk mitigation strategy that meets customer needs
 - 2001 was the most volatile in history with respect to natural gas prices



Natural Gas Contracting Officer POC's



NORTHEAST AND CENTRAL REGIONS:

Name:

Pam Griffith
Lori Simms
Brad Backus

Email:

pgriffith@desc.dla.mil
lsimms@desc.dla.mil
bbackus@desc.dla.mil

Phone:

703-767-8328
703-767-8566
703-767-8528

SOUTH AND WEST REGIONS:

Gabriella Earhardt
Elizabeth Pesenti
Betty Hoapili

gearhardt@desc.dla.mil
epesenti@desc.dla.mil
bhoapili@desc.dla.mil

703-767-8152
703-767-8564
703-767-8561



Natural Gas and Electricity Similarities



	GAS	ELECTRICITY
INDUSTRY STRUCTURE	Production (deregulated) Transmission (regulated) Distribution (regulated)	Production (deregulated) Transmission (regulated) Distribution (regulated)
REGULATORS	FERC State PUCs	FERC State PUCs
MAJOR UTILITIES	Many are the same	Many are the same
MAJOR MARKETERS	Many are the same	Many are the same
AFTER DEREGULATION	Commodity	Commodity
INCLUDE ANCILLIARY SERVICES?	Yes, to meter	Yes, to meter
TYPE OF PROCUREMENT	Commercial Item (FAR Part 12)	Commercial Item (FAR Part 12)
SMALL AND SMALL DISADV. BUSINESS ISSUES	Same 	Same
MARKET and PRICING ISSUES	Same	Same 



Competitive Electricity Procurement Program



Cost Avoidance				
	FY99	FY00	FY01	TOTAL
CA	\$722K	\$1,346K	\$2,566K	\$4,634K
PJM*	\$165K	\$1,066K	\$525K	\$1,756K
ME		\$6K	\$229K	\$235K
TOTAL	\$887K	\$2,418K	\$3,320K	\$6,625K

*PJM – Represents awards in PA, NJ, MD, DE, DC

In addition to the above awards, RFP’s have been issued in NY, DE, IL, RI, CT. Under these procurements, the incumbent utility was determined to be the “best value.”

Customers**

Army	24
Navy/	
Marine Corp	114
Air Force	12
Army Res.	261
ANG	3
Other DoD	4
Fed Civ.	24
Coast Guard	7
TOTAL	449

** Customers = activities submitting requirements under electricity RFPs



Electricity Contracts



- Objective: select best value (3rd party or utility)
- 100% Competitive
- 100% Commercial Item
- 100% Focused on the Customer
- Market Driven
 - Aggregate by Power Pool/ISO/RTO
 - Contract Performance Periods Vary due to:
 - Market Conditions
 - Customer Preferences
 - Availability of “Default Rates”
 - Anticipated Regulatory Changes
 - Pricing Structure Varies due to:
 - Market Structure
 - Type of Default Rate in Place
 - Customer Risk Profile



Electricity Challenges



- Keeping current on market and restructuring status
- Analyzing and understanding the “rules” and default rates
- Buying in a manner as close to commercial practice as practicable
- Determining customer’s risk profile
- Managing price volatility
- Contract Administration (when things do not work right)



Electricity Contracting Officer POC's



Name:
John Nelson
Larry Fratis

Email:
jnelson@desc.dla.mil
lfratis@desc.dla.mil

Phone:
703-767-8333
703-767-9415