

C1. CHAPTER 1

DoD CENTRALIZED NATURAL GAS PROGRAM

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C1.1. GENERAL

This chapter provides policy guidelines and management responsibilities to procure natural gas centrally from producers and dealers through the competitive procurement process. Consult respective Military Service vehicle fleet management guidance to fulfill compressed natural gas and liquefied natural gas requirements for vehicular motor use. The U.S. natural gas industry deregulation and availability of open access interstate and intrastate pipeline transportation creates significant cost savings opportunities for DoD installations that participate in the centralized Direct Supply Natural Gas Program (DSNGP).

C1.1.1. Applicability. This chapter applies to OSD, the Office of the Chairman of the Joint Chiefs of Staff and the Joint Staff, the Military Services including Reserve Components, Combatant Commands, and Defense Agencies, hereafter referred to collectively as the “DoD Components.” The term “Military Services” refers to the Army, Navy, Air Force, and Marine Corps.

C1.1.2. Scope. This chapter applies to DoD installations located in the domestic United States, including Alaska.

C1.2. POLICY

C1.2.1. DSNGP. DoD Components competitively acquire direct supply natural gas (DSNG) under the Defense Energy Support Center (DESC) Natural Gas Program when cost effective and the DSNG has the same degree of supply reliability as other practical alternative energy sources. All contracting is accomplished in accordance with subpart 212 of the Defense Federal Acquisition Regulation (DFAR).

C1.2.2. Participation Guidelines

C1.2.2.1. All DoD installations that have the ability to compete natural gas requirements shall participate in the DoD centralized DSNGP.

C1.2.2.2. Exclude installations from the DoD DSNGP if economic analyses indicate negligible or improbable savings. Other reasons for potential program exclusion are:

C1.2.2.2.1. Local Distribution Company (LDC) refusing to provide direct supply natural gas transportation from the citygate to the installation.

C1.2.2.2.2. Base realignment and closure actions.

C1.2.2.2.3. Existing contractual arrangement with the LDC or with a multiyear direct supply natural gas supplier, such as contracts awarded by the Military Services, with better prices or with termination liabilities that exceed DESC Installation Energy Commodity Business Unit (DESC-A) projected direct supply contract cost benefits.

C1.2.2.2.4. Loss of utility-sponsored demand side management program benefits that are greater than potential savings available through the DESC-A DSNGP.

C1.2.2.2.5. Ongoing or pending legal or regulatory action that can adversely affect Government interests by program participation.

C1.2.2.3. The Deputy Under Secretary of Defense for Installations and Environment (DUSD(I&E)) shall mediate instances when DESC-A and the Military Service cannot reach agreement regarding program participation.

C1.2.3. Economic Criteria

C1.2.3.1. Each installation shall pay actual expenses associated with direct supply natural gas acquisition, which include the natural gas cost, pipeline transportation fees, storage costs, installation backup or standby charges, and established general and administrative operating costs directly associated with program participation.

C1.2.3.2. Except in instances as described in subparagraph C1.2.3.3., where there is no established LDC gas supply option available, or where an end-use customer is directly connected to an interstate pipeline, the estimated total direct supply natural gas annual and average unit cost to an installation by program participation shall be less than that offered by the LDC at time of contract award or less than the comparable per unit cost of any alternative energy source readily consumed by the installation measured at the burner tip.

C1.2.3.3. Where the Military Services identify the need to minimize the affects of market volatility, the Military Services shall work with DESC-A to develop written budget stability programs and plans for execution. The goal of such programs is to provide the interested Service with some level of price certainty and may or may not lead to “savings” versus market or quasi-market based utility pricing.

C1.2.4. Contracting

C1.2.4.1. DESC serves as the DLA agent and has sole responsibility to contract DoD direct supply natural gas requirements.

C1.2.4.2. DoD installations shall procure direct supply natural gas through the DESC-A centralized competitive procurement process when contracts are cost effective and consistent with policy to provide secure and reliable service to support installations’ missions.

C1.2.4.3. DESC-A may enter into advisory and assistance contracts to evaluate direct supply natural gas competitive acquisition issues including, but not limited to, market identification, pipeline transportation, storage, and gas supply option economic analysis.

C1.2.5. Requirements

C1.2.5.1. Mandatory DoD installation participation is essential to achieve maximum available cost savings from the centralized DSNGP.

C1.2.5.2. Military Services and Defense Agencies shall electronically submit direct

supply natural gas requirements to DESC-A using DD Form 2692, "Direct Supply Natural Gas Data Requirements."

C1.2.5.3. DESC-A shall coordinate and consolidate direct supply natural gas requirements to thereby reduce product and transportation costs. Figure C1.F1. provides geographic illustration of current DESC-A direct supply natural gas procurement areas. DESCI 4220.1, "Requirements Submission Schedules For Energy Commodities And Related Services" prescribes the DSNGP requirement submission schedule.

C1.2.6. Budgeting. DLA and the Military Services shall develop, program, and execute independent budgets to satisfy respective obligations under the DSNGP. Military installations that desire reimbursable procurement shall submit DD Form 448, "Military Interdepartmental Purchase Request" to DESC-A. DESC-A shall fund contracts with the Defense Working Capital Fund (DWCF) and the Defense Finance and Accounting Service (DFAS) shall bill installations accordingly.

C1.3. RESPONSIBILITIES

C1.3.1. The DUSD (I&E) shall:

C1.3.1.1. Develop and coordinate natural gas program policies for approval by the Under Secretary of Defense for Acquisition, Technology, and Logistics (USD(AT&L)) or the Secretary or Deputy Secretary of Defense.

C1.3.1.2. Provide DoD Components with guidance to effectively manage the DSNGP, systems, procedures, and to ultimately ensure effective program implementation.

C1.3.1.3. Request access to Department of Energy natural gas reserves as necessary to support DoD natural gas requirements pursuant to section 7430(1) of title 10, United States Code.

C1.3.1.4. Mediate DoD installation program participation disputes between DESC-A and the Military Services.

C1.3.2. The Under Secretary of Defense (Comptroller) shall:

C1.3.2.1. Establish budgetary and funding policies and guidance for the DoD Components relative to the management of natural gas requirements.

C1.3.2.2. Establish and coordinate policies and guidance for management information system(s) design and implementation relative to natural gas.

C1.3.3. The Chairman of the Joint Chiefs of Staff shall advise the DUSD(I&E) concerning policies, programs, and responsibilities relevant to natural gas for military force contingency plans support. Additionally, the Chairman shall recommend domestic United States gas allocation during crisis periods.

C1.3.4. The Defense Energy Support Center (DESC) shall:

C1.3.4.1. Serve as the single direct supply natural gas procurement manager for DoD installations.

C1.3.4.2. Publish and maintain the DoD DSNGP schedule.

C1.3.4.3. Consolidate DoD installation natural gas requirement reports by procurement areas.

C1.3.4.4. Perform or arrange economic analyses of natural gas supply options.

C1.3.4.5. Prepare economically advantageous direct supply natural gas delivery solicitations and awards, administer contracts, and procure natural gas pipeline storage.

C1.3.4.6. Perform contract administration functions such as order placement and contractor invoice payment upon mutual agreement with the Military Services.

C1.3.4.7. Identify competitive natural gas and pipeline transportation availability and investigate energy cost reduction opportunities through the centralized acquisition process. DESC-A shall cultivate supplier, interstate pipeline, and LDC relationships to increase direct supply natural gas acquisition and delivery opportunities.

C1.3.4.8. Monitor Federal Energy Regulatory Commission and pipeline transportation rates to advise Military Services and the DUSD(I&E) of findings pertinent to program success.

C1.3.4.9. Provide periodic procurement status reports to the Military Services that provide the status of each centralized natural gas and pipeline transportation acquisition.

C1.3.4.10. Arrange direct supply natural gas centralized acquisition training for the Military Services.

C1.3.4.11. Monitor gas market and industry trends to prepare significant issues reports to the Military Services.

C1.3.4.12. Notify the Military Services of any potential for rate intervention identified during centralized direct supply natural gas procurement activities.

C1.3.4.13. Provide ordering, central payment, gas storage, and pipeline transportation services to centrally-managed installations.

C1.3.5. The Military Services shall:

C1.3.5.1. Plan, program, budget, and fund natural gas requirements in support of installations under DLA/DESC centralized direct supply natural gas contracts. Work with DESC-A on all aspects of the natural gas program. Military installations that desire reimbursable procurement should submit DD Form 448 to DESC-A. DESC-A will fund contracts with the DWCF and DFAS in turn bills installations accordingly.

C1.3.5.2. Use DD Form 2692 to provide the appropriate delivery point such as Local Distribution Company, Burnertip and pipeline transportation type such as interruptible, limited interruptible and/or firm of its natural gas requirements to DESC-A. Additionally, information concerning any special or installation-specific requirements or constraints such as special LDC service arrangements for inclusion in the solicitation shall be included.

C1.3.5.3. Maintain the installation and LDC relationship regarding natural gas transportation from the citygate to the burner-tip when DESC-A contracts specify delivery to the LDC citygate.

C1.3.5.4. Maintain gas utility service contracts when LDC gas delivery cost is less than DESC-A direct supply natural gas delivery cost to the burner-tip, taking into account appropriate gas supply, transportation, and administration costs including surcharges.

C1.3.5.5. Monitor state regulatory commission activities and advise DESC-A of regulatory actions that may affect the DESC-A DSNGP.

C1.3.5.6. Provide continued utility rate expertise and regulatory and rate intervention services for cost analysis and rate intervention support to dominant user Military Service installations in the LDC territory. Provide these services for DESC-A on a reimbursable basis when requested.

C1.3.5.7. Perform economic analyses as desired, validate installations natural gas requirements, and provide appropriate requirements including technical specifications to DESC-A in accordance with DESC I 4220.1.

C1.3.5.8. Jointly review economic analysis of supply options with DESC-A.

C1.3.5.9. Participate in technical criteria development of DESC-A direct supply natural gas solicitations, and/or participate in technical review of proposals offered in response to solicitations when requested.

C1.3.5.10. Ensure installations have LDC transportation agreements in effect that specify delivery to the LDC citygate prior to the initial delivery start date of a DESC-A direct supply natural gas contract.

C1.3.5.11. Ensure installation personnel associated with DESC-A direct supply natural gas contracts and LDC pipeline transportation agreements receive adequate contract and agreement procedures training.

C1.3.5.12. Issue delivery orders through individual installations against DESC-A direct supply natural gas contracts unless otherwise agreed upon by DESC-A and the installation.

C1.3.5.13. Submit timely payment to contractors for direct supply natural gas and LDC services through the respective installation, unless joint alternate payment responsibility by DESC-A, installation, and respective Military Service is agreed.

C1.3.5.14. Promptly report any direct supply natural gas delivery or contract solicitation information problems to DESC-A.

C1.3.6. Participant installations shall:

C1.3.6.1. Provide natural gas requirements data such as historical and projected natural gas consumption, alternative fuel capability, and associated site costs necessary for DESC-A economic evaluation and determination whether to include an installation requirements in a solicitation.

C1.3.6.2. Provide contract post-award administrative support such as ordering, balancing, and payment functions in accordance with DESC-A contract provisions.

C1.4. CONTRACT TRANSITION

The Military Services shall identify direct supply natural gas requirements to DESC-A that are not currently in the program due to long-term utility contracts expiring during the next procurement cycle. Additionally, the Military Services shall identify requirements capable of being competed but not part of the DSNGP. The responsible Military Service shall continue to administer existing Military Service-awarded direct supply natural gas contracts until the first renewal option if an option exists and until or unless formally relinquished to DESC-A.

C1.5. CONTRACTING PROCESS

This section discusses matters related to interruptible, limited interruptible, and firm transportation direct supply natural gas contracts for which DESC-A is assigned responsibility. Contract terms take precedence whenever there is conflict between this summary and the contract.

C1.5.1. Procedural Summary

C1.5.1.1. DESC-A shall solicit and award natural gas contracts with interruptible, limited interruptible, and firm transportation based on types of natural gas requirements submitted by the installations.

C1.5.1.2. For installations not currently in the DESC program, a DESC-A economic analysis will determine whether it is in the best interest of the Department of Defense for the installation to participate in the DoD centralized natural gas program and to place orders against assigned contracts. DESC-A and installations shall jointly review these analyses to evaluate if a DESC-A contract is the best method to achieve maximum overall savings or other desired outcome during a specific contract delivery period.

C1.5.2. Pre-Solicitation

C1.5.2.1. DESC-A shall notify installations of procurement cycles and provide requests for necessary information.

C1.5.2.2. Installations shall advise DESC-A when inclusion of its requirements in the proposed solicitation may adversely affect ongoing or planned LDC rate intervention activities or if anticipated LDC rate structure changes could potentially alter the decision to include an installation in the DESC-A solicitation. Installations affected by Base Realignment and Closure actions, consolidation and/or optimization plans, and technical changes in future natural gas requirements or energy systems that support specific installation requirements shall notify DESC-A at this time.

C1.5.2.3. Installations shall submit installation requirements to DESC-A in accordance with DESC-4220.1. Agencies shall report requirements to DESC-A using DD Form 2692 including detail of the topics in subparagraphs C1.5.2.3.1. through C1.5.2.3.7:

C1.5.2.3.1. LDC willingness to transport natural gas and applicable rate schedules.

C1.5.2.3.2. Terms, conditions, and renewal date(s) of existing utility supply arrangements if applicable.

C1.5.2.3.3. Monthly historical gas consumption appropriate for interruptible, limited interruptible, and/or firm service requirements; peak-day load for interruptible service when available; maximum daily quantity for firm service when available; and supply management or billing services.

C1.5.2.3.4. Alternate energy sources and current cost.

C1.5.2.3.5. Installation point of contact information including name and address of ordering office, invoice receiving office, payment office, and contracting office.

C1.5.2.3.6. Specific and installation-unique technical criteria to include in the DESC-A solicitation.

C1.5.2.3.7. Identify the desired delivery point, which is usually the LDC citygate or interconnection with an interstate pipeline.

C1.5.2.4. Installations shall complete a written transportation agreement with the LDC for contract gas volumes when the DESC-A contract specifies natural gas delivery to the LDC citygate. The installation shall provide appropriate tariff rates to DESC-A. The formal LDC transportation agreement shall be in place prior to the anticipated contract delivery period. One of two methods generally achieves an LDC transportation agreement:

C1.5.2.4.1. General Services Administration (GSA) area-wide contracts most frequently provide natural gas transportation services to installations where available. A typical supplemental agreement to the existing GSA area-wide contract, usually designated as "Exhibit A," provides transportation service from the LDC citygate to the installation burner tip.

C1.5.2.4.2. Part 41 of the DFAR authorizes a separately negotiated contract with an LDC when a GSA area-wide contract is not available and thereby permits negotiation of a majority of contract clauses normally required in the Government contracting process.

C1.5.2.5. DESC-A shall incorporate requirements into the solicitation package and issue a Request for Proposal. Copies of the DESC-A solicitation package shall be available to Military Service on the DESC Web site at <http://www.desc.dla.mil/DCM/DCMPage.asp?pageid=188>.

C1.5.3. Post-Solicitation

C1.5.3.1. Military Services may participate in technical review and/or evaluation of proposals submitted to DESC-A in response to direct supply natural gas solicitations.

C1.5.3.2. DESC-A shall develop economic analyses for installations new to the DESC program.

C1.5.3.3. For these installations, DESC-A and the installation shall jointly review the economic analysis used to determine participation.

C1.5.3.4. DESC-A shall advise Military Services regarding installations with anticipated marginal cost savings and provide projected economic effect upon those installations and all others in the contract package upon withdrawal of non-economic installations at the completion of final offer evaluations. DESC-A and the respective Military Service(s) shall formulate a coordinated course of action in these instances.

C1.5.4. Post-Award

C1.5.4.1. Installation personnel shall issue contract delivery orders, receive natural gas deliveries, and pay contractor invoices, unless otherwise agreed by DESC-A and the Military Service. DESC-A shall perform these functions for installations under central management and shall be reimbursed for applicable service costs.

C1.5.4.2. Installations shall maintain a cordial relationship with LDCs and shall obtain distribution and other services from the LDC under the governing tariff rates, terms, and conditions.

C1.5.4.3. Installations shall furnish copies of each delivery order and invoice and shall immediately report any natural gas supply or contract problems to DESC-A.

C1.5.4.4. DESC-A shall provide training to Military Service installation personnel to enable them to satisfy contract support responsibilities.

C1.5.4.5. Military Services shall provide adequate training to installation personnel who participate in the program to fulfill related responsibilities.

C1.6. SOLICITATION AND CONTRACT DISTRIBUTION

C1.6.1. The DESC-A contracting officer shall distribute and post copies of direct supply natural gas solicitations and amendments on the DESC Web site at

<http://www.desc.dla.mil/DCM/DCMPage.asp?pageid=188>. These documents shall be available to the Military Services, including each installation ordering office listed in the solicitation.

C1.6.2. DESC-A shall electronically distribute or post electronic copies of all contracts and contract modifications to the Electronic Document Access (EDA) system. DESC-A shall electronically post price adjustment contract modifications on the DESC Web site at <http://www.desc.dla.mil/DCM/DCMPage.asp?pageid=188>.

C1.7. CONTRACT ADMINISTRATION

C1.7.1. Exclusive DESC-A Government-contractor relationship responsibilities include the following:

C1.7.1.1. All contract modifications including those modifications affecting price.

C1.7.1.2. Contractor or installation complaints.

C1.7.1.3. Disputes between contractors and the Government.

C1.7.1.4. All matters pertaining to contractor natural gas delivery performance ordered by the Government.

C1.7.2. Military Services shall report contract and contractor performance problems to DESC-A.

C1.8. ORDERING, INVOICING, AND PAYMENT PROCEDURES

This section provides monthly ordering, invoicing, and payment instructions for all installations that participate in the DSNGP with the exception of installations centrally managed by DESC-A.

C1.8.1. Forecasting, Nominating, and Ordering Procedures

C1.8.1.1. For contracts that require monthly orders by installation personnel, installations shall forecast natural gas quantities required for delivery during the following month no later than 2 working days prior to the 25th of the month. Forecast preparation generally entails information gathering from the installation utilities and energy engineering organization to obtain historical gas usage and review past periods that most closely resemble the current installation gas load size. Data collected on extreme weather conditions such as coolest and warmest periods, seasonal weather predictions, mission changes, and facility or installation expansions or reductions are also useful to refine natural gas forecasts.

C1.8.1.2. For those installations under contracts that call for monthly orders, in the absence of a monthly order, the order shall become the estimated quantity stated in the contract.

C1.8.1.3. If remote access to meter-read data is not available to contractors where natural gas supply management is required, installations shall read gas meters at least once a week and

relay the information to the contractor to ensure natural gas quantities ordered correspond as closely as possible to actual consumption. When monthly order quantities misalign with actual use quantities, the Delivery/Management Options provisions contained in the DESC Natural Gas Contract Statement of Work allows an installation to use quantities of a specified percentage above (+) or below (-) the actual use quantity without additional Government cost.

C1.8.1.4. The DESC-A contracting officer shall negotiate the price applicable for quantities that exceed the allowed range specified by the contract when absent contractual methodologies provide quantity pricing outside the specified tolerance. Installations shall provide confirmation of all original delivery order quantity changes to DESC-A.

C1.8.1.5. Installation personnel at locations without supply management included in the contract shall be conversant in LDC quantity balancing policy to thereby avoid penalty situations and shall order, nominate, and adjust quantity-balancing strategies in compliance with LDC and interstate transportation procedures and agreements.

C1.8.2. Invoice Certification and Paying Procedures

C1.8.2.1. The installation shall contact the LDC on the first day of each month, or shortly thereafter, to obtain gas quantities delivered to the LDC system during the previous month on behalf of the installation. When the delivery point is directly into a pipeline system rather than the LDC citygate, the installation shall obtain delivery report documents from the pipeline company. The installation shall in either case request an “imbalance statement” from the LDC or a copy of the pipeline “delivery record” in order to verify actual delivered quantities against contractor invoiced quantities. Installations shall request a natural gas consumption printout that reports both daily gas receipt quantities and gas consumption quantities from LDC locations that gather electronic gas meter readings. The document provides a useful tool for the installation to verify contractor invoices. The “Statement of Work” clause and the “Contract Terms and Conditions - Commercial Items, paragraph (g)” clause contained in the DESC Natural Gas Contract govern contractor invoice payments.

C1.8.2.2. The installation shall verify unit gas prices invoiced when certifying a contractor invoice for payment and shall pay the contractor the contract price in effect at time of delivery or the invoiced price, whichever is lesser of the two. Monthly prices posted during the delivery month on the DESC Web site at <http://www.desc.dla.mil/DCM/DCMPage.asp?pageid=188> and identified as “PA” modifications reflect contract prices adjusted in accordance with the Economic Price Adjustment - Market Price and Transportation clause contained in the DESC Natural Gas Contract.

C1.8.2.3. Negotiated price adjustments between the Government through DESC and the contractor may also occur for approved alternate delivery plans or other situations where revised pricing is not included in the contract. In these cases, a contract modification provides the appropriate adjusted payment price.

C1.8.2.4. Installations shall certify gas delivery quantities and payment prices and immediately forward the payment invoices to the designated paying office. The 30-day window to process payment commences upon Government receipt of a proper invoice in accordance with the Prompt Payment Act. When an office other than the finance or payment processing center or

ordering office initially receives the delivery invoice, the 30-day payment period begins upon invoice receipt at the first Government office, not when received at the finance office. Installations shall complete the entire invoice certifying and payment process within 30 days or shall consequently incur interest penalties for which the installation is responsible to pay. The installation shall notify the DESC-A Contracting Office when any invoice payment discrepancy occurs that cannot be resolved in timely fashion.

C1.9. CURTAILMENT PROCEDURES

C1.9.1. Current DESC-A contracts stipulate the contractor shall advise the DESC-A Contracting Officer and installation ordering officer within 2 hours of pipeline curtailment or interruption. In cases where an interruptible installation is unable to use alternative fuels or instances of force majeure, DESC-A and the installation shall jointly determine course of action.

C1.9.2. DESC-A shall obtain natural gas market range of the installation area and review the contractor alternative delivery plan when provided. The installation shall provide the following information:

C1.9.2.1. Alternative fuel capability, availability, quantity, and cost.

C1.9.2.2. Availability of stored gas.

C1.9.2.3. Availability and cost of LDC gas, if any.

C1.9.2.4. Installation preference if the contractor is unable to provide natural gas by an alternate delivery plan priced within the market range.

C1.9.2.5. Other pertinent information.

C1.9.3. DESC-A and the installation shall jointly determine what alternative to use to satisfy installation requirements during natural gas delivery or supply curtailments: contractor alternative delivery plan, emergency natural gas purchase, stored natural gas, LDCs natural gas, or alternative fuel. The DESC-A Contracting Officer is sole approval authority for any contractor plan to continue natural gas delivery by an alternate route and/or alternate supply source. DESC-A shall perform all necessary contracting actions upon selection of a contractor alternative plan or emergency purchase alternative.

C1.10. DIRECT SUPPLY NATURAL GAS TRAINING PROGRAM

C1.10.1. DESC-A shall establish and coordinate a training program designed to educate the Military Services in basic DSNGP principles.

C1.10.2. DESC-A shall conduct natural gas administration seminars as appropriate to promote the DSNGP.

Figure C1.F1. NATURAL GAS PROCUREMENT AREAS

