



DEPARTMENT OF THE NAVY
NAVAL FACILITIES ENGINEERING COMMAND, HAWAII
400 MARSHALL ROAD
JEPHH, HAWAII 96860-3139

11300 IN REPLY REFER TO:

Ser FM/ 00840
31 MAY 2013

Mr. Jerry Schmitz
Project Director
Hickam Communities LLC
211 Mercury Street
Honolulu, HI 96818

Dear Mr. Schmitz:

SUBJECT: NAVFAC ELECTRICITY RATE FOR FY14

Thank you for your letter dated May 8, 2013 requesting Naval Facilities Engineering Command, Hawaii (NAVFAC HI) set an electricity rate for Hickam Communities LLC (HC) that is no higher than your budgeted rate of \$.29500/KWH. I will address the issues you have raised in your letter and also clarify and provide additional information regarding your concerns.

Starting October 1, 2013, the NAVFAC HI annual stabilized electricity billing rate will be \$0.58743/KWH, plus the required surcharge, in accordance with the Department of Defense (DoD) Financial Management Regulations (FMR). The rates charged by every NAVFAC Command must be in compliance with DoD FMR Volume 11B, Chapter 11, Section 110109.A, which states, "[w]hen gains or losses occur in prior fiscal years resulting from under or over applied stabilized rates and/or prices and those gains or losses are included in current year stabilized rates estimated revenues may not equal estimated costs." Such will be the case in FY14.

As you noted in your letter, the DUSD-I&E Memo states that "the supporting Service Component shall not increase costs to the project developer/owner solely due to changes resulting from joint basing." In addition, you assert that HC did not contribute to the losses from 2009-2011. In fact, HC was charged an average of \$0.00503/KWH above the low stabilized electricity rates charged to the rest of NAVFAC HI's customers for the period from October 2010 through December 2011.

NAVFAC HI has experienced losses due to low stabilized electricity rates from 2009 through FY13, and the FY14 rate will recover a portion of the losses from FY11, and all of the losses for FY12 and FY13. HC was a customer beginning in October 2010 (FY11), and was charged lower electricity rates that contributed to losses that will be recovered in the FY14 stabilized electricity rate.

In summary, HC did benefit from lower electricity rates from October 2010 through December 2011 and the lower NAVFAC HI annual stabilized rates from January 2012 through today. As a result, HC has benefitted from these lower rates which contributed to NAVFAC HI's sustained losses being recovered in the FY14 stabilized electricity rate.

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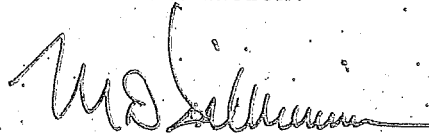
The DUSD-I&E memo referred to in your letter states that "[f]urther, reimbursement rates shall be based on a project's original legal instruments, accepted pro formas, and historical practice of calculating such costs by the supported (original) Service Component." Our practice of calculating costs that comprise the annual stabilized electricity rates is in accordance with the FMR, as outlined above, and is long standing. It has not been altered due to the joint basing arrangement.

Please also consider the following information:

- Conservation will lower the impact of the rate increase. There are many ways for consumers to conserve utilities; NAVFAC HI is available to assist in education/training regarding conservation practices.
- Beginning in FY15, the anticipated stabilized electricity rate will decrease compared to FY14 to a level that is in line with projected market rates for purchased electricity along with overhead, infrastructure maintenance and repair, and the required surcharge. Returning to a stabilized rate that tracks with the market will improve planning for all customers.

Thank you for communicating your concerns and allowing me to lay out the regulations and policies that NAVFAC HI must comply with. Per these regulations and policies and our mutually agreed upon December 2011 Utility Sales Agreement, HC's FY14 rate is \$.58743/KWH plus the applicable surcharge.

My point of contact is Ms. Melinda Rollo, Comptroller, at 471-0122. Please let us know if you require additional information.



M. D. WILLIAMSON
Captain, CEC, U.S. Navy
Commanding Officer