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**Strategic Sourcing Case Study:**

**Sandhills Utility Services and  
Cooperative Opportunities To Work With The Military**

**Key Findings**

- The U.S. Department of Defense (DoD) continues to privatize utility services at many of its 2,600 military installations in the U.S.
- Currently there are 17 electric utilities at military installations listed for privatization over the next four fiscal years.
- Sandhills Utility Services' experience in staying ahead of evolving needs and demands of the DoD and successfully bidding for a recent large project provides lessons that can benefit current and future cooperative similar efforts.

**The Sourcing Need**

The U.S. Department of Defense (DoD) continues to privatize utility services at many of its 2,600 military installations in the U.S. as part of an initiative launched in December 1997. Military privatization contracts can provide economic opportunities for electric cooperatives, as well as boost a cooperative's capabilities and reputation within and around the community. However, the military procurement process can be demanding and cooperatives will almost always face stiff competition from larger entities, including unregulated investor-owned utility subsidiaries and other third-party energy service providers.

**The Sourcing Solution**

Four electric cooperatives in North Carolina found that pooling resources and forming a cooperative partnership was key to winning a contract for the electric system that serves the huge Fort Bragg Army complex near Fayetteville. The manner in which Sandhills Utility Services, LLC (SUS) (the subsidiary created by the four co-ops) developed and structured its bid, and the experience of SUS over the past 15 years in staying ahead of the evolving needs and demands of the DoD to create a first-class utility operation, provides lessons that can inform current and future cooperative efforts for additional contracts in other locations.

**Project Background**

In 2003, after a three-year process, SUS, a for-profit entity formed by four North Carolina electric cooperatives – Lumbee River EMC, Pee Dee EMC, South River EMC and Central EMC – was selected to

run the utility system of Fort Bragg from a field of bidders that included Enron, Duke Energy, and the municipal utility in nearby Fayetteville. It was one of the earliest of the more than 30 electric utility privatization awards won by cooperatives since the DoD's Defense Reform Initiative was announced in 1997.

The decision by the Department of Defense to privatize utility system at military installations was initially framed as an effort to save money. It was also intended to focus military personnel on "the essential skills required for wartime missions" and away from activities that could be more efficiently addressed by civilian specialists. The stated objective at DoD was to either privatize or exempt (as non-economic) all utility systems<sup>1</sup> by January 2000. That date passed with only a small number of privatizations executed, and through 2018, approximately 600 have been completed.<sup>2</sup>

In the late 1990s, the electric utility industry was preoccupied by prospects of a large-scale deregulation of the electric utility business in the U.S. Electric cooperatives were concerned about the impacts of this trend on their ability to serve rural consumers and stay in business. "We were under the threat, or cloud, of deregulation," recalls Morris McClellion, CEO of Central EMC who came to the cooperative in 1999 and was made the assistant general manager in 2000. "We were being told that if you don't have five or six other revenue streams, you might not make it."

When the Army announced that the Fort Bragg utility system was going up for bid, the opportunity grabbed the attention of the cooperatives surrounding the base, says McClellion. "Rather than trying to find another business venture that we had no experience in," he says, "the idea of taking over electricity service at the base fit us like a glove."

How did four small cooperatives beat out the competition to win the Fort Bragg contract? McClellion and Donnie Spivey, CEO of Pee Dee Electric Cooperative since 2000, feel that there were three key factors:

- **Local reputation and connections.** The four cooperatives were respected for their long track record of quality service and deep roots in the community, including strong relationships between the cooperative leadership and ranking officers at Fort Bragg.
- **Power of the cooperative network.** The single greatest factor for success was the decision by the four cooperatives to join forces under the SUS banner. The depth of the cooperative bench, as outlined in the bid, included the support and as-needed services from the North Carolina statewide, the generation and transmission cooperative, and the Tarheel Electric Membership Association (TEMA), the purchasing and materials supply cooperative owned by North Carolina's electric cooperatives. TEMA remains a designated emergency response network for SUS when storms threaten major outages – though it has never been called upon to date.
- **Detailed preparation.** During the long period of preparing its bid for Fort Bragg, SUS created the first detailed map of the base utility system, which allowed it to be both realistic and accurate in spelling out the significant cost of upgrading and maintaining the aged system.

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<sup>1</sup> Utility systems include electric, gas, water, waste water and combined heat and power chillers.

<sup>2</sup> U.S. Government Accountability Office report GAO-18-558, September 2018.

## Surprises and Challenges – Lessons Learned From 15 Years of Serving Fort Bragg

### Little Impact On The Cooperative Workforce

In 2003, SUS began with a staff of six, with plans to grow to about 15. At that time, the cooperative owners of SUS expected that employees from the four cooperatives would provide many of the services at Fort Bragg, especially in the areas of finance, accounting, and engineering. In reality, just one year later, all functions on the base were being handled by SUS staff (or contractors) except for an after-hours call center which continues to be provided by Lumbee River EMC.

What changed? The enormity of the job of completely transforming the installation's utility system, combined with the growth of the base itself, as the military expanded the scale and complexity of the mission of Fort Bragg, quickly outpaced the ability of the cooperatives to meet that demand while keeping up with their primary responsibilities.

### Military Installations Are A Unique Customer

Fort Bragg may have thousands of buildings and service points, but all are bundled into one customer of SUS. The “simplicity” of this interface is reflected in communications between Fort Bragg and SUS. If tenants (individual accounts) have a service or outage issue, those calls are all routed to the base duty officer, who then contacts SUS. In other ways, working with the military is complex, from the bid process through contract execution and transfer of assets. Security of all types, from background checks, to base access and cybersecurity, is much tighter than in most civilian settings. The SUS contract with Fort Bragg spells out a mandatory response time of 30 minutes to an outage that occurs during the normal work day.

Jeff Brown, who joined SUS as engineering manager in 2004 and became CEO in 2007, came to the job with a deep understanding of both the Fort Bragg utility system and the military way of doing business. He had previously worked for 17 years for Progress Energy/Carolina Light and Power, and spent time on the base in his capacity as an engineer for Progress, which continues to supply wholesale power to Fort Bragg. He also served in the Army National Guard and Army Reserves, attaining the rank of Major, and was based at Fort Bragg.

### Turning an Outdated System Into A Model of Resiliency

In its physical condition and architecture, the utility system at Fort Bragg has always been distinctly different from the electric cooperatives surrounding it. Before the base system was privatized, “the infrastructure was in need of significant repair,” says Brown, recalling his experience at Fort Bragg when he worked at Progress Energy.

When SUS took ownership of the utility system at Fort Bragg, it began an extensive rebuild. It did not simply replace poles and wires – it moved the majority of the electricity service to underground. This was feasible in part because Fort Bragg has the density of a city – approximately 35 meters per mile, contrasted with approximately six to 10 consumers per mile at the four cooperatives. In addition to housing and military facilities, the base has more than 20 million square feet of office space, shopping centers, sports fields, and a major medical facility.

Shortly after SUS took over the Fort Bragg utility system, the base entered a major growth phase, as operations from other installations were relocated there. Buildings of World War II vintage were replaced across the installation. From 2003 to 2010, SUS almost doubled the miles of distribution lines on the base to more than 1,000 – and most of the new lines were underground construction. In that period the electric load at the base grew from 93 MW to 160 MW, while SUS grew from six to 32 full-time employees. Today, 70 percent of the electricity service is underground (compared to 35 percent in 2003), electric load at the base is 162 MW and SUS employs 39.

Because of the “mission critical” nature of the military operations at Fort Bragg, the system was built and modernized to a high level of resiliency. Along with new electrical infrastructure, SUS built 26 miles of fiber optic cable by 2010 to provide SCADA, GIS mapping, and other automation (the miles of fiber have since doubled). Most buildings are loop-fed and a network of back-up generators are deployed throughout the base.

The emphasis on resiliency has paid off in concrete terms. From 196 unplanned outages in 2004, Fort Bragg experienced just 26 outages in 2015. When Hurricane Florence devastated nearby parts of North Carolina in September 2018, only six of the 68 feeders at Fort Bragg experienced any impacts from the storm. “The military could see the test of our resiliency efforts when they went off base and saw all the destruction nearby,” says Brown.

## Can Partnerships Help Cooperatives Win Future Military Contracts?

The Department of Defense continues to place military installation utilities up for privatization, a process organized through the Defense Logistics Agency, which maintains a public notice board of upcoming bids. Currently, there are 17 electric utilities at military installations listed for privatization over the next four fiscal years.

The majority of instances where cooperatives have won military contracts have been to an individual cooperative. Nodak Electric Cooperative of North Dakota was awarded the contract for the electric utility at the Grand Forks Air Force Base in July 2018. Nodak was well-positioned, as it already provided the base with its bulk power supply. Still, the process leading up to the award began six years earlier. Another notable cooperative award came in 2016, when Choctawhatchee Electric Cooperative (CHELCO) in Florida was awarded the contract to serve Eglin Air Force Base, the nation’s largest air force installation. A key to CHELCO’s work at Eglin is to raise the standards of service, which include building an interconnection between two formerly separate parts of the sprawling base’s utility, and work on 12 projects to improve resiliency.

Still, the participants in SUS believe that collaboration among cooperatives could be crucial to some bids, particularly ones of ambitious scope and size.

“One of our considerations in the early going was, ‘do we have the resources, the experience, and the financial backing to handle Fort Bragg?’” notes Morris McClellion of Central EMC. “When the four of us came together behind one effort, we looked like a much larger organization. One thing I’d say to any cooperative considering a privatization bid: Don’t be afraid to solicit contributions from other co-ops. It will put you in a stronger position.”

“I absolutely recommend this to other cooperatives,” says Donnie Spivey of Pee Dee EMC. “Diversifying services through a military contract is particularly beneficial from a financial standpoint.” He adds that in a diversification partnership between cooperatives, “developing a detailed and forward-looking operating agreement between the cooperatives” is critical. He says the agreement should address the legal structure of the business and also the “what-ifs” – such as what if some members of the partnership want to expand the business and others don’t. “We spent considerable time developing the operating agreement and it has been effective in keeping us all on the same page as we have grown and progressed.”

When Jeff Brown of SUS talks about privatization at national meetings, he sometimes encounters the perception that serving a military installation is too big a project or too different to be tackled by a cooperative. “Co-ops should realize that they don’t have to do it on their own, they can partner with others just as our four co-ops did,” he says. “In a partnership, one co-op is not shouldering the entire burden.”

### What Co-ops Need To Know About Military Contracts

- **It’s a time-intensive process.** From initial preparation of response, to an RFP, to active ownership, the process can take several years. The transition period after award of a contract to the start of operations can be up to a year.
- **Unique contract requirements** include:
  - Response times that are set in the contract – on-call personnel must be ready to respond
  - Scheduled outages dictated by the installation
  - Redundant feeds and back-up power
  - Strict security measures

“Everything is dictated by the contract. They will hold you to every word.”

– Donnie Spivey, Pee Dee EMC

- **Demand for resiliency** has increased interest in the development of microgrids that include storage and on-site renewable power.
- **There are many meters, but just one customer.**

## SUS Profile

Sandhills Utility Services, LLC, owns, operates and maintains the electric distribution system at Fort Bragg through a 50-year privatization contract. SUS is a for-profit subsidiary established and owned by Lumbee River EMC, Pee Dee EMC, South River EMC and Central EMC, which serve the rural areas surrounding the military installation. The four cooperative CEOs form the Board of Directors of SUS.

Fort Bragg, which covers 251 square miles in parts of four counties east of Fayetteville, is the largest military installation in the world by population. It houses more than 50,000 troops and 14,000 civilians. It is home to Airborne and Special Operations, the U.S. Army Forces Command, the U.S. Army Reserve Command, the Joint Special Operations Command and the 82<sup>nd</sup> Airborne Division.

SUS owns and operates the electric service at Fort Bragg. It built or rebuilt the more than 1,000 miles of distribution line (including all of the 722 miles of underground), as well as 54 miles of fiber optic cable.

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