

COUNCIL ACTION FORM

SUBJECT: RENEWAL OF ELECTRIC SERVICES FUEL SUPPLY CONTRACT

BACKGROUND:

This contract is for the purchase of low sulfur diesel fuel for the Electric Services Department. The Utility has a 250,000-gallon main fuel tank located at the Dayton Substation to fuel the two gas-turbine (GT) units. The City also has two 42,000-gallon underground fuel tanks located in the coal yard, south of the Power Plant, to assist in the start-up of the Plant. The Utility's two gas-turbines could burn 250,000 gallons of fuel in a 60 hour time period, requiring larger refill volumes and quick refills should an emergency dictate that they stay on-line.

On March 6, 2008, staff received competitive sealed proposals from five firms. The scope of work for this contract includes supplying fuel to the Power Plant as needed. Vendors were asked to supply pricing based in the form of a markup to the daily-published "rack" average fuel price at the Des Moines, Iowa, terminal for stated products. City staff receives a daily electronic mail from the Iowa Department of Transportation stating the product's average price. If the City needs to purchase fuel, staff can determine instantly if the price is favorable based on market trends and then call the vendor to state the quantity and the delivery time. This allows the contracted vendor to secure large fuel orders and lock in prices for the City.

The goal of the contract is to create efficiency and flexibility in the purchase of a valuable commodity, ensuring that the City is able to use opportunity purchasing and to lock in performance criteria for the vendors.

On July 8, 2008, City Council awarded a contract to Keck, Inc. of Des Moines, Iowa, to supply diesel fuel under this contract in an amount not-to-exceed \$1,000,000 through June 30, 2009. Actual cost is based on the amount of fuel purchased and the contract price at the time of purchase. On October 28, 2008, the not-to-exceed amount was increased to \$2,500,000 due to fluctuating fuel prices and increased usage of the combustion turbines. The increased fuel oil usage in our peaking units was a result of Unit # 8 having seven forced outages and Unit # 7 having two forced outages during that year.

This contract has the option for the City to renew in one-year increments for up to four additional years. The agreement was previously renewed for 2009/10, and Electric Services staff recommends renewing the agreement again for 2010/11. There will be no change in the markup for the renewal period. The 2010/11 Power Plant operating budget includes \$1,500,000 for this contract.

Actual cost Invoices will be based on the amount of fuel purchased and the price of the fuel at the time of purchase.

ALTERNATIVES:

1. Approve the contract renewal with Keck, Inc., Des Moines, Iowa, to supply diesel fuel to the City's Power Plant for the period from July 1, 2010, through June 30, 2011, in an amount not to exceed \$1,500,000.
2. Do not renew the agreement and instruct staff to seek new competitive proposals.

MANAGER'S RECOMMENDED ACTION:

This contract renewal will continue to offer the City the ability to have flexibility in fuel purchasing and to maintain standards of performance for fuel content and fuel delivery. The Utility receives a daily electronic mail from the Iowa Department of Transportation stating the product's "rack" average price. The contract price is based on an adder of approximately one cent to the rack price. When the City needs to purchase fuel, Utility staff can determine instantly if the price is favorable based on market trends. Detailed ordering and delivery procedures are part of this contract.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, approving the contract renewal with Keck, Inc., Des Moines, Iowa to supply diesel fuel to the City's Power Plant for the period from July 1, 2010, through June 30, 2011, in an amount not to exceed \$1,500,000.