

## COUNCIL ACTION FORM

**SUBJECT: CYRIDE FUEL PURCHASES**

**BACKGROUND:**

CyRide purchases approximately 300,000 gallons of fuel each budget year, expending between \$700,000 and \$1,000,000 per year, a significant portion of CyRide's overall budget. In the past, CyRide entered into fuel contracts in an effort to stabilize fuel expenditures. In light of volatile fuel prices experienced during the current fiscal year, CyRide staff has explored options to control fuel expenses in the 2011-12 budget. Currently, CyRide purchases fuel on the **spot market** approximately every 7-14 days, paying market price for 7,500 gallons of fuel at the time of purchase.

With current fuel prices increasing and predicted to go significantly higher, one major tool to stabilize fuel costs is the use of **fuel contracts**, which is a contract obligating the buyer to purchase an asset (fuel) at a predetermined future date and price. Under the type of contract envisioned, CyRide would be required to purchase 42,000 gallons of fuel under each fuel contract, which would provide fuel for a 2-month period.

Under the proposal reviewed and approved by the Ames Transit Agency's Board of Trustees on December 7, 2010, CyRide would bid up to five, two-month contracts covering fuel purchases for ten months during the April 2011 through March 2012 time period. CyRide staff and the Board of Trustees have established a guideline for fuel contracting that commits no more than 70% of its total fuel usage (210,000 of the 300,000 total gallons used) under a contracting arrangement. The maximum expenditure under this approval would be \$525,000 (\$210,000 gallons x \$2.50 per gallon as contained in the 2011/12 budget). The remaining 30% of fuel would be purchased as a fixed price + markup/deduct on the market rate, which is also bid at the time contract bids are received.

If approved by the City Council, CyRide will work with the City's Purchasing Division to solicit bids on fuel contracts. Staff will not accept contracts that exceed the \$525,000 maximum. CyRide would also reserve the right to reject all bids if they are not determined to be in the best interest of CyRide at the time of bidding.

Under this procurement, the "premium" paid on the fuel cost would determine which firm proposed the lowest price. The total cost would also be calculated, which would include the NYMEX (New York Mercantile Exchange) fuel price plus the premium for each of the five contracts. An example of a low bid evaluation is provided on the following page for further clarification.

<u>Contract</u>	<u>Contract Period</u>	<u>Premium</u>	<u>NYMEX</u>	<u>Tot. Price/Gal.</u>	<u>Tot. Cost*</u>
1	Apr. – May Contract	\$.27	\$2.0230	\$2.29	\$96,180
2	Jun. – Jul. Contract	\$.27	\$2.2550	\$2.52	\$105,840
3	Aug. – Sep. Contract	\$.27	\$2.3560	\$2.63	\$110,460
4	Oct. – Nov. Contract	\$.27	\$2.8059	\$3.08	\$129,360
5	Dec. – Jan. Contract	\$.27	\$2.2159	\$2.48	\$104,160
6	Feb. – Mar. Contract	\$.27	\$2.2005	\$2.47	\$103,740
<b>Total Cost</b>					<b>\$665,700</b>

\* Based on 42,000 gallons of fuel per contract

Under this scenario, the total cost of fuel for the April-March period would be higher than the not-to-exceed amount of \$525,000. Therefore, the highest contract (4<sup>th</sup> contract) would not be accepted. CyRide would purchase fuel in October-November 2011 on the spot market under a fixed-price plus mark-up/deduct contract.

The Ames Transit Agency Board of Trustees approved the not-to-exceed amount and this fuel purchase methodology at its December 7, 2010 board meeting.

**ALTERNATIVES:**

1. Approve awarding up to 5, two-month fuel contracts at a total price not to exceed \$525,000, and accept fixed-rate + mark-up/deduct for the remainder of CyRide’s fuel purchases.
2. Do not enter into contracts, and instead purchase fuel at the time it is needed at the market rate.

**MANAGER’S RECOMMENDED ACTION:**

A great deal of staff effort has been invested to identify ways to minimize CyRide’s expense for fuel in the current volatile fuel market. The proposed strategy is both innovative and flexible, and should provide the best prices for the Transit Agency.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, thereby approving awards of up to 5, two-month fuel contracts at a total price not to exceed \$525,000, and accepting fixed-rate + mark-up/deduct for the remainder of CyRide’s fuel purchases.