

**COUNCIL ACTION FORM**

**SUBJECT: ELECTRIC SERVICES DIESEL FUEL SUPPLY CONTRACT RENEWAL**

**BACKGROUND:**

This contract is for the purchase of low sulfur diesel fuel for Electric Services. The Utility has a 250,000-gallon main fuel tank located at the Dayton Substation to fuel the two GT (gas turbine) 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 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.

In May 2011 the City received competitive sealed proposals from five firms for FY 2011/12 with the option of four one-year renewals. The scope of work for this contract included 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.

The approved contract price is based on an adder of \$0.0068 to the rack price average per gallon. 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 can 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 June 14, 2011, City Council awarded a contract to Diamond Oil Co., Des Moines, Iowa, to supply diesel fuel to be supplied as requested from July 1, 2011 through June 30, 2012, in a not-to-exceed amount of \$1,250,000. **This is renewal number four out of four. Actual cost will be based on the amount of fuel purchased the contract price at the time of purchase plus an adder of \$0.0068 per gallon.**

The approved FY 2015/16 operating budget includes \$487,500 for anticipated volumes of this fuel purchase. With conversion of the power plant from coal to natural gas, the budgeted amount is lower because diesel will no longer be used for plant light-off.

**ALTERNATIVES:**

1. Approve the contract renewal with Diamond Oil Co., Des Moines, Iowa, to supply diesel fuel to the City's Power Plant, for the period from July 1, 2015 through June 30, 2016, in an amount not-to-exceed \$487,500. Under this renewal, there is no increase from the previous year to the Diamond Oil mark-up of \$0.0068/gallon.
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 at the same mark-up price as the current year.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1 as stated above.