

COUNCIL ACTION FORM

SUBJECT: CYRIDE 2010 FUEL CONTRACTS

BACKGROUND:

CyRide used diesel futures contracts to purchase fuel from May through December 2009 in a trial project. During this period, CyRide purchased 159,576 gallons of fuel at an average price of \$1.695 per gallon. Had CyRide used the customary method of bidding fuel on the spot market, the cost per gallon would have been \$1.939 per gallon. The contracting method stabilized CyRide's fuel budget, which had been extremely volatile over the previous 12 month period.

CyRide believes it will again be advantageous to contract for fuel. The main objective of contracting is the stability it brings to the budget line item. CyRide staff, with the assistance of the City's Purchasing Division, has developed a Request for Proposal (RFP) for CyRide fuel purchases. The RFP includes the following:

- A request for fuel contract proposals covering 70% of CyRide's annual fuel needs. This equates to 210,000 of an estimated 300,000 gallons used annually.
- Fuel contracts are marketed and sold in two-month increments with a minimum quantity of 42,000 gallons per contract. CyRide could enter into up to five, two-month contracts for fuel from the lowest cost supplier.
- The total amount of all five contracts would not exceed \$483,000. This is based on the budgeted amount of \$2.30 per gallon for fiscal year 2010-2011.
- CyRide would bid the remaining 30% of its fuel needs at a premium or discount on the rack price. The rack price is published daily by the Iowa Department of Transportation (IDOT).
- CyRide would reserve the right to reject all bids if they were not determined to be in CyRide's best interest.

The purchase of fuel contracts obligates the buyer to purchase fuel at a predetermined date and price, regardless of the market price of fuel at the time of delivery. The market price of fuel may be substantially lower or higher than the contracted price. Fuel contracts are traded on the New York Mercantile Exchange (NYMEX) and require immediate confirmation. As such, they require an approval by the Transit Board and City Council of a not-to-exceed contract amount with a supplier to be named. Existing formal procurement procedures require Transit Board and City Council approval of a contract with a known supplier and price.

The Ames Transit Agency Board of Directors approved the letting of a second CyRide Fuel Contracts RFP at its February 16, 2010, meeting.

ALTERNATIVES:

1. The City Council may waive formal bidding procedures and authorize staff to solicit bids for five two-month fuel purchase contract periods, allowing staff to award up to five contracts under this bid at a cost not to exceed \$483,000. Additionally, staff would be authorized to bid the remaining 30% of CyRide fuel requirements at a premium or discount over IDOT rack prices thereby eliminating the need to bid fuel on the spot market. Staff may choose to reject all contract proposals and bids obtained through this process.
2. Reject Alternative #1 and direct staff to modify the project to reflect City Council priorities.

MANAGER'S RECOMMENDED ACTION:

Fuel is a major component of CyRide's operating budget. It is imperative that CyRide exercise all options for obtaining fuel at the lowest possible cost. The initial trial of the futures contract for fuel purchase appeared to be advantageous for CyRide, and staff feels that this method of fuel purchase should be utilized again.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, thereby waiving formal bidding procedures and authorizing staff to solicit bids for five two-month fuel contract periods. This action will authorize staff to award up to five contracts under this bid at a cost not to exceed \$483,000. Staff will also be authorized to bid the remaining 30% of fuel needs at a premium or discount on the daily IDOT rack rate.