

COUNCIL ACTION FORM

SUBJECT: **ELECTRIC SERVICES FUEL SUPPLY CONTRACT**

BACKGROUND:

This contract is for the purchase of #2 ultra 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 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.

The scope of work for this contract includes supplying fuel to gas turbines units as needed. Suppliers were asked to provide pricing based in the form of a markup or markdown to the daily-published "rack" average fuel price at the Des Moines, Iowa, terminal for stated products.

On August 27, 2019, City Council awarded the contract to Diamond Oil Company, Des Moines, Iowa to provide these services from August 28, 2019 through June 30, 2020. **The contract includes a provision that would allow the City to renew the contract for up to four additional one-year terms. The proposed renewal contract would be the first of the four optional terms. The renewal terms do not have any price increases.**

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 suppliers.

Council should note that actual cost invoices will be based on the amount of fuel purchased and the price of the fuel at the time of purchase. The total cost of fuel purchased under this contract based on typical usage is estimated to be \$200,000. However, due to uncertainty in the utility environment as a result of COVID, staff is keeping a higher volume of oil on hand than is typical. The approved FY 2020/21 operating budget includes \$300,000 for this fuel purchase.

It should be noted that under the Diamond Oil contract, the Power Plant can take delivery from two distinct points, Buckeye and Magellan. The fuel from Buckeye assures staff that we are getting fuel as per General Electric specifications. Fuel from Magellan could have a blend that may be slightly off of the General Electric specifications because many different refineries deliver into Magellan. Staff receives Magellan prices in case we need fuel and it's unavailable from Buckeye.

ALTERNATIVES:

1. Approve renewal of the contract for supplying diesel fuel to the City's gas turbine units to Diamond Oil in the amount of a (-\$0.0062) deduct off of the Magellan "rack" fuel price, and in the amount of \$0.0163 increase off of the Buckeye "rack" fuel price with a total amount not-to-exceed \$300,000.
2. Reject the renewal option and purchase fuel on an as-needed basis.

MANAGER'S RECOMMENDED ACTION:

This contract will offer the City the ability to have flexibility in fuel purchasing and to maintain standards of performance for fuel content and fuel delivery. Detailed ordering and delivery procedures will also be part of this contract.

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