

COUNCIL ACTION FORM

SUBJECT: ELECTRIC SERVICES FUEL SUPPLY CONTRACT RENEWAL

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 the gas turbines units as needed. Suppliers were asked to provide pricing 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. 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 third of the four optional terms. The renewal period is from July 1, 2022, through June 30, 2023.**

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.

The approved FY 2022/23 operating budget includes \$300,000 for this fuel purchase. 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. Typical fuel usage over a one-year period is estimated to cost \$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, which may result in higher costs during this contract year.**

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 meets General Electric specifications. Fuel from Magellan is received from many different refineries, which could potentially result in a fuel blend that differs slightly from the General Electric specifications. Therefore, the Buckeye fuel is the primary delivery point. However, staff received prices from Magellan in case fuel is urgently needed and it is 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 a total amount not to exceed \$300,000, with the options for pricing to be computed as a:
 - a. (-\$0.0062) deduct off of the Magellan "rack" fuel price, or,
 - b. \$0.0163 increase off of the Buckeye "rack" fuel price.
2. Reject the renewal option and instruct staff to seek new competitive bids.

CITY MANAGER'S RECOMMENDED ACTION:

This contract will offer the City flexibility in fuel purchasing and maintain standards of performance for fuel content and fuel delivery. Detailed ordering and delivery procedures will also be part of this contract. The actual contract amount will be based on the actual quantities delivered from each potential source.

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