LONG BEACH TRANSIT

Agenda Item No. 14
April 25, 2016

SUBJECT

Diesel/Unleaded Gasoline Fuel and Lubricants Contract

RECOMMENDED ACTION

To authorize the President and CEO to enter into a contract with Southern Counties Oil Company for the purchase of diesel fuel; and Merrimac Energy Group for the purchase of unleaded gasoline fuel for a term of three years, with two one-year options at a cost not to exceed the annual budgets approved by the Board.

BACKGROUND

To operate services, Long Beach Transit (LBT) requires approximately 500,000 gallons of ultra-low sulfur diesel fuel each year for its diesel buses and 1 million gallons of unleaded gasoline for its hybrid buses and service vehicles. As LBT replaces its older buses with Compressed Natural Gas (CNG) and zero-emission vehicles, diesel and gasoline usage will decline for its buses. LBT currently has a need for diesel and gasoline to supply its service vehicles. By the end of this five-year contract, LBT's diesel and gasoline usage will be less than 40,000 gallons a year.

PROCUREMENT

LBT issued an Invitation for Bid (IFB) for the supply of ultra-low sulfur diesel and unleaded gasoline, as its current contract expires on June 30, 2016. This IFB included a forecast of fuels for the next five years.

LBT received four bids. After an evaluation of all bids, it was determined that Southern Counties Oil Company located in Orange, California, submitted the lowest bid for diesel fuel; and Merrimac Energy Group located in Long Beach, California, submitted the lowest bid for unleaded gasoline fuel.

The purchase price of fuel would be tied to the average daily rack rate via a wholesale index called Oil Price Information Service (OPIS), plus a fixed freight charge per gallon.

Southern Counties Oil Company bid would establish the price for ultra-low sulfur diesel fuel at $0.0269 per gallon under the OPIS and a freight cost of $0.0249 for a total of $0.020 per gallon under OPIS. The pricing rates would remain fixed for the duration of the three-year base contract. In option years one and two, the rate would be of $0.0219 per gallon under the OPIS and a freight cost of $0.0349 per gallon for a total of $0.013 per gallon over OPIS.

Merrimac Energy Group's low bid would establish the price for unleaded gasoline at $0.0671 per gallon under the OPIS price, plus a fixed freight cost of $0.02 for a total of $0.0471 under the OPIS price. The pricing rates would remain fixed for the duration of the base three-year contract as well as the two one-year options.

In comparison of the rates of our current fuel contract, which includes the OPIS and freight, the difference is $0.0001 per gallon under the OPIS price for diesel. For unleaded gasoline, the difference is $0.0421 per gallon under the OPIS price for unleaded gasoline and $0.008 per gallon under the OPIS price for both one-year options.

ALTERNATIVES CONSIDERED

Keeping LBT's current supplier and entering into successive one-year contracts for a period of three years will lower LBT's initial cost burden but most likely increase costs annually and potentially result in increased costs overall in following years.

BUDGETARY/FISCAL IMPACT

Each fiscal year, as part of the annual budget process, LBT recommends a fuel and lubricants budget to the Board based on LBT's fuel usage and estimated fuel prices for the coming year. In approving the contract, the Board authorizes the President and CEO to purchase needed fuel supplies within the fiscal year budget set by the Board.

The actual budget for Fiscal Year 2016 for fuel and lubricants was $7,225,480 based on an average per gallon price of $4 for both diesel and unleaded fuel. The projected budget for Fiscal Year 2017 for fuel and lubricants is $5,725,250 based on an average per gallon price of $2.75 for diesel and $3.25 unleaded fuel.

Therefore, based on the information contained in this report, staff is requesting authorization for the President and CEO to enter into a contract with Southern Counties Oil Company for the purchase of diesel fuel; and Merrimac Energy Group, Inc., for the purchase of unleaded gasoline fuel for a term of three years, with an additional two one-year options at a cost not to exceed the annual budgets approved by the Board.

K. McDonald

Kenneth A. McDonald
President and Chief Executive Officer