



WESTMINSTER
COLORADO

CITY COUNCIL MEETING

AUGUST 14, 2023 at 7:00 PM

- B. 2024 Fixed Forward Fuel Contract with Senegy Petroleum



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Agenda Memorandum

Agenda Item – 8.B.

City Council Meeting
August 14, 2023



Strategic Priority 5: Robust Infrastructure

Provide safe and equitable access to core services and amenities by safeguarding, maintaining and improving the city's water, wastewater, stormwater, mobility and roadway systems.

Subject: 2024 Fixed Forward Fuel Contract with Senergy Petroleum

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Recommended City Council Action:

Authorize the City Manager to award the City of Westminster's 2024 unleaded gasoline and diesel fuel purchases, including downside protection, to Senergy Petroleum (formerly Hill Petroleum) in an amount not to exceed \$1,600,000 based on the results of the Colorado Multiple Assembly of Procurement Officials bulk fuel purchase and delivery for Multiple Assembly of Procurement Officials agencies bid RFB-22-22_MAPO, Bulk Purchase and Delivery for Colorado MAPO Agencies.

Summary Statement:

- The City of Westminster purchases approximately 210,000 gallons of unleaded gasoline and 100,000 gallons of diesel fuel annually.
- For 2023, the City is purchasing 190,000 gallons of unleaded gasoline and 90,000 gallons of diesel fuel on a 12-month fixed-price contract with Senergy Petroleum.
- Staff recommends acquiring downside protection with the 2024 fuel purchase. Fixed-price contract pricing with downside protection is estimated to be \$3.65 per gallon for unleaded gasoline and \$4.05 per gallon for diesel fuel delivered.
- Funding for this action comes from anticipated 2024 appropriations, with the 2024 budget adoption anticipated for October 2023.

Fiscal Impact:

\$1,600,000 in expenditures.

Source of Funds:

Fleet Management Fund: Fleet Management Fund Division Operating Budget – Anticipated 2024 appropriations.

Policy Issue(s):

Should the City proceed with unleaded gasoline and diesel fuel purchases, including downside protection, for 2024 with Senergy Petroleum using the using the MAPO bulk fuel purchase and delivery for Colorado Multiple Assembly of Procurement Officials (MAPO) agencies bid award?

Alternative(s):

The City could buy all fuel based on daily market bids, also referred to as spot purchasing instead of using the MAPO bulk fuel purchase and delivery. This is not recommended, as fuel prices on the spot market can move up and down, based on remote factors such as worldwide political activity and weather trends along the Gulf Coast. Additionally, contracted fuel is a guaranteed take-or-pay supply that assures a “first at the pipe” priority over fleets that utilize spot purchasing.

Background Information:

The City purchases approximately 310,000 gallons of motor fuel annually. Unleaded gasoline purchases are the highest at 200,000 gallons, while diesel fuel purchases average 100,000 gallons. Fuel is dispensed at three City locations: the Municipal Service Center (MSC), Big Dry Creek Facility (BDC), and Parks Operations Center (POC). Fuel is delivered to the City in either a transport load or a smaller tank wagon load. A full transport load of unleaded gasoline is 8,500 gallons, while a full transport load of diesel fuel is 7,500 gallons. Only the MSC has enough storage capacity to receive full transport deliveries. The fuel tanks at BDC and POC are smaller, so deliveries are shipped in tank wagons instead of transport trailers.

The City has historically used two methods, spot purchasing and fixed-price contracts, to procure fuel for the City’s fleet. Each method has benefits and challenges. Spot purchasing, or purchasing on the daily market, allows the City to take advantage of price decreases in the market. However, this method has several disadvantages:

- The City is not guaranteed a fuel supply in the event of supply shortages or disruptions.
- The City is exposed to higher prices when the market prices rise.
- Staff is required to request bids from at least three fuel vendors each time fuel is ordered which sometimes occurs multiple times a week. This requirement can cause delays.
- Multiple vendors increases the risk of a fuel quality issue or a delivery issue.

The second method of fuel purchasing is a fixed-priced contract with one fuel supplier. This method of procurement has the following benefits:

- It establishes security of the City’s fuel supply by establishing a “first at the pipe” priority, ensuring fuel supply for the City over fleets that utilize through spot purchasing. For example, as refineries decrease fuel production for maintenance, customers holding contracts are accounted for, and are first to receive their allotted fuel deliveries.

- It facilitates diligent management of the fuel budget by establishing pricing that is stable, and within the approved budget level.
- It minimizes risk to the City's fuel supply by having one supplier delivering fuel. This creates a supply chain that has clear accountability for quality. It also minimizes delivery issues to the City's fueling sites by having delivery drivers that are familiar with the City's fueling facilities.

Fixed-price contracts have been used for a number of years as a way to procure fuel for the City's fleet. Staff use several pieces of information to develop requested quantities for the fixed-price agreements, including the amount and type of fuel issued at each City fuel location, the method used to deliver the fuel, and the fuel budget number.

On July 15, 2022, MAPO awarded Senergy Petroleum with a bulk fuel purchase and delivery contract (RFB-22-22_MAPO). On June 20, 2023, the City was notified by Senergy Petroleum, that Arapahoe County awarded a one-year extension of this agreement for August 1, 2023 to July 31, 2024. Senergy Petroleum has been a reliable fuel supplier and proven vendor for the City.

The City is currently purchasing unleaded gasoline and diesel fuel on a fixed-price contract with Senergy Petroleum. For 2023, the City is purchasing 190,000 gallons of unleaded gasoline and 90,000 gallons of diesel fuel. The City purchased downside protection as part of the fuel contract for 2023 and, based on current market pricing, Staff recommends continuing this option in 2024. Fuel prices are volatile and can change rapidly due to worldwide political activity and weather events along the Gulf Coast. Fuel suppliers offer downside protection due to the volatility in the fuel market. Downside protection acts as an insurance policy should prices drop below the contracted prices during the life of the contract. If market prices fall below the contracted rates, the City would pay a lower per gallon price based on the published Oil Price Information Services (OPIS) average. OPIS maintains the most comprehensive database of U.S. wholesale petroleum prices, publishing more than 30,000 rack prices each day at over 1,500 terminals in nearly 400 market locations. This protection is purchased as an additional option at a price of approximately \$0.35 per gallon. The cost of downside protection increases as the forecasted cost of fuel increases.

The benefits of a fixed price agreement with downside protection are:

- The City will not pay more than the contract prices for gasoline and diesel even if prices rise.
- The City will benefit from lower prices should fuel rates drop below contract prices.

Fixed-price contracts are "take or pay," meaning the City is financially responsible for the total gallons under the contract. Any remaining off-contract gallons will be purchased based on the OPIS daily pricing option.

Staff is recommending pursuing a 12 month (January 2024 to December 2024) fixed-price contract for 190,000 gallons of unleaded gasoline and 90,000 gallons of diesel fuel, including downside protection, from Senergy Petroleum in an amount not to exceed \$1,600,000 based on the results of the Colorado Multiple Assembly of Procurement Officials bulk fuel purchase and delivery for Multiple Assembly of Procurement Officials agencies bid RFB-22-22_MAPO, Bulk Purchase and Delivery for Colorado MAPO Agencies.

This fixed fuel contract helps achieve the City's Strategic Plan goal of Robust Infrastructure by securing the City's fuel supply, within budget, to provide City services in a safe and equitable manner in 2024.

Respectfully Submitted,

Mark A Freitag

Mark A. Freitag
City Manager