



City of Norman, OK

Municipal Building
Council Chambers
201 West Gray
Norman, OK 73069

Master

File Number: BID-1617-2

File ID: BID-1617-2

Type: Bid

Status: Consent Item

Version: 2

Reference: Item 12

In Control: City Council

Department: Public Works
Department

Cost:

File Created: 08/09/2016

File Name: Unleaded/Diesel Fuel Delivery

Final Action:

Title: CONSIDERATION AND AWARDED OF BID 1617-2 FOR UNLEADED GASOLINE AND #2 DIESEL FUEL FOR THE FLEET MANAGEMENT DIVISION.

Notes: ACTION NEEDED: Motion to accept or reject all bids meeting specifications; and, if accepted, award the bid to Red Rock Distributing Company as the lowest and best bidder meeting specifications for all sections.

ACTION TAKEN: _____

Agenda Date: 09/13/2016

Agenda Number: 12

Attachments: Bid No 1617-02 Tabulation, Fuel Bid Table,
Attachment Fuel Contract Bid No. 1617-02

Project Manager: Mike White, Fleet Supt.

Entered by: sharon.hamilton@normanok.gov

Effective Date:

History of Legislative File

Ver- sion:	Acting Body:	Date:	Action:	Sent To:	Due Date:	Return Date:	Result:
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Text of Legislative File BID-1617-2

Body

BACKGROUND: The City of Norman owns and operates a fleet of 475 on-road fueled vehicles and over 200 off-road fueled equipment. Approximately 600,000 gallons of unleaded and diesel fuel was used by the City in FYE 2016 at a cost of \$1.6 million. In an effort to manage the annual cost of fuel, the City utilizes a competitive bidding process every four years, or as needed. The current contract with Red Rock Distributing Company approved by City Council on September 24, 2012 expires on September 24, 2016.

On July 11, 2016, bids were opened on Bid 1617-2 for the delivery of unleaded and diesel fuels to the City of Norman. The bid involves only the transportation costs for delivery of the fuel to the City's four (4) fueling facilities located at North Base, Fire Station No. 5, Fire Station No. 6 and Westwood Golf Course. All bidders are required to provide the fuel to the City at the lowest "rack price" or market rate on the day of each delivery, so this bid only includes the transportation fees to deliver the fuel to Norman.

DISCUSSION: The bid package was sent to ten (10) vendors, three (3) of whom responded: Mansfield Oil, Co. of Gainesville, GA; Petroleum Traders Corp. of Fort Wayne, IN; and Red Rock Distributing Company of Oklahoma City, OK.

If approved, the City has the option to renew this contract annually, for a period of four (4) years, provided that the services continue to be acceptable to the City. Pricing shall be reviewed at the beginning of each annual renewal period at which time the City will determine whether to renew or rebid.

The bid affirms the vendor's ability to supply the fuel within a twenty-four (24) hour notice to any City-owned location. The bid also establishes the overall transportation fee the vendor will charge in addition to the agreed upon rack price (market rate) of the fuel as well as mandatory state and federal underground storage tank (UST) fund charges.

Transportation fees consist of a profit margin, freight charges and freight surcharges. The rack price (market rate) for fuel is determined several different ways by using a service called Oil Price Information Service (OPIS). Two of the most common ways of establishing the final (base) price of delivered fuel are **Cost Plus** and **Revenue Minus**. Suppliers post their fuel prices on a daily basis and those prices are published in OPIS. OPIS obtains its rack and revenue prices each day from all of the major wholesalers in each region where there is a terminal. To calculate a state's daily average rack and revenue price, OPIS averages all of the rack prices and all of the revenue prices in all of the terminals in the state each day. The overall price of each is used to determine the base price for fuel at the time of delivery.

The two most common methods of establishing the final price of fuel paid by the City are:

Cost Plus: Traditionally, the City has the vendor use the lowest rack price of the day from any of the state of Oklahoma's local terminals for the base price of fuel. Rack price refers to the cost charged to the fuel vendor. This is called "Cost Plus" and it takes the lowest **rack** price at the time of order and adds in the transportation fees.

Revenue Minus: Another common method to determine base price for fuel is Revenue Minus; it has the vendor use the regional revenue price average of the day for the base price of fuel and subtracts the transportation fee. This is the average cost to the consumer (not the vendor) minus the quoted transportation fees.

The daily price of fuel is known to have a wide margin of fluctuation. Research has shown that in the Midwest Region, the Revenue Minus Method has proven to be the more volatile of the two methods with a price range fluctuation as much as 50 percent per gallon. City staff recently benchmarked with the City of Edmond, City of Midwest City, City of Oklahoma City and the City of Tulsa regarding fuel costs. All of those municipalities are using the Cost Plus Method. City staff recommends the use of the Cost Plus Method to establish the final price for fuel.

The City requires the fuel vendor to provide a copy of the daily OPIS report with the invoices to validate the rack price. OPIS website: www.opisnet.com [<http://www.opisnet.com>](http://www.opisnet.com).

All municipalities are tax exempt which includes the state of Oklahoma fuel tax. However, a state and federal underground storage tank (UST) fund applies to all municipal fuel deliveries. Federal charges are \$0.001 per gallon. State charges are \$0.01 per gallon for a combined UST fund charge of \$0.011 per gallon. In addition, there is a federal environmental fee of \$0.0019 per gallon on unleaded and diesel fuel delivered to the City.

Bobtail deliveries are less than 2200 gallons total. Currently, this would apply to deliveries at Fire Station No. 5, Fire Station No. 6 and Westwood Golf Course.

The lowest and most suitable bidder using the Cost Plus method is Red Rock Distributing Company, showing transport fees 34% lower than the FYE 2013 Fuel Bid for unleaded fuel and 31% lower for diesel fuel. The City of Norman has used Red Rock Distributing Company over the last eleven years for unleaded and diesel fuel deliveries. Red Rock Distributing Company has met or exceeded all previous contract obligations.

The bid tabulation is included as an attachment. If this bid is approved by Council, staff estimates the FYE 2017 Transport fees paid to Red Rock Distributing Company will be approximately:

Bobtail deliveries - \$2,000
Transport Unleaded - \$7,645
Transport Diesel - \$9,384

Total -\$19,029

In FYE 2016, the City paid Red Rock Distributing Company \$26,205 for these fuel transportation services. The average base price paid by the City of Norman was \$1.65/gallon for unleaded fuel and \$1.46/gallon for diesel fuel.

RECOMMENDATION: Staff recommends that Bid 1617-2 be awarded to Red Rock Distributing Company for all sections of delivery using the Cost Plus Method. Funding in the amount of \$1,404,612 is available in the City's Outside Fuel Inventory Account (010-5073-435.31-18).