TO:       HONORABLE CITY COUNCIL
FROM:    CITY MANAGER       DEPARTMENT: PUBLIC WORKS
DATE:   NOVEMBER 22, 2004    CMR:479:04
SUBJECT:  APPROVAL OF A PURCHASE ORDER WITH VALLEY OIL COMPANY
IN AN AMOUNT NOT TO EXCEED $750,000 FOR AUTOMOTIVE FUEL SERVICES

RECOMMENDATION
Staff recommends that Council:

1. Approve and authorize the City Manager to execute a purchase order with Valley Oil
   Company in the amount of $750,000 for Automotive Fuel Services.

2. Authorize the City Manager or his designee to negotiate and execute one or more changes
   to the purchase order with Valley Oil Company to cover increases in the price of fuel that
   may occur, the total value of which shall not exceed $75,000 for each contract period.

3. Authorize the City Manager or his designee to exercise the option to renew the purchase
   order in the amount of $750,000 for the second and third year, provided the contractor is
   responsive to the City's needs, and the quality of the contractor's products and service is
   acceptable during the first year of the contract.

DISCUSSION
Valley Oil Company will furnish unleaded gasoline, diesel, and biodiesel fuel, in accordance
with City specifications, and at the Oil Price Information Service (OPIS) San Jose “rack
average” price in effect on the date of delivery. Fuel will be delivered into tanks located at the
Municipal Services Center, Landfill, Golf Course, Fire Stations One, Two, and Four, Water
Quality Control Plant, Foothills Park, Civic Center, and several standby generator sites.

Summary of Bid Process

<table>
<thead>
<tr>
<th>Bid Name/Number</th>
<th>Automotive Fuel Services – RFQ 109500</th>
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</thead>
<tbody>
<tr>
<td>Proposed Length of Purchase Order</td>
<td>12 months with option to renew</td>
</tr>
<tr>
<td>Number of Bids Mailed to Contractors</td>
<td>7</td>
</tr>
<tr>
<td>Total Days to Respond to Bid</td>
<td>20</td>
</tr>
<tr>
<td>Pre-Bid Meeting?</td>
<td>No</td>
</tr>
<tr>
<td>Number of Bids Received:</td>
<td>2*</td>
</tr>
<tr>
<td>Bid Price Range</td>
<td>From a low of $673,035 to a high of $676,583**</td>
</tr>
</tbody>
</table>

* Bid summary provided in Attachment A.
** First year cost only, based on OPIS October 24, 2004 San Jose Rack Average fuel pricing.
Staff has reviewed all bids submitted and recommends that the bid of $673,035 submitted by Valley Oil Company be accepted and that Valley Oil be declared the lowest responsible bidder. The change order amount of $75,000, which equals 10 percent of the total purchase order value, is requested to insure against the volatility of fuel prices, which are expected to increase during the term of the purchase order.

The Request for Quotation (RFQ) required that contractors bid their “margin cost” only. They were also required to provide net fuel pricing for each product (explained in the next paragraph). The margin cost is added to the price of each gallon of delivered fuel, and reflects the delivery cost, markup, and other fixed costs. The margin cost varies by site, depending on the product, and the size and location of the delivery. The cost per gallon for full “truck and trailer” deliveries (typically 7,000 gallons or more) is much less than for “tank wagon” deliveries of less than 1,000 gallons.

Net (rack average) fuel pricing is established by the OPIS index, which changes on a daily basis. Given this price volatility, it is not possible to enter into a fixed-price contract for fuel. The RFQ required that contractors provide rack average fuel pricing from the October 24, 2004 OPIS index; however, this pricing was used only to determine the total bid price and the estimated value of the purchase order. It will not be part of the contract.

Total bid pricing was determined by multiplying the delivered cost of the fuel (OPIS rack average plus margin cost) by the estimated quantity required at each site. Each vendor provided the same net fuel pricing, therefore, the low bidder, Valley Oil, bid the lowest overall margin cost. The purchase order value has been set above the bid price of $673,035 to allow for an expected increase in fuel prices over the next 12 months. The actual cost may be higher or lower than the estimate of $750,000, subject to fuel market trends.

**RESOURCE IMPACT**
Funds have been budgeted for this contract in the FY 2004-05 Public Works Department Equipment Management Operations and Maintenance budget.

**POLICY IMPLICATIONS**
Authorization of the contract does not represent any change to the existing policy.

**ENVIRONMENTAL REVIEW**
Contractor is required to comply with all federal, state and local environmental laws and regulations applicable to the transportation and delivery of automotive fuels.

**ATTACHMENTS**
Attachment A: Bid Summary
Attachment B: Certification of Non-Discrimination

PREPARED BY:

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DEPARTMENT HEAD:

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Director of Public Works

CITY MANAGER APPROVAL:

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