



CITY OF NORMAN, OK STAFF REPORT

MEETING DATE: 08/13/2024

REQUESTER: Mike White, Fleet Program Manager

PRESENTER: Scott Sturtz, Interim Director of Public Works

ITEM TITLE: CONSIDERATION OF ACCEPTANCE, APPROVAL, REJECTION, AMENDMENT, AND/OR POSTPONEMENT OF AWARDED BID 2425-7: AN ACCEPTANCY OF A QUOTE FROM RED ROCK DISTRIBUTING COMPANY, BY THE CITY OF NORMAN, OKLAHOMA, TO PROVIDE UNLEADED AND DIESEL FUEL DELIVERY SERVICES AT CERTAIN PRICES FOR THE CITY'S FLEET MAINTENANCE FUELING FACILITIES AS OUTLINED IN THE STAFF REPORT.

BACKGROUND:

The City of Norman owns and operates a fleet of 644 on-road fueled vehicles and over 300 pieces of off-road fueled equipment. Approximately 482,000 gallons of unleaded and diesel fuel was used by the City in fiscal year 2023-2024 (FYE 2024) at a cost of \$1.3 million. To manage or reduce the annual fuel cost, the City utilizes a competitive bidding process every four (4) years or as otherwise needed. The current contract with Red Rock Distributing Company, approved by the City Council on September 08, 2020, expires on September 20, 2024.

On July 19, 2024, the responses to the City of Norman's request for quotes of pricing to deliver unleaded and diesel fuels (herein Bid No. 2425-7) were opened. Bid No. 2425-7 involves only the transportation costs for fuel delivery to the City's four (4) fueling facilities located at North Base, Fire Station 5, Fire Station 6, and Westwood Golf Course. All responding bidders are required to provide the fuel to the City at the lowest "rack price" or market rate on the day of each delivery, including all applicable fees, so this bid only includes the transportation fees to deliver the fuel to Norman.

DISCUSSION:

The bid package was sent to five (5) vendors, two (2) of whom responded with quotes: Red Rock Distributing Company of Oklahoma City, OK, and OFFEN Petroleum of Springfield, MO.

If approved, the City has the option to renew its acceptance of the chosen bidder's pricing annually for as many as four (4) years, provided that the fueling 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 provided quote affirms the vendor's ability to supply the fuel within a twelve-hour notice to any City-owned location. It also establishes the overall transportation fee the vendor will charge in addition to the agreed-upon rack price (market rate) of the fuel and 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 in several ways by using the Oil Price Information Service (OPIS) service. Suppliers post their fuel prices daily, which are published in OPIS. OPIS obtains its rack and revenue prices daily 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 and revenue prices in all of the terminals in the state each day. The overall price of each determines the base fuel price 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 fuel price. Rack price refers to the cost charged to the fuel vendor. This is called "Cost Plus," it takes the lowest rack price at the time of order and adds to the transportation fees.

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

The daily fuel price is known to have a wide margin of fluctuation. Research has shown that the Revenue Minus Method has proven to be the more volatile of the two (2) methods in the Midwest Region, with a price range fluctuation of as much as 50 percent per gallon. City staff recently benchmarked with the City of Edmond, the City of Midwest City, the 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 using the Cost Plus Method to establish the final fuel price.

The two (2) vendors that responded to this bid used the **Cost Plus** pricing method.

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>.

All municipalities are tax exempt which includes Oklahoma state fuel taxes. 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.

Red Rock Distributing Company is the lowest and most suitable bidder using the Cost Plus method, showing transport fees 0.9% higher than the FYE 2020 Fuel Bid for unleaded fuel and 0.9% higher for diesel fuel. The City of Norman has used Red Rock Distributing Company for unleaded and diesel fuel deliveries over the last fifteen years. Red Rock Distributing Company has met or exceeded all previous contract obligations.

The bid tabulation is included as an attachment. If Council approves this bid, staff estimates the FYE 2025 Transport fees paid to Red Rock Distributing Company are expected to be approximately:

Bobtail deliveries (1)	\$2,300
Transport Unleaded	\$9,000
Transport Diesel	<u>\$10,000</u>
Total	\$21,300

(1) Bobtail deliveries are less than 2200 gallons in total. This would apply to deliveries at Fire Station No. 5, Fire Station No. 6, and Westwood Golf Course.

In FYE 2024, the City paid Red Rock Distributing Company \$17,505 for these fuel transportation services.

Staff recommends that Bid No. 2425-7 be from Red Rock Distributing Company be hereby accepted for all sections of delivery using the Cost Plus Method. Funding of \$1,688,593 is available to pay for these services in the City's Outside Fuel Inventory Account (10550173-43118).

RECOMMENDATION:

Staff recommends the approval of Bid 2425-7, and acceptance of the quote from Red Rock Distributing Company.