City and County of Denver January 25, 2012

- Why we are here today:
- To discuss Council approval of three additional master purchase orders for fuel
- City Council approved a first master purchase order on

Monday with Hill Petroleum (our current fuel vendor)

- We're requesting the additional master purchase orders to "lock" fuel prices
- With additional MPOs in place, we can request quotes for the City from a total of four vendors and obtain the best deal
- We're increasing the competition with this new approach

- How it worked in the past
- Denver contracted with one vendor to provide fuel.
- If we wanted to lock fuel prices, we could only obtain quotes and lock with that one vendor.
- New in 2012
- We qualified four vendors through an RFP process, allowing us to request locked prices from all of them and compare our options.
- Having all the MPOs in place (with Gray Oil, Chief Petroleum, Mansfield Oil Company, and Hill Petroleum) provides us the means to lock immediately with the successful bidder.

- Two ways we purchase fuel
- When we are not locked, we purchase fuel based on OPIS pricing (quotes provided by the Oil Price Information Service)
- Our vendor gives us a discount off the average weekly price offered by refineries at the Denver terminal
- The price we pay is established weekly and can change week to week
- Pros to OPIS pricing: We immediately benefit from price decreases (as is the case in 2012)
- Cons to OPIS pricing: No protection from price spikes.

- The other way we buy fuel
- 2) We "lock" fuel prices
- We request price quotes from our fuel vendor (the whatever is advantageous City can choose to lock for varying time periods vendor can typically look 6–12 months ahead) and the
- Pros to locking: protection from price spikes, budget shortages certainty, greater assurance of supply in times of fuel
- Cons to locking: the City may want protection should fuel prices drop lower than the locked price
- "Downside protection", like an insurance policy, comes at a premium typically costs 5% per gallon.

- What we consider before we lock
- What are the locked prices being offered?
- Are they higher or lower than we are paying today?
- Time of the year
- Gas prices tend to increase during the summer months, so we like to be locked during the summer, if possible
- Demand for diesel increases in the winter due to a greater demand for heating oil in the Northeast

- Challenges to locking:
- When the quotes we receive to "lock" are higher than the prices we're currently paying
- Do we want to purchase "downside protection" in (downside increases our cost per gallon)? case prices fall lower than our locked price
- How long do we want to lock for?

- Currently:
- We are not locked
- Prices we're paying are below budget: Unleaded this week: \$2.39 (budgeted \$3.18)
- #2 Diesel this week: \$3.02 (budgeted \$3.36) Note: we are using a B5 blend (5% biodiesel)
- We are saving money in January!

- We'd like to look at locking in the future:
- By approving the additional three master purchase quotes from four vendors (instead of one, as it was in the past) orders in front of you today, we can request locked
- Compare pricing and options the vendors offer
- Get best deal possible for City

Any questions?