

# Fuel presentation

City and County of Denver  
January 25, 2012

# Fuel presentation

- ▶ **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 from a total of four vendors and obtain the best deal for the City
  - We're increasing the competition with this new approach



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- ▶ 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.

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- ▶ Two ways we purchase fuel
  1. 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.

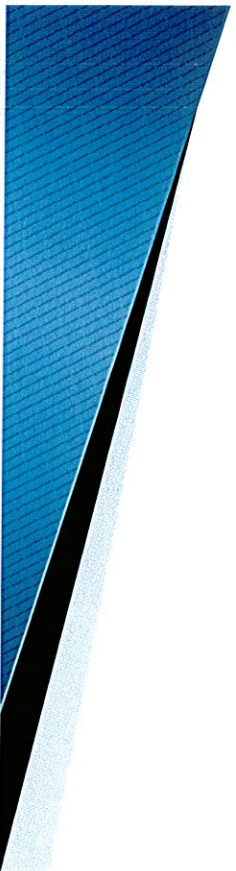


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- ▶ The other way we buy fuel
  - 2) We “lock” fuel prices
    - We request price quotes from our fuel vendor (the vendor can typically look 6–12 months ahead) and the City can choose to lock for varying time periods – whatever is advantageous
    - Pros to locking: protection from price spikes, budget certainty, greater assurance of supply in times of fuel shortages
    - 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.

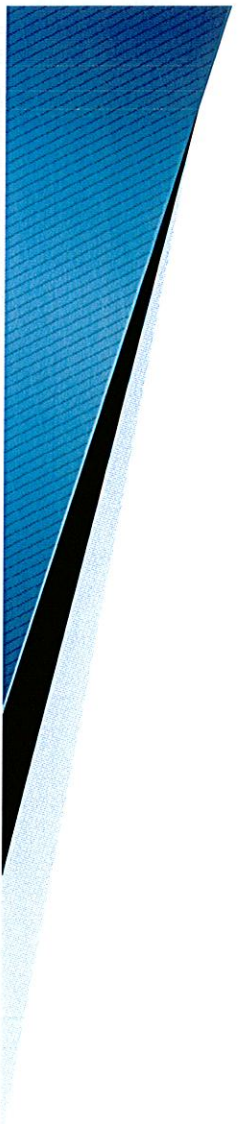
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- ▶ What we consider before we lock
  - What are the locked prices being offered?
  - Are they higher or lower than we are paying today?
  - Time of the year
    - Gas prices tend to increase during the summer months, so we like to be locked during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



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- ▶ 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 case prices fall lower than our locked price (downside increases our cost per gallon)?
  - How long do we want to lock for?





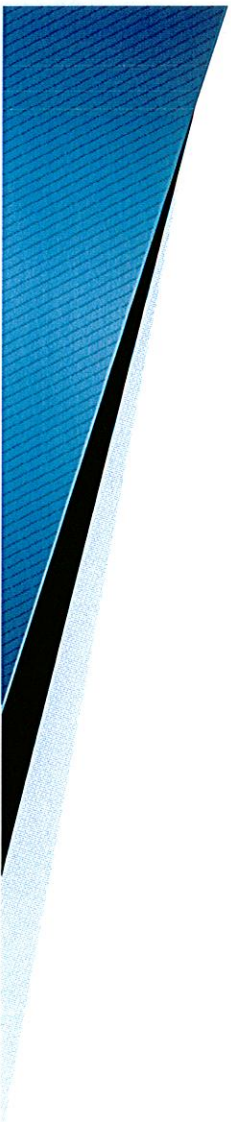
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- ▶ **Currently:**
  - We are not locked
  - Prices we're paying are below budget:
    - Unleaded this week: \$2.39 (budgeted \$3.18)
    - #2 Diesel this week: \$3.02 (budgeted \$3.36)
      - Note: we are using a B5 blend (5% biodiesel)
  - We are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



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



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- ▶ Any questions?

