

AGENDA ITEM 8-E
ACTION ITEM

TO: CHAIRMAN JENKINS AND THE VRE OPERATIONS BOARD

FROM: DALE ZEHNER

DATE: APRIL 18, 2008

**RE: AUTHORIZATION TO INCREASE CONTRACT AMOUNT AND
EXERCISE FINAL OPTION YEAR FOR LOCOMOTIVE FUEL
SUPPLY AT THE BROAD RUN YARD**

RECOMMENDATION:

The VRE Operations Board is being asked to recommend that the Commissions authorize the Chief Executive Officer to amend the existing contract, ending July 5, 2008, with Mifco Heating Oil of Manassas, Virginia for the delivery of diesel fuel to the Broad Run Yard by \$250,000, for an annual authorization not to exceed \$1,850,000. The VRE Operations Board is also being asked to recommend that the Commissions authorize the Chief Executive Officer to exercise the final option year of the contract, ending July 5, 2009, in an amount not to exceed \$2,300,000.

BACKGROUND:

In May of 2007, the VRE Operations Board authorized execution of the third option year to Mifco Heating Oil in an amount not to exceed \$1,600,000. Due to both an increase in price and increase in usage, an amendment to the current option year contract value is needed.

During the last nine months, the price VRE paid for fuel rose from \$2.24 per gallon to \$2.80 per gallon, and is expected to go to \$3.00 per gallon, or more, by the end of this contract year. Without the purchase of fixed price contracts, this price would have been considerably higher. To date, VRE has spent nearly \$1.3

million of the approved \$1.6 million for this contract. The higher than projected level of expenditures can also be attributed to more fuel usage than in months past. This increase is attributable to the addition of cars needed to manage VRE's increasing ridership and changes to maintenance practices. At the time the contract was executed, usage was projected at 630,000 gallons for the year. Usage has been recalculated and is now estimated at 695,000 gallons for the year.

Finally, VRE staff is requesting permission to exercise the fourth and final option year of the contract early in order to allow for the purchase of fixed price contracts. Currently, the contracts can only be purchased through June, which is the end of the current option year. Exercising the fourth option year early will allow VRE's fuel consultant to purchase in larger blocks of time, which results in less fuel cost volatility. Savings in FY 2008 from the purchase of fixed price contracts is estimated at \$350,000. VRE staff is recommending award in the amount of \$2.3 million, which assumes consumption of 733,000 gallons during the contract period.

FISCAL IMPACT:

Funding will be provided by the FY 2008 and FY 2009 Operating budgets. For FY 2008, funding from the 2004 sale of the Mafersa cars, originally intended for the reserve fund, will be used. FY 2009 expenditures will be finalized when all budget factors are known, including the state budget.

TO: CHAIRMAN JENKINS AND THE VRE OPERATIONS BOARD
FROM: DALE ZEHNER
DATE: APRIL 18, 2008
RE: AUTHORIZATION TO INCREASE CONTRACT AMOUNT AND
EXERCISE FINAL OPTION YEAR FOR LOCOMOTIVE FUEL
SUPPLY AT THE BROAD RUN YARD

RESOLUTION
8E-04-2008
OF THE
VIRGINIA RAILWAY EXPRESS
OPERATIONS BOARD

WHEREAS, in May of 2007, the VRE Operations Board authorized execution of the third option year to Mifco Heating Oil in an amount not to exceed \$1,600,000; and,

WHEREAS, current estimates place the projected expenditures on fuel beyond this authorization limit by the end of the contract year; and,

WHEREAS, this increase is attributable to both an increase in price and increase in usage; and,

WHEREAS, an amendment to the current option year contract value is needed; and,

WHEREAS, a subsequent extension of the fourth option year will allow VRE to purchase these contracts at a substantial cost savings.

NOW, THEREFORE, BE IT RESOLVED THAT, the VRE Operations Board recommends that the Commissions authorize the Chief Executive Officer to amend the existing contract, ending July 5, 2008, with Mifco Heating Oil of Manassas, Virginia for the delivery of diesel fuel to the Broad Run Yard by \$250,000, for an annual authorization not to exceed \$1,850,000.

BE IT FURTHER RESOLVED THAT, the VRE Operations Board recommends that the Commissions authorize the Chief Executive Officer to exercise the final option year of the contract, ending July 5, 2009, in an amount not to exceed \$2,300,000.