

**AGENDA ITEM 8-F**  
**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 CROSSROADS YARD**

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**RECOMMENDATION:**

The VRE Operations Board is being asked to recommend that the Commissions authorize the Chief Executive Officer to amend the existing contract, ending October 4, 2008, with Quarles Petroleum Company of Fredericksburg, Virginia for the delivery of diesel fuel to the Crossroads Yard by \$850,000, for an annual authorization not to exceed \$3,000,000. 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 October 4, 2009, in an amount not to exceed \$3,000,000.

**BACKGROUND:**

In May of 2007, the VRE Operations Board authorized execution of the third option year to Quarles Petroleum Company in an amount not to exceed \$2,150,000. 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 \$3.20 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 \$1.1 million of the approved \$2.1 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 860,000 gallons for the year. Usage has been recalculated and is now estimated at 990,000 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, these contracts can only be purchased through September, 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. Estimated 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 \$3 million, which assumes consumption of 933,000 gallons during the contract period. A projected decrease in the number of gallons consumed is due to maintenance and equipment changes which are programmed for the Crossroads yard following completion of the maintenance facility.

#### **FISCAL IMPACT:**

Funding will be provided by the FY 2008, FY 2009 and FY 2010 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.

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**RESOLUTION**  
**8F-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 Quarles Petroleum Company in an amount not to exceed \$2,150,000; 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.

**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 October 4, 2008, with Quarles Petroleum Company of Fredericksburg, Virginia for the delivery of diesel fuel to the Crossroads Yard by \$850,000, for an annual authorization not to exceed \$3,000,000.

**BE IT FURTHER RESOLVED THAT**, VRE Operations Board recommends that the Commissions authorize the Chief Executive Officer to exercise the final option year of the contract, ending October 4, 2009, in an amount not to exceed \$3,000,000.