To: Chairman Milde and the VRE Operations Board

From: Doug Allen

Date: December 19, 2014

Re: Authorization to Execute Contract Options for Purchase and Delivery of Locomotive Fuel to VRE Yards

Recommendation:

The VRE Operations Board is asked to authorize the Chief Executive Officer to execute the first option year with James River Solutions of Ashland, VA for fuel at the Crossroads Yard and Griffith Energy Services, Inc. of Manassas, VA for fuel for the Broad Run Yard for the year ending June 30, 2016. The Contract option with James River Solutions is being recommended in an amount not to exceed $3,000,000 for a period of one year. The Contract option with Griffith Energy Services, Inc. is being recommended in an amount not to exceed $2,200,000 for the period of one year.

Background:

On April 18, 2014, the VRE Operations Board authorized execution of Contracts with James River Solutions in an amount not to exceed $2,880,000, and Griffith Energy Services in an amount not to exceed $2,520,000, for the first contract year. Both Contracts are for a base year plus four one year options with the VRE Operations Board approval required for each option year. On July 1, 2014, Contracts for the delivery of locomotive fuel at both VRE yards were executed. The base year for these Contracts expires on June 30, 2015.
Both Contracts allow VRE to lock in future fixed prices for fuel. VRE continues to work with a consultant to assist in this process. VRE has been able to reduce cost volatility through the use of this fixed price mechanism as the fixed price is based on futures purchased by our suppliers. Exercising the options years now allows VRE to maximize the use of this mechanism. The total cost of the first option year is based on an estimated cost of $3.25 per gallon for 1.6M gallons.

**Fiscal Impact:**

Funding for this option year is provided for in the proposed FY 2016 operating budget for equipment operations-fuel.
Virginia Railway Express
Operations Board

Resolution
8G-12-2014

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WHEREAS, the first option year Contracts to provide fuel at VRE yards will begin on July 1, 2015; and,

WHEREAS, exercising the option years before expiration of the prior base year will allow VRE to maximize the use of the fuel hedging mechanism to reduce cost volatility;

NOW, THEREFORE, BE IT RESOLVED THAT, the VRE Operations Board hereby authorizes the Chief Executive Officer to execute the first option year for the purchase and delivery of locomotive fuel at the Crossroads yard to James River Solutions in an amount not to exceed $3,000,000.

BE IT FURTHER RESOLVED THAT, the VRE Operations Board hereby authorizes the Chief Executive Officer to execute the first option year for the purchase and delivery of locomotive fuel at the Broad Run yard to Griffith Energy Services, Inc. in an amount not to exceed $2,200,000.

Approved this 19th day of December 2014

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Paul Milde
Chairman

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Gary Skinner
Secretary