To: Chairman Smedberg and the VRE Operations Board

From: Doug Allen

Date: December 15, 2017

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 fourth option year for the Purchase and Delivery of Locomotive Fuel Contracts with James River Solutions of Ashland, VA for fuel at the Crossroads Yard and Griffith Energy Services, Inc. of Manassas, VA for fuel at the Broad Run Yard for the year ending June 30, 2019. The Contract option with James River Solutions is being recommended in an amount not to exceed $2,507,500, for a period of one year. The Contract option with Griffith Energy Services, Inc. is being recommended in an amount not to exceed $1,742,500, for a period of one year.

**Summary:**

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, James River Solutions and Griffith Energy Services.

**Background:**

On July 1, 2017, the VRE Operations Board authorized execution of Contract Amendments with James River Solutions in an amount not to exceed $2,808,105, and Griffith Energy Services in an amount not to exceed $1,951,395, for the third option year of the contracts. The third option year for these contracts expires on June 30, 2018. Both contracts have one one-year option remaining. The VRE Operations Board’s approval is required for each option year.
Exercising the option years now allows VRE to maximize the fuel hedging mechanism. The total cost of the fourth option year is based on an estimated cost of $2.50 per gallon for 1.7M gallons.

**Fiscal Impact:**

The total of the requested contract option year authorizations for James River Solutions ($2,507,500) and Griffith Energy Services ($1,742,500) is $4,250,000. Funding is included in the proposed FY2019 Operating Budget for Equipment Operations – Fuel, in the amount of $4,250,000.
Virginia Railway Express  
Operations Board  
Resolution  
9D-12-2017  

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

WHEREAS, the third option year for the contracts to provide fuel at VRE yards expires on June 30, 2018; and,  

WHEREAS, both contracts have one one-year option remaining; and,  

WHEREAS, the fourth option year for the contracts would begin on July 1, 2018; and,  

WHEREAS, exercising the option years before expiration of the prior option 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 does hereby authorize the Chief Executive Officer to execute the fourth option year for the Purchase and Delivery of Locomotive Fuel Contract for the Crossroads yard with James River Solutions in an amount not to exceed $2,507,500, for a period of one year; and,  

BE IT FURTHER RESOLVED THAT, the VRE Operations Board does hereby authorize the Chief Executive Officer to execute the fourth option year for the Purchase and Delivery of Locomotive Fuel Contract for the Broad Run yard with Griffith Energy Services, Inc. in an amount not to exceed $1,742,500.  

Approved this 15th day of December 2017  

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Paul Smedberg  
Chairman  

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Katie Cristol  
Secretary