To: Chair Cristol and the VRE Operations Board  
From: Rich Dalton  
Date: December 20, 2019  
Re: Authorization to Exercise Contract Options for the Delivery of Diesel Fuel for VRE Locomotives

Recommendation:

The VRE Operations Board is asked to authorize the Acting Chief Executive Officer to exercise the first option year of the two contracts for the Delivery of Diesel Fuel for VRE Locomotives. The option year will begin July 1, 2020 and end June 30, 2021. The contract option with James River Solutions of Ashland, Virginia for the delivery of diesel fuel to the Crossroads Yard is being recommended in the amount of $2,346,000, plus a 10 percent contingency of $234,600, for a total amount not to exceed $2,580,600. The contract option with Griffith Energy Services, Inc. of Columbia, Maryland for the delivery of diesel fuel to the Broad Run Yard is being recommended in the amount of $1,564,000, plus a 10 percent contingency of $156,400, for a total amount not to exceed $1,720,400.

Summary:

Both contracts afford VRE the option to reduce fuel cost volatility by locking in future fixed prices for fuel directly with the suppliers (James River Solutions and Griffith Energy Services). Fixed prices cannot be locked in for a period that is beyond the current term of the contract. By exercising the first option year of both contracts now, VRE will have the ability, if desired, to execute fixed price agreements for fuel through the end of FY 2021.

Background:

On May 17, 2019, the VRE Operations Board authorized the execution of contracts with James River Solutions in an amount not to exceed $2,647,500 and Griffith Energy Services in an amount not to exceed $1,765,000, for the base year of the contract. Both contracts are for a base period of one year with the option to extend for four additional one-year periods, with VRE Operations Board approval required to exercise each option year.
The base year for both contracts expires on June 30, 2020. Exercising the first option year of each contract prior to June 2020 will allow VRE, if desired, to enter into fixed price agreements for the delivery of fuel in FY 2021. The total cost of the first option year of the diesel fuel contracts, not factoring in the requested 10 percent contingency, is based on an estimated price of $2.30 per gallon for 1.7 million gallons.

As discussed with the Operations Board members in September, staff continues to work with VRE’s external fuel consultant to develop policies and procedures related to hedging fuel price risk through investment in futures contracts (or similar instruments) rather than entering into fixed price agreements. A follow-up presentation to the Operations Board by staff and the external consultant is expected in the winter or early spring of 2020. If approved by the Operations Board, hedging via financial investments is expected to completely replace fixed price contracts. However, if this new hedging approach were to be delayed or not implemented, VRE could continue with its current approach.

**Fiscal Impact:**

The total of the requested Contract option year authorization for James River Solutions ($2,346,000) and Griffith Energy Services ($1,564,000) is $3,910,000, not including the requested 10 percent contingency. Funding in this amount is provided for in the proposed FY 2021 budget for Mechanical Operations that is expected to be recommended by the Operations Board in December 2019 and approved by the Commissions in January 2020. Funding for future years will be included in each proposed annual budget.
Virginia Railway Express
Operations Board

Resolution
8E-12-2019

Authorization to Exercise Contract Options for the
Delivery of Diesel Fuel for VRE Locomotives

WHEREAS, in May 2019, the VRE Operations Board authorized the execution of contracts with James River Solutions and Griffith Energy Services for the Delivery of Diesel Fuel for VRE Locomotives, with each contract having one base year with the option to extend for four additional one-year periods; and,

WHEREAS, the base year of each contract will expire on June 30, 2020; and,

WHEREAS, exercising the first option year of each contract now, before the expiration of the base year, will give VRE the ability to enter into fixed price agreements for diesel fuel through the end of FY 2021;

NOW, THEREFORE, BE IT RESOLVED THAT, the VRE Operations Board does hereby authorize the Acting Chief Executive Officer to exercise the first option year of the two contracts for the Delivery of Diesel Fuel for VRE Locomotives; and,

BE IT FURTHER RESOLVED THAT, the contract option with James River Solutions of Ashland, Virginia for the delivery of diesel fuel to the Crossroads Yard is being recommended in the amount of $2,346,000, plus a 10 percent contingency of $234,600, for a total amount not to exceed $2,580,600 for a period of one year; and,

BE IT FURTHER RESOLVED THAT, the contract option with Griffith Energy Services, Inc. of Columbia, Maryland for the delivery of diesel fuel to the Broad Run Yard is being recommended in the amount of $1,564,000, plus a 10 percent contingency of $156,400, for a total amount not to exceed $1,720,400 for a period of one year.

Approved this 20th day of December 2019

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Katie Cristol
Chair

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John Cook
Secretary