Agenda Item 9-G
Action Item

To: Chairman Skinner and the VRE Operations Board
From: Rich Dalton
Date: November 20, 2020
Re: Authorization to Amend the Contracts for the Delivery of Diesel Fuel for VRE Locomotives

Recommendation:
The VRE Operations Board is asked to authorize the Chief Executive Officer to amend the two contracts for the Delivery of Diesel Fuel for VRE Locomotives to exercise the second option year on each contract. Each option year will begin July 1, 2021, and end June 30, 2022. The contract option with James River Solutions of Ashland, Virginia, for the delivery of diesel fuel to the Crossroads Maintenance and Storage Facility is recommended in the amount of $1,785,000, plus a 10 percent contingency of $178,500, for a total amount not to exceed $1,963,500. The contract option with Griffith Energy Services, Inc. of Columbia, Maryland for the delivery of diesel fuel to the Broad Run Maintenance and Storage Facility is recommended in the amount of $1,190,000, plus a 10 percent contingency of $119,000, for a total amount not to exceed $1,309,000.

Summary:
Both diesel fuel supply 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 second 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 2022.

Background:
On December 20, 2019, the VRE Operations Board authorized the Chief Executive Officer to exercise the first option year of the contracts with James River Solutions in an amount not to exceed $2,580,600, and Griffith Energy Services in an amount not to exceed $1,720,400.
The first option year of these contracts expires on June 30, 2021. 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.

Exercising the second option year of each contract prior to June 2021 will allow VRE, if desired, to enter into fixed price agreements for the delivery of fuel in FY 2022. The total cost of the second option year of the diesel fuel contracts, not including the requested 10 percent contingency, is based on an estimated price of $1.75 per gallon for 1.7 million gallons of diesel fuel.

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.

**Fiscal Impact:**

The total of the requested contract option year authorization for James River Solutions ($1,785,000) and Griffith Energy Services ($1,190,000) is $2,975,000, not including the requested 10 percent contingency. Funding in this amount is included in the proposed FY 2022 budget for Mechanical Operations that is expected to be recommended by the Operations Board in December 2020 and approved by the commissions in January 2021. Funding for future years will be included in each proposed annual budget.
Virginia Railway Express
Operations Board

Resolution
9G-11-2020

Authorization to Amend the Contracts for the
Delivery of Diesel Fuel for VRE Locomotives

WHEREAS, on December 20, 2019, the VRE Operations Board authorized the Chief
Executive Officer to exercise the first option year of the diesel fuel supply contracts with
James River Solutions and Griffith Energy Services; and,

WHEREAS, the first option year for each contract will expire on June 30, 2021; and,

WHEREAS exercising the second option year of each contract now, before the expiration of
the prior option year, will give VRE the ability to enter into fixed price agreements for diesel
fuel through the end of FY 2022;

NOW, THEREFORE, BE IT RESOLVED THAT, the VRE Operations Board does hereby
authorize the Chief Executive Officer to amend the two contracts for the Delivery of Diesel
Fuel for VRE Locomotives to exercise the second option year of each contract; 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 Maintenance and Storage
Facility is recommended in the amount of $1,785,000, plus a 10 percent contingency of
$178,500, for a total amount not to exceed $1,963,500 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 Maintenance and
Storage Facility is being recommended in the amount of $1,190,000, plus a 10 percent
contingency of $119,000, for a total amount not to exceed $1,309,000 for a period of one
year.

Approved this 20th day of November 2020

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Gary Skinner
Chairman

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Jeanine Lawson
Secretary