

**DATE ISSUED:** July 18, 2001

REPORT NO. 01-143

**ATTENTION:** Honorable Mayor and City Council  
Docket of July 24, 2001

**SUBJECT:** Gasoline and Diesel Fuel – Award of Contract

**SUMMARY**

**Issues** – 1) Should the Mayor and City Council accept the low and responsible proposal meeting specifications of The SOCO Group, Inc. (San Diego, CA) and authorize the City Manager to execute the contract for furnishing Gasoline and Diesel Fuel as required for a period of one year beginning August 1, 2001 through July 31, 2002 for a total estimated cost of \$4,965,343, including taxes and fee, with payment terms of Net 30 Days, and options to renew the contract for four additional one year periods, with option period increases for freight charges not to exceed ten percent (10%) of the charges in effect at the end of the prior year.

2) Should the Mayor and City Council authorize the estimated expenditure of \$4,551,565 for Fiscal Year 2002 of which \$1,784,868 is from Fund 100, Department 110, Police Department, \$183,012 from Fund 100, Department 120, Fire Department, and \$2,583,685 from Fund 50030, Department 820, Equipment Division, provided the City Auditor and Comptroller first furnishes a certificate demonstrating that the funds necessary for expenditure are, or will be, on deposit with the City Treasurer, and authorizing the City Auditor and Comptroller, upon advice from the administering department, to transfer excess budgeted funds, if any, to the appropriate reserves.

3) Should the Mayor and City Council authorize the estimated expenditure of \$413,778 for Fiscal Year 2003, contingent upon Council approval of Fiscal Year 2003 budget, of which \$162,261 is from Fund 100, Department 110, Police Department, \$16,637 from Fund 100, Department 120, Fire Department, and \$234,880 from Fund 50030, Department 820, Equipment Division.

**Manager's Recommendation** – 1) Accept the low and responsible proposal meeting specifications of The SOCO Group, Inc. (San Diego, CA) and authorize the City Manager to execute the contract for furnishing Gasoline and Diesel Fuel as required for a period of one year beginning August 1, 2001 through July 31,

2002 for a total estimated cost of \$4,965,343, including tax and fee, with payment terms of Net 30 Days, and options to renew the contract for four additional one year periods, with option period increases for freight charges not to exceed ten percent (10%) of the charges in effect at the end of the prior year.

2) Authorize the estimated expenditure of \$4,551,565 for Fiscal Year 2002 of which \$1,784,868 is from Fund 100, Department 110, Police Department, \$183,012 from Fund 100, Department 120, Fire Department, and \$2,583,685 from Fund 50030, Department 820, Equipment Division, provided the City Auditor and Comptroller first furnishes a certificate demonstrating that the funds necessary for expenditure are, or will be, on deposit with the City Treasurer, and authorizing the City Auditor and Comptroller, upon advice from the administering department, to transfer excess budgeted funds, if any, to the appropriate reserves.

3) Authorize the estimated expenditure of \$413,778 for Fiscal Year 2003, contingent upon Council approval of Fiscal Year 2003 budget, of which \$162,261 is from Fund 100, Department 110, Police Department, \$16,637 from Fund 100, Department 120, Fire Department, and \$234,880 from Fund 50030, Department 820, Equipment Division.

**Fiscal Impact:** Fuel expenditure is estimated to be \$4,551,565 for Fiscal Year 2002 and \$413,778 for Fiscal Year 2003, totaling \$4,965,343 for the contract period.

## **BACKGROUND**

Due to the increased fuel costs in recent months and the price structure in the existing contract, the Purchasing Agent, after a careful market survey, opted to issue a Request for Proposal (RFP) for Gasoline and Diesel Fuel instead of renewing the existing contracts for the last option year.

## **DISCUSSION**

### **Pricing Structure**

The pricing of the existing contract is based on the price differential to the Oil Price Information Service (OPIS) Weekly Index for the San Diego region. OPIS tracks over 90,000 daily retail gasoline prices and over 70,000 rack and spot prices for various refined petroleum products.

To take advantage of market forces, the Purchasing Agent issued an RFP, which did not stipulate a pricing structure. As a result, several vendors submitted proposals to the City with pricing structures that were not solely based on a price differential for the OPIS Weekly Index for the San Diego region.

Specifically, the SOCO Group, Inc. proposed to evaluate the best price for fuel products for the City by comparing, daily, the prices of the San Diego Low Rack Market and the mid-point of the West Coast Spot Market in Los Angeles. Further, as part of the pricing structure, direct costs to the vendor, freight costs, and a 1% surcharge for overhead, are

added into the price per gallon. For specific pricing per fuel commodity per market, please see Tables 1 and 2 below. Note that the SOCO Group, Inc. proposed different freight charges given the delivery location. For the purpose of analysis, a weighted average for the freight charges was calculated.

**Table 1:** Charges for one gallon of fuel bought at the San Diego Low Rack Market

	Regular Unleaded Gasoline; Truck/Trailer Deliveries	Unleaded Premium and Regular Gasoline; Tank/Wagon Deliveries	Diesel Fuel; Truck/Trailer Deliveries	Diesel Fuel; Tank/Wagon Deliveries
Cost per gallon to SOCO	To be determined daily	To be determined daily	To be determined daily	To be determined daily
Average Freight Cost	\$0.0103	\$0.0250	\$0.01119	\$0.0200
Surcharge	1%	1%	1%	1%

**Table 2:** Charges for one gallon of fuel bought at the West Coast Spot Market

	Regular Unleaded Gasoline; Truck/Trailer Deliveries	Unleaded Premium and Regular Gasoline; Tank/Wagon Deliveries	Diesel Fuel; Truck/Trailer Deliveries	Diesel Fuel; Tank/Wagon Deliveries
Cost per gallon to SOCO	To be determined daily	To be determined daily	To be determined daily	To be determined daily
Cost above the mid-point	\$0.0200	\$0.0200	\$0.0269	\$0.0269
Average Freight Cost	\$0.0380	\$0.0250	\$0.01119	\$0.0200
Surcharge	1%	1%	1%	1%

Pricing Analysis of Proposals Submitted

In general, being able to take advantage of competitive pricing in two separate, although not fully independent, markets should afford a price advantage for the City of San Diego. In order to evaluate such a potential price advantage, Purchasing analyzed fuel price data between October 1<sup>st</sup>, 2000 and May 31<sup>st</sup>, 2001. Given SOCO Group, Inc. pricing proposal in comparison to the second lowest pricing proposal, in all fuel commodities, over the last eight months, the City would have saved approximately \$56,000. Moreover, annualizing the eight month savings, the City would have realized savings of approximately \$84,000 in comparison to the second lowest proposal (see Table 3).

**Table 3:** Total Estimated Cost and Estimated Realized Savings for Annual Contract per fuel commodity for the City of San Diego given Estimated Quantities and SOCO Group Inc. Pricing Structure

	Regular Unleaded Gasoline; Truck/Trailer Deliveries	Unleaded Premium and Regular Gasoline; Tank/Wagon Deliveries	Diesel Fuel; Truck/Trailer Deliveries	Diesel Fuel; Tank/Wagon Deliveries
Estimated Quantity (in gallons)	1,847,913	63,967	808,667	99,919
Estimated Annual Contract Amount	\$2,172,406	\$79,472	\$690,116	\$87,569
Estimated Savings	\$19,680	\$9,979	\$25,837	\$28,372

**CONCLUSION**

Given the recent volatility of the fuel market, being able to take advantage of two local fuel markets will realize savings for the City of San Diego for the upcoming contract year.

Respectfully submitted,

\_\_\_\_\_  
 Linda Baldwin  
 Purchasing Agent, Purchasing Division  
 General Services

\_\_\_\_\_  
 Approved: Ernie Anderson  
 Director, General Services

\_\_\_\_\_  
 Approved: George Loveland  
 Senior Deputy City Manager

ANDERSON/WCR

Note: The attachment is not available in electronic format. A copy is available for review in the Office of the City Clerk.

Attachment: Bid Tabulation