

**DATE ISSUED:** September 4, 2002

REPORT NO. 02-157

**ATTENTION:** Honorable Mayor and City Council

**SUBJECT:** Evaluation of Gasoline and Diesel Fuel Contract

### **SUMMARY**

THIS IS AN INFORMATION ITEM ONLY. NO ACTION IS REQUIRED ON THE PART OF THE MAYOR AND CITY COUNCIL.

### **BACKGROUND**

On July 25, 2001, the Mayor and City Council authorized the City Manager to award the contract for Gasoline and Diesel Fuel to the SoCo Group, a San Diego based Company. The pricing for the contract was based on the procurement model the SoCo Group uses to purchase fuel for its clients. Specifically, the SoCo Group, Inc. purchases fuel for the City of San Diego by comparing, daily, the prices of the two regional fuel markets, i.e., 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 for different delivery locations, and a 1% surcharge for overhead are added into the price per gallon. The previous contract for gasoline and diesel fuel used the traditional pricing structure of a fixed differential to the Oil Price Information Service (OPIS) indexes 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 across the entire United States.

### **DISCUSSION**

In order to evaluate the efficacy of the contract and its pricing structure, the Purchasing Division, General Services Department analyzed fuel purchase data between September 1, 2001 and April 30, 2002. To establish a benchmark, Purchasing compared the second low bidder of the original Gasoline and Diesel Request for Proposal (RFP). The second low bidder used the traditional pricing structure of a fixed differential to OPIS indexes for the San Diego Region. In contrast, the contract with the SoCo Group provides for a more

flexible pricing structure purchasing fuel from the aforementioned two regional markets. Beyond comparing the fuel purchase price to the traditional pricing structure, Purchasing summarized the total gallons of fuel bought and ascertained the savings for the major users, i.e., Police Department, Fire and Life Safety Department, and Equipment Division, General Services Department.

Between September 1, 2001 and April 30, 2002, the City's three major users identified above, purchased over 3.6 million gallons of fuel. Table 1 outlines the breakdown by major user and fuel type.

Table 1  
Fuel Purchases in Gallons  
September 1, 2001 and April 30, 2002

	<b>Police Dept.</b>	<b>Fire and Life Safety</b>	<b>Equipment Div., General Services Dept.</b>	<b>Total</b>
Gasoline	1,032,616.00	24,725.10	610,363.00	1,667,704.10
Diesel	N/A	266,861.10	1,688,778.00	1,955,639.10
Total	1,032,616.00	291,586.20	2,299,141.00	3,623,343.20

To ascertain the savings for the City utilizing the fuel contract with the SoCo Group, Table 2 illustrates a price comparison with the traditional pricing structure. Note that the savings of \$77,805.42 for gasoline only reflect the first eight months of the contract. Extrapolating this figure over the entire annual contractual period, the City will save approximately \$117,000.

Table 2  
Savings in Gasoline Costs over 2<sup>nd</sup> low bidder  
September 1, 2001 to April 30, 2002

	<b>Police Dept.</b>	<b>Fire and Life Safety</b>	<b>Equipment Div., General Services Dept.</b>	<b>Total</b>
SoCo Group	\$821,369.38	\$25,659.52	\$501,136.22	\$1,348,165.12
Traditional Pricing Structure	\$873,780.10	\$31,001.70	\$521,188.73	\$1,425,970.54
Savings Total	\$52,410.72	\$5,342.18	\$20,052.52	\$77,805.42

Similarly, the City also incurred savings in the purchase of diesel fuel. Table 3 (see next page) documents the price of diesel fuel purchased by the three major users in comparison to the traditional pricing structure. The savings of \$18,586.49 only reflect the first eight months of the contract. Extrapolating this figure over the entire annual contractual period, the City will save approximately \$28,000.

Table 3  
 Savings in Diesel Costs over 2<sup>nd</sup> low bidder  
 from September 1, 2001 to April 30, 2002

	<b>Fire and Life Safety</b>	<b>Equipment Div., General Services Dept.</b>	<b>Total</b>
SoCo Group	\$231,393.24	\$1,214,952.30	\$1,446,345.54
Traditional Pricing Structure	\$242,696.48	\$1,222,235.55	\$1,464,932.03
Savings Total	\$11,303.24	\$7,283.25	\$18,586.49

**CONCLUSION**

Through a thorough understanding of the fuel market, Purchasing issued an RFP allowing vendors to bid delivery of fuel in the most competitive manner possible. After analyzing all proposals, Purchasing decided to follow general economic market principles and awarded the contract to the SoCo Group. After evaluating fuel purchase data between September 1, 2001 and April 30, 2002, the City saved \$96,000 in fuel costs or 3.3% in comparison to the second low bidder. Over the entire first annual contract period, the savings will reach approximately \$150,000. The City can expect savings of close to ¾ million dollars over the life of the contract.

Respectfully submitted,

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 Director, General Services

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Approved: George Loveland  
 Senior Deputy City Manager

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