

## Staff Summary Report

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**Council Meeting Date:** August 14, 2008

**Agenda Item Number:** 39

**SUBJECT:** Request approval to purchase liquid natural gas (LNG) for transit services for fiscal year 2008/2009 through the existing intergovernmental cooperative purchasing agreement with the City of Phoenix and the Regional Public Transportation Authority.

**DOCUMENT NAME:** 20080814fslg21                      **PURCHASES (1004-01)**

**SUPPORTING DOCS:** Yes

**COMMENTS:** (Contract #RFA 09-003) Total cost of this contract shall not exceed \$4,979,888 during the initial contract period.

**PREPARED BY:** Lisa Goodman, CPPB, Procurement Officer, 480-350-8205  
Greg Jordan, Transit Administrator, 480-858-2094

**REVIEWED BY:** Michael Greene, CPM, Central Services Administrator, 480-350-8516  
Carlos de Leon, Deputy Public Works Manager, 480-350-8527  
Glenn Kephart, Public Works Manager, 480-350-8205

**LEGAL REVIEW BY:** Teresa Voss, Assistant City Attorney, 480-350-8814

**FISCAL NOTE:** The amount of this purchase exceeds the present fuel budget of \$4,111,259 which was established prior to recent increases in the price of LNG. Sufficient funds are available in the transit fund. Application of a US Treasury Department-IRS alternative fuel credit will provide offsetting revenue of up to \$1,537,952 depending on the demand for LNG.

**RECOMMENDATION:** Approve the purchase of LNG for transit buses for fiscal year 2008/2009 through the existing intergovernmental purchasing agreement with the City of Phoenix and RPTA using the above referenced contract.

**ADDITIONAL INFO:** Since 2003, the City of Tempe and the Regional Public Transportation Authority (RPTA) have partnered with the City of Phoenix, as the procuring party, for the supply of LNG fuel for transit services. With Phoenix purchasing over 71 percent or roughly 10 million gallons of the valley's total demand of 14 million gallons, the price benefit for Tempe associated with the cooperative purchasing agreement is significant.

This year, a delay in Phoenix's Request for Proposal (RFP) process for a long-term contract led it to issue an Invitation for Bid (IFB) for a short-term, one year interim contract. Phoenix awarded the bid contract effective through June 30, 2009 to two LNG suppliers. Pursuant to Phoenix's award and the existing cooperative purchasing agreement (as amended C2002-197a) Tempe and RPTA had the option to purchase fuel from one of the two suppliers. Staff selected Clean Energy. Although Clean Energy's unit price for LNG (\$1.619/gallon) is \$.019 per gallon higher than the other supplier's and translates into a 1 percent higher total cost for Tempe, the reasons for staff's selection follow:

- Phoenix's IFB process provided only the price per gallon; staff had no information on which to evaluate the selected suppliers including company qualifications and historical performance criteria
- Absent an evaluation of contractor qualifications, the risk of supply disruption, among

other risks, was examined and analyzed. Interruption in fuel supply can lead to costly back-up fuel measures, interrupted bus service, and lost passenger fare revenue

- Clean Energy, however, has reliably supplied LNG to Tempe during the last five years providing staff solid evidence of the firm's performance
- In light of the risk of disrupted transit service, the price difference is very small
- Transit services for FY2008/2009 now includes light rail support
- Tempe increased fuel efficiency during FY 2007/2008 by 4% or approximately \$100,000. Staff are developing strategies with a goal to further increase efficiency by an additional 5% during FY 2008/2009.

In order to provide uninterrupted fuel supply for the City's transit fleet it was necessary to evoke emergency procurement provisions for the initial 45 days of the proposed contract period. The balance of the contract period for this year's fuel requirements is being presented for prior approval in accordance with established procedure.

**Memorandum**

TO: Michael Greene, CPM  
Central Services Administrator

FROM: Glenn Kephart - Public Works Manager  
Public Works Department

August 1, 2008

**SUBJECT: Emergency Procurement**

As Director of the City Department responsible for resolving a City emergency, it was necessary to immediately take action to obtain needed materials/services (as described below) to protect the City and the public. Due to the time of the emergency situation, the City Procurement Office was not accessible to assist in this procurement matter.

Clean Energy  
Name of Supplier/Service Provider

Description of emergency and required item(s) that were obtained to resolve the emergency situation (attached additional pages or a report of the emergency, if needed):

Purchase of Liquid Natural Gas (LNG) for transit buses. See attached memo for additional information.

Estimated value of purchase: \$4,979,888

Refer to Requisition # \_\_\_\_\_, dated \_\_\_\_\_ which has been transmitted to the City Procurement Office to document this emergency.

My department contact for this purchase is Greg Jordan at Ext. 2094.

As related to this purchase, there are no conflicts of interest, legal, ethical or preference issues which would compromise my department or this acquisition.

Department Director's Signature John O'Good for Glenn Kephart Date 8/4/08

[Signature] 8/4/08  
Central Services Administrator

[Signature]  
Procurement Officer

City Procurement Ordinance 97.55, Sec. 26A-13 identifies the basis for an emergency procurement as follows:

"A using department director or designee may make or authorize others to make emergency procurements of materials, services, or construction items when there exists a threat or severe impairment to the quality of public health, welfare, or safety, or if a situation exists which makes compliance with established procurement processes impracticable, unnecessary or contrary to the public interest; provided that such emergency procurements shall be made with such competition as is practicable under the circumstances. An emergency procurement shall be limited to those materials, services, or construction necessary to satisfy the emergency need. A written determination of the basis for the emergency and for the selection of a particular contractor shall be submitted to the procurement office and included in the purchase file. Any emergency procurement exceeding the dollar limit for council approval shall be scheduled for review at the next available council meeting."

# Memorandum

Public Works Department



June 27, 2008

To: Glenn Kephart – Public Works Manager  
Thru: Carlos de Leon – Deputy Public Works Manager  
Fr: Greg Jordan – Transit Administrator  
Re: Liquid Natural Gas (LNG) Procurement

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### **ACTION REQUIRED**

City Council ratification (on August 14, 2008) of a forty-five (45) day emergency contract (July 1-22, 2008) and separate authorization of a three-hundred and twenty (320) day contract between the City of Tempe and liquid natural gas (LNG) supplier Clean Energy (CE) for the supply of transit bus LNG fuel through June 30, 2009. Pending your concurrence with this recommendation, please sign the attached "Emergency Procurement" form.

### **JUSTIFICATION**

A delay in Phoenix's in request for proposal (RFP) process for a new five (5) year contract led it to issue an invitation for bid (IFB) for a short-term one (1) year contract. Phoenix subsequently awarded one (1) year contracts to two LNG suppliers giving Tempe and RPTA the option to purchase fuel from one or the other. At \$1.619 per gallon, the unit price for LNG supplied by Clean Energy is \$.019 higher than the other contractor and translates into a 1 percent higher total cost for Tempe. Because Phoenix's IFB process did not provide an evaluation of contractor qualifications and performance, Tempe staff recommend purchasing fuel from Clean Energy for the following reasons:

- Absent an evaluation of contractor qualifications, the risk of supply disruption by a new contractor must be considered. Interruption in fuel supply can lead to costly back-up fuel measures, interrupted bus service, and lost passenger fare revenue.
- Clean Energy has reliably supplied LNG to Tempe during the last five years providing staff solid evidence of the firm's performance.
- The price difference between the contractors is small.

### **FISCAL IMPACT**

Based on FY 2008/2009 planned transit services (including major event and light rail support), city staff estimate a need to purchase 3,075,904 gallons of LNG. At CE's unit price of \$1.619, the total cost will be up to \$4,979,888. The contract cost exceeds the present budget of \$4,111,259 which was developed prior to recent increases in the price of LNG. Sufficient funds are available in cost center 3911 and the application of a US

Treasury Department-IRS alternative fuel credit will provide offsetting revenue of up to \$1,537,952 depending on the extent LNG use.

**ADDITIONAL INFORMATION & NEXT STEPS**

Additional background information on the Phoenix procurement and Tempe's successful efforts to improve fuel efficiency is provided under *Attachment A*. I have asked the City of Phoenix to provide the applicable solicitation along with CE's response to Tempe's Procurement office.

The attached "Emergency Procurement" requires your signature and will be included in the documentation presented to the City Council. Please let me know what additional information you might need in order to ensure compliance with the city staff approval process leading up to the August 14, 2008 City Council meeting.

Please feel free to contact me with any questions or concerns at extension 2094 or [greg.jordan@tempe.gov](mailto:greg.jordan@tempe.gov).

cc: Lisa Goodman – Procurement Officer  
Joe Clements – Transportation Finance Specialist  
Michael Greene – Central Services Administrator  
RC Noderer – Transportation Facilities Supervisor  
Teresa Voss – Assistant City Attorney

## ATTACHMENT A

### *BACKGROUND*

Since 2003, the City of Tempe and the Regional Public Transportation Authority (RPTA) have partnered with the City of Phoenix for the supply of LNG fuel for valley transit buses. With Phoenix purchasing over 10 million gallons (71 percent) of the valley's total supply of 14 million gallons, the price benefits for Tempe and RPTA that accompany this partnership are significant.

### *PHOENIX RFP PROCUREMENT (5 YEAR)*

The City of Phoenix is the lead agency for this cooperative purchase and over the last six months implemented a competitive procurement for a new five (5) year contract scheduled to take effect on July 1, 2008. Two LNG suppliers (Clean Energy and Applied LNG Technologies, Inc.) submitted bids. However, the City of Phoenix terminated the procurement in June 2008 due to insufficient grounds to justify award to one firm over the other. Phoenix plans to make refinements to its RFP and implement another competitive procurement for a five (5) year contract that will take effect on July 1, 2009.

### *PHOENIX IFB PROCUREMENT (1 YEAR)*

To ensure the continuation of supply during fiscal year 2008/2009, Phoenix staff issued an invitation for bid (IFB) for a short-term one (1) year contract. Phoenix subsequently awarded one (1) year contracts to the two LNG suppliers giving Tempe and RPTA the option to purchase fuel from one or the other. At \$1.619 per gallon, the unit price for LNG supplied by Clean Energy is \$.019 higher than the price submitted by ALT and translates into a 1 percent higher total cost for Tempe. Because Phoenix's IFB process did not provide an evaluation of contractor qualifications and performance, Tempe staff recommend purchasing fuel from Clean Energy for the following reasons:

- Clean Energy has reliably supplied LNG to Tempe during the last five years providing staff solid evidence of the firm's performance.
- Absent an evaluation of contractor qualifications, the risk of supply disruption by a new contractor must be considered. Interruption in fuel supply can lead to costly back-up fuel measures, interrupted bus service, and lost passenger fare revenue.
- The price difference between the contractors is small.

### *TEMPE FUEL EFFICIENCY IMPROVEMENTS*

In anticipation of rising energy costs, city staff have been working to increase LNG fuel efficiency. Working in coordination with Veolia Transportation and NorthStar, Inc (LNG station manufacturer), city staff have identified and implemented strategies that have led to a 4 percent increase in fuel efficiency during fiscal year 2007/2008. This improvement translates into estimated cost savings in excess of \$100,000. City staff are working toward an additional 5 percent improvement during fiscal year 2008/2009.