

RESOLUTION 22-37 - AUTHORIZING A PURCHASE AGREEMENT BETWEEN THE DELAWARE RIVER AND BAY AUTHORITY AND PAPCO, INC., FOR THE DELIVERY AND SUPPLY OF DIESEL FUEL FOR USE AT THE CAPE MAY–LEWES FERRY

WHEREAS, The Delaware River and Bay Authority (the “Authority”) is a bi-state Authority of the State of Delaware and the State of New Jersey, created by compact, that operates and maintains the Delaware Memorial Bridge, Cape May-Lewes Ferry, Forts Ferry Operation and five regional airports; and

WHEREAS, the Authority annually purchases approximately 830,000 gallons of No. 2 Ultra Low Sulfur Diesel Fuel to power the Cape May-Lewes Ferry fleet; and

WHEREAS, in compliance with Resolution 98-31, as amended, which governs the Authority’s procurement policy, the Authority publicly advertised an Invitation to Bid (“ITB”) to all qualified diesel fuel suppliers interested in bidding to supply the Cape May-Lewes Ferry’s full requirements for Red Dye No. 2 Ultra Low Sulfur Diesel Fuel, and/or Wholesale B10 SME Biodiesel Fuel for up to five (5) years; and

WHEREAS, the Authority received four (4) responsive Bids in response to the ITB; and

WHEREAS, following careful evaluation of each Bid received, and in consideration of the Authority’s historic and future use of fuel purchasing options, the Authority has designated PAPCO, Inc. (“PAPCO”) as the most cost-effective Bidder; and

WHEREAS, the Authority desires to enter into a Purchase Agreement (“Agreement”) with PAPCO for an initial term of three (3) years, with the option to extend the Agreement for up to two (2) consecutive one-year terms, either such additional one-year term to be authorized by the originating committee, with the consent of the Chairperson and Vice Chairperson of the Board of Commissioners; and

WHEREAS, the Budget & Finance Committee reviewed this recommendation and concurs; and

NOW, THEREFORE, BE IT RESOLVED, that the Executive Director is hereby authorized to finalize the terms and conditions of a Purchase Agreement with PAPCO and to have the Agreement executed by the Chairperson, Vice-Chairperson and Executive Director.

Resolution 22-37 Executive Summary Sheet

Resolution: Authorizing a Purchase Agreement between the Delaware River and Bay Authority and PAPCO, Inc., for the delivery and supply of diesel fuel for use at the Cape May–Lewes Ferry.

Committee: Budget & Finance Committee

**Committee/
Board Date:** September 20, 2022

Purpose of Resolution:

To authorize the Delaware River and Bay Authority and PAPCO, Inc. (“PAPCO”) to enter into a Purchase Agreement for No. 2 Ultra Low Sulfur Diesel Fuel, Red Dye and/or Wholesale B10 SME Biodiesel Fuel for up to five years.

Background for Resolution:

See attached CMLF-22-50 Bid Comparison for Bid results.

The Authority publicly issued an Invitation to Bid to supply two types of market-indexed diesel fuels for marine use at the Cape May Lewes Ferry as follows:

1. OPIS Gross No. 2 Ultra Low Sulfur Diesel Fuel, Red Dye, FOB Philadelphia, UBD Low Rack, and
2. OPIS Gross Wholesale B10 SME Biodiesel Fuel FOB Philadelphia, ULS2RD, Rack Average

Under either of the above Options, the Authority purchases fuel at a market indexed price (the OPIS Closing Benchmark) and pays the fuel supplier/deliverer an additional per-gallon “differential cost” per-gallon. Each Bidder’s differential cost is a constant per-gallon fee, which is all-inclusive of any equipment, licenses, insurance, overhead, profit, governmental fees, charges, levies and/or taxes imposed on or in connection with the Fuel.

In addition to the above market-indexed options and under the parameters of the Invitation to Bid, the Authority also required Bidders to supply a monthly differential should the Authority choose to convert to a fixed price per gallon for up to eighteen consecutive months. Such “fixed conversion” method has been exercised twice in the previous three (3) years (approximately 546,000 fixed-price gallons were purchased in 2020 and 210,000 gallons in 2021) under the Authority’s previous fuel contract.

Because of the unknown properties of a futures market, the advertised basis of contract award would be to the firm offering the lowest constant “differential cost” to supply No. 2 ULSD at the indexed price. Historically, No. 2 ULSD is the only type of fuel that has been used in our ferries. Thus, when applying the advertised basis of contract award to the bids received, the “Low Bid” differential cost submitted by Mansfield Oil Co., when multiplied by 830,000 gallons, appears to save the DRBA approximately \$6,500 per year under contract vs. the “2nd Low Bidder” (PAPCO, Inc.)

However, if the DRBA chose to convert to a fixed price just ONE TIME over the next five years, any savings offered by the Low Bidder will turn negative. PAPCO bid a range of \$0.24 to \$0.26 *per gallon lower* than Mansfield Oil for the fixed conversion. Thus, the act of awarding a contract to the “Low Bid” differential cost for No. 2 ULSD would effectively limit the DRBA to purchasing fuel ONLY at indexed prices for the next five years.

Considering the DRBA’s fuel purchase history, the increasing price fluidity of the fuel market, and the opinion of our Director of Ferry Operations, it is extremely likely that the DRBA will find an opportunity to convert to a locked price at some point in the next five years.

It is for this reason that award of the Purchase Agreement is recommended to go to the “2nd Low Bidder” (PAPCO, Inc.). PAPCO’s Bid will likely offer considerable cost savings over Mansfield Oil if the Authority were to convert to a fixed price at any time over the next five years.