

RIVERSIDE TRANSIT AGENCY  
1825 Third St.  
Riverside, CA 92507

October 27, 2005

TO: BOARD OF DIRECTORS

THRU: Larry Rubio, Chief Executive Officer *Larry*

FROM: Vince Rouzaud, Director of Purchasing and Materials Management *Vince*

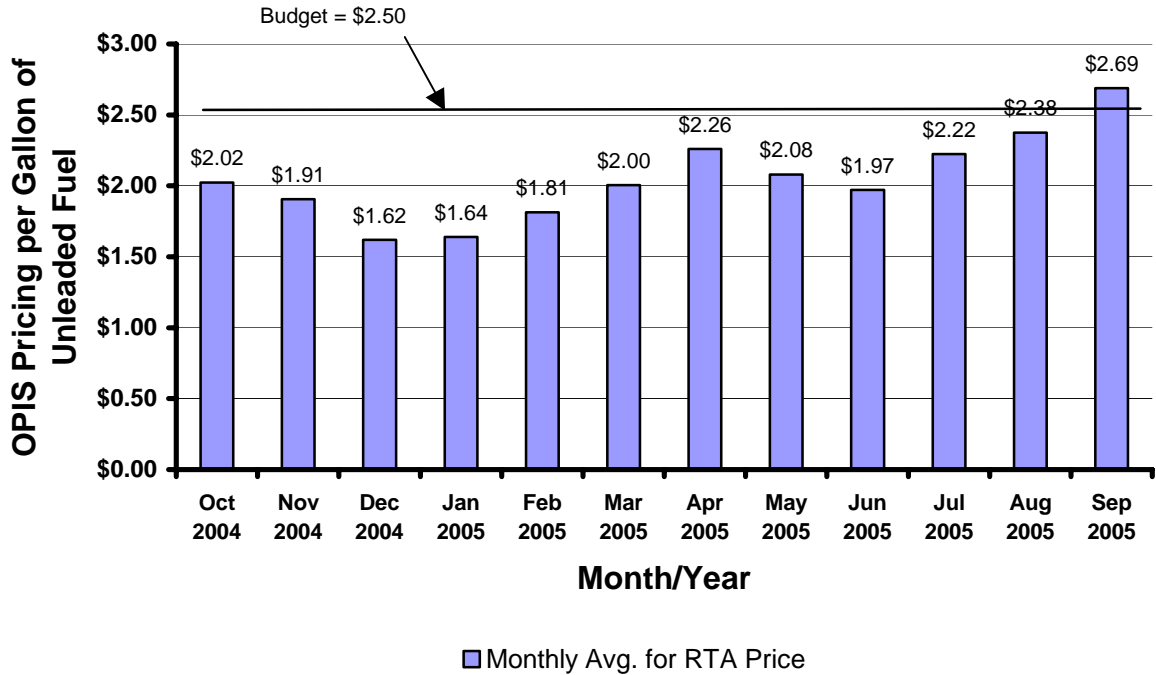
SUBJECT: Fuel Price Analysis

Summary: Over the last several months there have been extraordinary increases in the cost of fuel and other petroleum based products. Fuel pricing and the combination of causes for its steep increase have been the lead story in most major newspapers across the nation. Rising fuel prices are a worldwide problem with many experts predicting no relief in sight. The cost of fuel has risen to the point where it is impacting fuel budgets for both fixed route services and the Agency's contracted operations. As fuel expenses are a major cost driver for the Agency, staff has prepared the following analysis.

Unleaded

The FY 2006 operating budget assumed an average price of \$2.50 per gallon and consumption of 58,304 gallons for non-revenue equipment. The actual price beginning on July 1<sup>st</sup> was \$2.21 per gallon or \$.29 cents below budget. For first quarter (July 1<sup>st</sup> through September 30<sup>th</sup>) the average purchase price of unleaded fuel fluctuated from a low of \$2.21 to a high of \$2.91. Actual usage for the quarter was 12,505 gallons at an average cost of \$2.61 per gallon or \$1,375 unfavorable to budget. The chart on the following page shows the average monthly (contract) price for unleaded fuel for the period from October 2004 through the end of September 2005.

## SUMMARY OF UNLEADED FUEL COSTS



Since there does not appear to be any price relief in sight, staff will recommend, as part of the mid-year budget adjustment process, a budget amendment to offset the increase in fuel costs anticipated for the balance of the fiscal year. Revised budgetary figures for this amendment are currently being developed.

Rising fuel costs have also been burdensome for the Agency's contracted transportation providers. Two of the Agency's contractors have requested an increase in their reimbursement rate to cover their increased fuel expenses. One contractor has stated that fuel costs have increased to the point where they are now more than double from that which was anticipated in their contract with the Agency.

Approximately 37% of the Agency's annual budget is dedicated to contract services. To help mitigate increased fuel costs, staff has been working with the Agency's contractors on a number of initiatives. One major initiative currently underway is the introduction of a smaller more fuel-efficient minivan for ADA/Dial-A-Ride services. The estimated fuel mileage for the minivan is approximately twice that of a standard paratransit vehicle. Placing more fuel efficient vehicles in service will provide some financial relief and help offset the high cost of fuel.

Another measure implemented recently is allowing contract vehicles to refuel at our fueling facility in Hemet. By doing so, the contractor receives “bulk contract pricing” and saves fuel and time by not transporting vehicles offsite for fueling.

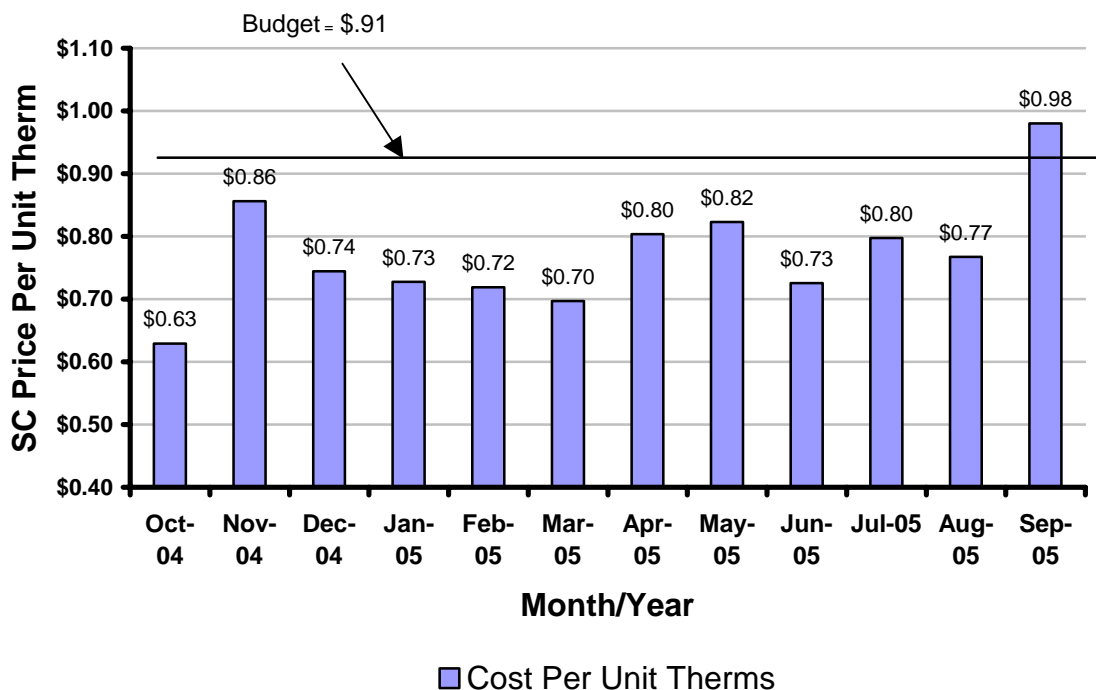
While these measures have helped, the Agency’s contractors are still under tremendous pressure because of high fuel costs. Consideration must be given to assisting the contractors with additional resources in order to maintain the high level of service that we’ve grown to expect.

#### Compressed Natural Gas (CNG)

The current price of natural gas is \$.77 per therm. The FY 2006 operating budget assumed an average price of \$.91 per therm and consumption of 1,931,642 therms for revenue vehicles. While the cost of natural gas has historically remained fairly low in comparison to other fossil fuels, it is anticipated that natural gas rates will be boosted to record levels as demand increases. Many industry sources have predicted natural gas rates will increase as high as 73% this winter. The reasons cited for these projections are unprecedented demand and limited supply in the aftermath of two major gulf hurricanes that damaged or destroyed many of the nation’s refineries.

The following chart shows the average monthly price for natural gas for the period from October 2004 through the end of September 2005. As detailed in the chart below, costs over the past year have been subjected to several spikes, with the overall trend increasing from the beginning cost of \$.69 per therm and ending at the current price of \$.98 per therm.

## CNG COST PER UNIT THERMS



For the first two months of the quarter (July and August) actual costs for natural gas totaled \$294,358.71 which is \$1,402.05 unfavorable to budget. While the September invoice has yet to be received, it is anticipated natural gas costs will be approximately \$215,000 for the month based upon an average monthly useage of 220,000 therms. These anticipated costs will increase the budget overrun by \$68,318, resulting in a first quarter fuel deficit of \$69,920.05.

This forecast is further bolstered by the fact that the Agency has received notification from the Southern California Gas Company that October pricing will be \$1.15 per therm.

Staff is currently assessing the full impact the increase in natural gas prices will have on the budget and will be presenting these findings to the Board through the mid-year budget adjustment process.

Fiscal Impact:

To be determined.

Committee Recommendation:

This item was discussed at the Board Budget and Finance Committee meeting of October 12, 2005. The Committee members unanimously approved recommending this item to the full Board of Directors for their consideration.

Recommendation:

Review and discuss.