



The Answer Place for Fleets™

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Clause and Effect:

What to Look For In an Effective Natural Gas Transportation Fuel Contract



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Introduction

Choosing a third-party operator to provide natural gas fueling can be an excellent option for fleets who don't want the responsibility of owning or maintaining fueling equipment. However, fleets who choose this option need to understand how natural gas fueling works and must articulate your needs clearly to avoid the need for costly remediation. This, of course, requires an impartial expert who understands the subtleties of what is involved in the contractual relationship between a fuel provider and a fleet operator. Omissions or vague and uncertain provisions are usually settled in favor of the party drafting an agreement. Usually that party is the one that controls the money. Natural Gas Vehicle Institute (NGVi) highlights these contract suggestions, learned from our experience in working directly with fleets, which will save you money and headaches down the road.

Background

Traditionally, businesses and other entities that operate fleets of vehicles and equipment have met their fueling requirements by either owning and operating their own fueling stations, or fueling vehicles at retail stations or other third party facilities. Once you've researched available fuel provider options and services, the most critical step is to pinpoint the key elements to be included in a contract that will protect your interests for the term of the agreement. For instance, what do you do if you've been given contaminated fuel? What if the maintenance or fueling technician isn't qualified? How do you identify hidden costs that won't show up until your first billing cycle? These are among the problems that can be prevented by careful review and negotiation of your contract.

Solution

There are many variables that can determine what should be included in a natural gas fueling contract. Below is a small sampling of commonly overlooked items to consider before entering into a fuel supply agreement.

1. Fuel providers must guarantee a fuel quality standard that meets specifications. There should be no oil or other contaminants in the fuel system, and vehicles must perform well in your geographic/weather area.
2. Fuel must be readily available when required. If there is a station breakdown, the provider must guarantee a backup fuel supply.
3. To maximize vehicle range, the fuel provider must deliver temperature compensated fueling.
4. The fuel price must be able to both increase and decrease to accommodate fuel price fluctuations. The contract benchmark should not be based on the commodity price of the gas supply but rather on some variation of the Consumer Price Index.
5. The contract price of natural gas per gasoline or diesel gallon equivalent (GGE or DGE) should include the cost of gas, compression, maintenance and the cost of capital. These amounts should be spelled out specifically so that you know exactly what percentage of each GGE is allocated to each cost item.
6. The contract should stipulate a penalty, per vehicle and per occurrence, for inability to fuel vehicles if the station is down and fuel is not available.
7. Both public and private fleets are eligible to receive a portion of a federal excise tax incentive that the fuel provider receives. This has been available since October 1, 2006, and should be included in the contract.
8. Before signing a contract, make sure you have received competitive bids and understand the service and cost differences between competing fuel providers.

Conclusion

Selecting a fuel provider is much like hiring an employee. Making sure you are contracting with a company that has a well-maintained station, an understanding of safety practices, qualified and properly trained technicians, and a verifiable track record fueling NGVs is your responsibility. Experience with the maintenance and operation of a retail gasoline station does not qualify someone for the same position working with natural gas, unless they've undergone thorough technical training because the systems are completely different.

Asking a prospective fuel provider for references is your right. Call the customers they list but do your homework and cold call others they didn't list. Doing so will help you with contract strategies should you decide to hire them. Finally, in addition to getting a legal review, bring in a CNG expert to make sure you're covered on the special requirements unique to natural gas.

NGVi Options

NGVi offers training and consulting services on natural gas as a transportation fuel.

Training sessions that cover fueling station basics include:

- **CNG Fueling Station Design**

This is a two-day course which provides comprehensive training for public and commercial sector professionals needing to learn the most up-to-date methods and practices for sizing, designing, specifying, and constructing a CNG fueling station -- ideal for engineers, designers, owners and those interested in acquiring a CNG fueling station. Attendees receive a certificate of course completion, upon getting at least 70% correct on the course exam.

- **Operating and Maintaining a CNG Fueling Station**

This two-day course, provides complete, in-depth instruction on proven, "best practices" for natural gas fueling station operation and maintenance -- ideal for station maintenance personnel who need to develop and implement effective routine maintenance and safety plans. Attendees receive a certificate of course completion, upon getting at least 70% correct on the course exam.

For more information about these and other consulting services, contact Leo Thomason at 702-254-4180 or via email at info@ngvi.com.

There will be several technical papers available soon that augment the information included here as well, including:

1. The No-Good, The Bad, and The Ugly: Avoiding Maintenance Service Contract Pitfalls
2. Running on Empty: Fueling NGVs for Maximum Range
3. The Achilles Heel of NG: Oil Carryover Symptoms, Diagnosis, and Prevention

Check www.afvi.com/publications2.html for availability.